

Winter 1-2010

St. Cloud Area Quarterly Business Report, Vol. 11, No. 4

King Banaian

St. Cloud State University, kbanaian@stcloudstate.edu

Richard A. MacDonald

St. Cloud State University, macdonald@stcloudstate.edu

Follow this and additional works at: <https://repository.stcloudstate.edu/scqbr>



Part of the [Business Commons](#), and the [Economics Commons](#)

Recommended Citation

Banaian, King and MacDonald, Richard A., "St. Cloud Area Quarterly Business Report, Vol. 11, No. 4" (2010). *St. Cloud Area Quarterly Business Report*. 23.

<https://repository.stcloudstate.edu/scqbr/23>

This Newsletter is brought to you for free and open access by the School of Public Affairs Research Institute at theRepository at St. Cloud State. It has been accepted for inclusion in St. Cloud Area Quarterly Business Report by an authorized administrator of theRepository at St. Cloud State. For more information, please contact rswexelbaum@stcloudstate.edu.

Q ST. CLOUD AREA QUARTERLY BUSINESS REPORT

VOL. 11, ISSUE 4 • JANUARY 2010

FIRMS' OUTLOOKS BEGIN TO IMPROVE AREA LABOR MARKET REMAINS WEAK

EXECUTIVE SUMMARY

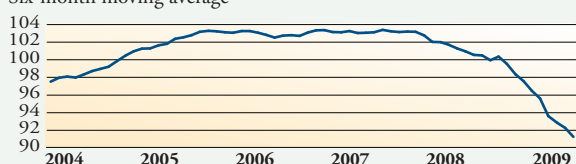
Despite continued weakness in the regional labor market, St. Cloud-area firms are finally beginning to expect an improved future economic outlook. While it is still too early to declare that the local recession has ended, this improved outlook does suggest that 2010 will be a year of recovery and expansion for area firms.

The area economy appears to be following the path of national economic activity. A large majority of economists agree that the national economy emerged from recession at some point in the second half of 2009. While national labor market conditions remain weak, U.S. production, income and sales data indicate a national recovery has begun. While the lags on the availability of data on local income, sales and output are long, the results of this quarter's St. Cloud Area Business Outlook Survey provide some evidence that area firms will begin to enjoy this recovery by the middle of 2010. For example, the outlook for future business activity is the highest it has been in the fall survey since fall 2006.

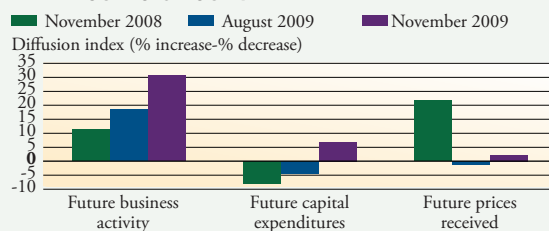
Local labor market conditions remain weak. St. Cloud employment declined by 3.4 percent over the year ending October 2009 as only the leisure and hospitality sector experienced employment growth over this period. The St. Cloud Index of Leading Economic Indicators continued to slide, though at a slower rate.

INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average



KEY RESULTS OF SURVEY



The latest reading of the Probability of Recession Index predicts that it is 73 percent likely the local economy will be in recession in February to April 2010.

Thirty-four percent of surveyed firms report an increase in economic activity over the past three months, while 25 percent report a decrease. This is a large improvement over the survey from one year ago (when we were experiencing a financial crisis and the national economy was in full-blown recession) when only 23 percent of firms experienced an increase in current activity and 44 percent reported weaker conditions. Survey responses designed to measure the health of the area labor market remain very weak, however. Twenty-four percent of respondents report declining employment, and only 13 percent increased payrolls. Only 3 percent of firms report an increase in difficulty attracting qualified workers and 76 percent of firms report no change in employee compensation over the last three months (and 10 percent actually decreased wages and benefits). Eighty-nine percent of area firms report either unchanged or declining prices received for their products.

On a brighter note, the index on current capital expenditures moved positive for the first time in the last five quarters and the survey reading on current national business activity is the highest it has been since

COLLABORATING PUBLISHERS

ST. CLOUD STATE UNIVERSITY
A tradition of excellence and opportunity
Center for Economic Education
Department of Economics
Social Science Research Institute



THE PARTNERSHIP
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
Assistant Professor,
Department of Economics,
St. Cloud State University
320-308-4781

summer 2007.

The future outlook for surveyed companies is the strongest it has been in two years. Forty-nine percent of the 88 area firms who responded to this quarter's survey expect conditions to improve six months from now, while 18 percent expect a decline in future business activity. Last year at this time, 28 percent of area firms expected declining activity. The outlook for national business activity is the highest it has been since winter 2007. Also, the index on expected capital expenditures is positive for only the second time in the last five quarters. Twenty-one percent of surveyed firms plan increased capital expenditures over the next six months. Area firms continue to expect little pricing power. Ten percent of surveyed firms expect increased prices received over the next six months, while 8 percent expect prices to decline (76 percent expect unchanged prices).

There are some hopeful signs that area labor market conditions are expected to stabilize by mid-year 2010. This is the first time in the last six quarters that none of the future labor market indexes are negative. This means that area firms' outlooks on such indicators as future employment, average hours worked, employee compensation and difficulty attracting qualified workers is cautiously improved over recent

quarters.

In special questions, area firms support efforts of local officials to attract an airline that would offer commercial service out of St. Cloud Regional Airport. That would replace the service that will be terminated by Delta Air Lines on Jan. 1. Thirty-two percent of surveyed firms see this as a "high priority" and 40 percent indicate that this is a "medium priority." No surveyed firm thinks that local officials should not try to attract an airline to the St. Cloud airport. Thirty percent of surveyed firms expect to experience either a small or intermediate unfavorable effect from the loss of local commercial air service.

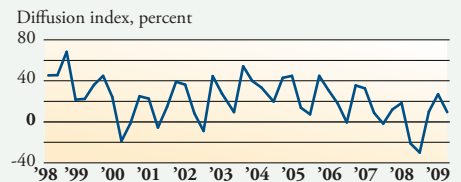
CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 88 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 much improved from last November's survey. Five

of the eight survey items measuring current economic performance are better than they were one year ago (at which time the economy was in recession and a national financial crisis had developed). 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 9.1, higher than its -26.6 value one year ago. Thirty-four percent of surveyed firms reported increased activity over the past three months while 23 percent of firms reported an increase one year ago.

CURRENT BUSINESS ACTIVITY



While the current conditions survey responses are still weaker than normally occur in the fall survey, there are hopeful signs that local activity is beginning to improve. For example, the index on capital expenditures is positive for the first time since the August 2008 survey (which is the month that we have identified as the beginning of the local recession). In addition, the index on current national business activity is at

TABLE 1-CURRENT BUSINESS CONDITIONS

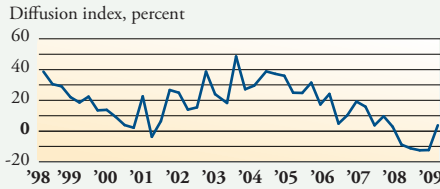
	November 2009 vs. Three months ago			August 2009	
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	Diffusion Index ³
What is your evaluation of:					
Level of business activity for your company	25.0	40.9	34.1	9.1	26.4
Number of employees on your company's payroll	23.9	63.6	12.5	-11.4	-4.6
Length of the workweek for your employees	17.0	68.2	14.8	-2.2	-1.1
Capital expenditures (equipment, machinery, structures, etc.) by your company	15.9	63.6	19.3	3.4	-12.6
Employee compensation (wages and benefits) by your company	10.2	76.1	12.5	2.3	0
Prices received for your company's products	17.0	71.6	10.2	-6.8	-17.2
National business activity	17.0	46.6	25.0	8.0	3.4
Your company's difficulty attracting qualified workers	10.2	81.9	3.4	-6.8	-10.4

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

its highest level since August 2007. While area labor market conditions continue to be very weak, the indexes on employment and length of workweek, while negative, are higher than they were at this time last year.

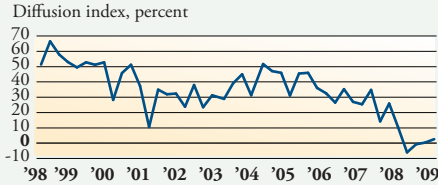
CURRENT CAPITAL EXPENDITURES



One indicator that is weaker than one year ago is that on employee compensation (see accompanying chart), the index value of 2.3 is below the 10.3 value recorded one year ago. Another weaker survey item is the index on prices received. With a current value of -6.8, this index is below its 0 reading of one year ago. We point out these weaker survey indicators in an effort to highlight that the area economy seems to be making normal adjustments as it progresses through the different phases of a business cycle. At some point, we would expect that indexes on employee compensation and prices received would become worse since adjustments of wages and prices are part of the process through which re-

covery ultimately occurs. In this way, these two signs of weaker current activity may foreshadow increased future employment, though perhaps with increasing unemployment rates.

CURRENT EMPLOYEE COMPENSATION



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

- “Companies want ‘condensed’ (versions of our service) but they aren’t willing to pay for it.”
- “Although our business has been slowly decreasing throughout the year, we have recently picked up a few projects. We are cautiously optimistic that next year will slowly turn around.”
- “Government regulation is continually making it more difficult for small businesses to compete because they lack the ability to spread the additional overhead over a larger volume.”
- “Higher commercial property vacancies should worry everyone and is negative for

St. Cloud metro. We need new job growth to revitalize St. Cloud area.”

- “Low commodity pricing.”
- “Commercial real estate taxes. Assessed value of properties higher than actual value.”
- “My company formed a second company and purchased (another commercial establishment) in October.”
- “Lack of funding for non-owner occupied buildings.”
- “Credit markets still remain very tight — the equivalent of trying to get an oyster into a parking meter — in obtaining wholesale and retail financing. No real progress until these thaw some.”
- “Real estate is still down and business slow. But, I don’t feel the government can afford to continue bailing everyone out. We cannot spend our way into solvency as a nation.”
- “Concerned with negative impact of policies coming out of Washington DC (i.e. health care, cap & trade, increasing tax rates, trade disputes).”
- “There has been an increase in residential construction. Commercial construction is inconsistent and I don’t know what to expect in 2010.”

FUTURE OUTLOOK

Table 2 reports the future outlook for area businesses. With the exception of the

TABLE 2-FUTURE BUSINESS CONDITIONS

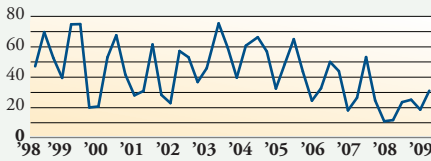
BUSINESS CONDITIONS	Six months from now vs. November 2009			Diffusion Index ³	August 2009 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)		
What is your evaluation of:					
Level of business activity for your company	18.2	29.5	48.9	30.7	18.4
Number of employees on your company’s payroll	14.8	62.5	19.3	4.5	-9.2
Length of the workweek for your employees	11.4	72.7	11.4	0	-3.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	13.6	61.4	20.5	6.9	-4.6
Employee compensation (wages and benefits) by your company	5.7	69.3	19.3	13.6	10.3
Prices received for your company’s products	8.0	76.1	10.2	2.2	-1.2
National business activity	8.0	44.3	31.8	23.8	13.8
Your company’s difficulty attracting qualified workers	5.7	79.5	8.0	2.3	-3.4

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

index numbers for employee compensation and prices received, the survey numbers found in Table 2 are improved from one year ago. As noted above, weakness in employee compensation and firm pricing power is expected in 2010 as area firms begin to recover from this very deep recession.

FUTURE BUSINESS ACTIVITY

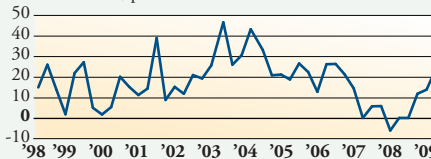
Diffusion index, percent



The future business activity index is 30.7, its highest value in the fall survey since November 2006, when it stood at 32.3. Another encouraging sign is the 23.8 value for the national business activity outlook. This is the highest reading on this item since February 2007. Many economists agree that the national economy has emerged from recession as output, income and sales data have improved substantially over the last several months. While national labor market conditions continue to lag the overall economy (a pattern that is also being observed in the St. Cloud area), employment is generally expected to begin improving by the middle of 2010. The Wall Street Journal survey of economic forecasters in November had an average gain in employment of 47,000 jobs per month over the succeeding 12 months.

FUTURE NATIONAL BUSINESS ACTIVITY

Diffusion index, percent



Indexes on future employment, length of workweek and difficulty attracting qualified workers are somewhat improved from last year's fall survey readings. We expect area businesses to follow the typical pattern of economic recovery in which additional production is initially obtained by using their existing workers more intensively

(thereby expanding the length of the workweek and achieving productivity gains). Gains in weekly hours in manufacturing began this fall. When firms determine that these gains are not sustainable, they will then turn to increasing employment. This process can take several months and may be accompanied by an increase in the local unemployment rate, as more people return to the labor force. Area firms can also be expected to make inventory adjustments that will lay the foundations for a general economic expansion, which could take form in the second half of 2010.

Another improved indicator in this quarter's future business conditions survey is expected capital expenditures. This index has achieved a positive value for only the second time in the last six quarters. Any recovery in local economic activity will be highlighted by a rise in spending on equipment, machinery and new structures. This indicator will be watched closely in future surveys.

SPECIAL QUESTIONS

Delta Air Lines recently announced its decision to terminate commercial air service out of St. Cloud Regional Airport. This decision will take effect Jan. 1, and it leaves the St. Cloud area without commercial air service for the first time since July 1993. In the context of economic development, the loss of commercial air service in a Metropolitan Statistical Area (MSA) of the size of St. Cloud is likely to be very harmful to the potential growth of the area economy. There is no doubt that site-locators use information on the access to commercial air service as a major factor in making recommendations to firms that wish to find sites to locate or relocate their businesses. The lack of access to local commercial air service could be limiting to the potential growth of the area economy.

The loss of local commercial air service is yet another sign of increased economic in-

ABOUT THE DIFFUSION INDEX

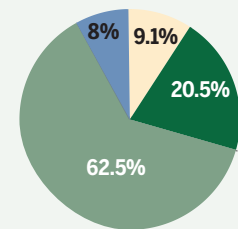
The diffusion index represents the percentage of survey respondents who indicated an increase minus the percentage indicating a decrease.

tegration of the Twin Cities and St. Cloud economies. On balance, area firms seem to feel that they have benefited from this increased economic integration. We remind our longtime readers that in February 2005 we asked area businesses to consider the effect of increased economic integration between the Twin Cities and St. Cloud. In that survey, 57 percent of firms reported a favorable effect of increased integration, while 10 percent reported an unfavorable effect.

It should be noted that as this edition of the St. Cloud Area Quarterly Business Report was being written, area public officials were working with a consulting group and a potential air carrier to establish local commercial air service to Chicago O'Hare International Airport. These efforts are centered on the creation of a community-backed air service that would require a large up-front investment of resources and would yield two round trip flights in and out of St. Cloud each day.

This quarter's first special question attempted to identify the impact on area firms of the loss of commercial air service. We asked:

"Delta Air Lines recently announced plans to discontinue local commercial air service beginning January 1, 2010. To what extent does your company expect to be affected by the loss of commercial air service?"



- Intermediate unfavorable effect
- Small unfavorable effect
- No discernible effect
- NA

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

Sixty-three percent of surveyed firms anticipate that this will have "no discernible effect" on their business. Meanwhile, 9 percent expect it to

have an "intermediate unfavorable effect" and 21 percent expect it to have a "small unfavorable effect." No companies expect it to have a large unfavorable effect and no surveyed firms thought it would improve their business. These results are not surpris-

ing — the economic impact of local commercial air service is likely to be wide and ranging. While companies can take steps to mitigate any adverse effects of the loss of local air service, over time this will reduce the vitality of the community, will limit potential growth and may cause a general decline in area quality of life.

A sample of written comments includes:

- “We rarely travel for business, but I would like to see a new carrier with more convenient flight times and destinations (Chicago or Denver).”

- “Delta/NWA brought this on with erratic schedules, reduced number of flights, and variable prices. It will be a lot less convenient.”

- “Negative factor for business relocation in the St. Cloud metro area.”

- “Although lack of air service will not directly affect our company, long term it will hurt our business.”

- “We don’t do enough air travel for it to make a difference except for the occasional national conference.”

- “Although it may not impact my business much (we are more of a local company), it greatly impacts many of our clients!”

- “We stopped using St. Cloud when service became so unreliable. When you could count on getting to MSP through/via STC, it was great. After 3 or 4 cancellations, rental cars, shuttles, etc., it became easier to just drive to MSP?”

- “We feel the loss of local commercial air service is clearly a negative for our region. However, it is not an ‘economy killer’ and can be overcome with other modes of transportation (including a different air carrier).”

- “We tend to fly in and out of the Minneapolis airport because of the difficult connection time on return flights.”

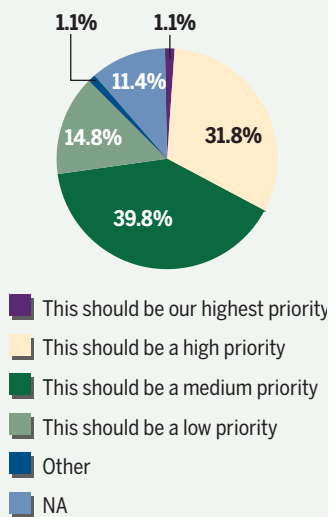
- “Air service will influence employers to locate or expand in the St. Cloud area. More jobs is good for the real estate market.”

- “We don’t fly much for business, however, it will reduce overall business activity, which is unfavorable.”

There are many other local initiatives that face area public officials, and there

are many competing interests for a limited amount of public resources. With this in mind, we asked area businesses the following question:

“Compared to other possible local initiatives, to what extent does your company feel it is a priority for local officials to attract an airline to offer commercial air service to St. Cloud Regional Airport?”



should be St. Cloud’s “highest priority.” Thirty-two percent of surveyed firms see this as a “high priority,” 40 percent say it is a “medium priority” and 15 percent believe it is a “low priority.” These results would appear to justify the efforts by local officials to continue to try to attract a carrier to St. Cloud Regional Airport.

A sample of written comments includes:

- “Only if they will advertise in the local area.”

- “If there is a market, then a carrier will pick us up. ... Let’s not provide a service with tax dollars!”

- “If the local municipalities spent as much time and effort attracting manufacturers and other quality businesses, it would have a better effect.”

- “Depends on where the service goes — Minneapolis would still be first choice.”

- “Regional carrier to Chicago would benefit people on the North metro as well as St. Cloud.”

- “For local officials to spend inordinate amounts of time on this initiative would be wasteful.”

- “We need to provide air transportation to attract and keep larger employers. We

No surveyed firm responded that “local officials should not try to attract an airline to the St. Cloud airport.” Only one surveyed firm thinks it

are getting bad press!”

- “I’m really torn on this because we are so close to MSP. It has to be good service that is frequent and feeds into preferred carrier flights.”

- “They spent the money on the airport, so they better have planes flying.”

As noted, there are many competing uses of public resources, so we asked survey respondents to identify other projects that are a higher priority. The results indicate the wide range of potential economic development projects that face area public officials. We did not provide survey respondents with a list of any potential projects. Instead, we simply asked firms to respond to the following:

“Please identify any local projects that should be a higher priority than attracting commercial air service to St. Cloud Regional Airport.”

While we are unable to print all of the written comments, a sample appears below. It should be noted that several businesses identified extension of the Northstar rail service to St. Cloud as a key strategic economic development priority.

- “Health care legislation on the top of our list of major concerns.”

- “Holding down property taxes.”

- “1) Improving regional job creation/economic development; 2) Civic Center expansion.”

- “Expanding Northstar to St. Cloud.”

- “Attract industries that require college graduates to this region.”

- “Attracting new jobs.”

- “Support the expansion and/or development of new manufacturing companies.”

- “As we are in the construction industry, we see the direct and indirect benefits of construction projects on the local economy. Many jobs are created with projects.”

- “More effort around economic development and job growth.”

- “Revive the manufacturing sector.”

- “Need to attract corporate investment in the area.”

- “Create a more business-friendly atmosphere. Eliminate bureaucrats from economic development.”

- “Spend the \$10 million originally authorized for pool by Lake George. Reduce

sales tax.”

•“Civic Center expansion, improved highway system around the St. Cloud metro area.”

•“Regional economic development efforts.”

•“Cap & trade (is) negative to all ‘business and residence’. Government health takeover (is) ‘negative to very negative’ for my business.”

•“The Civic Center and National Hockey Center expansions will be able to attract national events, which will make airlines more interested in continuing air service.”

•“Focusing on the River, emphasizing the Mississippi and bringing in new companies with jobs.”

•“Attract more industry to area in lieu of retail. Try to keep Electrolux and ING here.”

•“Attract new businesses to the various industrial parks in our area. Also, extending light rail from Big Lake to St. Cloud.”

ECONOMICS AND AIRPORTS

After averaging about 48,000 passengers between 2005 and 2007, traffic at St. Cloud Regional Airport had fallen to about 31,000 between September 2008 and August 2009 — including 3,000 on

chartered flights arranged by Sun Country. Scheduled departures fell from 1,650 in 2007 to 1,421 in 2008 to 1,365 in the 12 months to August 2009, according to data from Bureau of Transportation Statistics.

It is unlikely that either number would have fallen were it not for the recession, but it is noteworthy that the decline in passengers departing and the number of planes departing between September 2007 and August 2008 were almost identical. Since we believe the recession in St. Cloud began at that time, we would argue that the first decline was caused by a decrease in supply of departing planes than a decline in demand for seats. The latter decline could be due to the recession or could be due to a decline in flights and the convenience of scheduled departure times.

The economic theory of airports and commercial air service is relatively straightforward, and so is the evidence to support the theory. A city’s ability to attract people who rely on interaction with other people who work in distant places will be increased by easier transportation. These will include high technology jobs. Researchers work more effectively in teams, often working in multiple geographic locations. Telecommunications have reduced some of the ne-

cessity of air travel, but these are imperfect substitutes for face-to-face meetings, as millions of business travelers can attest.

There is not a great deal of literature on how big an effect the loss of commercial air service has on an economy. But a 2003 study found a 10 percent increase in boarding of airplanes was correlated with a 1 percent increase in service-sector employment. A 2007 study found plane boarding still led to significant population and employment growth, even after controlling for population growth, nearness to a hub city and other factors.

What is the future of St. Cloud’s airport? One possible example comes from Hagerstown, Md. The city was featured in a New York Times article in May 2008 after spending \$61 million on a 7,000-foot runway, only to have its commercial air service canceled two months before opening it in November 2007. Hagerstown at its peak in 1998 had 10 daily flights. Hagerstown is about the same distance from Baltimore as St. Cloud is from Minneapolis-St. Paul. Later in 2008 it started twice-weekly flights to Florida, and this spring it started four daily flights to Baltimore, supported by a \$1.2 million annual grant from the federal government. The planes to Baltimore hold

**TABLE 3 -
EMPLOYMENT
TRENDS**

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend rate of change	Oct. '08-Oct. '09 rate of change	Oct. '09 employment share	15-year trend rate of change	Oct. '08-Oct. '09 rate of change	Oct. '09 employment share	15-year trend rate of change	Oct. '08-Oct. '09 rate of change	Oct. '09 employment share
Total nonagricultural	1.3%	-3.4%	100.0%	0.9%	-3.6%	100.0%	0.8%	-4.0%	100.0%
Total private	1.4%	-3.5%	84.9%	0.9%	-4.0%	85.9%	0.9%	-4.6%	84.2%
Goods producing	0.4%	-9.7%	19.5%	-1.1%	-11.6%	13.8%	-1.0%	-12.3%	15.0%
Construction/natural resources	1.3%	-11.9%	4.3%	0.2%	-20.4%	3.4%	0.6%	-12.3%	4.0%
Manufacturing	0.2%	-9.0%	15.2%	-1.5%	-8.3%	10.4%	-1.5%	-12.3%	11.0%
Service providing	1.6%	-1.7%	80.5%	1.2%	-2.2%	86.2%	1.2%	-2.3%	85.0%
Trade/transportation/utilities	-0.4%	-2.9%	20.5%	0.1%	-4.5%	18.3%	0.2%	-4.3%	18.7%
Wholesale trade	1.6%	-1.3%	4.5%	0.8%	-3.7%	4.8%	0.8%	-5.0%	4.8%
Retail trade	-1.4%	-3.4%	12.6%	0.2%	-3.5%	10.0%	0.2%	-2.6%	10.7%
Trans./warehouse/utilities	1.7%	-3.2%	3.5%	-1.2%	-8.3%	3.5%	-0.7%	-8.9%	3.3%
Information	0.6%	-2.9%	1.2%	0.1%	-2.2%	2.4%	-0.2%	-4.3%	2.1%
Financial activities	3.1%	-0.8%	4.5%	1.2%	-0.6%	8.0%	1.4%	-1.0%	6.6%
Professional & business service	5.3%	-2.0%	8.7%	1.0%	-7.2%	14.1%	1.3%	-7.7%	11.3%
Education & health	3.0%	-0.8%	17.3%	3.5%	2.7%	15.5%	3.4%	2.6%	17.3%
Leisure & hospitality	2.2%	0.9%	9.3%	1.7%	-1.4%	9.3%	1.3%	-3.4%	8.9%
Other services (excluding govt.)	1.1%	-0.8%	3.9%	1.7%	1.1%	2.8%	0.9%	-2.4%	4.3%
Government	0.9%	-2.7%	15.1%	0.8%	-1.2%	14.1%	0.6%	-0.5%	15.8%
Federal government	1.1%	5.5%	1.9%	0.0%	-0.1%	1.3%	0.0%	1.3%	1.3%
State government	1.5%	-1.0%	4.9%	1.3%	0.9%	4.2%	0.8%	-1.6%	3.7%
Local government	0.5%	-5.3%	8.3%	0.7%	-2.3%	8.5%	0.6%	-0.3%	10.8%

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.

only nine passengers; that's about one-fourth what the Saab that flew from St. Cloud to Minneapolis could carry.

Hagerstown's unemployment rate was 3.7 percent in November 2007 when the runway opened. It is now 9 percent.

SIFTING FOR A RECOVERY

Table 3 provides a look at the past year through October for employment, and it reflects what is likely to be the fastest period of job shedding in Minnesota. All sectors of the St. Cloud economy lost jobs in the last 12 months, except for leisure and hospitality employment and federal government jobs (a likely result of stimulus dollars). A similar story could be told elsewhere in Minnesota. A notable difference is that education and health sector jobs rose in the state by 2.6 percent last year, but fell 0.8 percent in the St. Cloud area.

In Table 4 we see that the Central Minnesota labor force fell by about 2,000 workers in the last 12 months. We do not know how many of these workers are discouraged workers, or whether they have left the St. Cloud area. We do know from national data that the median duration of unemployment raised to 18.7 weeks in October from 15.7 in July. Had the labor force held

constant between October 2008 and October 2009, the unemployment rate would be 8.4 percent in St. Cloud rather than 6.6 percent. Nevertheless, the unemployment rate in St. Cloud is lower than in the Twin Cities or throughout Minnesota.

The increase in building permit valuations includes permits for \$5.7 million in multiple-apartment facilities in September. Leaving that out would have left building permits flat from 2008 to now. Unemployment insurance claims have receded to their year-ago levels from a very high level early in 2009. Mass layoffs in Minnesota in the last 12 months more than doubled from their 2007-08 levels. This is partly why the St. Cloud Index of Leading Economic Indicators has fallen to levels not seen this decade.

The St. Cloud Index of Leading Economic Indicators was negative largely due to a surge in unemployment insurance claims earlier in the year, as seen in Table 5. The rate of decline has decreased over the last few months, but the index continues to point downward, indicating continued economic weakness in the St. Cloud area through the first quarter of 2010. Help-wanted advertising rebounded from

extreme low levels in the summer, and manufacturing hours worked improved as employees were given some overtime in this last period. National data suggests some improvement in the number of temporary workers hired; we have no local data on this phenomenon. Manpower Inc. indicates that demand for their workers weakened in late summer and early fall.

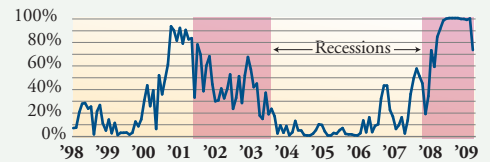
TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from August to October 2009	Contribution to LEI
Help-wanted advertising in St. Cloud Times	0.57%
Hours worked	0.50%
New business incorporations	-0.07%
New claims for unemployment insurance	-3.60%
Total	-2.60%

If we can point to a single piece of data as a sign, the Probability of Recession Index finally fell from 99 percent, showing a 73 percent reading for October 2009. This means that there is a 73 percent chance that the St. Cloud area will be in recession from February to April. We would caution that this is one month's observation and it says we are likely to be in recession in late winter. But this is the lowest reading since September 2008, a month after the local recession began.

PROBABILITY OF A RECESSION

Four-six months ahead



For both indexes we study the number of new business filings in the St. Cloud area. In periods of weakness in labor markets, it is less costly for individuals to consider the possibility of starting their own businesses. When businesses incorporate they often add new workers; we use business incorporations as noted in Table 5 to create the Index. Smaller firms, however, often simply use an assumed name to work as a sole proprietorship or partnership. The number

TABLE 4-OTHER ECONOMIC INDICATORS

	2008	2009	Percent change
St. Cloud MSA labor force October (Minnesota Workforce Center)	108,612	106,561	-1.9%
St. Cloud MSA civilian employment # October (Minnesota Workforce Center)	103,032	99,489	-3.4%
St. Cloud MSA unemployment rate* October (Minnesota Workforce Center)	5.1%	6.6%	NA
Minnesota unemployment rate* October (Minnesota Workforce Center)	5.3%	6.9%	NA
Minneapolis-St. Paul unemployment rate* October (Minnesota Workforce Center)	5.3%	7.1%	NA
St. Cloud-area new unemployment insurance claims August-October average (Minnesota Workforce Center)	1,045.7	1,163.0	11.2%
St. Cloud Times help-wanted ad lineage August-October average	4,174	1,400	-66.5%
St. Cloud MSA residential building permit valuation In thousands, August-October average (U.S. Department of Commerce)	5,193.3	6,987.3	34.5%
St. Cloud index of leading economic indicators October (St. Cloud State University)**	96.8	90.3	-6.7%

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

of incorporations in the last quarter has been tremendously weak, and as seen in the nearby graph, assumed business names have not picked up. We also look at limited liability corporations (LLCs) that have been formed. It has been recently shown in the news that filings increased in 2009. This is true largely because of a legal change that required any construction contractor who hired an individual contractor doing business as a sole proprietorship to withhold 2 percent of payments for income taxes. Rather than face the withholding, many small construction firms who subcontract have chosen to form LLCs. We do not think this activity has led to any increase in employment.

One national phenomenon we saw in 2009 was a sharp drop in the rate of business hiring. The rate at which firms have been separating from workers has decreased since the early part of the year, but the rate at which workers are finding jobs has steadily declined.

This explains the sharp increase in the

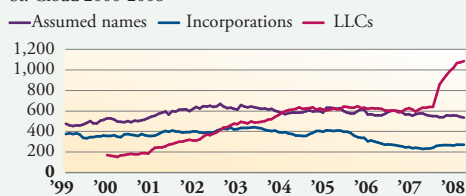
median duration of unemployment. In St. Cloud only 7,663 workers were hired in the first quarter of 2009, compared with 16,458 in the first quarter of 2008. Neither existing firms nor new ones seem to have created jobs so far. Until this happens we can expect the unemployment rate to remain stuck at current levels (after adjusting for the normal seasonal increase we see in retail after the December sales.)

Uncertainty is one possible reason for this. This has multiple sources, from uncertainty about the national economy to potential health care reform costs to credit availability. The FDIC reported that commercial loans in the third quarter fell 3 percent — the largest drop since reporting began in 1984. Larger financial institutions accounted for a majority of the drop. They also face uncertainty as financial reregulation has developed slowly in Congress. Much like in the 2001 recession, where a normal recovery was delayed by 9/11 and its uncertainties, we may find this recession ending in the middle of a period of high uncertainty, depressing employment.

The labor market data has not yet reached the same level of business leaders' optimism, and we would want more evidence before declaring a mid-2010 recovery. But at this point that optimism seems plausible.

BUSINESS FILINGS

St. Cloud 2000-2008



NOTE: No LLC data before Dec. 2000.

IN THE NEXT QBR Participating businesses can look for the next survey in February and the St. Cloud Area Quarterly Business Report in the April-June 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 Members!

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

These organizations contribute to The Partnership's success through their service on our Board of Directors:

- American Heritage National Bank
- Benton County
- Bremer
- City of St. Augusta
- City of St. Cloud
- City of St. Joseph
- City of Sartell
- City of Sauk Rapids
- City of Waite Park
- College of Saint Benedict
- HealthPartners Central Minnesota Clinics
- Initiative Foundation
- Minnesota Workforce Center-St. Cloud
- Sherburne County
- St. Cloud Area Association of Realtors*
- St. Cloud Area Chamber of Commerce
- St. Cloud Builders Exchange
- St. Cloud Hospital/CentraCare Health System
- St. Cloud HRA
- St. Cloud Opportunities
- St. Cloud State University
- St. Cloud Technical College
- Stearns County
- Stearns Electric Association
- Winkelman Building Corporation

*Denotes new member 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 or Henry Fischer at (320) 656-3816 or h.fischer@scapartnership.com.



THE PARTNERSHIP
A progressive approach to growth & development