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Q ST. CLOUD AREA QUARTERLY BUSINESS REPORT

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MIXED SIGNALS CLOUD LOCAL OUTLOOK A CHALLENGING PERIOD FOR ECONOMIC FORECASTERS

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King Banaian specializes in analyzing data and writing about it in the second portion of this report. In addition to his work as an economics professor, he serves in the Minnesota House of Representatives. Rich MacDonald collects and analyzes responses to the St. Cloud Area Business Outlook Survey, covered in an early portion of the report. Only MacDonald has access to the confidential list of surveyed businesses and the returned surveys. Questions about the survey can be directed to him. Special questions asked in the survey may at times deal with public policy but do not reflect a political agenda of either of the authors.

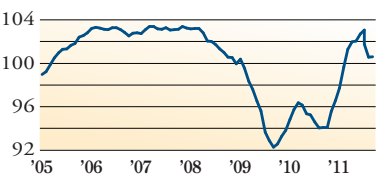
EXECUTIVE SUMMARY

Predicting the path of future local economic activity remains a challenging task as mixed signals continue to be seen in the local data. While surveyed businesses remain fairly optimistic about the future, a number of data sources suggest flatter local growth over the next several months. For example, 46 percent of surveyed firms expect increased activity over the next six months, and only 9 percent expect a decrease. However, local employment fell by 1.3 percent over the year ending October 2011, and three of four components of the St. Cloud Index of Leading Economic Indicators indicate economic weakness. These clouds of uncertainty suggest the possibility that the area economy has reached an inflection point characterized by slower future growth. A recession is not yet indicated, but we will be watching the local economy closely over the next several months.

Data released by the Minnesota Department of Employment and Economic Development continue to show substantial volatility in area employment conditions. Over the most recent month for which local labor market data are available, the annualized decline in employment reported above was accompanied by a reduction in the local

ST. CLOUD INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average

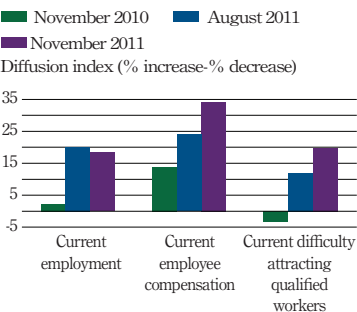


unemployment rate to 5.1 percent. While year-over-year job losses appear to have hit nearly every sector of the local economy, a smaller share of a shrinking local labor force is now unemployed. The October 2011 local unemployment rate is now 2 percent below the 7.1 percent unemployment rate reported in October 2009. We must emphasize, however, that these labor market measures must be analyzed with caution, given major and uncertain changes in the labor force that are discussed elsewhere in this report.

The St. Cloud Index of Leading Economic Indicators fell almost 6 percent last quarter, though it remains 4.8 percent above year-ago levels. The Probability of Recession index moved back into the uncertain area. Both give us reason to believe there has been a softening in the pace of economic recovery.

Forty percent of 76 surveyed firms experienced improved activity over the past three months, while 20 percent reported decreased activity. This is the best performance on our fall survey

KEY RESULTS OF SURVEY



for several years. In addition, all of the labor market indicators in the current conditions index remain elevated at levels that have not been consistently seen since 2006. The only weaknesses found in the survey of current conditions are in prices received and in national business activity. This is not surprising given moderating pricing pressures and a highly uncertain national outlook.

Firms' outlook over the next six months has leveled out from conditions observed in our recent future conditions surveys. While 46 percent of firms expect improved conditions over the next six months, this number was 56 percent one year ago. Forty percent of surveyed firms expect no change in activity over the next six months. This is the highest percentage of firms that have ever responded "no change" to expected conditions in the fall survey and is entirely consistent with what we seem to be seeing in other local data. With the exception

of the item that asks firms about expected future difficulty attracting qualified workers, all other items in the future conditions survey are little changed from their November 2010 values. Area firms do expect a tightening of local labor market conditions over the next six months. The index on expected future difficulty attracting qualified workers increased from a value of 5 one year ago to its current value of 16.

In special questions, two-thirds of surveyed companies are opposed to a one-year extension of emergency unemployment benefits. In addition, firms are evenly split on whether public funding should be used to subsidize the construction of a Minnesota Vikings stadium. Forty-three percent of firms are opposed to public funding, while an exactly offsetting 43 percent are in favor. Several firms have not taken a position on this public issue.

Job creation, tax burden and health care reform are the most commonly cited priorities of the 2012 legislative session in St. Paul. Forty-three percent of surveyed firms identify job creation as the most important legislative priority, far surpassing tax burden (16 percent) and health care reform (15 percent) as the most important priority in the upcoming legislative session.

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AREA BUSINESS OUTLOOK SURVEY

CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 76 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, both small and large. Survey

responses are strictly confidential.

Survey responses from Table 1 reflect normal seasonal weakness that occurs each fall. In several categories, these responses are among the best recorded results in the fall survey

for several years. The diffusion index on current business activity is 19.8, slightly improved from its value of 18.6 one year ago, but notably higher than its

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TABLE 1-CURRENT
BUSINESS CONDITIONS

TABLE 1-CURRENT BUSINESS CONDITIONS	November 2011 vs. three months ago				August 2011
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	Diffusion Index ³
What is your evaluation of:					
Level of business activity for your company	19.7	40.8	39.5	19.8	40.0
Number of employees on your company's payroll	14.5	65.8	32.9	18.4	20.0
Length of the workweek for your employees	9.2	67.1	23.7	14.5	13.3
Capital expenditures (equipment, machinery, structures, etc.) by your company	10.5	57.9	30.3	19.8	26.6
Employee compensation (wages and benefits) by your company	0	65.8	34.2	34.2	24.0
Prices received for your company's products	13.2	69.7	15.8	2.6	13.4
National business activity	7.9	60.5	22.4	14.5	24.0
Your company's difficulty attracting qualified workers	3.9	71.1	23.7	19.8	12.0

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

Source: St. Cloud State University Center for Economic Education, Social Science Research Institute and Department of Economics

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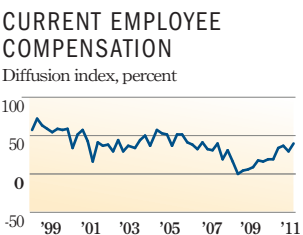
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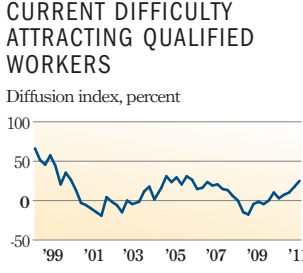
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-21.6 value in November 2008 (when the local economy was in recession). A diffusion index represents the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given quarter. For any given item, a positive index usually indicates expanding activity, while a negative index implies declining conditions.



Surveyed labor market indicators continue to suggest an improved climate for area workers. For example, the employment index is the highest fall reading since November 2005. In addition, local worker compensation continues to rebound. As the accompanying chart shows, the index on current employee compensation has returned to prerecession levels. We have often noted that the index on difficulty attracting qualified workers — a measure of labor market tightness — has displayed an interesting cyclical pattern. This index has fairly closely tracked the performance of the local economy over the 13 years that we have surveyed local businesses. As can be seen in the accompanying chart, the index on current difficulty attracting qualified workers continues to rise and is now higher than at any time since August 2006. Area firms continue to report in their written comments that it is increasingly difficult to find qualified workers. With the first wave of the baby boom generation now reaching normal retirement age, replacing retiring workers could become of increasing concern to area firms who are already concerned that the structure of the local labor market is changing.



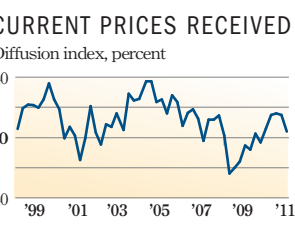
Capital expenditures remain well above recessionary levels. Thirty percent of surveyed firms increased capital expenditures over the last quarter, while 11 percent cut back. The percentage of firms reporting a decrease in capital expenditures over the last quarter is worth watching, since it

TABLE 2-FUTURE BUSINESS CONDITIONS

TABLE 2-FUTURE BUSINESS CONDITIONS	Six months from now vs. November 2011				August 2011
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	Diffusion Index ³
What is your evaluation of:					
Level of business activity for your company	9.2	39.5	46.1	36.9	25.3
Number of employees on your company's payroll	10.5	51.3	32.9	22.4	22.7
Length of the workweek for your employees	10.5	61.8	22.4	11.9	2.6
Capital expenditures (equipment, machinery, structures, etc.) by your company	5.3	60.5	26.3	21.0	17.3
Employee compensation (wages and benefits) by your company	1.3	47.9	36.8	35.5	40.0
Prices received for your company's products	3.9	61.8	28.9	25.0	20.0
National business activity	2.6	57.9	26.3	23.7	18.7
Your company's difficulty attracting qualified workers	6.6	64.5	22.4	15.8	12.0

Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion.
Source: St. Cloud State University Center for Economic Education, Social Science Research Institute and Department of Economics

is the highest percentage decrease in this category since the November 2009 survey. Concerns about the national outlook have helped drive the value of the national business activity index down to 14.5. This is the lowest value of this index that has been recorded since the February 2010 survey. We note throughout this report that the business climate continues to be plagued by national (and global) uncertainty. Finally, the index on current prices received has slowly trended upward since bottoming out in February 2009. Over the last year, firms have reported both rising cost pressures as well as an improvement in their pricing power (and growing profit margins). In this quarter's survey, area firms report a weakening of prices received. It appears that this is a temporary phenomenon, as Table 2 shows higher expected prices received in the future.



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

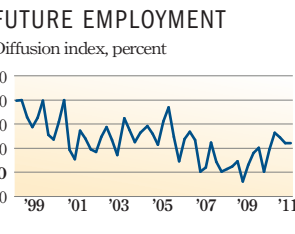
- These comments include:**
- We are in the process of being bought out.
 - I am very tired of long term (and short term) politicians who are more loyal to a party than representing their district. Always do the right thing. Pretty simple.
 - Tight lending standards and regulatory constipation.
 - High commercial real estate taxes.
 - Too much government!
 - We are going through an expansion of our building and adding staff. The red tape involved on the local

- and county level is staggering, resulting in delays and most importantly, cost. I have already determined that I will never put myself through the aggravation of another expansion project.
- We're seeing most growth in construction related to agriculture, especially in the southwestern part of Minnesota.
 - We are concerned with capital expenditures and whether companies will continue to expand and purchase the new equipment that we manufacture.
 - There is an oversupply of fitness centers in the area and city plans for a community fitness center will be a drain on the private sector and is not needed.
 - Inability to recruit skilled workers.
 - Gas prices are still too high.
 - Lack of construction activity and pricing below a fair market value on work that is out there. Too many firms fighting for a share of the pie.
 - Health care costs are the largest unknown. With the Obama Care bill being implemented, we will not add to our payroll at this time. With automation, we could triple our output.
 - ... We are starting to see baby steps in changes in the market. We have a long way to go. And the recession is still not over. At least one or two more years to go.
 - People and employees have unrealistic ideas of what small businesses net with all the government taxes and miscellaneous overhead costs.
 - I am losing confidence in the government's ability to get this country back on track. I think less government and more individual responsibility is needed. We have a moral breakdown of the fabric of society and no legislation cures that!

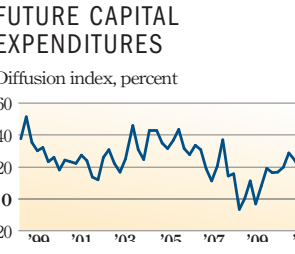
• Most of our competition has moved to North Dakota either temporarily or permanently. We have seen an increase of business because of less bidding on projects.

BUSINESS OUTLOOK

Table 2 reports the outlook for area businesses. The index on future overall business activity is lower than last year's November number. This appears to reflect a leveling out of area business leaders' expectation of future business activity. In fact, a record percentage of surveyed business leaders expect no change in future business activity. As shown in the accompanying chart, the value of the index on future employment is also little changed from recent quarters. Indeed, the rebound in expected hiring appears to have slowed slightly in recent quarters.



The indexes on future employee compensation, future prices received and future capital expenditures are little changed over recent quarters. As shown in the accompanying figure, the index on future capital expenditures has leveled out from its low point in 2008-09. This is a recurring theme in Table 2. On average, surveyed businesses seem to be in modest growth mode, but few expect major changes that move them off the existing growth path in coming quarters.

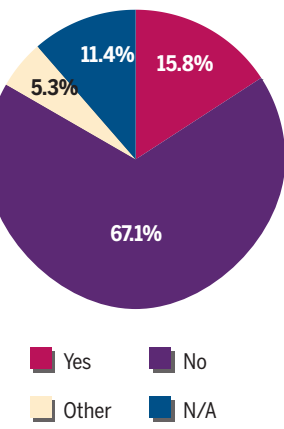


SPECIAL QUESTIONS

In September, President Obama proposed a jobs bill, the "American Jobs Act," on which Congress has so far failed to act. One of the elements of this bill was a proposed one-year extension of the emergency unemployment compensation insurance benefits program. This would potentially extend unemployment benefits for up to 99 weeks. These benefits have been extended several times since the Great Recession began in December 2007. Many readers will recall that these benefits are traditionally limited to 26 weeks, so the current employment insurance system bears little resemblance to that which would be observed during normal times.

We have been hearing from a growing share of businesses that they are starting to find it more difficult to attract qualified workers. A frequent question in economic circles relates to the cause of ongoing weakness in the national labor market. Some argue that high national unemployment is simply the result of weak demand, which can be overcome by normal macroeconomic policy designed to reduce cyclical unemployment. However, other observers argue that the structure of the labor market has changed, and that we should not expect labor markets to return to conditions observed in the mid-2000s. Economists have long noted that one factor that can lead to higher long-term unemployment rates is the length (and size) of unemployment compensation benefits. The longer these benefits are available, the more likely people will remain unemployed. Sooner or later, our public policy programs will have to return to a normal setting (or we will have to redefine what we mean by normal programs), so we decided to ask area business leaders what they thought about the proposed extension of jobless benefits. We asked:

QUESTION 1
As part of the "American Jobs Act," President Obama has proposed a one-year extension of the emergency unemployment compensation program. Is your firm in favor of this extension of unemployment insurance benefits?



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

Sixty-seven percent of surveyed firms are opposed to the extension of these benefits and only 16 percent are in favor of the policy. Several firms had no response or answered "other." In their written comments, firms appear to be concerned about the cost of the program as well as the disincentive to finding employment.

- Written comments include:**
- Tired of paying for it! Having to pass the cost onto my customers is not helping anyone.
 - Our firm was hiring this past summer but several candidates who were unemployed chose not to accept an employment offer because they were hoping that we would pay the same wage as when they lost their job(s).
 - Gotta end some time ...
 - In this area, people are abusing this unemployment compensation now. All we will do is extend this at the taxpayers' expense.
 - Not motivating people to look for work and many companies are looking for workers.

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HOUSING OUTPACES POPULATION GROWTH IN ST. CLOUD

Over the most recent recession there has been a great deal of discussion about housing. The St. Cloud job market for the construction industry rose through the first half of the 2000s, reaching a peak of 5,700 workers in the summers of 2004-07. But the last four years have been difficult, and employment this fall has returned to the levels seen in the 2000s.

Much of that extra labor used in the mid-2000s went

to adding to our housing stock. We have covered for the last several years the bulge in building permits in the same 2004-07 period. But new data from the 2010 Census helps to highlight this point.

The table nearby shows data from the last two censuses. They show that housing units grew 22.5 percent in the decade while population grew 13 percent. Put another way, the number of people per housing unit fell

HOUSING AND POPULATION

St. Cloud MSA	2000	2010	Change
Population	167,392	189,093	13.0%
Housing units	63,751	78,114	22.5%
Vacant homes	4.8%	8.7%	NA
Population/housing unit	2.63	2.42	-7.8%
Average family size	3.15	3.03	-3.8%
Share of homes occupied by non-family households	32.5%	34.9%	NA

over the decade from 2.63 persons per unit in 2000 to 2.42 in 2010.

Some of the additional housing relative to popula-

tion can be due to changing demographics. As shown in the table, the share of households that are nonfamily (single and two unrelat-

ed individuals) rose, which may have driven up the demand for housing. Household size has fallen in St. Cloud and in the U.S. generally. The share of households with four or more persons in St. Cloud fell from 27.1 percent in 2000 to 23.5 percent in 2010. Houses in the future are likely to be built for smaller families.

Building permits in Minnesota have been up lately, but a significant share of this seems to be due to multi-

family units. St. Cloud will have a greater-than-average amount of apartments due to its colleges and universities, but enrollment has not increased significantly over the decade. Demand for apartments may have risen during the financial crisis. This development, however, makes it more likely that the vacancies in housing in 2010 will linger for some time to come.

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The longer we provide the benefit the less likely people will be qualified or motivated to find a job.

- It will cost us more in taxes. If the benefits went away these people would find work!
- We are already charged for the extensions as a surtax on existing rates. We used to compete against other companies for employees. Now we are competing against the unemployment insurance.
- In our industry people collect unemployment and work for cash on the side, so they do not want to get hired full time.
- Even though we are finding staff, there is a contingency of people that don't feel it is necessary to get a job when they can collect unemployment benefits for so long of a period.
- Studies have shown that extended unemployment benefits are a disincentive for individuals to look for work. In our firm's opinion, such extended benefits would be a large mistake.
- This extension will increase the insurance rates on small businesses. Employers are minimizing new hires as much as possible because of concerns regarding the costs of layoffs.
- Businesses will hire if government gets out of its way. All these proposed programs just cause concern by busi-

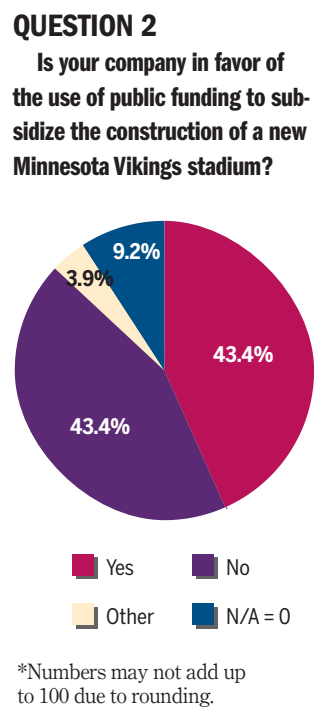
ness as we don't know what the costs will be. When we are concerned, we don't hire.

- Part of the problem (is) some of the "unemployed" don't want jobs with starting wages in the \$14 area. ... With what they collect on unemployment, they'll stay unemployed.
- Money should be used to create jobs, not reinforce people not finding jobs. People may have to accept lower-level jobs or decreases in pay and benefits.
- Get works projects and pay for work — not nonwork
- There is a point where unemployed folks need to realize that they are responsible for training and finding employment.
- Keeping people on unemployment indefinitely does nothing to stimulate the economy or create jobs. Why should people apply for jobs when unemployment never runs out?
- We have many job openings and are struggling to find applicants.
- Our unemployment insurance rates are high and going higher.
- We are still having trouble finding qualified workers. There is no incentive to look for work.
- This is a very difficult situation. Some folks are making more on unemployment.
- We need the government to create jobs and put people back to work vs. these ongoing handouts. Why should anyone work?
- It is very difficult for many unemployed peo-

ple to find employment right now.

- No, but if someone can't find a job, I guess it is necessary.
- There are a lot of people "hunting" for jobs, but we also have the problem of paying for the added cost. Since we are "deficit" spending, that is a problem
- Unemployment benefits should be tied to retraining/education since many jobs are not coming back.

The public debate over partial public funding of a Minnesota Viking stadium has heated up in recent weeks. Topics have ranged from site locations to financing options, and it is certain to be a major issue in the upcoming legislative session in St. Paul. We asked area business leaders:



There is a perfect split between those businesses that are in favor of the use of public funding and those that are opposed. We let the written com-

ments tell the story:

Written comments include:

- Not from regular taxes. Use gambling — 80 percent of public is in favor. OR use special use sales tax. The Vikes are a statewide benefit. Build it in Arden Hills and get rid of that blighted useless property.
- In the end, the state will benefit with increased revenue created from this new stadium (jobs created).
- Ziggy (Wilf) is a developer. He can do it himself. In Dallas, Jerry Jones was given the land and built the stadium himself. How about the same deal? Jerry must be smarter than Ziggy.
- The long-term state revenue outpaces the cost, which is why it makes sense.
- Really? What makes this business more important than mine?
- I answer yes, but it is not an emphatic yes. We helped with the Twins new stadium. How do you say no to this project? I would like to see it built on the Arden Hills site.
- Even though we are subsidizing rich owners and spoiled rich players, it is a way of life that does put Minnesota on the national scene.
- User fees only.
- We are in favor if there is a special tax that would be used to fund the stadium (racino, hospitality tax, lottery, etc.), but not for general funds to be used.
- Part of our quality of life including outdoors, parks, etc. Would favor

expansion of gambling to generate revenue.

- One-third — Viking owners; one-third — State of Minnesota taxpayers; one-third — County of stadium location.
- The Vikings and other sports teams contribute to the local culture every bit as much as parks, theaters, the arts, etc. If a new stadium is not built, I envision a scenario similar to Cleveland or Baltimore, where teams left and the city invested even more dollars to attract a new team back in the future.
- As long it as not statewide. I feel the area that gets the stadium should see taxes raised in certain areas connected with use of the stadium. I'm also for gambling that will support new stadium.
- Professional sports are the only business type that gets free advertising in 25 percent of the newspaper pages as well as strong subsidies to build their facilities. It's time for government and taxpayers to stop subsidizing them.
- We need to keep the Vikings organization in Minnesota. In return for public funding, the state needs to get a contractual commitment to stay in the state.
- We need the revenue from taxes paid by players and our state needs to have a presence in the NFL — it affects the state's image. We do not want to be a below-par state. We are successful enough to support a team.
- Public funding is acceptable as long as it

is justified based on the financial earnings that are returned to the state.

- Our business benefits when roads and buildings are built.
- Absolutely not! Get people jobs, then we can talk entertainment. What mixed-up priorities!
- Not unless it's a low interest loan. I will not benefit from a public subsidized stadium.
- The reality is that it is less expensive to retain the team vs. try to attract another team.
- Give them the metro money ... state does not subsidize my operation.
- As a corporation, we don't get any subsidies, they shouldn't either.
- I would only be in favor if the amount was under 5 percent of the total cost.
- The Vikings are an asset to the state as a whole.
- No, no, no ... players, coaches, and owners make millions of dollars. They do not reside in Minnesota but they want our money.

The last time we asked area business leaders about upcoming legislative priorities in St. Paul was in the November 2005 survey. While we realize the purpose of the upcoming legislative session is not focused on the need to pass a biennial budget, we were interested to see if there has been any shifting of legislative priorities over the past six years. We surveyed area business leaders using the same question (with the

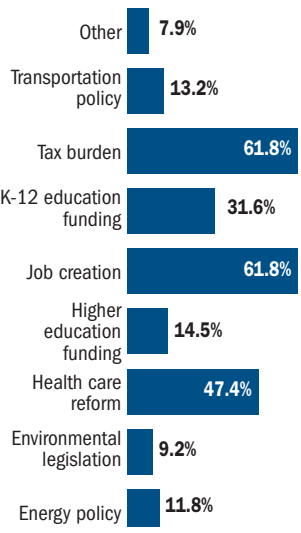
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(date changed) that was used in November 2005:

SPECIAL QUESTION 3

Which of the following does your business feel is a priority of the 2012 legislative session in St. Paul? (Please check all that apply.)



Sixty-two percent of surveyed firms selected job creation and tax burden as a legislative priority. Nearly one-half of firms selected health care reform as a priority for legislators. K-12 education funding is a priority for nearly one-third of surveyed firms. All other options received considerably less support. It will come as no surprise that six years ago (when the local economy was growing rapidly and unemployment rates were very low) only 26 percent of firms thought job creation was a legislative priority. In that survey, health care reform was cited by 67 percent of firms and tax burden was selected by 46 percent of those surveyed. Energy

policy and transportation policy were much more popular responses in the 2005 survey. More than one-third of surveyed firms indicated these two options as important priorities six years ago. This has slipped to 11.8 percent and 13.2 percent, respectively, in the current survey. Note that there were a number of “other” responses, many of which are noted in the written comments.

Written comments include:

- Could easily make a case for all of them. Do some real reform. Simplify K-12 funding instead of the current sham. Quit cost shifting.
- No more mortgaging future income sources.
- Education for our young people has suffered the most in this economic stall. We need to trim the fat in administration and pay our good teachers on their performance. It would also help to reduce class sizes and add more teachers.
- Regulation reform in all areas of government and its impact on business. Regulation is a bigger expense than taxes.
- Reduce the level of government interference in our lives. Too many legislators think their job is to pass something. I think it should be to repeal something.
- Let's attempt to fix health care, please.
- Retraining workers and developing interest in manufacturing jobs.
- Why do we assume that your job should pay for health care? Your job doesn't directly pay

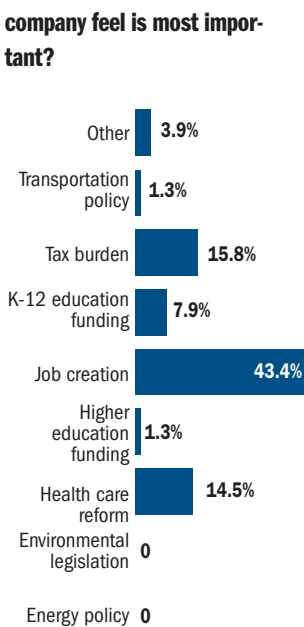
for public education and shouldn't bear the burden of health care — everyone should be in the same insurance pool and pay for it as a payroll tax — all should have the same access to Fortune 500 insurance pools and if they pay for it themselves they will shop for the best deal.

- Unless we improve the education/job training for existing and future workers, we will continue to have jobs available, but no folks to fill the jobs.
- Workers comp reform to protect employers more.
- Health care reform based on rational thought not budget balancing politics.

Our final special question requested business leaders to identify the most important legislative priority from those listed in the prior question. Job creation was clearly the most popular response. Forty-three percent of firms selected job creation as most important, with tax burden and health care reform running a distant second and third. This is an interesting result. While 62 percent of firms identified tax burden as a legislative priority, only 16 percent thought it was a top priority. Six years ago, 30 percent of businesses thought health care reform was the top priority and only 7 percent identified tax burden as the lead priority. In the 2005 survey, only 4 percent of businesses listed job creation as the most important priority. Firms were asked:

QUESTION 4

Which one of the legislative priorities listed above does your



Written comments include:

- Current policy pushes too much on local real estate taxes. State has few obligations, with the main one being to fund education. If you implement mandates, fund them.
- All are important; job creation will hopefully remedy some of the other issues.
- Job creation drives everything else.
- (K-12 education funding.) This is where it all starts. We need to do a better job of prepping our young people for future employment.
- Reduce government.
- We say we need a workforce that is better educated, but continue to cut funding. That doesn't add up very well in my mind.
- Jobs, jobs, jobs has to be the number one priority.
- We compete nationally against companies that do not have the high tax burden we do.
- Creation of jobs is by far the top priority. We get the people back to

work and the rest of the areas work themselves out based on economic productivity and growth, meaning a combination of increased state revenue and adjusting expenses to be in line with revenues.

- Quit unemployment and do workfare — there are a lot of projects that could be accomplished.
- K-12 decreases all the time/delayed funding not meeting schools' needs.
- Lower state taxation to promote local business expansion and jobs.
- Tax burden affects small business most.
- Job creation — job stability and creation will lead to more home purchases.
- Reduce taxes/cut budget.
- Education — we need to replace workers that are retiring with skilled workers.
- Job creation would eliminate the need to extend unemployment insurance benefits.
- Taxes paid by our corporation are growing out of control and hinder our ability to buy new equipment.
- Health care costs are a major concern. Our rates will increase 15 percent next year.
- Job creation — that is the engine that supports the whole state.

WHAT THE DATA SAY

Employment growth rates in St. Cloud turned negative in the most recent quarter, as shown in Table 3. Private sector employment fell 0.8 per-

cent in the last 12 months to October 2011, with earnings per hour rising 1.7 percent over the year and hours worked down to 34.1 per week from 34.6 in October 2010. The decline is broad-based in both the public and private sector, with the information sector being the only one with rising employment. Professional and business services employment was flat. Other areas of Minnesota do not appear to be experiencing a similar broad-based decline. Given the relative optimism of our survey respondents, we are at a loss to explain the breadth of the decline.

The decline in employment has been fairly well hidden by the decline in area unemployment rates. In Table 4 we see that the unemployment rate experience in St. Cloud has matched that in the Twin Cities and the rest of the state. The loss of jobs in St. Cloud has been accompanied by a decline in the labor force. The data for earlier years is more in line with 2011 levels, and it appears that whatever increase in labor force size was reported in 2010 was temporary.

Some other indicators were positive. Initial claims for unemployment insurance were down significantly. Help-wanted lineage held steady. While building permits were down in the August-October 2011 period relative to the same three months in 2010, much of this was due to changes in October. And the St. Cloud Area Index of Leading Economic Indicators is up significantly over the last year, though not in the last three months.

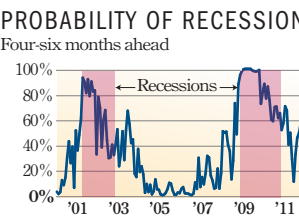
Indeed, a significant

QBR

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increase in the index over the summer, to levels we had not observed in several years, was bound to cool off and did so this fall. As seen in Table 5, an increase in claims over the fall, though still down from a year ago, were enough to reduce the index, along with a short-term decline in help-wanted advertising. Three of four measures fell in the three-month period to October 2011, with only the number of hours worked in manufacturing rising by a small amount.

This potential softening of the data is also seen in the St. Cloud Area Probability of Recession Index, which rose again into the undecided area. The index had fallen into the zone of signaling expansion earlier this year. While we are not overly concerned that the current rise in this index signals future recession, it is something that we will watch carefully in the coming months.



Undoubtedly the last three months were the most volatile since the financial crisis of September 2008. The debt ceiling debate and news from Europe and its Mediterranean debtor-states dominated the financial news. Most of the macroeco-

omic data moved sideways. (The 8.6 percent unemployment rate for November was reported after we had received the surveys.) We could understand business owners turning cautious.

And yet, while responses in the current conditions survey in Table 1 were somewhat improved from the normal fall numbers, a record percentage of business leaders expect unchanged business conditions over the next six months. We would interpret this to mean that business leaders are feeling the same degree

of economic uncertainty that has been so widely reported by the national media. We don't expect this to lead to future recession, but we also don't expect substantial

IN THE NEXT QBR

Participating businesses can look for the next St. Cloud Area Business Outlook Survey in February. The next St. Cloud Area Quarterly Business Report will appear in the St. Cloud Times on Sunday, March 25.

improvements in growth either. As indicated in the subtitle of this quarter's report, this is a challeng-

ing period for economic forecasters. We will nevertheless watch the new data in 2012 with an

even more careful eye for emerging signs that help clear up this decidedly uncertain outlook.

TABLE 4 - OTHER ECONOMIC INDICATORS

	2010	2011	Percent change
St. Cloud MSA labor force October (DEED)	110,646	107,939	-2.4%
St. Cloud MSA civilian employment # October (DEED)	104,039	102,418	-1.6%
St. Cloud MSA unemployment rate* October (DEED)	6.0%	5.1%	NA
Minnesota unemployment rate* October (DEED)	6.4%	5.4%	NA
Minneapolis-St. Paul unemployment rate* October (DEED)	6.5%	5.4%	NA
St. Cloud-area new unemployment insurance claims August-October average (DEED)	966.0	796.0	-17.6%
St. Cloud Times help-wanted ad linage August-October average	1,790.0	1,777.0	-0.7%
St. Cloud MSA residential building permit valuation In thousands, August-October average (U.S. Department of Commerce)	4,260.7	3,952.0	-7.2%
St. Cloud index of leading economic indicators October (St. Cloud State University)**	92.5	96.9	4.8%

MSA = St. Cloud Metropolitan Statistical Area, composed of Stearns and Benton counties.
- The employment numbers here are based on household estimates, not the employer payroll estimate in Table 3.
* - Not seasonally adjusted
** - 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	October '10-October '11 rate of change	Oct. '11 employment share	15-year trend rate of change	October '10-October '11 rate of change	October '11 employment share	15-year trend rate of change	October '10-October '11 rate of change	October '11 employment share
Total nonagricultural	1.0%	-1.3%	100.0%	0.5%	1.2%	100.0%	0.6%	0.7%	100.0%
Total private	0.9%	-0.8%	83.3%	0.5%	1.6%	86.2%	0.6%	1.0%	84.5%
Goods producing	0.1%	-0.5%	19.2%	-1.6%	2.7%	13.6%	-1.4%	1.2%	14.9%
Construction/natural resources	1.2%	-0.3%	4.7%	-0.4%	5.4%	3.4%	-0.3%	1.0%	3.7%
Manufacturing	-0.2%	-0.5%	14.5%	-1.9%	1.8%	10.2%	-1.7%	1.3%	11.1%
Service providing	1.2%	-1.5%	80.8%	0.9%	1.0%	86.4%	1.0%	0.6%	85.1%
Trade/transportation/utilities	-0.4%	-1.1%	20.1%	-0.3%	0.8%	18.0%	0.0%	0.5%	18.5%
Wholesale trade	0.7%	-1.3%	3.7%	-0.1%	0.7%	4.6%	0.3%	1.7%	4.7%
Retail trade	-1.2%	-1.1%	12.8%	-0.2%	0.8%	9.8%	-0.2%	0.3%	10.4%
Trans/warehouse/utilities	1.8%	-0.8%	3.5%	-0.6%	1.0%	3.6%	-0.1%	-0.7%	3.4%
Information	-1.0%	2.7%	1.7%	-1.1%	-1.4%	2.2%	-1.0%	-1.5%	2.0%
Financial activities	1.7%	-1.7%	4.1%	0.7%	1.1%	7.8%	0.9%	0.7%	6.4%
Professional & business service	3.7%	0.0%	8.2%	1.0%	3.5%	15.5%	1.2%	2.0%	12.2%
Education & health	2.9%	-0.6%	17.9%	3.3%	1.8%	15.9%	3.3%	1.4%	17.5%
Leisure & hospitality	1.1%	-0.7%	8.5%	1.1%	0.5%	9.0%	1.0%	1.5%	8.9%
Other services (excluding govt.)	0.1%	-4.3%	3.5%	0.7%	-0.8%	4.3%	0.6%	-1.2%	4.3%
Government	1.3%	-3.5%	16.7%	0.5%	-1.2%	13.8%	0.4%	-0.7%	15.5%
Federal government	2.5%	0.1%	2.3%	-0.3%	-2.0%	1.2%	-0.3%	-2.1%	1.2%
State government	1.4%	-4.9%	5.0%	0.6%	-1.5%	4.0%	0.7%	0.1%	3.8%
Local government	1.0%	-3.7%	9.4%	0.6%	-0.9%	8.6%	0.3%	-0.9%	10.5%

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.