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ST. CLOUD AREA
QUARTERLY BUSINESS REPORT

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BUSINESS OUTLOOK BRIGHTENING

JOB GROWTH IS WEAK LINK IN OTHERWISE IMPROVING LABOR MARKET

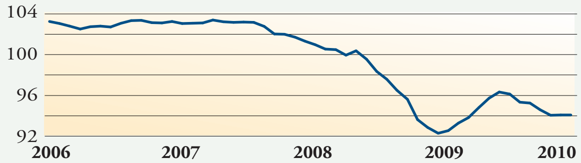
Executive Summary

St. Cloud-area businesses report an improved outlook for the first part of 2011 as the local economy slowly recovers from recession. While overall employment gains in the private sector remain weak, other labor market indicators are among the best that have been seen for more than two years.

Total private employment increased at a 0.2 percent rate over the 12 months ending in October 2010. While this tepid growth is weaker than was reported last quarter, it should be noted that area employment increased from September to October for the first time since 2006. Unfortunately, the area labor market is a long way from returning to conditions found at its peak in 2007. For example, October 2010 area private sector employment was 83,519. In October 2007, St. Cloud employment was 89,052 in the private economy — a difference of more than 5,500 jobs. It will likely take years until the area labor market returns to prerecession employment levels. For comparison, note that private sector employment in October 2001 (about the time the area economy entered its prior recession) was 83,053. Two years later, when St. Cloud was beginning its recovery, private employment was

INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average



A SPECIAL MESSAGE TO SURVEY RESPONDENTS AND READERS FROM THE AUTHORS OF THE QUARTERLY BUSINESS REPORT

With King Banaian's election to the Legislature, we have been asked if anything will change in our writing of the QBR. The short answer is that nothing will change. King will continue to specialize in writing and analyzing the data found in the second portion of the report. This means that he will continue to work on the St. Cloud Index of Leading Economic Indicators, the Recession Probability Index and commentary related to special data-related topics. Rich MacDonald has always been responsible for collecting and analyzing the St. Cloud Area Business Outlook Survey. The list of surveyed businesses and business leaders has always been kept confidential. Only Rich has access to this list as well as all returned surveys. King has never had access to the individual responses. This practice will continue.

In addition, we have often asked special questions of our survey respondents that relate to public policy issues that are addressed by elected representatives. For example, on several occasions we have asked about priorities in an upcoming legislative session. In addition, we have asked area business leaders to comment on ways in which a projected state budget shortfall should be addressed. We will continue to ask these questions when they are timely and relevant. As always, these survey results will be reported and analyzed from a perspective of public policy analysis and are not representative of a political agenda by either one of the authors.

Survey respondents who have questions or concerns can reach Rich at the number provided on the right.

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82,435 — a gap of only 618 jobs.

Area public sector employment has finally begun to decline. As we noted in previous editions of the St. Cloud Area Quarterly Business Report, St. Cloud benefited from stronger growth of government employment than was seen elsewhere in the state. We expected this to be a temporary phenomenon that would soon reverse course. This is what we see in this quarter's data. Area government employment declined 1.1 percent in the past 12 months. Within the private economy, area employment gains are most visible in the retail trade, information and financial activities sectors. Manufacturing and construction sectors continue to be a drag on the local labor market.

The St. Cloud Index of Leading Economic Indicators has essentially been flat for the past six months, as our four indicators continue to flip-flop. Once again, two were positive and two were negative. The Probability of Recession Index finally broke below 50 percent in October, with a current reading of 48.3 percent. That measure signals the end of recession when the index falls below 40 percent.

Forty-one percent of surveyed firms report an increase in economic activity over the past three months. One year ago, the corresponding number was 34 percent. Employment conditions at surveyed businesses are markedly improved from one year ago. In November 2009, the employment index was -11.4. This index increased to 2.3 in this year's fall survey. While this low number signals continuing weak employment conditions, it is the first positive fall employment conditions index since November 2006. Note that the employee compensation index is at its highest level since August 2008 (when the local recession began). With surveyed capital expenditures conditions at their highest level since fall 2006, it looks like area firms remain in recovery mode.

The future outlook for surveyed companies is the best we have seen in a couple of years. Fifty-six percent of the 86 area firms who responded to this quarter's survey expect conditions to improve six months from now, while 13 percent expect a decline in future business activity. Last year at this time, only 49 percent of area firms expected improved conditions and 18 percent expected decreased activity. Employee compensation is expected to rebound — the index on this item is 31.4, its highest level since August 2008. Likewise, the future indexes for capital expenditures and national business activity are the highest observed since the first half of 2008. Finally, the most interesting item in this quarter's survey is the future prices received index. With a value of 30.3, this index is much higher than it was last quarter (when it was 2.3). Thirty-three percent of surveyed firms expect an increase in prices received over the next six months, while only 2 percent expect these prices to fall. This is a much-improved pricing outlook from one year ago when only 10 percent of firms expected to increase prices and 8 percent anticipated decreased prices.

In special questions, 45 percent of surveyed firms believe adding more lanes on Interstate Highway 94 between Minneapolis and St. Cloud is the most important transportation project for long-term economic development in the St. Cloud area. By comparison, 20 percent think attracting an airline to offer air service at St. Cloud Regional Airport is the most important priority and 16 percent favor expanding Northstar commuter rail to St. Cloud. These numbers are very similar to the results found when a similar question was asked in February 2007 (although there does appear to be a

KEY RESULTS OF SURVEY

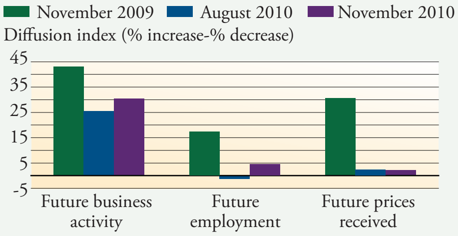


TABLE 1-CURRENT BUSINESS CONDITIONS

	November 2010 vs. Three months ago				August 2010
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	22.1	37.2	40.7	18.6	31.3
Number of employees on your company's payroll	15.1	67.4	17.4	2.3	17.4
Length of the workweek for your employees	12.8	67.4	19.8	7.0	12.8
Capital expenditures (equipment, machinery, structures, etc.) by your company	4.7	68.6	25.6	20.9	11.7
Employee compensation (wages and benefits) by your company	3.5	79.1	17.4	13.9	12.8
Prices received for your company's products	10.5	73.3	15.1	4.6	-4.7
National business activity	9.3	50.0	30.2	20.9	16.2
Your company's difficulty attracting qualified workers	8.1	83.7	4.7	-3.4	4.6

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.

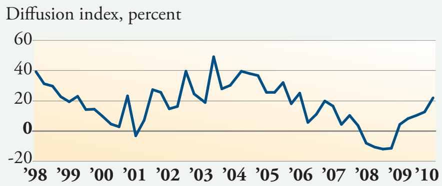
Source: St. Cloud State University Center for Economic Education, Social Science Research Institute and Department of Economics decline in support for Northstar, perhaps due to the timing of the survey). In a second special question, one-third of surveyed businesses are moderately concerned about the prospect of potential future deflation and 6 percent are extremely concerned. Fifty-four percent of businesses are either not concerned or slightly concerned about future deflation.

Current Activity

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 86 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.

Similar to last quarter, survey responses from Table 1 continue to highlight improvements in current conditions that are below normal yet better than one year ago. Each of the eight survey items are improved from last November's survey of current business conditions. For example, the diffusion index on current business activity is 18.6, more than double its 9.1 value last year. The November 2009 national business activity index was 8.0. This year it is equal to 20.9, with only 9 percent of surveyed businesses responding that national business activity has decreased. 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 CAPITAL EXPENDITURES



Among the most interesting findings in Table 1 is the diffusion index on capital expenditures. As can be seen from the accompanying figure, the capital expenditures index began to improve one year ago. Since fall 2009, the index has increased from 3.4 to its current value of 20.9 — a six-fold increase. This series has not historically followed a seasonal pattern. Instead, it appears to follow a cyclical pattern, suggesting area firms have slowly been adding to their capital stock since business conditions began improving several months ago.

The other series of considerable interest in Table 1 is the item related to employee compensation. During the depths of decline in local economic activity over the 2008-09 local recession, the value of this index turned negative, meaning more firms were reducing worker compensation than were increasing it. At its low point, the index on worker compensation was -6.3 in February 2009. Underscoring the severity of the recent local recession, note that in the local recession of 2001-02, the employee compensation index remained well above zero — achieving its previous low point of 10.2 in December 2001. The accompanying chart on current employee compensation follows a pattern that is similar to that found in the prior chart on capital expenditures. After a slow and steady decline from 2005 until the summer of 2008, a more dramatic reduction in the value of this index was observed during the recent local recession. Only recently has the index turned positive (and increasing). Overall, compared to the results of the current conditions survey one year ago, all of the other measures of labor market activity (employment, length of workweek, difficulty attracting qualified workers) are

TABLE 2-FUTURE BUSINESS CONDITIONS

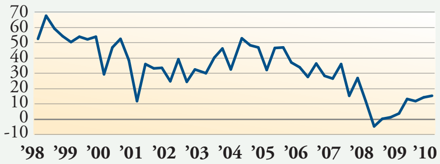
	Six months from now vs. November 2010				
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index[3]	August 2010 Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	12.8	35.6	55.8	43.0	25.6
Number of employees on your company's payroll	10.5	55.8	27.9	17.4	-1.2
Length of the workweek for your employees	7.0	68.6	17.4	10.4	-9.3
Capital expenditures (equipment, machinery, structures, etc.) by your company	4.7	65.1	23.3	18.6	15.2
Employee compensation (wages and benefits) by your company	1.2	60.5	32.6	31.4	19.8
Prices received for your company's products	2.3	55.8	32.6	30.3	2.3
National business activity	3.5	46.5	32.6	29.1	20.9
Your company's difficulty attracting qualified workers	8.1	69.8	12.8	4.7	7.0

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 improved from one year ago. While these measures remain well below what would normally be expected, they do indicate a slowly improving local labor market.

CURRENT EMPLOYEE COMPENSATION

Diffusion index, percent



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

• "Lack of concern by state government. All talk."

• "We've got busy the last two months — what first quarter of next year holds is a question mark. We're bidding more now than last year at this time."

• "We are a seasonal business. This is our busiest of the year."

• "Prospects of tax law changes — very imminent."

• "Regulation is making business more difficult and hurts our competitiveness. We need help (with a key request) in Washington DC. Languishing in the 8th district DC office."

• "Fewer elective procedures being done in health care, requiring fewer short stays. Long term stays are shortening in length, resulting in more long-term turnover. General population trend is to age in place in housing vs. skilled nursing facilities."

• "As we enter the winter months, our staff will reduce due to a seasonal layoff of field staff."

• "Manufacturers' price increases are the only reason for prices to change six months from now."

• "We are concerned about rising commodity prices and the impact ethanol has on helping drive corn prices up. The Fed's QE2 (policy) is wrong and will create hyperinflation!"

• "Seasonal increase in business September-December each year."

• "Foreclosures; interest rates driving refi's up — good for business."

• "Banks and financial institutions keep reappraising acquired property. Residential development properties are selling for 70-75 percent of the cost of roads, curb, gutter, and utilities — down 60-80 percent from original investment."

• "Many of the answers are based on our yearly cyclical trends. Overall business is increasing."

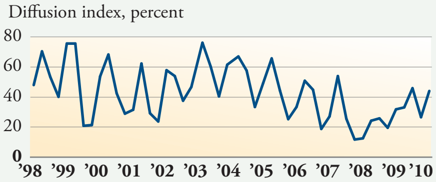
• "If the legislature continues to shift funding for school districts and decrease (local government assistance), we will have more difficulty with pricing."

Future Outlook

Table 2 reports the future outlook for area businesses. Some of the items in this table follow a seasonal pattern, and others follow a cyclical pattern. The results from Table 2 are generally the best we have tallied since before the most recent recession. For example, the index on future business activity is 43. This is the highest number recorded in the fall survey since November 2005 (one year ago it had a value of 30.7). Fifty-six percent of surveyed businesses expect increased activity six months from now. One year ago the corresponding number was 49 percent. Likewise only 13 percent of businesses expect a future decrease in activity. One year ago, 18 percent of businesses expected a decline. While the accompanying chart on future business activity follows a decidedly seasonal pattern, it nevertheless shows a slow upward trend in activity over the past few quarters.

FUTURE BUSINESS ACTIVITY

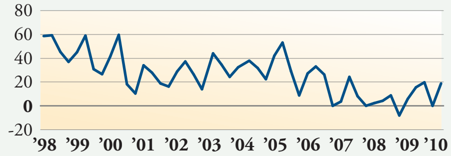
Diffusion index, percent



A similar seasonal pattern is found in the future employment chart. The diffusion index of 17.4 is the highest recorded in the fall since November 2006 and is well above the 4.5 value recorded one year ago. Twenty-eight percent of surveyed businesses expect to increase employment over the next six months. The last time a larger percentage of area firms expected to increase hiring was in May 2007. Indexes representing hours worked, employee compensation and difficulty attracting qualified workers display a similar pattern of slow improvement in the area labor market.

FUTURE EMPLOYMENT

Diffusion index, percent



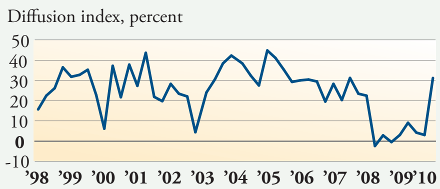
The national business activity outlook is the best that it has been in more than five years. We have to go all the way back to February 2005 to find a more favorable index reading on this item. Capital spending is also expected to follow its slow expansion over the next six months. Twenty-three percent of firms expect to increase capital spending while only 5 percent expect to cut back.

Finally, the most interesting result from this quarter's survey is the expected prices received index. As can be seen in the accompanying chart, this index tends to follow a cyclical pattern — there is no apparent seasonality in this series. Therefore, a jump in the value of this index from 2.3 last quarter to 30.3 in this quarter's survey is a rather surprising result. This series has historically exhibited a fair amount of volatility, but it is rare to see an abrupt movement of this magnitude in prices received. This could mean area firms expect to gain more pricing power and expand margins in the next six months. Several firms have reported shrinking profit margins in the past several quarters. Alternatively, this could simply mean surveyed firms are expecting cost-related pressures that will lead them to increase prices to retain existing margins. For example, commodity prices as measured by the Commodity Research Bureau have risen over 23 percent in the 12 months through the end of November, with metals and industrial input prices growing faster and livestock prices declining.

Despite all of the aggressive monetary policy actions undertaken by the Federal Reserve, general inflation has remained tame. In fact, the Fed's recent adoption of a further round of monetary easing (which has been labeled Quantitative Easing 2

— or simply QE2) has been because of fears of deflation (which we look at in special question 2). And, so far, financial markets don't appear to be overly concerned about the prospect of rising inflation, despite the commodity price increases mentioned above. Still, the Fed's balance sheet has expanded by $1.4 trillion in the past two years, and banks are sitting on nearly $1 trillion of excess reserves. All of this liquidity certainly does not have to lead to increased inflation, but we could understand how reasonable observers could think otherwise. We hope to get a better sense of why firms plan to increase prices in next quarter's business outlook survey.

FUTURE PRICES RECEIVED

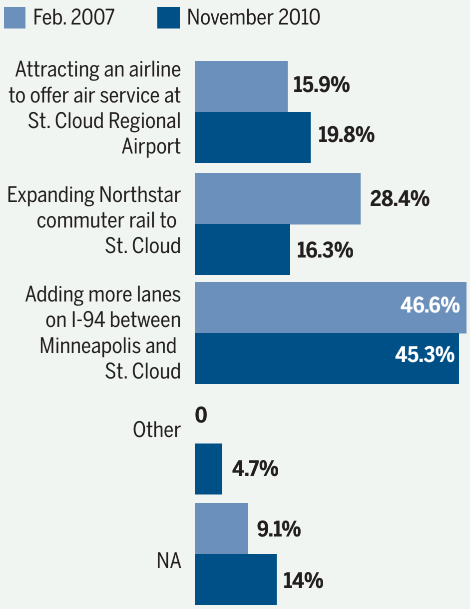


Special Questions

In February 2007, there was local discussion of efforts to try to attract a second airline to St. Cloud Regional Airport. This airline would have offered competing service with that which was offered by Northwest Airlines (which is now Delta Air Lines). Fast forward to November 2010 and we find there are no carriers serving St. Cloud Regional Airport. Delta Air Lines dropped its local air service Jan. 1, 2010, and, while local authorities are attempting to attract a carrier to offer regional air service, so far these efforts have been unsuccessful. In our February 2007 survey, we asked area firms if they thought attracting an additional carrier to St. Cloud Regional Airport, expanding Northstar commuter rail to St. Cloud or adding lanes on I-94 between Minneapolis and St. Cloud was the most important transportation project for long-term economic development. Northstar has been in operation for more than one year and the lack of local air service continues to be one of the major stories in 2010. With this in mind, we decided to repeat the question we asked in February 2007 (we changed the wording from attracting additional air service to simply attracting air service). We asked:

QUESTION 1

Which of the following does your company think is the most important transportation project for long-term economic development in the St. Cloud area?



Twenty percent of firms answered "attracting an airline to offer air service at St. Cloud Regional Airport" and 16 percent responded "expanding Northstar Commuter Rail to St. Cloud." The most popular answer was "adding more lanes on I-94 between Minneapolis and St. Cloud." Forty-five percent of surveyed firms thought expanding I-94 was the best transportation option. This result is very close to what we found in the comparable November 2007 survey. In that survey, 47 percent of firms favored adding to I-94.

While it is not a surprise that only 16 percent of surveyed firms thought the most important local transportation project was attracting an additional airline in 2007, the finding that only 20 percent of firms now think attracting an airline is most important is a modest surprise. The ability to attract and retain major employers is likely to be influenced by the existence of local air service.

Compared with the 2007 survey, the decline in support for expanding Northstar to St. Cloud is worth noting. Weaker-than-expected ridership numbers lead to the suspension of plans for the extension of Northstar to St. Cloud. This happened in early November, just before the survey was fielded. We will continue to survey these transportation options. As the local economy improves or as gas prices increase, these numbers may change.

Written comments include:

• "It seems to me that I-94 becomes more and more heavily traveled each year."

• "My business is not affected by these issues and I'm not really informed on these issues."

• "Other — 4 lane highway, Minnesota Highway 15 to Kimball."

• "I think more people would use (Northstar) vs. airline travel due to cost. We are not out of woods re: sluggish economy."

• "All are necessary, more lanes on I-94 would improve congestion."

• "(Attracting an airline). The two options not chosen would make a commute to the Cities easier."

• "Air service is most important in attracting new businesses to the area."

• "Seems like I-94 is almost always crowded."

• "Probably the least expensive option in terms of a government investment (is attracting an airline)."

• "Other — an efficient way to get through St. Cloud going east and west."

• "Other — all three are critical in the long term."

• "Other — develop a beltway route so traffic can move around and across St. Cloud without delay."

• "Rail infrastructure like Northstar is a complete waste of taxpayer money and provides no business incentive or benefit. God bless James Hill, but we are in the 21st Century, not the 19th."

• "Companies want air service — I think this is important to the welfare of attracting businesses."

• "Although I don't believe an air carrier can be profitable in St. Cloud, the perception in the community is that we need an air carrier to grow the community and attract businesses."

• "All three are important, but we will never be a "5 star" city if we don't have airline service."

• "Phase II Northstar has been delayed, so focus on the airport."

• "(Air service). Also think Northstar is very important."

• "I-94 lanes and Northstar are more for use of getting people out of St. Cloud. The airline would be better for getting people here."

• "(I-94). Significant congestion decreases productivity."

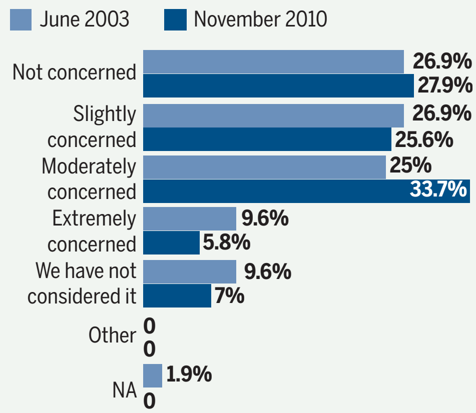
• " (Air service). Critical to support existing businesses and attract new ones."

Since midsummer, key Federal Reserve policymakers have expressed growing concern of sustained deflationary conditions in the overall economy. Deflation is a situation in which the overall price level is declining. While one can always find prices that are increasing in a dynamic economy, deflation results when the price level, on average, is declining. While a decline in the price level may sound appealing to people in their role as consumers, it can be very unappealing to producers, workers and those who have to service fixed debt payments. Any economy that experiences a deflationary period that is expected to persist might find itself vulnerable to reduced spending, falling wages, increased loan defaults and a range of other economic ailments. The U.S. has not experienced a deflation of this form since the Great Depression, so it is most interesting that the Fed now feels that deflation is enough of a threat to warrant another round of expansionary monetary policy (which is otherwise known as QE2).

The last time the U.S. economy appeared to be challenged by deflation was in 2003. To be sure, the economic backdrop in 2003 was decidedly different from what it is now. The national unemployment rate was 5.9 percent (it is currently 9.8 percent), the housing sector was not overbuilt, we were not recovering from financial crisis, and there was decidedly less policy uncertainty. Nevertheless in March 2003 we asked area business leaders to comment about their concerns of a potential deflation. We decided to repeat this same question this quarter. We asked:

QUESTION 2

There has been a great deal of discussion in recent weeks about the possibility of deflation, a general decline in overall prices. To what extent is your company concerned about the prospect of potential future deflation?



The results are very similar to what we found several years ago. Twenty-eight percent of surveyed firms are "not concerned" and 26 percent are "slightly concerned." These percentages are almost exactly the same as the 2003 survey (note that deflationary problems did not arise in this earlier period). One-third of businesses are moderately concerned about deflation (only one-fourth of firms were moderately concerned in 2003). Finally, only 6 percent of firms report they are extremely concerned about potential future deflation. Note that 10 percent of firms were extremely concerned about deflation in the earlier period.

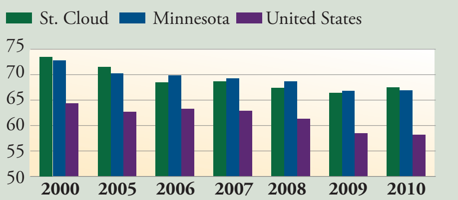
ALTERNATIVE WAYS TO THINK ABOUT EMPLOYMENT

While the national recession has been over for almost a year and a half, the level of employment has struggled to rise. We have noted in past Quarterly Business Reports that this is increasingly the pattern — "jobless recoveries" had followed the recession troughs in 1991 and 2001. But one interesting pattern of the past decade has been shrinking labor force participation rates.

This story applies to St. Cloud as well. While the area (and the state of Minnesota) has long operated with higher labor force participation rates than the nation as a whole, this rate has fallen in the past decade. The ratio of working-age population who are employed (also known as the employment-population ratio) also has fallen locally.

As the nearby graph shows, the employment-population ratio fell in the first half of the 2000s in all three geographic areas. But while the ratio has continued to fall in the nation to levels not seen since the mid-1970s, our local area data have held up reasonably well. More than two-thirds of working-age people in the St. Cloud area are employed. While the local employment-population ratio declined with a reduction in employment since the onset of the Great Recession, the largest influence over this indicator seems to have been an influx of working-age population into the St. Cloud area. (Note: There are no official data on labor force participation rates or working-age population from the Bureau of Labor Statistics. Unlike the data for Minnesota and the U.S., our local-area measure is based on an estimate of working-age population in the American Community Survey (ACS) from the census.)

EMPLOYMENT-POPULATION RATIO



The ratio of women employed in St. Cloud is almost as high as males. Women in 2009, according to the ACS, had an unemployment rate 2 percent below the male rate. This may be accounted for by the larger number of jobs lost in the construction industry, which hires more males.

The size of our over-60 population has risen, and accounts for 16.7 percent of the overall population in 2009 versus 14.4 percent in 2005. The Department of Labor expects nationally the number of workers over age 55 will rise by more than 33 percent from 2006 to 2016. Since many of these workers will not be counted in the "working-age population" (ages 16 to 64) we can expect our employment-to-population ratio to continue to rise in the next decade.

We will continue to monitor this situation. For now, it appears area firms are not overly concerned about deflationary trends.

Written comments include:

- "Not confident the Fed has control of anything."
- "The impact of deflation is not widely understood."
- "We are more concerned with inflation. We see it highly unlikely that prices will decline, but are concerned that with more quantitative easing and an increased money supply, prices will rise as demand increases. We feel stubborn unemployment and consumer confidence are of much more concern."
- "I don't think deflation is necessarily bad for the economy. It may help the government curtail their constant spending."
- "We are concerned about inflation! Look at the CRB Index and feed and energy costs."
- "It has been going on in the printing industry for two years."
- "We have been through 5 years of deflation."
- "We don't expect a decrease in our raw material or wholesale products, but rather an increased cost!"
- "Margins are already lean."
- "The building industry has seen deflation in housing and commercial values. Until prices start to rise, lending is going to be very strict, limiting what can be built."
- "If it occurs, it could be very (significant) for us."
- "We have had our deflation in real estate—looking forward to a turn around."
- "We are trying to keep our inventory trim."
- "Cannot afford further depression of prices we charge."
- "High grain prices are spurring significantly higher food prices for 24 months. Many farmers are buying equipment and trucks."
- "We see the economy slowly improving. There is a lot of cash sitting on the sidelines ready to invest."

Employment in the 12-month period ending October 2010 in St. Cloud grew weakly. With the exception of retail, all sectors grew more slowly than their long-term trends shown in Table 3. Retail may continue to improve as sales in the early part of the holiday season nationally looked promising. Outright declines continued in the goods-producing sectors, however, with manufacturing employment still stuck at less than 15 percent of total area employment.

Job growth was stronger elsewhere in the state. The Twin Cities area grew private-sector employment by 1.5 percent, and state private employment increased by more than 2 percent. Wage income has grown faster than anticipated as well, according to the November forecast offered by the Department of Minnesota Management and Budget. They do not expect this to continue in 2011, however, meaning St. Cloud's economic recovery will have to come in a more difficult regional economic environment.

The labor force in St. Cloud fell 0.6 percent in the 12 months ending October 2010, which is what mostly accounted for the fall in the area unemployment rate in that period. We do not know whether this represents discouraged workers, an aging work force leaving working years, or out-migration from the area. The decline in unemployment in the past 12 months is similar to that experienced in the rest of Minnesota.

TABLE 3 - EMPLOYMENT TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend rate of change	Oct. '09-Oct. '10 rate of change	Oct. '10 employment share	15-year trend rate of change	Oct. '09-Oct. '10 rate of change	Oct. '10 employment share	15-year trend rate of change	Oct. '09-Oct. '10 rate of change	Oct. '10 employment share
Total nonagricultural	1.0%	0.0%	100.0%	0.6%	1.3%	100.0%	0.7%	1.6%	100.0%
Total private	1.0%	0.2%	83.6%	0.6%	1.5%	85.9%	0.7%	2.1%	84.5%
Goods producing	0.0%	-1.7%	19.5%	-1.5%	0.1%	13.4%	-1.2%	0.7%	14.8%
Construction/natural resources	1.0%	-1.8%	4.5%	-0.8%	-8.7%	3.0%	-0.3%	-5.7%	3.6%
Manufacturing	-0.2%	-1.6%	14.9%	-1.7%	3.1%	10.3%	-1.5%	3.0%	11.2%
Service providing	1.3%	0.4%	80.5%	1.0%	1.4%	86.6%	1.1%	1.7%	85.2%
Trade/transportation/utilities	-0.6%	1.5%	20.7%	-0.4%	-0.4%	17.6%	0.0%	1.6%	18.5%
Wholesale trade	0.8%	0.3%	4.4%	0.1%	-0.1%	4.6%	0.5%	0.6%	4.7%
Retail trade	-1.5%	2.7%	12.8%	-0.2%	1.2%	9.8%	0.0%	2.3%	10.5%
Trans./warehouse/utilities	1.7%	-1.1%	3.5%	-1.5%	-5.4%	3.3%	-0.4%	0.8%	3.4%
Information	0.0%	9.6%	1.2%	-0.4%	0.3%	2.3%	-0.4%	3.8%	2.1%
Financial activities	2.6%	1.3%	4.3%	0.9%	0.2%	7.8%	1.1%	-0.5%	6.3%
Professional & business service	4.0%	-0.1%	7.7%	1.0%	3.8%	15.1%	1.3%	3.2%	11.9%
Education & health	2.9%	0.2%	17.8%	3.3%	1.2%	15.7%	3.3%	3.2%	17.4%
Leisure & hospitality	1.8%	0.7%	8.7%	1.7%	6.8%	9.7%	1.3%	5.5%	9.2%
Other services (excluding govt.)	0.4%	-1.1%	3.7%	1.2%	-1.4%	4.3%	0.7%	-2.0%	4.2%
Government	1.3%	-1.1%	16.4%	0.7%	-0.1%	14.1%	0.5%	-1.1%	15.5%
Federal government	2.2%	2.8%	2.2%	-0.2%	-4.0%	1.2%	-0.2%	-2.2%	1.2%
State government	1.3%	-4.6%	4.9%	0.7%	-1.1%	4.1%	0.7%	0.1%	3.8%
Local government	1.1%	-0.2%	9.3%	0.8%	0.9%	8.7%	0.5%	-1.4%	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.

TABLE 4-OTHER ECONOMIC INDICATORS

	2009	2010	Percent change
St. Cloud MSA labor force October (Minnesota Workforce Center)	109,159	108,500	-0.6%
St. Cloud MSA civilian employment # October (Minnesota Workforce Center)	101,772	101,916	0.1%
St. Cloud MSA unemployment rate* October (Minnesota Workforce Center)	6.8%	6.1%	NA
Minnesota unemployment rate* October (Minnesota Workforce Center)	7.1%	6.4%	NA
Minneapolis-St. Paul unemployment rate* October (Minnesota Workforce Center)	7.3%	6.5%	NA
St. Cloud-area new unemployment insurance claims August-October average (Minnesota Workforce Center)	1,163.0	965.7	-17.0%
St. Cloud Times help-wanted ad linage August-October average	1,400	1,790	27.9%
St. Cloud MSA residential building permit valuation In thousands, August-October average (U.S. Department of Commerce)	6,248.0	4,260.7	-31.8%
St. Cloud index of leading economic indicators October (St. Cloud State University)**	93.7	92.5	-1.3%

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

Construction continues to be a challenge in the St. Cloud area. The value of building permits fell 31.8 percent from year-ago levels. Foreclosures have continued to be a challenge to the industry, and sales of real estate have fallen by 6.9 percent through October 2010 (according to the St. Cloud Area Association of Realtors). It bears repeating: The history of economic recoveries has always included a growth of housing and commercial construction in every cycle. Yet it is difficult to see a near-term rebound at this time.

Most other local area indicators appear better than 12 months ago. Initial claims for unemployment insurance fell, and help-wanted linage at the St. Cloud Times grew over year-ago levels. However, on a seasonally adjusted basis both were performing better earlier in the year than during the fall. For this reason both of these show negative contributions to the Index of Leading Economic Indicators as seen in Table 5. Area manufacturers continue to add hours to their employee workweek, often a precursor to additional hiring. Incorporations of new businesses increased modestly over the early fall of 2010. As a result, we continue to have a two-up, two-down set of leading indicators. There has been almost no movement in the six-month moving average of LEI since late spring. It is as if the plane is still waiting on the tarmac for permission to take off.

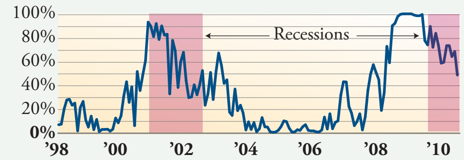
TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from August to October 2010	Contribution to LEI
Help-wanted advertising in St. Cloud Times	-0.77%
Hours worked	0.58%
New business incorporations	0.27%
New claims for unemployment insurance	-1.55%
Total	-1.47%

Better news comes from our second indicator series, the St. Cloud Probability of Recession Index, which in October finally broke below 50 percent. This uses the same data as the LEI except to include a measure of Minnesota's economic conditions produced by Creighton University. Ironically, that indicator declined in early autumn, but still continues to show mild expansion and showed marked improvement in November. This gives us some reason to believe the Probability of Recession Index will finally give us an all-clear signal in the next few months.

PROBABILITY OF A RECESSION

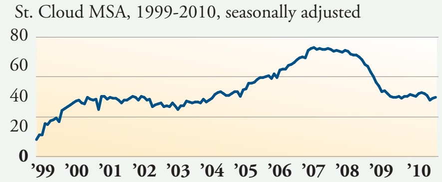
Four-six months ahead



While the national economy left the Great Recession more than 18 months ago, we have consistently argued the St. Cloud economy would turn around later. The problem has been finding a bottom in the St. Cloud employment series, particularly for private-sector employment. As seen below, the steep decline in employment in St. Cloud occurred largely over a six- to eight-month period beginning in the second half of 2008[1]. Most of the decline had ended by late spring 2009. The last 18 months have been a frustrating period for forecasting as the area economy appears to have no growth in employment. There are plenty of signs of growth of area businesses, of wages, etc. But so far they do not translate to employment. And we have struggled therefore in calling an end to the recession in that environment. We believe it is over, but it is more from the survey and outside observation than from a firm conclusion based on data analysis. This further proves that forecasting is as much art as science.

PRIVATE SECTOR EMPLOYMENT

St. Cloud MSA, 1999-2010, seasonally adjusted



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.

[1] These data are adjusted for seasonality by the authors and are not official data.