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St. Cloud Area
Quarterly Business Report

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FRAGILE RECOVERY CONTINUES
A MIXED LABOR MARKET RETURNS

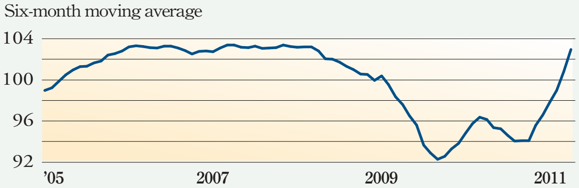
Executive Summary

Area employment experienced a small decline over the year ending April 2011, as sluggish conditions returned to the area labor market. Private employment fell 0.4 percent over the last 12 months as area firms continued to adjust to a slow and uneven pace of local activity. For the first time in several months, area employment numbers trail those observed elsewhere in the state.

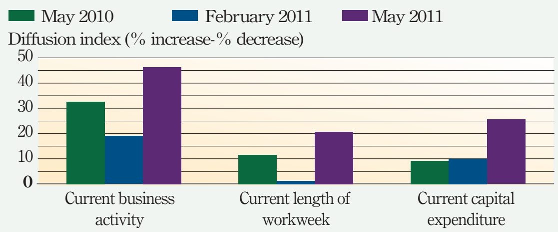
Last quarter, only three sectors of the area economy representing 16 percent of area employment were experiencing declining employment over the 12-month period. This quarter, 51 percent of the area labor market experienced year-over-year employment declines. Of particular note is the 2 percent annualized decline in employment in goods-producing industries that employs more than 18 percent of area workers. However, employment rose strongly in service areas with higher wages generally, such as IT, professional business services, and education and health. While area employment is much better than during the most recent local recession, these numbers are a reminder that a return to prerecession employment conditions will take a while.

The St. Cloud Index of Leading Economic Indicators turned decidedly positive in the latest quarter, reaching its highest level since the local Great Recession started. The St. Cloud Area Probability-of-Recession Index continued to decline and fell below 25 percent for the first time. This is the last measure we have that confirms the end of the recession we called a year ago.

INDEX OF LEADING ECONOMIC INDICATORS



KEY RESULTS OF SURVEY



Half of 82 surveyed firms expect improved activity over the next six months, while only 11 percent expect a decrease. One year ago 60 percent of surveyed firms anticipated increased activity. But most of the other future indicators in this quarter's survey suggest an improved outlook from last year at this time. For example, 28 percent of firms expected to increase hiring in the May 2010 survey. In this quarter's survey, 34 percent of firms expect to increase hiring over the next six months.

While firms are still hesitant to add to payrolls, the past three months have been a relatively strong period for area firms. Every category of the local current conditions survey points to improvement in economic conditions from one year ago. These improvements are bolstered by the strongest gains in overall activity since Spring 2004.

Area firms reporting plans to increase employment over the next six months note improved growth in sales as the most influential factor in encouraging hiring. Other important factors include overworked staff, the need to obtain additional skills on staff and improvement in the firm's financial position.

Of those firms that plan no change or a reduction in employment over the next six months, the three most important factors in their decision are slower growth of sales, uncertainty about regulations or government policies and underused current staff.

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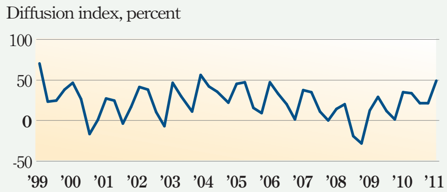
THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

Current Activity

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 82 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. Written and oral comments have not been attributed to individual firms.

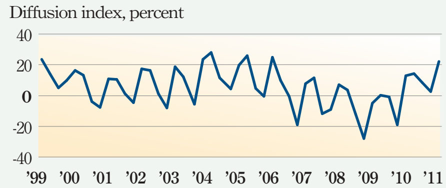
Survey responses from Table 1 reflect both normal seasonal strength that occurs each spring as well as the best-recorded results in the current conditions survey for the past several years. While we still have pockets of weakness in the local economy (especially in the goods-producing sector), the overall May business activity index is the best we have seen since May 2004. For example, the diffusion index on current business activity is 46.3, notably higher than its 32.6 reading one year ago. 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.

CURRENT BUSINESS ACTIVITY



While local employment gains have been weak, other current labor market indicators suggest an improved climate for area workers. For example, the length of the workweek index is markedly higher than it was one year ago. Twenty-six percent of surveyed firms are expanding the length of the workweek for existing employees, while only 5 percent are contracting hours worked. In addition, one-third of firms increased employee compensation last quarter. One year ago, only 15 percent of firms increased worker compensation. This suggests a slowly evolving recovery in the area labor market in which existing workers are utilized more effectively (and receiving better compensation) before firms commit to hiring at the levels that are customary during this stage of a recovery. Indeed, the results of this quarter's special questions suggest this interpretation of the data, as 33 percent of firms that indicate no change or reduced payrolls cite underutilized current staff as an important reason restraining hiring.

CURRENT LENGTH OF WORKWEEK



Capital expenditures continue to show a positive trend. Thirty percent of surveyed firms increased capital expenditures over the last quarter, while only 4 percent cut back. One year ago, only 16 percent of firms were expanding capital purchases (and in last quarter's St. Cloud Area Quarterly Business Report only 20 percent of firms reported increased capital expenditures). The index on national business activity continues to rise as area firms seem to shrug off some of the potential adverse effects of rising commodity prices, a surge in natural disasters, a declining value of the dollar, and uncertainty related to the future course of fiscal and monetary policy. Finally, the current prices-received index continues to rise.

TABLE 1-CURRENT BUSINESS CONDITIONS

	May 2011 vs. Three months ago				Feburary 2011
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	11.0	31.7	57.3	46.3	19.0
Number of employees on your company's payroll	11.0	58.5	30.5	19.5	3.8
Length of the workweek for your employees	4.9	69.5	25.6	20.7	1.2
Capital expenditures (equipment, machinery, structures, etc.) by your company	3.7	65.9	29.3	25.6	10.0
Employee compensation (wages and benefits) by your company	2.4	64.6	32.9	30.5	27.5
Prices received for your company's products	9.8	64.6	24.4	14.6	13.7
National business activity	7.3	43.9	36.6	29.3	25.0
Your company's difficulty attracting qualified workers	4.9	80.5	9.8	4.9	1.3

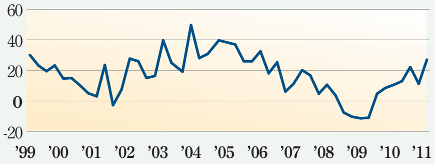
Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index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

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

At a current value of 14.6, area firms are now experiencing more pricing power (although, as noted in last quarter's report, this may not be associated with improved profitability). Compared with the May 2009 survey (when the current prices-received index stood at -21.5), this pricing outlook is certainly a welcome change from recessionary local pricing conditions.

CURRENT CAPITAL EXPENDITURES

Diffusion index, percent



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

- "People are still saving and not spending as in the past. Lending activity is picking up, but not to 'normal' levels."
- "Uncertainty of governmental attitude toward small business and potential added requirements and regulations. This includes our potential customers (as well as us)."
- "I have officed with a bankruptcy attorney for 5-6 years. Five years ago his clients could be considered financial fools but now the traffic is "normal" folks ... Ain't pretty."
- "Suddenly available skills is impacting our workforce needs. Recruitment is taking more of our time."
- "Domestic oil and gas exploration and production exceeding expectations. Balken and Marcellus field are particularly strong. Canadian oil both traditional and oil sands exceeding expectations. Natural gas booming."
- "Companies are currently spending more on capital expenditures. If this continues we will be able to secure orders and increase employment."
- "As already noted in hiring question, government regulation increase and other uncertainties with government regulation is playing a very key and negative factor with our industry."
- "Although there is an increase in projects to bid, we find ourselves looking to outlying areas to distance ourselves from the competition. Including adding different scopes of construction to our current offering."
- "We have seasonal fluctuations with the construction season and place our field staff on seasonal layoffs each winter."
- "We sold our wholesale business in April. It represented 20 percent of our volume and people. We are currently pursuing acquisitions to replace that volume in our core business, commercial and retail stores."
- "If economy picks up we will pick up. If the economy slows down we will slow down."
- "As always, we are seasonal and much busier in the winter. This summer we hope to keep hours normal and have some raises starting to happen. We had a good winter this year."
- "We feel these factors are holding down the economy's recovery. Higher fuel prices, economic uncertainty, government added policies related to construction and products."
- "Things are improving in the private sector somewhat, property owners need to make permanent repairs and/or replacements they've been holding off on due to budget constraints."
- "Significant reduction in state allocation and limited increases in (our revenues) are impacting services (we) can support."
- "New construction is basically nonexistent in the St. Cloud and Brainerd area. Agricultural related business in the Willmar area is 'booming.' "
- "Interest rates are still reasonable. Inflation is showing up in fuel, ag commodities and food prices."
- "High inflation seen in construction material costs."
- "Precious metal ... prices extremely volatile."
- "Capital expenditures, large estates, increased litigation."
- "Imported (products) driving the prices down."
- "I can feel that it is slowly starting to get slightly better. Slowly. Very slowly."
- "We see glimmers of hope but are still concerned with the Legislature's con-

TABLE 2-FUTURE BUSINESS CONDITIONS

	Six months from now vs. May 2011				
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	February 2011 Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	11.0	34.1	50.0	39.0	62.5
Number of employees on your company's payroll	7.1	54.9	34.1	27.0	31.2
Length of the workweek for your employees	4.9	78.0	11.0	6.1	22.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	3.7	64.6	26.8	23.1	27.5
Employee compensation (wages and benefits) by your company	1.2	61.0	34.1	32.9	38.7
Prices received for your company's products	7.3	53.7	32.9	25.6	23.7
National business activity	3.7	45.1	35.4	31.7	40.0
Your company's difficulty attracting qualified workers	2.4	79.3	11.0	8.6	13.8

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

Source: St. Cloud State University Center for Economic Education, Social Science Research Institute and Department of Economics tinued cutting of education funding as well as governments."

- "Gas prices are having an impact on our costs and the businesses that we do business with are impacted by it too."

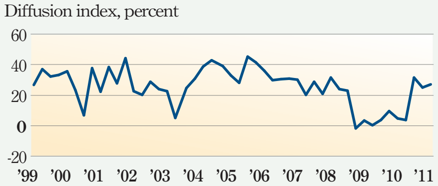
Future Outlook

Table 2 reports the future outlook for area businesses. While the index on future overall business activity is noticeably lower than last quarter's number, this is a normal seasonal occurrence. However, the value of 39 on this index is lower than its 44.9 value one year ago, and it is below the normal reading for this time of year. Indeed, the only other times the spring future overall business activity index has slipped below 40 is in the recessionary periods of 2008 and 2009.

It appears the results in Table 2 are slightly weaker than might be expected at this stage of the local recovery. For example, the indexes on future number of employees and future capital expenditures have slipped a little from last quarter's reading. While these small declines are not particularly troubling, they are worth keeping an eye on in coming quarters. Likewise, the future length of workweek index is substantially lower than it was three months ago. Similar to the overall employment and capital expenditures index, this series does not follow any particular seasonal pattern, so the expected decline in workweek over the next several months is an interesting result. This could mean that area businesses are planning to relieve some of the pressure on their existing workforce by increased hiring over the next several months. (This interpretation of the index seems to be supported by the results of this quarter's special questions.) Alternatively, this could mean a possible slowdown in planned activity over the next six months.

FUTURE PRICES RECEIVED

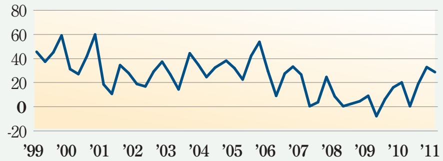
Diffusion index, percent



The expected worker compensation index is also somewhat lower than last quarter. This could mean a relative weakening of labor market conditions, but it is too early to tell. National business activity is expected to remain reasonably strong and firms appear to have little concern about attracting qualified workers. Finally, pricing pressures continue to be expected by local firms. The prices received index jumped abruptly in November 2010 and has stayed near this higher level for the past three quarters.

FUTURE EMPLOYMENT

Diffusion index, percent



Special Questions

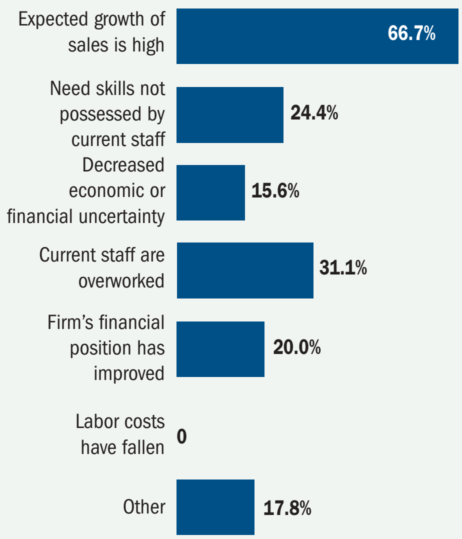
A pronounced lack of job creation has plagued the U.S. economy throughout its recovery from the recession (which is dated to have ended in June 2009). Commentators continue to be concerned about the strength of the recovery given the persistence of high unemployment rates. Recently, researchers have attempted to identify the factors that are restraining improvement in the national labor market (as well as those factors that might be leading firms to plan an increase in hiring). The Federal Reserve Bank of Philadelphia asked participants in its regional manufacturing survey to identify those factors that were contributing to employment gains and losses in their district. The results indicated that firms that were planning to increase employment cited expected growth in sales as the key factor driving this decision. Other important factors included the need to hire workers with skill sets not possessed by current employees, a decrease in economic uncertainty, a desire to relieve overworked employees and an improvement in the firm's financial position.

Of those businesses that reported a likely reduction in employment (or no change in hiring), the most frequently cited factor was lower growth of sales. Other important factors restraining employment gains included uncertainty about regulations or government policies, high labor costs, difficulty finding skilled workers, and uncertainty about the cost of health insurance. To get more information about factors influencing area hiring decisions, we drew heavily on the January 2011 Business Outlook Survey published by the Federal Reserve Bank of Philadelphia (see archived results at http://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey).

We asked those firms that expect to increase employment over the next six months the following questions:

QUESTION 1

Which of the following factors are influential in your firm's plans to increase employment? (Check all that apply.)



The results are similar to those reported in the Federal Reserve Bank of Philadelphia's January 2011 survey. Two-thirds of surveyed St. Cloud area businesses that expect to increase employment cite "expected growth of sales is high" as influencing their hiring decision. Other factors cited by at least 20 percent of responding businesses include "current staff are overworked," "firm's financial position has improved" and "need skills not possessed by current staff."

Written comments include:

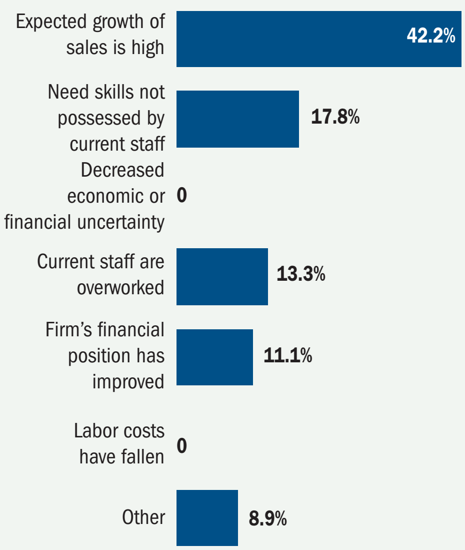
- "We are planning adding on to our current facility, resulting in increased production and more employees."
- "It is our firm's position that our economy has 'turned the corner' and will continue to grow, albeit at a slow to moderate pace. We see our business growing with the economy. In our business specialized skills are a must."
- "Our business is well suited to fluctuations in workforce needs."

• “Manufacturing activity for end markets exceeding expectations. Natural gas prices driving on-shore chemical production. Auto manufacturing higher than forecast. Oil and gas exploration and domestic production exceeding expectations. North Dakota oil activity exceeding expectations.”
• “We look to diversify our company because of the current competition in our industry.”
• “We recently sold a division of our company (20% of sales) and plan to reinvest through acquisition.”
• “(Other) ... new equipment.”
• “(Other) ... more direct marketing.”
• “(Other) ... improved performance has (led to) staff additions that were previously restricted.”
• “(Other) ... to replace workers that have moved on.”
• “(Other) ... need more sales staff to handle product load.”

We were also interested in which factor was the most important in the hiring decision. We asked:

QUESTION 2

Which of the above factors is MOST IMPORTANT in your firm’s plan to increase employment?



Forty-two percent of those are firms that expect to increase employment cite “expected growth of sales is high” as the most important factor in their hiring decision. No other reason for hiring is nearly as important as improvement in sales. In the Federal Reserve Bank of Philadelphia survey, about 40 percent of surveyed businesses cited sales growth as the most important factor.

Written comments include:

• “We went through a period of getting as efficient as possible. That was achieved and now sales growth requires a few more staff.’
• “I need specialized skills which we currently do not have in our existing employees. I also am looking for a person to transition into a management role.”
• “Our industry is strong and consolidating. We need to grow quickly to remain competitive and viable.”
• “Will need more people out contacting new customers.”
• “If sales won’t increase from activity in the building trade, we will find new avenues to create sales.”
• “Market activity has increased and more sales need more sales people.”
• “If sales growth is enough. Now, we are overemployed.”
• “As revenue goes up, we will be able to fill openings and reinvest in other positions.”
• “Volumes, payer requirements keep increasing for same jobs — cost us more for same results.”
• “No one in the organization has the skill set needed.”
• “Backlog under contract is higher and we will need additional field people to perform the work.”

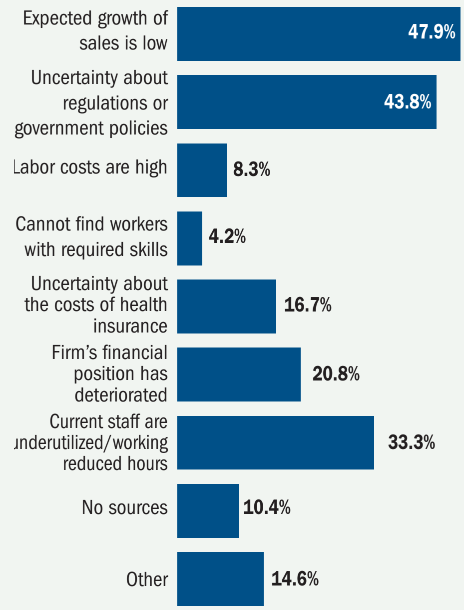
More than half of surveyed local firms plan to either reduce employment or leave payrolls unchanged. Their reasons for doing this are an important piece of the puzzle in trying to figure out what is holding back area job gains.

While policymakers often define objectives around the creation of jobs, they often attempt to meet these goals through policy measures that attempt to increase aggregate demand through tax cuts or spending increases. Less commonly used tools to influence labor market conditions are those that affect the incentives of firms to increase hiring. These incentives typically are less related to cyclical conditions and are more likely concerned with structural labor market conditions. The interesting results found below suggest that policymakers who desire to increase employment (and reduce unemployment) have a wider arsenal of tools available to them than simply demand management policies. For example, reducing uncertainty related to health insurance and government regulations would go a long way toward increasing employment in the St. Cloud area.

We asked the following question of those local firms that plan either no change or a reduction in employment:

QUESTION 3

Which of the following factors are influential in restraining hiring? (Check all that apply.)



While 48 percent of firms responded, “expected growth of sales is low”, a comparable 44 percent cited “uncertainty about regulations or government policies” as restraining hiring. This suggests a credible revision of government regulations would help achieve local employment gains. Another one-third of respondents cite underutilized staff as restraining hiring. The only other factor cited by at least 20 percent of firms was “firm’s financial position has deteriorated.”

Written comments include:

• “Except for agricultural properties, most of real estate is in the doghouse. Residential foreclosures remain at high levels. Property tax delinquencies continue to rise.”
• “Disaster in Japan will cause a shortage of parts for at least six months and production will be cut also.”
• “We do much work for public agencies, cities, counties, etc. They are still dealing with budget impacts and are not moving projects forward.”
• “Awaiting results of current legislative session to know outcomes on Medicare/Medicaid reimbursement and final numbers on cuts to long-term care industry.”
• “Increased sales from higher rental

occupancy does not affect labor needs."

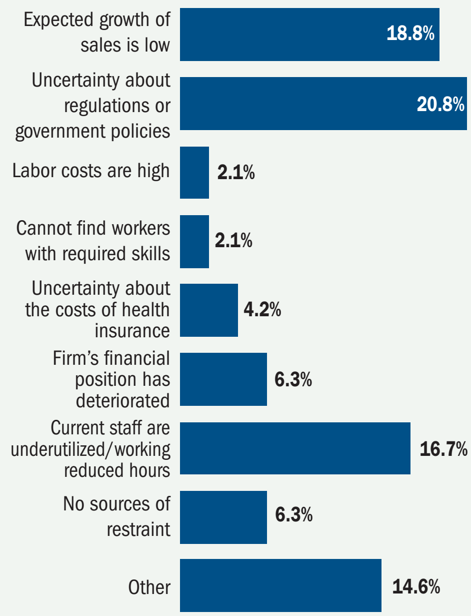
- "We do not have big swings in our business, so we have the proper number (of employees)."
- "(Other) … we've implemented efficiency measures — don't have hiring need."

The final special question asked those firms that were planning no change in or reduced hiring to identify the most important factor influencing their decision. We asked:

QUESTION 4

Which of the above factors is MOST IMPORTANT in restraining hiring?

Responses were quite varied. Twenty-one percent of firms claim an "uncertainty about regulations or government policies" as the most important factor, while 19 percent claim low growth of sales as the leading reason restraining hiring. Another 17 percent of local firms cite underutilized current staff as the most important reason, while a



comparable number of firms report "other" reasons. These results speak to economic theory related to labor hoarding during recessions as well as those factors that influence both the demand and supply sides of the aggregate economy.

Written comments include:

- "We expect construction activity to remain constant with little or no increase for this construction season."
- "We don't have big business swings. We are not a big company either."
- "I want to stay under 50 employees to stay out of Obamacare."
- "We will not add full-time benefited employees until we know how the impact of 'prepaid insurance' funded by the government pans out."
- "Need current staff back up to full utilization."
- "Certified (employees) with good skills and knowledge are difficult to find."
- "Firm's financial position has deteriorated due to length of the recession in real estate markets."
- "We need to better utilize our current staff — more training, more efficient."
- "We are "lean and mean" and have no need for additional staff at the moment."
- "We are modernizing to keep from hiring additional workers."

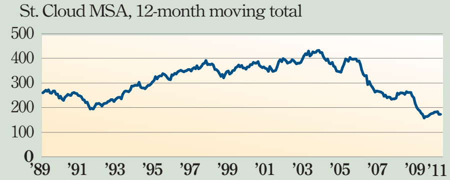
WHERE ARE THE NEW CORPORATIONS (AND THEIR JOBS)?

It has become accepted wisdom that new firms help create jobs. And it is known, as we've said several times during this Great Recession, that job growth out of the last three recessions has looked relatively anemic when compared to those in previous recessions since World War II. Several economists noted in May a new report* from the Bureau of Labor Statistics, which looked at the rate of job creation from new firms. The number of firms less than one year old in 2010 was 505,473, more than 24 percent below its level in 2006 and lower than any time since BLS started recording the data in 1994. The number of jobs created by these new firms had fallen every year since the peak of 1999 of 4.7 million; in 2010, new firms created only 2.5 million jobs.

Our St. Cloud Index of Leading Economic Indicators includes new business incorporations. Our expectation is that the number of new incorporations would relate to new jobs for the St. Cloud area. Businesses will go through the expense and trouble to incorporate when they start to expand and are hiring. We had noted to ourselves the decline in this statistic, but had not graphed it for ourselves until now. The result is strikingly similar to the national story. The annual rate of new incorporations in St. Cloud reached a peak of 427 in July 2004 and reached a minimum of 152 in June 2010. Our latest reading in May 2011 is scarcely higher at 167. Until the most recent recession the number had not fallen below 200 since the 1990-91 recession.

INCORPORATIONS

St. Cloud MSA, 12-month moving total

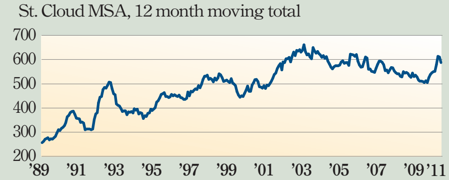


We do not have data just for the St. Cloud area for the number of jobs in these new firms that carries through the recent recession. (There is state-level data which shows the same pattern as the national data noted above.) But it is safe to say that St. Cloud, like the national economy, is not generating new jobs from business start-ups. Other national data shows that it has been more medium-sized firms (those with 250-1000 workers) that have been job generators rather than small businesses or large corporations.

One other facet of many recessions has been the decision of individuals to start their own businesses as sole proprietorships. We are able to track on a monthly basis the number of people who have filed assumed names (often shown as "doing business as" or "d/b/a") with the Minnesota Secretary of State's office.† That graph shows that for the Great Recession the number of people going to work for themselves rose during the recession just like our previous ones. But it is a small share of such businesses that hire employees; most sole proprietorships have just one worker, the owner.

ASSUMED NAMES

St. Cloud MSA, 12 month moving total



Perhaps the information economy that the country is moving toward will create more of these one-employee companies, and there will be fewer corporations. There are other forms of limited-liability business forms that are coming into greater use; we have very limited data on those or on their employment-generating behavior. But the data all point in one direction: New businesses are fewer and with them job creation is behind where we have been in other recessions. That is very bad news.

FOOTNOTES: * Bureau of Labor Statistics, "Entrepreneurship and the U.S. Economy," www.bls.gov/bdm/entrepreneurship/entrepreneurship.htm last accessed June 4, 2011.

† Corporations and other types of business forms will use assumed names when operating multiple business names under one corporation or LLC. We know of no reason why the share of assumed names used for this purpose would change, so we assume the change we are seeing is at least representative of changes in sole proprietorships.

• "Adopted efficiency measures. With slow economic growth, no need to hire."
• "Freight rates have gone up but not in relation to the cost of replacement equipment, fuel, tires and parts. So, little profit!"
• "We have excess capacity we need to use up first as the economy improves; then hiring can take place."
• "Uncertain about government regulations etc.; lead paint rules will add a lot of cost to remodeling projects; fewer people will remodel because of additional cost."
• "More business with current staff will bring company back to a profitable level."

The data are better than you think

Total employment fell 0.2 percent in St. Cloud in the year through April 2011, as shown in Table 3. The private sector was worse at 0.4 percent decline. But within that are two stories. Construction continues to suffer, at a 7 percent decline year over year, perhaps induced by the first-time homebuyers credit in 2010. Construction was down around the state. Manufacturing employment continues to slide. But our service sector showed strength. Information technology, professional business services, and education and health sectors all showed significant growth through spring. The transition of St. Cloud away from goods production and employment at the malls and restaurants continues.

Unemployment rates are still at elevated levels but are improving over the last year. As seen in Table 4, the state and local unemployment rates are equal at 6.6 percent. This is a little unusual, as normally St. Cloud is below the state rate. St. Cloud's labor force fell by 2 percent as well over the last year through April 2011. We will pay attention to these data over the next few

TABLE 4-OTHER ECONOMIC INDICATORS

	2010	2011	Percent change
St. Cloud MSA labor force April (DEED)	111,367	109,118	-2.0%
St. Cloud MSA civilian employment # April (DEED)	103,734	101,864	-1.8%
St. Cloud MSA unemployment rate* April (DEED)	6.9%	6.6%	NA
Minnesota unemployment rate* April (DEED)	7.4%	6.6%	NA
Minneapolis-St. Paul unemployment rate* April (DEED)	6.7%	6.3%	NA
St. Cloud-area new unemployment insurance claims February-April average (DEED)	1,360.0	1,120.0	-17.6%
St. Cloud Times help-wanted ad linage February-April average	1,732.7	3,122.7	80.2%
St. Cloud MSA residential building permit valuation In thousands, February-April average (U.S. Department of Commerce)	4,024.7	2,461.0	-38.9%
St. Cloud index of leading economic indicators April (St. Cloud State University)**	92.3	105.3	14.1%

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

TABLE 3 - EMPLOYMENT TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend rate of change	April '10-April '11 rate of change	April '11 employment share	15-year trend rate of change	April '10-April '11 rate of change	April '11 employment share	15-year trend rate of change	April '10-April '11 rate of change	April '11 employment share
Total nonagricultural	0.9%	-0.2%	100.0%	0.5%	0.0%	100.0%	0.6%	0.1%	100.0%
Total private	0.8%	-0.4%	82.2%	0.5%	0.0%	85.6%	0.6%	0.2%	83.9%
Goods producing	-0.2%	-2.0%	18.3%	-1.7%	-0.7%	13.0%	-1.5%	-1.8%	14.0%
Construction/natural resources	1.1%	-7.0%	3.8%	-0.8%	-8.4%	2.7%	-0.4%	-13.2%	2.9%
Manufacturing	-0.6%	-0.6%	14.5%	-1.9%	1.5%	10.3%	-1.7%	1.7%	11.1%
Service providing	1.2%	0.2%	81.7%	0.9%	0.1%	87.0%	1.0%	0.4%	86.0%
Trade/transportation/utilities	-0.8%	-0.9%	19.8%	-0.3%	-0.8%	17.9%	-0.1%	-0.5%	18.4%
Wholesale trade	0.6%	-2.1%	3.7%	-0.2%	-0.8%	4.6%	0.1%	-0.8%	4.6%
Retail trade	-1.7%	-1.0%	12.6%	-0.2%	-1.1%	9.8%	-0.2%	-0.9%	10.3%
Trans./warehouse/utilities	1.5%	0.6%	3.5%	-0.8%	0.0%	3.6%	-0.2%	1.1%	3.4%
Information	-0.3%	4.8%	1.8%	-0.9%	-1.2%	2.3%	-0.8%	0.4%	2.1%
Financial activities	2.0%	-2.7%	4.1%	0.7%	-1.5%	7.8%	0.9%	-0.6%	6.4%
Professional & business service	3.9%	2.2%	8.2%	1.0%	3.5%	15.2%	1.2%	2.7%	12.1%
Education & health	2.8%	2.4%	18.1%	3.3%	1.7%	16.2%	3.2%	1.7%	17.8%
Leisure & hospitality	1.3%	-2.3%	8.6%	1.0%	-3.1%	8.9%	0.9%	-0.5%	8.8%
Other services (excluding govt.)	-0.2%	-4.8%	3.5%	0.8%	-2.4%	4.3%	0.6%	-0.7%	4.3%
Government	1.6%	0.8%	17.8%	0.7%	-0.2%	14.4%	0.5%	-0.5%	16.1%
Federal government	2.4%	1.3%	2.4%	-0.1%	-7.7%	1.3%	-0.3%	-8.9%	1.2%
State government	2.0%	-4.7%	5.4%	0.6%	0.3%	4.2%	0.7%	-0.3%	3.9%
Local government	1.2%	3.9%	10.0%	0.8%	0.7%	9.0%	0.5%	0.5%	11.0%

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.

months, as a decrease in our labor force would indicate migration out of the St. Cloud area that should concern area leaders.

Unemployment is, according to economic research, a lagging indicator of the strength of the economy. Our leading indicator series rose strongly over the last year, registering its highest level since before the recession started in 2008. As Table 4 also shows, this came from many quarters, including a decline in initial claims for unemployment insurance and a large increase in the amount of printed help-wanted advertising. Only a substantial decline in the value of building permits for residential construction marred some otherwise positive news. (And the 2010 number included more than $1 million in permits for apartment buildings, pushing up the previous year figure.)

TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from February to April	Contribution to LEI
Help-wanted advertising in St. Cloud Times	3.70%
Hours worked	0.08%
New business incorporations	-0.05%
New claims for unemployment insurance	0.48%
Total	4.21%

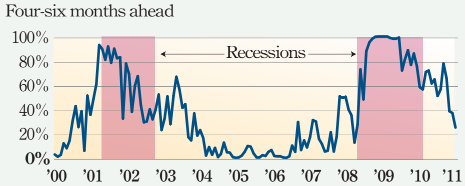
Three of four factors in the St. Cloud Area Index of Leading Economic Indicators were positive in the recent quarter, led by help-wanted advertising. As seen in Table 5, the only negative indicator was new business incorporations (as discussed in the sidebar, “Where are the New Corporations … ?”). Hours worked in manufacturing in the area increased slightly over the most recent quarter.

The Minnesota component of the Mid-American States Business Conditions Index published by Creighton University grew over the period, which contributed to a decline in the St. Cloud Probability-of-Recession Index. As of April, the latter measure was at 24.9 percent, which meant it confirmed our previous conclusion that the economy was out of recession.

The odds of a recession before late 2011 are now less than 3 to 1. That is more than we would like, and may reflect some of the uncertainty we hear from area business leaders and their hesitancy to hire more workers. And that may also be due to the recent national economic news, which was dour through most of May. We continue to be optimistic about the local economy, however. The data on employment levels are disappointing in pockets but strong in others. Short of something large and unforeseen at the national level, many other indicators simply look too sound at this point for us to worry about a double dip locally.

PROBABILITY OF RECESSION

Four-six months ahead



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