

Summer 2002

# St. Cloud Area Quarterly Business Report, Vol. 4, No. 3

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# St. Cloud Area Quarterly Business Report

Summer 2002

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Volume 4, Number 3

## St. Cloud Area Economy Regains Footing

### Executive Summary

St. Cloud area economic performance has been surprisingly sturdy in the wake of the first wave of layoffs associated with the planned shutdown of Fingerhut. Although pockets of sectoral weakness will persist over the next several months, the area economy is likely to withstand the extreme of a deep general recession. This is the prediction of the **St. Cloud Index of Leading Economic Indicators** and the **St. Cloud Area Business Outlook Survey**. Both instruments are designed to forecast economic conditions in the St. Cloud area over the next four to six months. While quantitative indicators suggest the local economy slipped into recession in the fall of 2001, recent favorable news on the future of Fingerhut and many of its employees, along with a general improvement in the overall economic outlook, makes it appear that the local economy will be on its way to recovery by the end of the year. For area businesses and their workers to have fought off several potentially disabling shocks for almost two years is further confirmation of the diversity and resilience of the area economy.

Although area employment fell by 1.4 percent over the year ending May 2002, this is probably not as bad as might have been initially expected when Federated made its dramatic January 16 announcement. While Fingerhut layoffs are likely to increasingly swell the ranks of the unemployed over the next few months, there are reasons to be relatively sanguine about the health of the area economy by the end of the year. Predictions of the **St. Cloud Index of Leading Economic Indicators** are encouraging. The local index is currently being boosted by all of the individual indicators that are used in its calculation. Recent strength in new residential electrical hookups, a rise in the average workweek of area manufacturing production workers, and an

increase in the number of local business start-ups all have had a favorable impact on the index.

Forty-four percent of the fifty-seven respondents to the **St. Cloud Area Business Outlook Survey** anticipate an increase in the level of business activity for their company over the next six months compared to 16 percent who expect conditions to worsen. While this expected future growth in activity is somewhat weaker than was reported by surveyed businesses last quarter, it is roughly equivalent to the expectations reported in the Fall 2001 and Winter 2002 issues of the **St. Cloud Area Quarterly Business Report**. Respondents indicate a significant upswing in activity over the past three months. Fifty-six percent of surveyed businesses report the level of business activity in June was improved from three months earlier, while only 18 percent indicate a decline. This is the best quarterly performance we have seen since June 2000. This strength was confirmed by a rise in the number of companies reporting increased hires, an increase in the length of the workweek, rising capital expenditures, and increases in prices received for surveyed companies' products. While mass layoffs at Fingerhut have caused overall area employment numbers to decline, nearly half of surveyed businesses increased employment over the past three months.

Two special questions in the June 2002 **St. Cloud Area Business Outlook Survey** addressed area business leaders' perception of a possible international cargo freight air hub which could be sited in the St. Cloud area. Business leaders are overwhelmingly supportive of the proposed freight air hub. Seventy-

Local economy shows some signs of stability.

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five percent of the fifty-seven surveyed firms are either “mildly in favor” or “strongly in favor” of this project. Only 3.6% of those surveyed were opposed. When asked about the extent to which they believed the area economy would benefit from an international cargo freight air hub, 30 percent of those surveyed indicated it would have a “large

effect”, 54% believe it would have a “moderate effect” and 11 percent think it would have a “small effect”. While most area firms do not believe the freight hub would have a major direct impact on their business, they tend to consider the indirect effects associated with further economic development in the area to be mostly favorable.

### ***St. Cloud Index of Leading Economic Indicators***

The May 2002 **St. Cloud Index of Leading Economic Indicators** predicts the St. Cloud area economy will expand into late Fall 2002. This forecast is consistent with the responses of area business leaders in the June **St. Cloud Area Business Outlook Survey**, which is found later in this report. Figure 1 shows a strong increase in the index since February. Until recently, the U.S. Index of Leading Economic Indicators was the primary reason for the general rise in the local index. However, recent strength in new residential electric hookups, increases in the average weekly hours of manufacturing production workers, and more new business start-ups are now also lifting the **St. Cloud Index of Leading Economic Indicators**. To be sure, the local index is a statistical model that does not account for events such as a possible reorganization and downsizing at Fingerhut, so its results need to be interpreted very cautiously. But the local index does indicate the local economic activity would be quite robust without the burden of Fingerhut’s uncertain future. As a rule of thumb, three consecutive positive changes in the St. Cloud Index of Leading Economic Indicators suggest an expanding economy, while three consecutive decreases suggest a contracting economy and/or a slowing of economic growth.

Index suggests bottom is near.

### ***The St. Cloud Area Overall Outlook***

Table 1 shows employment data for the St. Cloud Metropolitan Area (MSA), Minneapolis-St. Paul (MSA), and Minnesota. Because of the methodology used by the state of Minnesota in collecting employment and unemployment data, May’s data provide the first-hard look at how the initial 1,300 or so Fingerhut layoffs are filtering through the area economy. Table 1 reports area employment fell 1.4 percent in the year ending May 2002, which is considerably below the 2.7 percent 1988-2002 long-term trend growth rate. St. Cloud has certainly not yet emerged from a local recession that began in early Fall 2001.

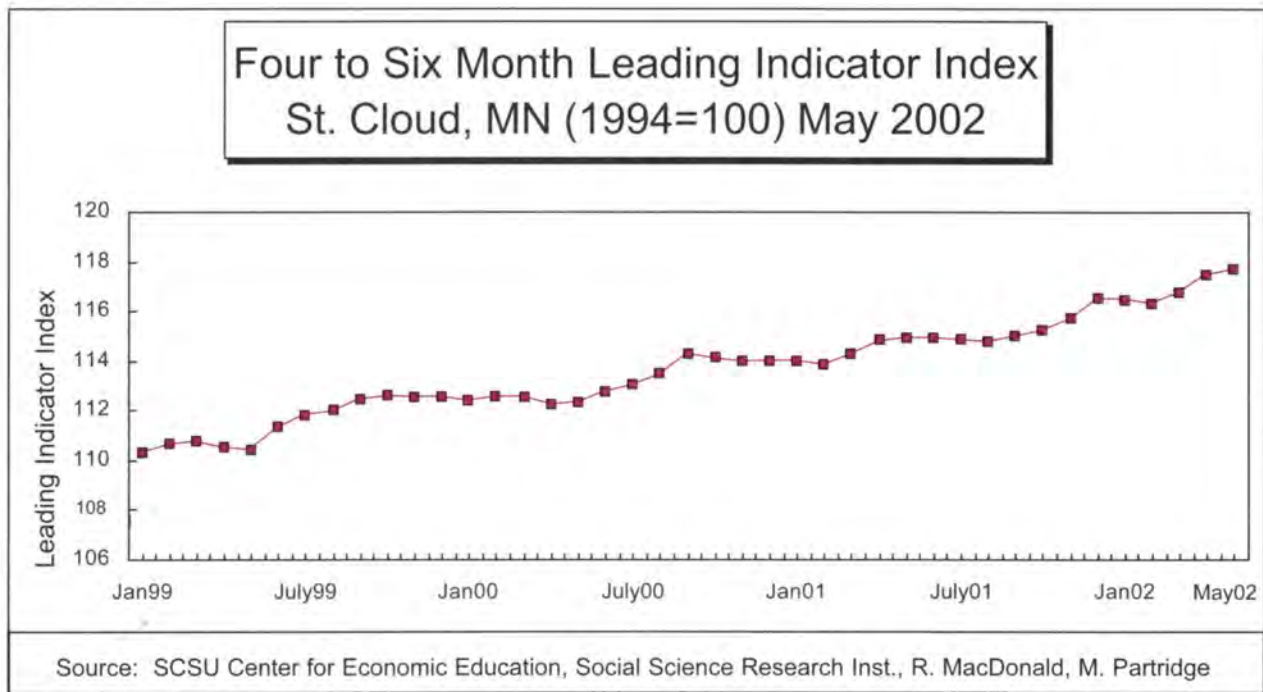
Area job growth trails state and nation.

Among other Minnesota MSAs, employment fell

0.7 percent in the Twin Cities and 0.2 percent in Rochester in the year ending May 2002. On a more pleasant note, job growth is up 0.5 percent in the Duluth-Superior MSA. Together with a falling unemployment rate over the past year, this growth in employment in Northeast Minnesota appears to indicate this area is finally emerging from a recession that began well over one year ago. Among other MSAs near the Minnesota border, only Sioux City’s 1.8 percent employment decline over the past twelve months was more severe than St. Cloud’s. Because U.S. employment fell 1.1 percent during the period, May 2002 represents one of the few times in recent decades when the local economy was weaker than in the nation and the upper Midwest. The good news is the local employment numbers are actually stronger than might have been expected over this period, although they will likely continue to worsen in the near future. It is also heartening that the Twin Cities MSA and the state also appear to be displaying the initial signs of economic recovery.

The most upbeat news received in recent weeks are indications Fingerhut will once again be operational. This news should provide welcome relief for many of those workers who otherwise faced relatively dismal short-term prospects in a softer area labor market. What remains unclear, of course, is how many people will be employed by the new Fingerhut operation. In the near future, it seems unlikely a revitalized operation will employ anything close to the 3,000 to 4,000 employees that were historically on the Fingerhut payroll. Also unclear is whether its historical wage structure and healthy benefit package will remain in place. Even though a Fingerhut revival is unlikely to lift St. Cloud out of recession over the next several months, there are reasons to remain optimistic as we approach 2003. Local business confidence has generally held up throughout this past year and the increase in local electric hookups is consistent with new residents relocating to St. Cloud. Underlying fundamentals point to renewed economic vigor once the Fingerhut fallout has worked its way through the area economy.

Figure 1--St. Cloud Index of Leading Economic Indicators (May 2002)



National economic weakness bears watching.

Recent uncertainty surrounding the U.S. economy has suddenly become a topic that warrants closer attention. U.S. job growth has lagged, and business investment in capital goods continues to come in far below expectations. Continued corporate accounting scandals run the risk of exacerbating swings in already volatile financial markets. What remains unclear is the extent to which weakened financial markets will impact the overall economy. One likely result from recent financial turmoil is the Federal Reserve will probably delay hiking short-term interest rate targets through the summer months. Should the value of the U.S. dollar continue to fall, however, the Fed may need to step in and raise interest rate targets to prevent further flight of international capital. Despite these concerns, some analysts remain quite bullish on the national outlook (for example, see the SCSU Macroeconomic Forecasting Project at <http://coss.stcloudstate.edu/banaian/scmfp/index1.htm>).

Table 2 provides other initial evidence from the recent suspension of activities at Fingerhut. One surprising development is the 3.6 percent local unemployment rate in May, which was only 0.1 percentage point above the corresponding figure in 2001. It must be noted, however, that monthly estimates of unemployment rates can be very misleading. The very small 0.5 percent increase in the local labor force suggests many laid-off Fingerhut workers (and

other individuals) left the labor force. Some of these dropouts may be too pessimistic about current job prospects to search for work (the official criteria to be counted as unemployed), while others may be receiving more training/education and are not currently seeking work. Still others may be using severance packages before re-entering the work force. While it is unclear how many laid off employees have left the local area, electric-hookup data indicates a mass exodus out of the area has not occurred.

A better contemporaneous indicator of weakened local labor market conditions is a 132.4 percent spike in new St. Cloud area unemployment insurance claims in the March-May 2002 quarter compared to the similar period in 2001. While many of these new claims are related to Fingerhut, the claims data are somewhat distorted by a national unemployment insurance extension. For example, new Minnesota claims approximately doubled during this same period. Another sign of local economic weakness is help-wanted ad lineage in the *St. Cloud Times* over the first few months of this year ran at only about one-half the rate of the corresponding periods in 1999 and 2000. Fortunately, lineage in the March-May quarter was only about 8.5 percent below the corresponding figures in 2001.

Local construction and manufacturing appears to be recovering.

### The St. Cloud Area Sectoral Outlook

Table 1 shows sectoral employment performance across the St. Cloud, Twin Cities, and Minnesota economies. Not surprisingly, with the large-scale layoffs at Fingerhut, local retailers shed 8.4 percent of their workforce in the year ending May 2002. This compares unfavorably to the less than one-percent decline in both the state and Twin Cities MSAs in this important sector. To be sure, Fingerhut is not the only local retailer that has downsized. As former Fingerhut employees curtail purchases at other retail establishments, this entire sector has come under pressure. For example, major retailers (general merchandise stores) have shed almost 6 percent of their workforce during the period. Another pos-

sible victim of the local Fingerhut fallout may be the health services sector, where employment has fallen 0.9 percent. The decline in local health care employment stands in stark contrast to the 2.5 percent increase for the state. While healthcare providers are still hindered by spot "labor shortages" in some specialties, this is unlikely to be an explanation of why St. Cloud trails the state by such a wide margin.

On the plus side, the local construction and manufacturing sectors appear poised for a rebound. While Table 2 shows valuation for new residential building permits fell 2.7 percent during the March-May quarter compared to corresponding quarter in

Table 1--Employment Trends

	St. Cloud Employment Trends			Minnesota Employment Trends			Twin Cities Employment Trends		
	in Percent			in Percent			in Percent		
	Long Term Trend Growth Rate	May 01- May 02 Growth Rate	May 2002 Employment Share	Long Term Trend Growth Rate	May 01- May 02 Growth Rate	May 2002 Employment Share	Long Term Trend Growth Rate	May 01- May 02 Growth Rate	May 2002 Employment Share
<b>Total Nonagricultural 1988-2002</b>	2.7%	-1.4%	100.0%	2.0%	-0.8%	100.0%	1.9%	-0.7%	100.0%
<b>Total Nonagricultural 1992-2002</b>	2.4%	-1.4%	100.0%	2.0%	-0.8%	100.0%	2.1%	-0.7%	100.0%
<b>GOODS PRODUCING 1992-2002</b>	2.4%	-2.7%	22.6%	1.1%	-3.1%	20.1%	1.0%	-2.3%	19.5%
Construction & Mining 1992-2002	3.0%	-2.2%	4.7%	4.0%	0.1%	4.8%	5.1%	-0.2%	4.7%
Manufacturing 1988-2002	2.7%	-2.8%	17.8%	0.3%	-4.1%	15.2%	-0.1%	-3.0%	14.9%
Durable goods 1992-2002	2.5%	-3.1%	9.8%	0.6%	-4.7%	8.9%	0.3%	-3.2%	9.0%
Nondurable goods 1992-2002	1.9%	-2.5%	8.0%	0.0%	-3.4%	6.3%	-0.5%	-2.7%	5.9%
<b>SERVICE PRODUCING 1992-2002</b>	2.4%	-1.1%	77.5%	2.2%	-0.2%	80.0%	2.4%	-0.3%	80.5%
Transportation & Public Utilities 1988-2002	2.8%	-0.4%	3.7%	1.7%	-5.8%	4.8%	1.7%	-6.8%	5.2%
Trade 1988-2002	1.7%	-6.3%	26.0%	1.6%	-1.0%	23.5%	1.5%	-0.7%	23.3%
Wholesale Trade 1988-2002	4.2%	2.6%	5.6%	1.5%	-1.7%	5.7%	1.3%	-1.2%	5.8%
Retail Trade 1988-2002	1.2%	-8.4%	20.4%	1.6%	-0.8%	17.8%	1.6%	-0.5%	17.5%
Finance, Ins., & Real Estate 1988-2002	4.6%	5.6%	3.9%	2.4%	-0.3%	6.2%	2.5%	0.0%	7.5%
Services 1988-2002	4.7%	1.7%	29.2%	3.4%	0.8%	30.0%	3.3%	0.3%	30.4%
Health Services 1992-2002	3.4%	-0.9%	8.2%	2.7%	2.5%	8.7%	2.4%	1.5%	7.4%
Educational Services 1992-2002	3.7%	1.9%	4.5%	3.6%	7.9%	1.9%	3.1%	4.8%	1.5%
Other Services 1992-2002	5.1%	3.0%	16.4%	3.2%	-0.6%	19.4%	3.4%	-0.5%	21.5%
Government 1988-2002	1.3%	1.5%	14.6%	1.6%	1.2%	15.5%	2.0%	1.5%	14.0%
Federal 1992-2002	0.3%	-0.9%	1.7%	-0.4%	-1.7%	1.2%	-0.1%	0.1%	1.3%
State 1992-2002	0.1%	1.1%	4.0%	0.2%	-0.8%	3.3%	1.2%	2.1%	3.7%
Local 1992-2002	1.9%	2.1%	9.0%	2.2%	2.2%	11.0%	2.5%	1.4%	9.1%

Note: Long term trend growth rate is the compounded average employment growth rate in the specified period. St. Cloud and Twin Cities represent the St. Cloud and Minneapolis-St. Paul MSAs, respectively.

SOURCE: MN Workforce Center

**Table 2--Other Economic Indicators**

	2002	2001	Percent Change
St. Cloud MSA Labor Force May (MN Workforce Center)	103,178	102,698	0.5%
St. Cloud MSA Civilian Employment# May (MN Workforce Center)	99,482	99,118	0.4%
St. Cloud MSA Unemployment Rate* May (MN Workforce Center)	3.6%	3.5%	NA
Minnesota Unemployment Rate* May (MN Workforce Center )	3.7%	3.2%	NA
Mpls-St. Paul/MSA Unemployment Rate* May (MN Workforce Center)	3.7%	2.8%	NA
St. Cloud Area New Unemployment Insurance Claims March-May Average (MN Workforce Center)	2,120	912.3	132.4%
St. Cloud Times Help Wanted Ad Linage March-May Average	4,186	4,574	-8.5%
St. Cloud MSA Residential Building Permit Valuation (\$1,000) March-May Average (U.S. Dept. of Commerce)	9,117.3	9,368.7	-2.7%
St. Cloud Index of Leading Economic Indicators May (SCSU)	117.7	114.9	NA

# - The employment numbers here are based on resident estimates, not the employer payroll estimate in Table 1.  
 \* - Not Seasonally Adjusted  
 NA - Not Applicable

2001, current levels are actually above those of the relatively robust late 1990s. As always, it must be noted weather played a very important role in influencing these numbers. Warm weather helped account for the surprising 54 percent bulge in the December-February quarter, while poor weather conditions in March and April certainly delayed many projects. The continued low interest-rate environment is, of course, favorable to local builders and anecdotal evidence seems to suggest commercial construction firms are holding up quite well.

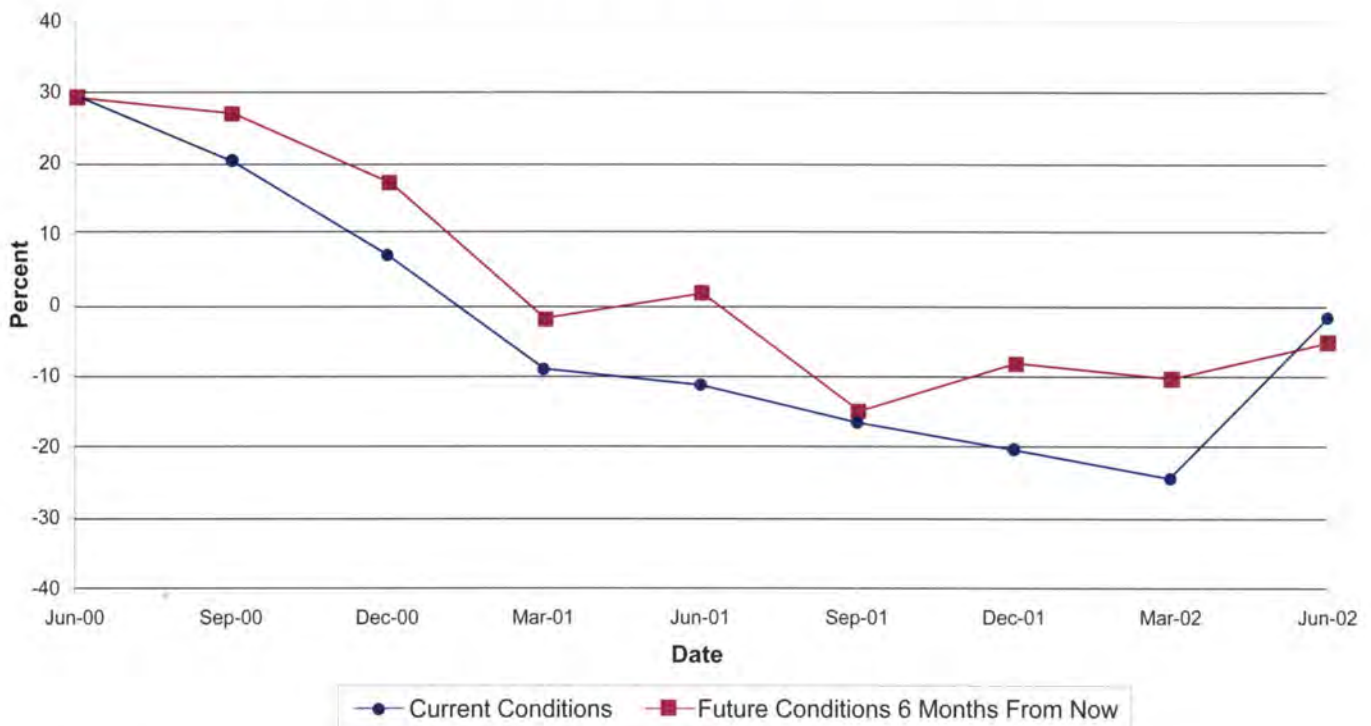
There are also signs the local manufacturing recession dating back to early 2001 may finally be abating. To be sure, local manufacturers shed 2.7 percent of their workforce over the year ending May 2002 (by comparison, state and national manufacturing employment respectively fell 4.1 and 6.1 percent over the period). This is actually a significant improvement from the large scale job loses in local, state and national manufacturing at the end of 2001. Indeed, despite some recent difficulties, local manufacturers have not generally experienced problems of the magnitude that has been felt by manufacturing enterprises nationwide. Between May 1998 and May 2002, national manufacturing suffered an employment decline in excess of 11 percent. It appears local manufactur-

ing employment began stabilizing early this year with the national recovery, and recent declines in the value of the dollar will further improve local manufacturers' competitiveness. Further evidence of a brightening picture for local manufacturers is the recent increase in their employees' average workweek. If these prospects continue to improve, local manufacturers will forego paying overtime for existing employees and begin hiring new workers and recalling former employees. This would be a very welcome sign for those who have been troubled by unemployment.

Table 1 also suggests the effects of the local recession have been uneven. Other services employment expanded 3.0 percent in the year ending May 2002 and local wholesalers added 2.6 percent to their workforce. What is especially heartening is the 5.6 percent growth in finance, insurance, and real estate (FIRE) employment during this period. This is actually a full percentage point above its 4.6 percent 1988-2002 long-term trend growth rate. The last eighteen months has marked a rapid expansion in the local FIRE sector that is unmatched at the state level. Previous issues of the **St. Cloud Area Quarterly Business Report** have pointed to FIRE (along with construction) as a sector that would likely be among the first to portend a local economic rebound.

No signs of an emerging labor shortage.

**Figure 2--Diffusion Index for Question 8: Difficulty Attracting Qualified Workers**  
 Percent Increase Minus Percent Decrease



### **St. Cloud Area Labor Market Conditions**

The spike in new unemployment insurance claims this past spring as well as the declining help-wanted ad lineage in the *St. Cloud Times* illustrates the softness of the local labor market. Further near-term layoffs at Fingerhut may increase the likelihood of having their choice as to whom to hire. As noted above, the local unemployment rate has only slightly increased over the past year, suggesting this is not a particularly informative measure of labor market strength. The St. Cloud area labor market will not tighten until hiring by new or expanding firms greatly exceeds layoffs by other firms. While 46% of firms responding to the June 2002 **St. Cloud Area Business Outlook Survey** indicate increased hiring over the past three months, this is still insufficient to make up for the massive layoffs which have (and will) occur at Fingerhut. Hence, it seems unlikely we will see a general “labor shortage” re-emerge in the St. Cloud area anytime soon.

Figure 2 further demonstrates the continued softness of area labor market conditions. This figure shows the trend in the diffusion index (the percent of surveyed businesses responding “increase” minus the percent answering “decrease”) of the

quarterly **St. Cloud Area Business Outlook Survey** question asks businesses to evaluate their company’s difficulty attracting qualified workers. Survey responses from local firms indicate only 10.5 percent of surveyed firms believe it was more difficult to attract qualified workers in June than in March, while 12.3 percent believe it was easier. While the value of this diffusion index has increased from that which was reported last quarter, it is still well below its all-time high of 59.6 in the December 1998 survey. In that survey, 59.6 percent of area businesses surveyed reported increased difficulty attracting qualified workers and no area firm indicated it was easier to find workers. Looking ahead six months, survey respondents’ expectations are similar to the March 2002 survey, with the overall diffusion index being slightly stronger in the current period. More respondents expect it will be easier to attract qualified applicants in six months than those who expect it will be more difficult. Overall, it is likely to be a long time before area labor markets return to their condition of the late 1990s.

Nearly half of surveyed businesses increased hiring last quarter.

### **St. Cloud Area Business Outlook Survey**

The **St. Cloud Area Business Outlook Survey** is a survey of current business conditions and area

firms' future outlook. It is administered quarterly with the cooperation of the St. Cloud Area Economic Development Partnership. Survey results reported in Tables 3 through 6 reflect the responses of fifty-seven area business firms who returned the recent mailing. Participating firms are representative of the collection of diverse business interests in the St. Cloud area. They include retail, manufacturing, construction, financial, and government enterprises of sizes ranging from small to large. Survey responses are strictly confidential. Written and oral comments have not been attributed to individual firms.

Table 3 reports survey results of area business leaders' evaluation of business conditions for their company in June 2002 versus three months earlier. Results from Table 3 compare favorably to those reported in the March 2002 survey. It appears many area firms experienced much stronger business activity over the past three months. For example, the diffusion index (representing the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given category) for the level of business activity increased from 14.3 to 38.6 in the current period. Fifty-six percent of surveyed firms reported an increase in business activity in this most recent quarter while 18% noted it had decreased. Despite this overall improvement in business activity, several firms note continuing challenges. For example, one firm notes it is, "still tough coming back from 9-11. We have worked hard to be lean and continue the growth goals in our company." Another firm writes, "almost all of our commercial customers have seen a downturn in their industry over the past 3-6 months, except the construction industry. The construction activity is mostly in the public sector and the multi-family housing sector." Another firm notes, "competition remains intense" while, "cheap Chinese imports, 9/11/01, and stock market prices" are cited by another firm as an explanation of weakened activity. Conditions in equities markets are also a concern of another responding firm which indicates, "the uncertainty of the stock market is causing a continued stalemate in manufacturing capital improvements to buildings." Another firm notes a current seasonal increase in employment while a second firm writes, "when (the) economy starts to pick up-our business does too!"

The diffusion index for number of payroll employees suggests a marked improvement from March.

The index rose from 14.3 in March to 31.6 in June. The index on the length of the workweek also rose from -6.1 to 15.8 over the past three months. While average hours worked have expanded in the St. Cloud area (especially in manufacturing) and many firms have added workers, the overhang of the Fingerhut situation continues to drag down the overall economy. Thirty-two percent of surveyed firms indicate employee compensation increased in recent months, a reduction from that which was reported in March. Seventy-five percent of firms responding to the survey indicate there was no change in their difficulty attracting qualified workers over the past quarter. While this is a sharp reversal of the broad-based local labor shortages experienced three years ago, some area employers still indicate they have difficulty hiring highly specialized workers.

Over the past quarter, surveyed firms have been much more successful in passing on price increases to customers. The diffusion index in this category increased from -2.0 to 19.3 over the March to June period. Thirty-two percent of respondents indicated prices received in June were higher than three months earlier. This is sharply higher than the response of 14 percent in the March survey. Along with a reduction in the percentage of firms reporting an increase in employee compensation over the past three months, this would seem to indicate an improvement in the profit margins of local firms. But, not all price increases are favorable to local firms. For example, one firm notes, "(Our) main business...has faced deflation for years. We are now being warned of price increases for the first time in over a decade due to projected higher steel costs due to increased tariffs. Couple this with higher wood tariffs and this means less affordable housing and fewer (product) sales." Over the past three months, respondents felt the national economy had improved. The diffusion index on national business activity increased from 0 to 12.3 during this period. Note this is a strong improvement over September 2001 when the index stood at -22.2. Local capital spending also continues to rebound. The diffusion index increased from 6.1 to 26.3 last quarter as almost one-third of surveyed businesses indicated an increase in capital expenditures. This is a healthy improvement from the December 2001 survey in which only 12% of firms reported an increase in capital expenditures. As previously noted, firms' commitment to capital investment is critical to future growth.

Many area firms experienced much stronger business activity over the past three months.

Local capital spending rebounded last quarter.



Area businesses are less optimistic about future business activity.

Responses tallied in Table 4 are less optimistic than is suggested by the current business conditions table. They are also universally less optimistic than was reported in the April 2002 **St. Cloud Area Quarterly Business Report**. Summary results from questions related to survey respondents' expectations six months from now versus June 2002 are reported in this table. The diffusion index for the question that asks about the level of future business activity for area companies is 28.1 (down sharply from a value of 61.2 three months ago). Sixteen percent of surveyed businesses expect worsening business conditions over the next six months (this is still a marked improvement over the September 2001 survey when 26 percent of firms expected weaker future conditions). In the March 2002 survey, two-thirds of firms expected improved business conditions in six months time. This number has now declined to 44%. When compared to the results of the March 2002 survey, business respondents expect a somewhat softer labor market over the next six months. For example, the index on the survey item which asks about anticipated payroll employment is down from 26.5 to 17.5 over the past three months. Thirty percent of firms expect to increase hiring over the next six months (the corresponding number was 35% in March). While this is encouraging, it is not of the magnitude that will allow displaced Fingerhut workers to be easily

absorbed by area employers. The diffusion index on length of the workweek is also significantly lower than it was three months ago. It should be noted that 44 percent of surveyed firms expect to increase employee compensation over the next six months and no firm expects compensation to decline. Area firms also continue to expect little trouble finding qualified workers. The diffusion index on this item is little changed from its March value. The diffusion index on the survey item asking firms about their capital spending plans is also little changed from the March survey. While this number has changed little over the past three months, it should be noted the current 10.5 value of the index is sharply lower than the value of 20.7 reported exactly one year ago. Future uncertainties regarding area firms' capital spending plans could be a drag on the local economy.

Over the past three months, there has been a dramatic reversal in area firms' evaluation of future national business activity. Last quarter, 45% of surveyed firms expected future national business conditions to improve. In the most recent survey, only 23% of firms expected improvement in national conditions. The diffusion index on this question slipped from 38.8 to 8.8. A great deal of media attention has recently focused on corporate accounting irregularities as well as the rapidly declining

*continued on page 12*

**Figure 3--Diffusion Index for Question 1: Level of Business Activity**  
*Percent Increase Minus Percent Decrease*



**Table 3--Current Business Conditions\***

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary June 2002 What is your evaluation of:	June 2002 vs. Three Months Ago				March 2002 Diffusion Index <sup>3</sup>
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index <sup>3</sup>	
Level of business activity for your company	17.5	26.3	56.1	38.6	14.3
Number of employees on your company's payroll	14.0	40.4	45.6	31.6	14.3
Length of workweek for your employees	8.8	66.7	24.6	15.8	-6.1
Capital expenditures (equipment, machinery, structures, etc.) by your company	5.3	63.2	31.6	26.3	6.1
Employee compensation (wages and benefits) by your company	0	68.4	31.6	31.6	34.7
Prices received for your company's products	12.3	54.4	31.6	19.3	-2.0
National business activity	14.0	45.6	26.3	12.3	0
Your company's difficulty attracting qualified workers	12.3	75.4	10.5	-1.8	-24.5
Notes: (1) reported numbers are percentages of businesses surveyed. (2) rows may not sum to 100 because of "not applicable" and omitted responses. (3) diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion.					
* SOURCE: SCSU Center for Economic Education, Social Science Research Institute, and Department of Economics					

**Table 4--Future Business Conditions\***

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary June 2002 What is your evaluation of:	Six Months from Now vs. June 2002				March 2002 Diffusion Index <sup>3</sup>
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index <sup>3</sup>	
Level of business activity for your company	15.8	36.8	43.9	28.1	61.2
Number of employees on your company's payroll	12.3	54.4	29.8	17.5	26.5
Length of workweek for your employees	15.8	75.4	7.0	-8.8	16.3
Capital expenditures (equipment, machinery, structures, etc.) by your company	12.3	61.4	22.8	10.5	12.2
Employee compensation (wages and benefits) by your company	0	54.4	43.9	43.9	59.2
Prices received for your company's products	7.0	57.9	28.1	21.1	42.9
National business activity	14.0	47.4	22.8	8.8	38.8
Your company's difficulty attracting qualified workers	12.3	77.2	7.0	-5.3	-10.2
Notes: (1) reported numbers are percentages of businesses surveyed. (2) rows may not sum to 100 because of "not applicable" and omitted responses. (3) diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion.					
* SOURCE: SCSU Center for Economic Education, Social Science Research Institute, and Department of Economics					

**Special Question #1: Business Support for an International Cargo Freight Air Hub in the St. Cloud Area**

A special question of the **St. Cloud Area Business Outlook Survey** asked area business leaders to indicate the extent to which their firm is in favor of the establishment of an international cargo freight air hub in the St. Cloud area. This has been the topic of several regional meetings and is likely to be one of the most visible future projects pursued by, among others, the Minnesota Department of Transportation, in the coming years. The facilities at the Minneapolis-St. Paul international airport are currently overtaxed and this has compromised the ability of shippers to handle cargo freight transported from and to international destinations. Much of this freight is now routed through Chicago airports and, in the estimation of some observers, the entire North Central U.S. region's commercial base is vulnerable to the loss of business associated with an inability to handle international cargo shipments on a timely basis. Consequently, an air cargo study released in December 2001 suggested Minnesota consider the establishment of an international cargo freight air hub. One of the locations suggested for consideration of the siting of the hub is St. Cloud. Area business leaders are highly supportive of efforts to locate the hub in the St. Cloud area. Table 5 shows almost half of responding businesses are "strongly in favor" of establishing the air hub locally. In addition, over one-fourth indicate they are "mildly in favor." Only 3.6% of responding businesses are opposed to the siting of the air hub in the St. Cloud area. This indicates strong business support for pursuing this potential opportunity.

**Table 5--Special Question 1--Support for an International Cargo Freight Air Hub in the St. Cloud Area**

To what extent does your firm favor the establishment of an international cargo freight air hub in the St. Cloud area?

Strongly Opposed	Mildly Opposed	Neither in Favor Nor Opposed	Mildly in Favor	Strongly in Favor
1.8	1.8	15.8	28.1	47.4

\* reported results are percent of surveyed businesses.

**Special Question #2: The Extent to Which Area Businesses Believe the Area Economy Would Benefit from an International Cargo Freight Air Hub**

A second special question asked employers to comment on the extent to which their business feels the area economy would benefit from an international cargo freight air hub. Studies have been fairly clear indicating businesses that would directly benefit the most from the cargo air hub would be those which are most involved in international commerce. Since these firms are most heavily concentrated in the Twin Cities, it stands to reason most benefits to the St. Cloud area would be indirect. Yet, there could be spinoff benefits, as a cargo hub could entail airport improvements that could lead to improved passenger air service. Overall, area firms believe a cargo freight air hub would have a very significant impact on the area economy. Thirty percent of respondents feel it would have a "large effect" while more than half believe it would have a "moderate effect." Only 11 percent think it would have a "small effect" on the economy and no surveyed firm thinks it would have "no influence" on area economic activity. In addition, in written responses to a question asking how they expected their firm might be impacted by the cargo freight air hub, business leaders nearly unanimously responded that the net effect would be favorable. While these special questions were not structured to elicit responses from business leaders that would draw out some of the potential adverse impacts (in the form of environmental damage, increased congestion on area roads, higher noise levels, etc.) of the proposed hub, it is striking how few negative comments were submitted. Of course, this may reflect either uncertainty about the degree of adverse effects, or a belief that they are relatively small.

**TABLE 6-Special Question 2-The Extent to Which Area Businesses Believe the Area Economy would Benefit from an International Cargo Freight Air Hub**

To what extent do you believe the area economy would benefit from the establishment of an air hub for the handling of international freight?\*

**Panel A: Survey Results**

No Influence	Small Effect	Moderate Effect	Large Effect	Other
0	10.8	54.4	29.8	0

\* reported results are percent of surveyed businesses.

**Panel B: Selected Survey Responses**

**Business leaders were asked to comment on their responses. These responses include:**

- ◀ I expect no impact whatsoever other than providing higher paying jobs for our market area. To the extent there are more people with higher incomes, they will hopefully be intelligent enough to buy more [of our industry's products] for their homes.
- ◀ More potential business in our community. Increased need for workers to accommodate needs.
- ◀ Possibly build more buildings for freight companies.
- ◀ Convenience/cost reduction.
- ◀ Increased activity among businesses – which all requires additional [financial services].
- ◀ Our local construction industry would be one of the first to experience an immediate increase in business, which can help our local employment in the short term, and possibly in the long term through continued construction projects.
- ◀ Additional study as to the impact on residential lifestyles...noise impact alone may decrease the current residential life style in and around the St. Cloud area and the St. Cloud airport area. Bigger may not be better and result may lead to a decrease in home value and decrease in home building.
- ◀ We would benefit by increased [traffic].
- ◀ Potential commercial customers to get business.
- ◀ Continued area growth. More construction.
- ◀ [Our industry] would be positively impacted so I would be positively impacted.
- ◀ We benefit by the increase in business required to support the increased activity. Construction activity and new businesses locating in our area means an increase in demand for our [services].
- ◀ It would reduce transit time and save us shipping/receiving monies – we order parts from Italy on a regular basis.
- ◀ Providing services to business that would come to support the freight air hub.
- ◀ Increase in construction activity, not only air hub projects but also second tier businesses.
- ◀ Major growth factor bringing jobs.
- ◀ Further stabilize and even grow the local economy thus positively impacting the housing market.
- ◀ New jobs = New residents = Increased housing demand.
- ◀ [Financial] services for new businesses and...higher wage earners.
- ◀ Positively from economic growth. Everyone will benefit.
- ◀ Expansion of business will likely result which will afford [business] opportunities [for our firm]...
- ◀ May increase demand for building products manufactured or supplied [by our firm].
- ◀ More construction and new client potential.
- ◀ I believe it will offer more jobs – people moving to the area starting other business.
- ◀ Increased employees and jobs should equal increases in the economy.
- ◀ We will try to provide [our services] from here.
- ◀ It would be impacted if we were able to land construction contracts with the industrial businesses locating there.
- ◀ Probably not unless new businesses are created to which we might sell [our products].

*continued from page 8*

value of the dollar. Along with persistent weakness in domestic financial markets, it is quite possible the perceptions of survey respondents have been adversely affected by this negative attention. Finally, area firms appear to be less optimistic about their future ability to pass on price increases than they were three months ago. Only 28 percent of surveyed businesses expect improvements in prices received over the next six months. Forty-five percent of respondents from March 2002 expected to receive higher future prices.

An historical view of the evolution of the diffusion indexes on current and future business conditions over the past several quarters is presented in Figure 3. This shows a rise in the diffusion index on *current* business activity over the past three months. This index is now at 38.6 (its record high of 67.8 was recorded in June 1999, while its low of -19.3 occurred in December 2000). This period's *future* business activity diffusion index shows a substantial decline from last period's index. Although it remains above its all-time low of 19.7 recorded two years ago, it has slipped considerably from a value of 61.2 three months ago. It should be noted some of this represents a normal seasonal pattern of business activity that has been observed over the four years the survey has been conducted. Consequently, it would be imprudent to attribute all

of this relative weakening in the future business outlook to lower demand associated with slower future general local business activity.

Participating businesses can look for the next survey at the beginning of September and the accompanying **St. Cloud Area Quarterly Business Report** (including the **St. Cloud Index of Leading Economic Indicators** and the **St. Cloud Area Business Outlook Survey**) in late October. Area businesses who wish to participate in the quarterly survey can call the SCSU Center for Economic Education at 320-255-2157. All survey participants will receive a free copy of the **St. Cloud Area Quarterly Business Report** on a preferred basis.