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St. Cloud Area Quarterly Business Report, Vol. 11, No. 3

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Q ST. CLOUD AREA QUARTERLY BUSINESS REPORT

VOL. 11, ISSUE 3 • OCTOBER 2009

LABOR MARKET WEAKNESS PERSISTS NATIONAL CONDITIONS APPEAR TO BE IMPROVING

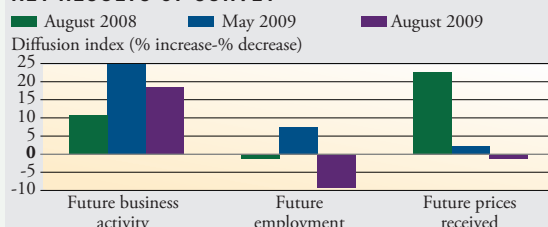
EXECUTIVE SUMMARY

While there are signs of improvement in national business conditions, the weakness of the St. Cloud-area labor market continues to be a drag on the overall health of the local economy. All available indicators of local labor market activity — including measures of employment, unemployment, employee compensation, help-wanted advertising, business surveys and written comments by business leaders — point to ongoing challenges for both workers and their employers as the local economy tries to emerge from a recession that is in its second year.

Area employment declined by 2.7 percent over the year ending July 2009 as only two categories of area private sector employment experienced an increase in annual job growth. July's local unemployment rate of 7.6 percent was much higher than was experienced one year ago when it stood at 5.4 percent. In addition, help-wanted advertising lineage at the St. Cloud Times is abnormally low.

Employment conditions around the state appear to be worse than is being experienced locally. For example, statewide employment declined by 3.7 percent over the year ending July 2009. Education/health and government are the only two sectors experienc-

KEY RESULTS OF SURVEY



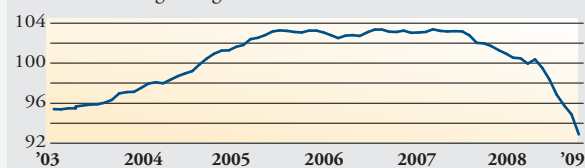
ing employment gains around the state over the past 12 months. Minnesota's manufacturing sector, which accounts for 11.3 percent of statewide employment, experienced a year-over-year decline in employment of 11.4 percent. Locally, manufacturing employment (which accounts for 15.8 percent of area employment) shrunk by 9.6 percent over the same period.

Three of the four components of the St. Cloud Index of Leading Economic Indicators rose in the latest quarter. However, due to time lags in forming the index, we already know that two of these indicators will decline in the next survey. The index continues to point downward over a six-month span.

Eighteen percent of surveyed firms report a decrease in economic activity over the past three months, while 45 percent report an increase. This is a marked improvement over last quarter — which is a normal seasonal effect — and is better than one year ago. Survey responses designed to measure the health of the area labor market remain very weak, though. Twenty-four percent of respondents report declining employment and only 20 percent increased payrolls. The length of the workweek has declined for one-fifth of surveyed firms and only 6 percent of firms report an increase

INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average



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in difficulty attracting qualified workers. Nearly 80 percent of firms report no change in employee compensation over the last three months and 10 percent actually decreased wages and benefits. Many area firms continue to report declining prices received for their products and 86 percent of firms either cut back on capital expenditures or left them unchanged over the past three months. On the bright side, companies' evaluation of national business activity was positive for the first time in one year.

Relative to one year ago, the future outlook for surveyed companies is mixed. Thirty-nine percent of the 87 area firms that responded to this quarter's survey expect conditions to improve six months from now, while 21 percent expect a decline in future business activity. Last year at this time, 30 percent of area firms expected declining activity. The outlook for national business activity is much improved from last August and now stands at its highest level in two years. On the other hand, survey responses on future employment, capital expenditures, employee compensation and prices received are much weaker than normal. The index values for these items are the lowest ever recorded in the summer survey. Indeed, the future employment and

the future employee compensation indexes are both at their all-time lows.

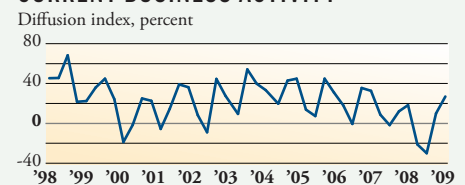
In special questions, 43 percent of surveyed firms are "strongly opposed" to the proposed health care reforms being discussed by Congress. Another 21 percent are either moderately or mildly opposed to proposed reforms. Only 8 percent of surveyed firms are in favor of the proposed reforms. In a separate question, area firms appear to be largely unaffected by the recent increase in the minimum wage. Eighty-two percent of surveyed firms report that they are unaffected by the new law and 10 percent of firms indicate a small negative effect.

CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 87 area businesses that returned the recent mailing in time to be included 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 weaker than usually occurs in the August survey. Six of the eight survey items measuring current economic performance are worse than they were one year ago (at which time the local economy was just entering into recession). The diffusion index (representing the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given quarter) on current activity is 26.4, higher than its 17.9 value one year ago. Forty-five percent of surveyed firms reported increased activity over the past three months while 41 percent of firms reported an increase one year ago.

CURRENT BUSINESS ACTIVITY



The only other index that was improved from August 2008 was national business activity. With a current value of 3.4, the index on this item is marginally higher than its level 12 months ago, but much higher than its value of -34.7 recorded in February 2009. Fiscal stimulus, low interest rates, and improved financial markets are prob-

TABLE 1-CURRENT BUSINESS CONDITIONS

| | August 2009 vs. Three months ago | | | Diffusion Index ³ | May 2009 Diffusion Index ³ |
|---|----------------------------------|---------------|--------------|------------------------------|--|
| | Decrease (%) | No Change (%) | Increase (%) | | |
| What is your evaluation of: | | | | | |
| Level of business activity for your company | 18.4 | 36.8 | 44.8 | 26.4 | 9.6 |
| Number of employees on your company's payroll | 24.1 | 56.3 | 19.5 | -4.6 | -17.2 |
| Length of the workweek for your employees | 19.5 | 62.1 | 18.4 | -1.1 | -6.4 |
| Capital expenditures (equipment, machinery, structures, etc.) by your company | 24.1 | 62.1 | 11.5 | -12.6 | -12.9 |
| Employee compensation (wages and benefits) by your company | 10.3 | 79.3 | 10.3 | 0.0 | -1.1 |
| Prices received for your company's products | 24.1 | 67.8 | 6.9 | -17.2 | -21.5 |
| National business activity | 18.4 | 49.4 | 21.8 | 3.4 | -7.5 |
| Your company's difficulty attracting qualified workers | 16.1 | 77.0 | 5.7 | -10.4 | -23.7 |

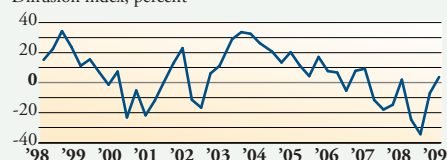
Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion.

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

ably having a favorable impact on local perceptions of national business conditions.

CURRENT NATIONAL BUSINESS ACTIVITY

Diffusion index, percent



Labor market conditions in the St. Cloud area continue to be extremely weak. Twenty-four percent of surveyed firms report decreased employment over the past three months and 20 percent increased hiring. This is normally a time of the year when employment conditions are much more favorable. For example, in August 2005, 34 percent of firms reported increased employment and only 13 percent reduced payrolls. Indeed, the -4.6 index value for number of employees is the lowest ever recorded in our summer survey, and the only time it has been negative at this time of the year.

With zero or lower index values in length of workweek, employee compensation and difficulty attracting qualified workers, it remains clear that area labor market weak-

ness persists. The index values for length of workweek and employee compensation have never been lower in the summer survey. Likewise, the index value for difficulty attracting qualified workers, while improved from last quarter, is worse than was recorded during the 2001-03 local recession. As we have noted in previous editions of the St. Cloud Area Quarterly Business

ABOUT THE DIFFUSION INDEX

The diffusion index represents the percentage of survey respondents who indicated an increase minus the percentage indicating a decrease.

Report, this is an interesting series to watch since it closely tracked economic performance during the last local recession.

The prices received index in Table 1 is measurably different from that which was found one year ago. With a value of -17.2, current prices received suggest a deflationary trend. One year ago, the value of this index was 13.1 and firms appeared concerned about future inflationary pressures. Area firms continue to either delay or cut back on capital formation projects. Eighty-six percent of surveyed firms report either unchanged or decreased capital expenditures

over the last quarter and the -12.6 diffusion index on this item is the second lowest ever recorded.

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

These comments include:

- "Interesting times like I have NEVER seen. SURVIVAL – (I) so like this community."
- "We face a very competitive environment (competition is companies in other states). Minnesota needs to improve its climate for doing business."
- "(Business) volume and revenue ... is down. Our customers have equipment (idled) and are concerned that the economy will not improve for quite some time."
- "Lack of bank financing for small business is our biggest problem."
- "If I can pay my bills, I will have a good year."
- "Our clients have a much more positive attitude than they did six months ago."
- "Without the work (from highly visible local projects), we would be extremely slow. We have yet to see any work from any stimulus funds."
- "We have a lot of government office leases. They are requesting rate reductions and shorter leases due to budget cuts."
- "We are normally getting contracts during the summer for projects we com-

TABLE 2-FUTURE BUSINESS CONDITIONS

| | Six months from now vs. August 2009 | | | Diffusion Index ³ | May 2009 Diffusion Index ³ |
|---|-------------------------------------|---------------|--------------|------------------------------|--|
| | Decrease (%) | No Change (%) | Increase (%) | | |
| What is your evaluation of: | | | | | |
| Level of business activity for your company | 20.7 | 37.9 | 39.1 | 18.4 | 24.8 |
| Number of employees on your company's payroll | 24.1 | 56.3 | 14.9 | -9.2 | 7.6 |
| Length of the workweek for your employees | 16.1 | 65.5 | 12.6 | -3.5 | 14.0 |
| Capital expenditures (equipment, machinery, structures, etc.) by your company | 16.1 | 67.8 | 11.5 | -4.6 | 9.7 |
| Employee compensation (wages and benefits) by your company | 4.6 | 78.2 | 14.9 | 10.3 | 19.8 |
| Prices received for your company's products | 16.1 | 63.2 | 14.9 | -1.2 | 2.1 |
| National business activity | 13.8 | 47.1 | 27.6 | 13.8 | 11.8 |
| Your company's difficulty attracting qualified workers | 10.3 | 79.3 | 6.9 | -3.4 | -10.7 |

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

plete during the fall and winter. This year, there are few, if any, commercial construction projects to bid on. It's going to be a difficult winter for construction-related business."

- "We are seasonal. For many of our field employees, we anticipate a seasonal layoff this winter."

- "Credit markets remain very tight. We have willing buyers but have a turn down rate of 1 in 3. We are seeing people with 700+ (credit) scores turned down on a regular basis."

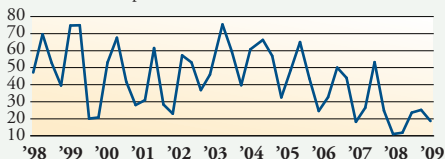
- "We will not resume capital expenditures until there is a multiyear bill (that supports our industry). Held up in Senate due to health care and Cap and Trade. 11 percent lower head count from same week last year."

FUTURE OUTLOOK

Table 2 reports the future outlook for area businesses. Survey numbers are improved from one year ago in the overall outlook, length of workweek and national business activity items. All other items are below the August 2008 readings and are much weaker than that which is expected in a normal summer survey.

FUTURE BUSINESS ACTIVITY

Diffusion index, percent



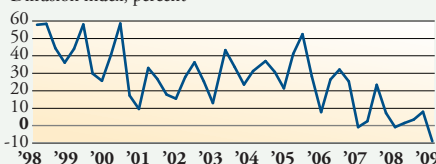
The future business activity index is 18.4, its highest value in the summer survey since August 2006, at which time it stood at 24.3. Another encouraging sign is the 13.8 value for the national business activity outlook. This is the highest reading on this item since August 2007. There is little doubt that the national outlook is improved from, say, nine months ago — and there certainly have been a number of monetary and fiscal stimulus efforts that have been undertaken over the past year. The improvement in this index is to be expected. The only other indicator that is improved from one year ago is the length

of workweek item. With a value of -3.5 (it was -13.1 one year ago) it is in line with what is normally expected in the summer survey.

Twenty-four percent of surveyed businesses expect to reduce employment over the next six months and 15 percent expect to increase hiring. As shown in the accompanying chart, the diffusion index on future employment is at an all-time low. Likewise, the employee compensation index, at a value of 10.3, has never been lower. Only 15 percent of surveyed businesses expect to increase wages and benefits over the next six months (and 5 percent of firms expect to decrease compensation over this period). By comparison, consider the August 2005 survey, when the index was 45.6 and 47 percent of firms planned to increase employee compensation and only one firm expected to decrease wages and benefits.

FUTURE EMPLOYMENT

Diffusion index, percent



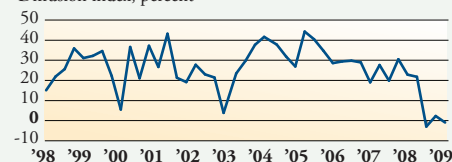
Firms also expect little pressure on prices over the next six months. As is seen in the chart below, the prices received index from Table 2 is very near its all-time low recorded in February of this year. Firms also don't expect to experience much difficulty attracting qualified workers over the next six months. The index number on this item remains negative and only 7 percent of surveyed firms expect it to become more difficult to attract qualified workers by next February.

Finally, survey responses suggest we should not expect increased capital expenditures to lead us out of the local recession. Only 11.5 percent of firms anticipate an increase in capital formation over the next six months, and 84 percent plan to either reduce these expenditures or to leave them unchanged. These responses suggest a local economy that has yet to begin a recovery phase — and it is our expectation that any

such recovery will begin no earlier than the fourth quarter and will unevenly impact the varied sectors of the local economy.

FUTURE FUTURE PRICES RECEIVED

Diffusion index, percent



SPECIAL QUESTIONS

The most visible public policy issue that has emerged in recent months has been related to proposed health care reform that is being considered by Congress and the Obama administration. Everyone has seen media clips of town hall meetings that have been conducted by elected representatives in their home states. Public discourse on this topic has been filled with emotion and seems to have attracted a great deal of interest from those who appear to have extreme views.

As we write this report (at the beginning of September 2009), several proposals have emerged from Congress, with fairly common approaches. So, with the understanding that we were unable to identify any particular health care reform proposal under consideration in Washington, we asked the following special question:

"President Obama and Congress are currently debating health care reform legislation that would include nearly universal health insurance coverage, small business payment responsibilities, expansion of Medicaid, subsidies for lower income families, and reduced Medicare provider payments. To what extent does your company oppose or favor the proposed reforms?"

Sixty-three percent of surveyed firms are opposed to the proposed reform (and 42.5 percent are "strongly opposed"). Only 8 percent of firms are in favor of the suggested reform. This is an interesting result, since area firms have consistently identified health care reform as a (and perhaps "the") top legislative priority.

Written comments include:

- "We would most likely drop this benefit or reduce our participation dramatically. We cannot carry any extra load in expenses."

- “Who gets to pay for this? We do!”

- “I’m concerned that this plan will increase the cost of insurance for both my company and my employees.”

- “Our company does not offer health care. As a single person, I cannot afford health insurance. I am considered ‘uninsurable’ for a minor reason and (MinnesotaCare) wants \$4,800 per year for a \$10,000 deductible (policy). Is it worth it?”

- “Reduction of Medicare payments will further hurt our industry.”

- “Feds should look to Minnesota on how to manage health care.”

- “Even temporary government programs become permanent programs. Where will the money come from?”

- “Conflicting details are confusing.”

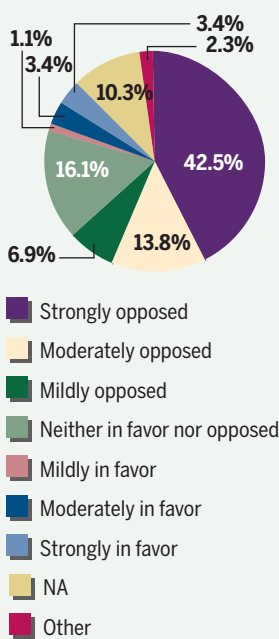
- “I do not believe the government can do anything as well as free enterprise.”

- “We are moderately in favor of health care cost reform. In order to make any progress with the issue. Congress must decide a) is health care really an entitlement and b) how will health care be rationed and who will suffer when the rationing is imposed.”

- “Health care reform as Obama proposes would be very negative for U.S. businesses.”

- “As soon as someone can tell me for sure what is contained in the 1,400 + page bill, I will reserve judgment. No one knows how, or if, this is going to affect any of us. The politicians sure as hell don’t know!!!”

- “We need to take care of our people. We can take care of health care. It is ridicu-



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

lous that there’s so much hyperbole creating nonsensical dialogue.”

- “They have no business running health care. The way that (they) have run the ‘Cash for Clunkers’ program is poor enough ... this country does not need so-called medicine.”

- “I believe the requirement to pay for these benefits will fall on too small of a group.”

- “Opposed to the 8 percent tax on small businesses!”

- “We need reform — but not a program run by the government.”

- “We already provide health insurance for our employees. The government has proved to be inefficient at every program they get involved with. Why would health insurance be any different?”

- “Universal coverage will be more expensive and less accessible than the current system. It will punish small business which cannot afford to offer health care.”

- “A reform such as this would severely (harm) small business ... would decrease quality of health care.”

- “If the legislation puts a heavier burden on us as a business, I’m against it. We have enough challenges right now.”

- “We saw a 20 percent increase last year for health insurance and our taxes are continuing to increase. We are a small business and we may need to make cuts that we do not want just to stay competitive if this would pass.”

- “Concerned about cost to the businesses.”

- “Unsure of what these reforms are going to be! Do not want to see added responsibilities to the small business sector!”

- “We need to keep health care private.”

- “Too soon to tell.”

- “Sounds like more burden put on small business.”

- “There needs to be reform but it must first control the liability exposure for doctors and hospitals, and then work on reform — but not have federal government control health care as it has done with other industries.”

- “I’m perplexed by the industry. Could health care be considered a public good?”

- “We provide insurance now, but don’t want the idiots in Washington in charge so

our coverage goes down!”

- “If the government gets involved, I expect higher costs due to higher administrative costs and more delays and confusion due to more levels of bureaucracy.”

- “Opposed, but don’t have an alternate suggestion.”

- “Free trade and health care go together. Government does not belong in business of health care.”

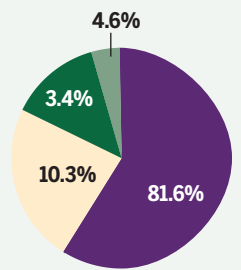
- “Full employment (is) best option.”

Economists have long debated the efficacy of minimum wage laws. The common view has typically been that there is little need for the government to establish a wage floor in a competitive labor market in which impersonal supply and demand forces determine the optimal equilibrium wage. Some have pointed out, however, that there are market settings in which these competitive forces do not exist to the extent that is needed to achieve the optimal outcome. In these circumstances, it is argued, there may be a role for government to establish a minimum wage in an effort to achieve improved economic outcomes. Of course, minimum wage programs are rarely applied only to those areas in which competition is lacking — they are, for the most part, universally applied.

While the authors of this report have never found it very advisable for governments to try to legislate wages, we have always taken some comfort in the belief that minimum wages have little effect on the area economy, where strong competitive forces appear to have produced normal entry wages well in excess of any minimums established by law. So, with this in mind, we decided to ask surveyed firms how the recent increase in the federal minimum wage has impacted their company. We asked:

“The federal minimum wage has recently increased to \$7.25, affecting some, but not all, businesses that pay the minimum wage. How is your business directly and/or indirectly affected by the minimum wage increase?”

The results are largely as expected. The wages area firms pay is typically in excess of any minimum established by the federal government. Of those local firms that are



■ No effect
■ Small negative effect
■ Medium negative effect
■ NA

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

impacted by the new law, 10 percent say it has a small negative effect.

Comments include:

- “Right now — we at the moment could use more help, but can’t afford it.”

- “Our lowest paid employee is

at approximately \$10 per hour.”

- “We pay a lot more than minimum wage.”

- “We pay at the 75th percentile for like jobs in the area/region. Our minimum starting wage is \$13 per hour.”

- “Anything related to construction is above minimum wage.”

- “Since we pay well above minimum

wage, it puts more teenagers out of work.”

- “Hurts those it intended to help — typical federal program.”

- “Our lowest wage is \$12 per hour and no pay is based upon minimum wage.”

- “Cannot hire at minimum wage.”

SIFTING THE DATA FOR GREEN SHOOTS

Early in the summer many economic forecasters discussed “green shoots,” or signs of the end of the recession from scattered bits of positive data brought forward against the background of declining output and employment. No doubt there was some evidence of green shoots — perhaps most notably the stock market recovery from March through late summer. But at least for Central Minnesota, you need to look hard to find any green shoots.

The background can be seen in Table 3. Private sector employment fell by 3 percent in the 12 months up to July 2009, with only two sectors — education and health,

and leisure and hospitality — showing gains. Goods production and trade were both decidedly down. Some of the losses in the manufacturing sector in late summer have not yet filtered into the data, so we can expect this to continue for the next few months. For the state of Minnesota and the Twin Cities the story is the same, with only education and health bucking the long-term trend. Recoveries normally begin in a few sectors and then spread. A few industries act as a locomotive for the rest. So far we do not see that engine.

Nor do we find any green shoots in Table 4. Unemployment reached relatively high levels in June before receding in July in St. Cloud. The drop in building permits and help-wanted advertising, and the increase in new claims for unemployment insurance, all indicate that the economy remained weak and some leading indicators continued to decline.

Indeed, the year-over-year drop for help-

IF MANUFACTURING, WHEN? IF NOT, WHAT’S NEXT?

It seems hardly a week goes by that we do not hear of more job losses in the manufacturing sector. Outside of construction, the percentage loss of jobs in manufacturing has outpaced every other sector of the national economy. Since the St. Cloud economy has a higher concentration of jobs in manufacturing than many other places, the impact of manufacturing on St. Cloud is particularly strong.

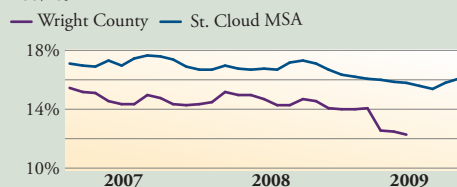
This has of course happened over a long period of time, and in some ways St. Cloud has been more fortunate than most places. Nationwide, the share of employment in manufacturing since 1990 fell from more than 17 percent to below 10 percent currently. In Detroit, which is heavily dependent on the production of automobiles, employment in manufacturing fell by one-third since 2001, from 17.5 percent of employment in 2001 to 12.9 percent in 2008.

In Central Minnesota, however, the share of employment in manufacturing is higher than the national average and has not experienced the same decline. In St. Cloud, the share of manufacturing in total employment was 18.7 percent in 1990, 18.2 percent in 2001 and 16.4

percent in 2008. The decline in the share of manufacturing in St. Cloud is mirrored by that in Wright County: a gradual decline with periodic larger drops when a sizable firm lays off staff.

SHARE OF EMPLOYMENT IN MANUFACTURING

2007-09



One could argue that we are no longer holding a comparative advantage in the production of manufactured goods, lost to China, India or elsewhere. But that is a misunderstanding of the concept. We produce a high amount of manufactured goods but do so with such increases in productivity that fewer workers are hired. The decline in manufacturing jobs does not mean a decline in manufactured goods. Technology that drives manufacturing produc-

tivity may have been applied elsewhere before Central Minnesota, but as it spreads to our firms we would expect that trend to continue. Recessions are in this way an encouragement to firms to adopt new technologies faster.

So in one sense we do not argue that manufacturing is dying in Central Minnesota. We do not expect that downward slide in manufacturing to turn around sharply. But those jobs may shift to other areas. Where? We cannot say; it is tempting to believe it is in our one area that grows in jobs — health and education — but the long-term trend for population in outstate Minnesota is flat to downward. To the extent St. Cloud may gain residents, people are increasingly likely to move here from other countries, which present challenges to training for higher-technology jobs in health sciences. Likewise, a service-based economy needs a population to serve. So if St. Cloud is to grow in retail or hospitality, one must ask, Who will buy these services? It is an interesting period that the local economy will go through in the next five to 10 years.

**TABLE 3 -
EMPLOYMENT
TRENDS**

| | St. Cloud (Stearns and Benton) | | | 13-county Twin Cities area | | | Minnesota | | |
|----------------------------------|--------------------------------|----------------------------------|---------------------------|------------------------------|----------------------------------|---------------------------|------------------------------|----------------------------------|---------------------------|
| | 15-year trend rate of change | July '08-July '09 rate of change | July '09 employment share | 15-year trend rate of change | July '08-July '09 rate of change | July '09 employment share | 15-year trend rate of change | July '08-July '09 rate of change | July '09 employment share |
| Total nonagricultural | 1.6% | -2.7% | 100.0% | 0.9% | -3.5% | 100.0% | 0.9% | -3.7% | 100.0% |
| Total private | 1.7% | -3.0% | 86.5% | 0.9% | -4.4% | 86.5% | 1.0% | -4.5% | 85.1% |
| Goods producing | 0.5% | -10.1% | 20.5% | -1.0% | -12.2% | 14.0% | -0.8% | -12.3% | 15.4% |
| Construction/natural resources | 1.3% | -11.7% | 4.7% | 0.4% | -20.3% | 3.5% | 0.7% | -14.7% | 4.2% |
| Manufacturing | 0.3% | -9.6% | 15.8% | -1.4% | -9.1% | 10.5% | -1.3% | -11.4% | 11.3% |
| Service providing | 1.9% | -0.6% | 79.5% | 1.3% | -2.0% | 86.0% | 1.3% | -1.9% | 84.6% |
| Trade/transportation/utilities | 0.0% | -2.9% | 20.8% | 0.3% | -4.1% | 18.5% | 0.4% | -3.9% | 18.9% |
| Wholesale trade | 1.5% | -2.7% | 4.6% | 0.8% | -4.7% | 4.8% | 0.8% | -5.1% | 4.8% |
| Retail trade | -0.8% | -1.8% | 12.9% | 0.6% | -2.5% | 10.3% | 0.5% | -1.9% | 10.9% |
| Trans./warehouse/utilities | 1.6% | -7.3% | 3.3% | -1.0% | -7.8% | 3.4% | -0.6% | -8.8% | 3.2% |
| Information | 1.2% | -3.3% | 1.2% | 0.1% | -1.7% | 2.4% | -0.3% | -5.3% | 2.1% |
| Financial activities | 3.4% | -0.4% | 4.5% | 1.1% | -1.4% | 8.0% | 1.2% | -2.0% | 6.6% |
| Professional & business service | 5.1% | -4.7% | 8.7% | 1.0% | -8.0% | 14.2% | 1.2% | -9.6% | 11.2% |
| Education & health | 3.7% | 2.4% | 17.2% | 3.5% | 2.3% | 15.2% | 3.6% | 3.1% | 16.9% |
| Leisure & hospitality | 2.6% | 5.1% | 9.7% | 1.7% | -2.0% | 9.6% | 1.5% | -0.2% | 9.7% |
| Other services (excluding govt.) | 1.1% | -2.6% | 3.9% | 1.7% | -0.2% | 4.5% | 0.9% | -3.2% | 4.3% |
| Government | 1.1% | -0.7% | 13.5% | 1.0% | 2.4% | 13.5% | 0.8% | 1.5% | 14.9% |
| Federal government | 1.0% | 4.3% | 1.9% | 0.1% | -0.5% | 1.3% | 0.0% | 0.7% | 1.3% |
| State government | 3.1% | 25.1% | 4.2% | 1.6% | -3.0% | 3.9% | 1.4% | 0.1% | 3.5% |
| Local government | 0.2% | -12.1% | 7.4% | 0.9% | 5.7% | 8.4% | 0.7% | 2.1% | 10.2% |

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 4-OTHER ECONOMIC INDICATORS

| | 2008 | 2009 | Percent change |
|---|---------|---------|----------------|
| St. Cloud MSA labor force July (Minnesota Workforce Center) | 107,223 | 108,204 | 0.9% |
| St. Cloud MSA civilian employment # July (Minnesota Workforce Center) | 101,464 | 99,965 | -1.5% |
| St. Cloud MSA unemployment rate* July (Minnesota Workforce Center) | 5.4% | 7.6% | NA |
| Minnesota unemployment rate* July (Minnesota Workforce Center) | 5.4% | 7.8% | NA |
| Minneapolis-St. Paul unemployment rate* July (Minnesota Workforce Center) | 5.2% | 7.9% | NA |
| St. Cloud-area new unemployment insurance claims May-July average (Minnesota Workforce Center) | 909.0 | 1,471.0 | 61.8% |
| St. Cloud Times help-wanted ad linage May-July average, in inches | 4,317 | 1,281 | -70.3% |
| St. Cloud MSA residential building permit valuation In thousands, May-July average (U.S. Department of Commerce) | 8,999.3 | 4,286.7 | -52.4% |
| St. Cloud index of leading economic indicators July (St. Cloud State University)** | 101.1 | 91.8 | -9.2% |

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

** - October 2001=100

NA - Not applicable

wanted advertising is striking. Newspaper print advertising for jobs in the local market had held significantly above its long-term declining trend through most of 2006 and 2007. It began a sharp contraction to its current position toward the second

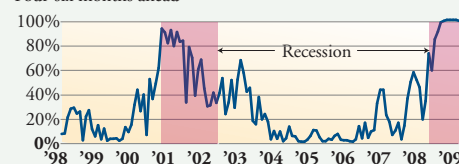
half of 2008, well below trend. Some have suggested advertising is shifting to online forms. We do not have local data for this (yet) but the Conference Board notes that online help-wanted advertising around the country shot up from April to August by

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

| Changes from May to July 2009 | Contribution to LEI |
|--|---------------------|
| Help-wanted advertising in St. Cloud Times | -2.71% |
| Hours worked | 1.50% |
| New business incorporations | 0.25% |
| New claims for unemployment insurance | 1.33% |
| Total | 0.37% |

PROBABILITY OF A RECESSION

Four-six months ahead



about 8 percent. It notes that Minnesota's help-wanted advertising online has continued a downward trend since February 2008. We will watch this indicator closely in coming months, and we will look into online advertising for help wanted in the local market.

That large decline in help-wanted advertising mostly offset small gains in three of the other leading series. The time series

that contribute to leading economic indicators are collected for different time periods, so sometimes we are using data from a few months ago to compute the current number. While new claims for unemployment insurance are rising, they contribute to leading economic indicators that lag, so that the declines in that number from spring are showing up now. The increases of summer will impact LEI in the fall.

Those same lags apply to the Probability of Recession index, which continues to read above 99 percent over the next four to six months. This measure includes the economic conditions index from Creighton University, which still showed Minnesota in contraction through July. Other indexes similarly constructed for Oregon and Washington showed recession probabilities above 95 percent. The coincident indicator series for Minnesota compiled by the Philadelphia Federal Reserve fell 0.96 percent between April and July. This is worse than North and South Dakota and Wisconsin. We feel relatively confident in saying the recession is not over yet as Minnesota is taking a bit longer than other Upper Midwest states to turn around.

The nature of these indicators, however, is that they rely heavily on labor market data. Data on sales and output in a local market is impossible to acquire in a way that is both comprehensive and timely. In the last two national recessions, employment lagged the growth in output and sales more than had been experienced in the first eight post-war recessions, when all three rose almost simultaneously. It is possible this is happening now, too. If so, state and local economic indicator forecasting like we do here may miss the bottom of the economic cycle. (Their performance in calling the start of a recession is better.) Using data on new business formations (in both LEI and the recession probability index) helps us offset this somewhat, as do the St. Cloud Area Business Outlook Survey results found earlier in this report.

While the survey's results on length of workweek are mildly positive — which we would expect as we approach the bottom of a recession — none of the other survey questions for future outlook show a turnaround yet. Business leaders still expect to trim their work forces, prices are still declining and few expect to need to increase wage offers to attract workers. Capital spending plans are still muted. Combined with the data above, we think the data show we are approaching the bottom of the cycle rather than it being behind us.

We would urge readers to use all the information in this report together to form expectations for future local market performance. Picking one or two data points is risky.

IN THE NEXT QBR Participating businesses can look for the next survey in November and the St. Cloud Area Quarterly Business Report in the Jan.-March 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.

The Partnership Welcomes Carlson to St. Cloud!



Charlie Thompson, U.S. Technical Service/Sales Manager and Arnie Milne, VP of Sales

"Carlson Engineered Composites is based in Winnipeg, Manitoba. We have been in business there for nearly 70 years, serving the fiberglass needs for OEM manufacturers. Recently, to better support one of our local partners with a branch in Saint Cloud, we began to look for a suitable location to setup local manufacturing. With the assistance of the Saint Cloud Area Economic Development Partnership, we made very valuable connections with local organizations. This included everything from real estate, legal, banking and employment support.

"The lease for our building became active on June 12th of 2008 and our first day of production was the end of the following September. Within three months and the assistance of the Partnership, we were able to prepare our building, hire our initial staff and setup other necessary infrastructure. We now have a production facility located within ten minutes of our long time local customer.

"On August 1, 2009 this location became a standalone U.S. company. We are now in full production with a staff of 25 full time employees. We are continuing to look for opportunities to relocate more of our Winnipeg production to Saint Cloud. We are also increasing our customer base to include other Minnesota manufacturing companies, with their fiberglass and other composite material needs."

Interested in joining the Partnership?
Please contact Tom Moore at (320) 656-3815 or t.moore@scapartnership.com, or Henry Fischer at (320) 656-3816 or h.fischer@scapartnership.com.



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