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St. Cloud Area Quarterly Business Report

First Quarter 2001

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Introducing An Expanded Business Report

New Collaborating Partner

Beginning with this issue, St. Cloud State University and The St. Cloud Area Economic Development Partnership are pleased to begin a collaboration in the production of the *St. Cloud Area Quarterly Business Report*. The primary-source information found in this publication supports the regional economic education and development goals of both organizations. This collaboration will help improve the overall quality and readability of the quarterly report. The most visible change in the report is its new improved appearance. We hope this helps readers quickly find the information that is most useful to them. Additional graphics, combining current and historical economic performance data, will also be prominently displayed in the new report. We welcome The Partnership to what we hope is a long and fruitful collaboration.

Executive Summary

The St. Cloud area economy should experience gradual growth over the next several months according to the most recent projections 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 there are uncertainties related to national economic trends, as of yet, these challenges appear to be insufficient to seriously slow, let alone reverse, area economic growth.

After reaching a record high in September 2000, the **St. Cloud Index of Leading Economic Indicators** experienced a moderate decline in October and November. Continued strong growth in new residential electrical hook-ups, combined with steady increases in the number of new local business start-ups and a stable manufacturing workweek, have contributed favorably to the local index. A persistent decline in the U.S. leading economic indicators index has offset some of the gains observed in the St. Cloud area index. When

adjusted for a strike at Frigidaire's local production facility, area nonfarm employment grew at a rate of 2.6 percent over the year ending November 2000. This exceeds the rate of national and state job growth over the same period. It is, however, much slower than the nearly 5 percent job growth experienced in the St. Cloud area in late 1999. The recent strike-adjusted employment growth rate is in line with the long term trend growth rate observed from 1992-2000. The St. Cloud area economy is growing at a rate that appears sustainable on a long-term basis, although recent layoffs will depress job growth in early 2001.

Despite the recent slowdown, 67% of area businesses participating in the **St. Cloud Area Business Outlook Survey** expect an increase in the level of business activity for their company over the next six months. This compares to 14 percent who expect conditions to worsen, reflecting a marked improvement from conditions observed in the recently concluded quarter. Forty-six percent of surveyed businesses report that business activity was lower in December 2000 than it was three months

St. Cloud area
economy
shows
surprising
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65% of businesses list tax cuts as a high priority.

Only one-fifth said the labor shortage was worse this quarter.

Even as the area economy seems to be slowing, two decades of expansion continues despite sharp blows in 2000.

earlier. Only 26 percent report an increase in their company's business activity over the past three months. Softening local economic performance in the past quarter is also observed in company reports of a reduced workweek as well as fewer additions to their payrolls. Continuing a trend that has been observed over the past year, the local labor shortage is expected to moderate over the next six months. Only 26 percent of surveyed businesses indicate that they expect increased difficulty attracting qualified workers in six months' time, while 9 percent expect a decrease in difficulty. Only one-fifth of the respondents indicate that the labor shortage worsened over the recently concluded quarter. These numbers compare favorably to those reported one year ago.

Even as 39 percent of surveyed businesses expect to receive higher prices for their products six months from now, there appears to have been a continued moderation in area inflationary pressures. Only 23 percent of survey respondents indicate that prices received for their company's products were higher over the past three months. Thirty percent of responding businesses noted a deterioration in national business conditions over the past three months, although their perception about the future is not so grim.

A special question in the December 2000 **St. Cloud Area Business Outlook Survey** asked St.

St. Cloud Index of Leading Economic Indicators

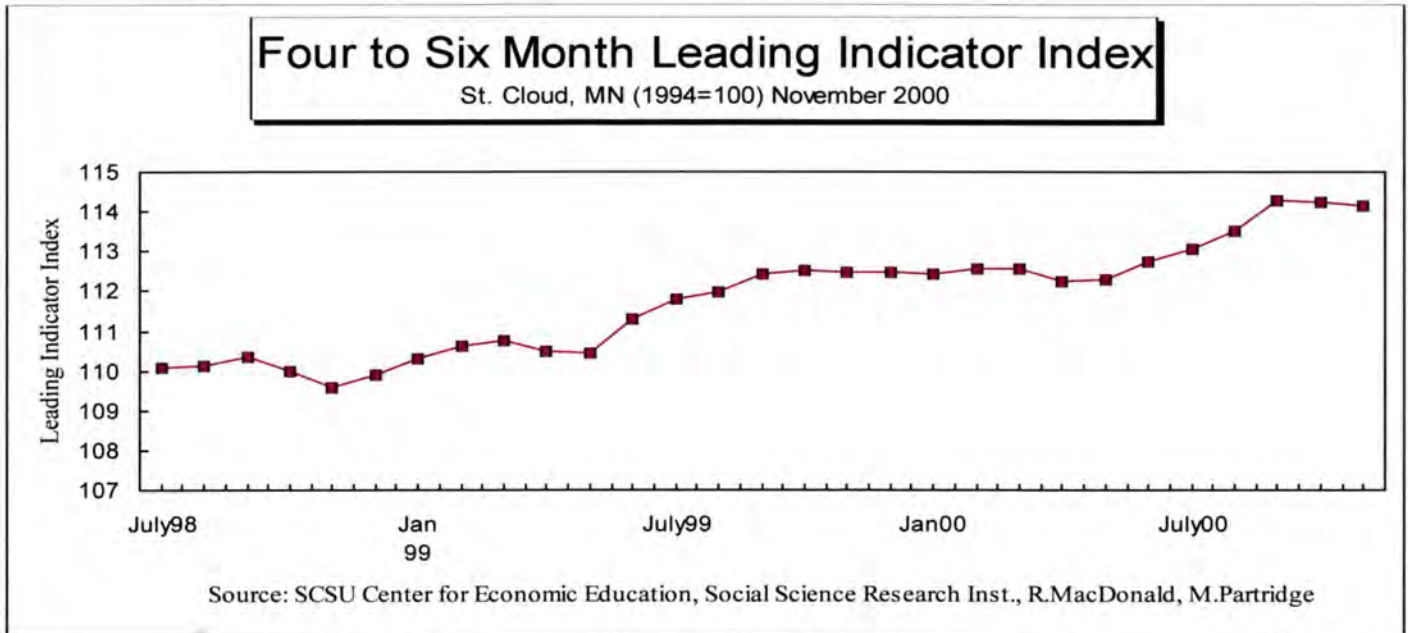
The November 2000 **St. Cloud Index of Leading Economic Indicators** forecasts that area economic activity will grow through Spring 2001. This growth should occur, however, at a slower pace than was experienced in the latter 1990s and early 2000. After reaching a record high level in September 2000, Figure 1 shows that the index modestly declined in October and November. Even as the St. Cloud metropolitan area (MSA) economy seems to be slowing, the continuation of the two-decade long expansion of local economic activity is impressive given that the local economy received some rather sharp blows in 2000. A large increase in new St. Cloud residential electrical hookups remains the key factor behind the index's

Cloud area businesses to identify items that they feel are important priorities in the current Minnesota legislative session. Sixty-five percent of surveyed businesses indicated that a permanent personal income tax cut was a high priority. An almost equal number of businesses (63%) identified property tax reform as important. Another important concern of local businesses is health care reform, which was mentioned by 47 percent of respondents. Potential priorities that appear less important to area firms include improving K-12 education funding (32%), housing affordability (30%), and mass transit (11%).

A second special question asked businesses to evaluate the extent to which their business has experienced a competitive advantage or a competitive disadvantage as a result of the commercial use of the Internet. While 51 percent of surveyed businesses indicated that their company has experienced neither a competitive advantage nor disadvantage from the Internet, 35 percent indicate they believe they have a competitive advantage. This far outweighs the 7 percent who believe the Internet has placed their firm at a competitive disadvantage. On balance, it appears that area firms have experienced net gains from commercial Internet use.

strength in recent months. Conversely, the fairly steady decline in the U.S. Index of Leading Economic Indicators (dating back to January 2000) has had a depressing influence on the local index. Relatively steady increases in the number of new local business start-ups and a relatively stable St. Cloud manufacturing hourly workweek have had only a small influence on the indicator series in recent months. 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.

Figure 1--St. Cloud Index of Leading Economic Indicators (November 2000)



The St. Cloud Overall Outlook

For the year ending November 2000, nonfarm jobs grew at only a 0.8 percent rate in the St. Cloud MSA. As shown in Table 1, this is well below the average 2.8 percent long-term trend growth rate recorded over the 1988-2000 period. Caution must be used when interpreting this figure, since a labor strike at Frigidaire's local production facility artificially reduced St. Cloud's November employment numbers. The St. Cloud Times reported that a total of 1680 workers were idled as a result of the strike. Assuming that these workers remained unemployed over the period of the work stoppage, year-over-year job growth would have been 2.6 percent when corrected for this temporary disturbance. This is approximately equal to the long-term trend growth rate in St. Cloud area employment. With these corrections factored in, area job growth would have exceeded the corresponding rates in Minnesota and the Twin Cities by about a full percentage point (see Table 1), and it would have also exceeded the corresponding figures for the Duluth and Rochester MSAs (not shown). National job growth was 1.7 percent during the same period. While St. Cloud job growth was satisfactory in 2000, it fell well short of the remarkable 5 percent rate experienced in 1999.

Area job figures illustrate that even in a year with

layoffs due to Herberger's closing its St. Cloud headquarters, Gold'N Plump closing its Sauk Rapids facility, and Fingerhut reducing its demand for seasonal workers during the holiday season, the local economy still turned in a solid performance. Whether the St. Cloud area economy is sufficiently resilient to continue its extremely good fortune is less clear. Fingerhut's announced intention to lay off 500-plus permanent workers in January 2001, along with demand-related employment uncertainties at Frigidaire and unanticipated layoffs at New Flyer (attributed to supplier problems) will test the versatility of the area firms and workers. Moreover, a colder than normal start to the Winter season may have had an adverse effect at a number of local businesses. Slower national economic activity is another potential dark cloud on the horizon. The Federal Reserve's aggressive surprise move to reduce short-term interest rate targets in early January signals its concern about deteriorating national economic conditions. Indeed, a small but growing chorus of national analysts have forecast a recession in 2001. Despite this, most signs indicate that the slow down locally and nationally is more consistent with a "soft" rather than a "hard" landing. Economic prospects for laid-off workers and for most local firms are more encouraging than is usually the case in such an uncertain environment, due to the pent-up

The versatility of area firms will be tested by recent layoffs in 2001.

Most signs are that the slow down is more consistent with a "soft" rather than "hard" landing.

demand for workers that went unsatisfied as a result of the area's recent labor shortage.

Whether St. Cloud will continue its remarkable economic expansion depends on the number of new area residents.

In the long run, the question of whether St. Cloud will continue its remarkable two-decade long economic expansion depends significantly on the number of new area residents (as well as their job skills). New residents represent additional customers as well as potential workers for area businesses. In-migration has apparently accelerated in recent years as shown by increases in the number of new residential hook-ups and in the size of the local labor force. The U.S. Bureau of Labor Statistics reports that the size of the St. Cloud MSA labor force (which includes all residents employed or actively seeking work, including commuters) expanded by a remarkable 4.9 percent in the year ending in November 2000 and by 2.1 percent

in the immediate preceding year. The corresponding national figures are only 0.8 percent and 1.2 percent and are just 2.0 percent and 1.5 percent for the state. The growth in the local labor force has visibly helped moderate the labor shortage. Figure 2 shows the trend since December 1998 in the diffusion index (the percent of surveyed businesses responding "increase" minus the percent answering "decrease") of the quarterly question of the St. Cloud Area Business Outlook Survey that asks businesses to evaluate their company's difficulty attracting qualified workers. While there is no information on the extent of regional worker shortages which is publically available on a timely basis, this figure strongly suggests that the area worker shortage has clearly moderated in recent quarters. If there is a continuation of softer employment conditions along with favorable migration patterns, the

Table 1--Employment Trends

| | St. Cloud Employment Trends in Percent | | | Minnesota Employment Trends in Percent | | | Twin Cities Employment Trends in Percent | | |
|--|---|-----------------------|---------------------|---|-----------------------|---------------------|---|-----------------------|---------------------|
| | Long Term | Nov 99- | Nov 2000 | Long Term | Nov 99- | Nov 2000 | Long Term | Nov 99- | Nov 2000 |
| | Trend Growth Rate | Nov 00 Growth Rate | Employment Share | Trend Growth Rate | Nov 00 Growth Rate | Employment Share | Trend Growth Rate | Nov 00 Growth Rate | Employment Share |
| Total Nonagricultural 1988-2000 | 2.8 | 0.8 | 100.0 | 2.2 | 1.7 | 100.0 | 2.2 | 1.6 | 100.0 |
| Total Nonagricultural 1992-2000 | 2.6 | 0.8 | 100.0 | 2.4 | 1.7 | 100.0 | 2.6 | 1.6 | 100.0 |
| GOODS PRODUCING 1988-2000 | 1.3 | -5.3 | 21.2 | 1.4 | 0.3 | 21.0 | 0.9 | 1.0 | 20.2 |
| Construction & Mining 1992-2000 | 3.5 | 9.6 | 4.8 | 4.8 | 0.4 | 4.8 | 4.4 | 3.7 | 4.4 |
| Manufacturing 1988-2000 | 2.0 | -9.0 | 16.3 | 0.8 | -0.2 | 16.2 | 0.4 | 0.5 | 15.8 |
| Durable Goods 1992-2000 | 0.8 | -17.3 | 7.9 | 1.6 | -1.4 | 9.6 | 0.5 | 0.5 | 9.7 |
| Nondurable Goods 1992-2000 | 2.9 | 0.5 | 8.4 | 0.5 | 1.7 | 6.7 | 1.0 | 0.6 | 6.1 |
| SERVICE PRODUCING 1988-2000 | 2.1 | 2.6 | 78.9 | 2.5 | 2.1 | 79.0 | 2.6 | 1.7 | 79.8 |
| Transport. & Pub. Utility 1988-2000 | 2.8 | 3.4 | 3.8 | 2.3 | 3.7 | 5.1 | -2.3 | 2.1 | 5.5 |
| Trade 1988-2000 | 2.2 | 0.5 | 29.1 | 1.9 | 2.3 | 24.0 | 1.8 | 1.3 | 23.5 |
| Wholesale Trade 1988-2000 | 4.4 | 5.7 | 5.5 | 2.0 | 2.6 | 5.8 | 1.7 | 1.2 | 5.8 |
| Retail Trade 1988-2000 | -1.8 | -0.7 | 23.5 | 1.9 | 2.1 | 18.1 | 1.9 | 1.3 | 17.7 |
| Finance, Insurance & Real Estate Services 1988-2000 | 4.4 | 2.4 | 3.7 | 2.4 | -0.2 | 6.0 | 2.8 | 2.1 | 7.4 |
| Health Services 1992-2000 | 4.6 | 2.4 | 27.3 | 3.5 | 2.7 | 29.0 | 3.4 | 2.2 | 29.5 |
| Educational Services 1992-2000 | 3.1 | 2.6 | 7.6 | 2.6 | 3.0 | 8.3 | 2.2 | 2.1 | 7.0 |
| Other Services 1992-2000 | 3.8 | 7.1 | 4.4 | 2.4 | 4.9 | 1.6 | 3.3 | 3.8 | 1.4 |
| Other Services 1992-2000 | 4.9 | 5.6 | 15.3 | 3.6 | 3.5 | 19.1 | 5.6 | 2.2 | 21.1 |
| Government 1988-2000 | 1.6 | 3.1 | 15.0 | 1.6 | 1.0 | 15.0 | 2.3 | 0.9 | 13.9 |
| Federal 1992-2000 | 0.7 | 3.1 | 1.8 | 0.0 | -0.4 | 1.2 | 0.6 | -1.8 | 1.2 |
| Federal Health 1992-2000 | -0.2 | 2.5 | 1.0 | -0.3 | 2.4 | 0.7 | -0.9 | -0.6 | 0.2 |
| Federal Other 1992-2000 | 2.0 | 4.1 | 0.7 | 0.0 | -1.2 | 0.6 | 0.9 | 1.9 | 1.1 |
| State 1992-2000 | 0.8 | 2.9 | 4.4 | 0.8 | -0.5 | 3.4 | 2.2 | 0.5 | 3.9 |
| State Education 1992-2000 | 1.0 | 4.1 | 3.9 | 1.6 | -1.4 | 2.1 | 3.0 | 0.3 | 2.8 |
| State Other 1992-2000 | -0.6 | -5.6 | 0.5 | -0.5 | -0.2 | 1.3 | 0.5 | 2.9 | 1.3 |
| Local 1992-2000 | 1.6 | 2.1 | 8.8 | 2.0 | 1.6 | 10.4 | 2.9 | 1.4 | 8.8 |
| Local Education 1992-2000 | 1.1 | 0.1 | 5.5 | 1.4 | 1.4 | 5.4 | 3.1 | 1.9 | 5.0 |
| Local Other 1992-2000 | 2.5 | 0.1 | 3.3 | 2.6 | 1.5 | 5.0 | 5.3 | 0.9 | 3.8 |

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

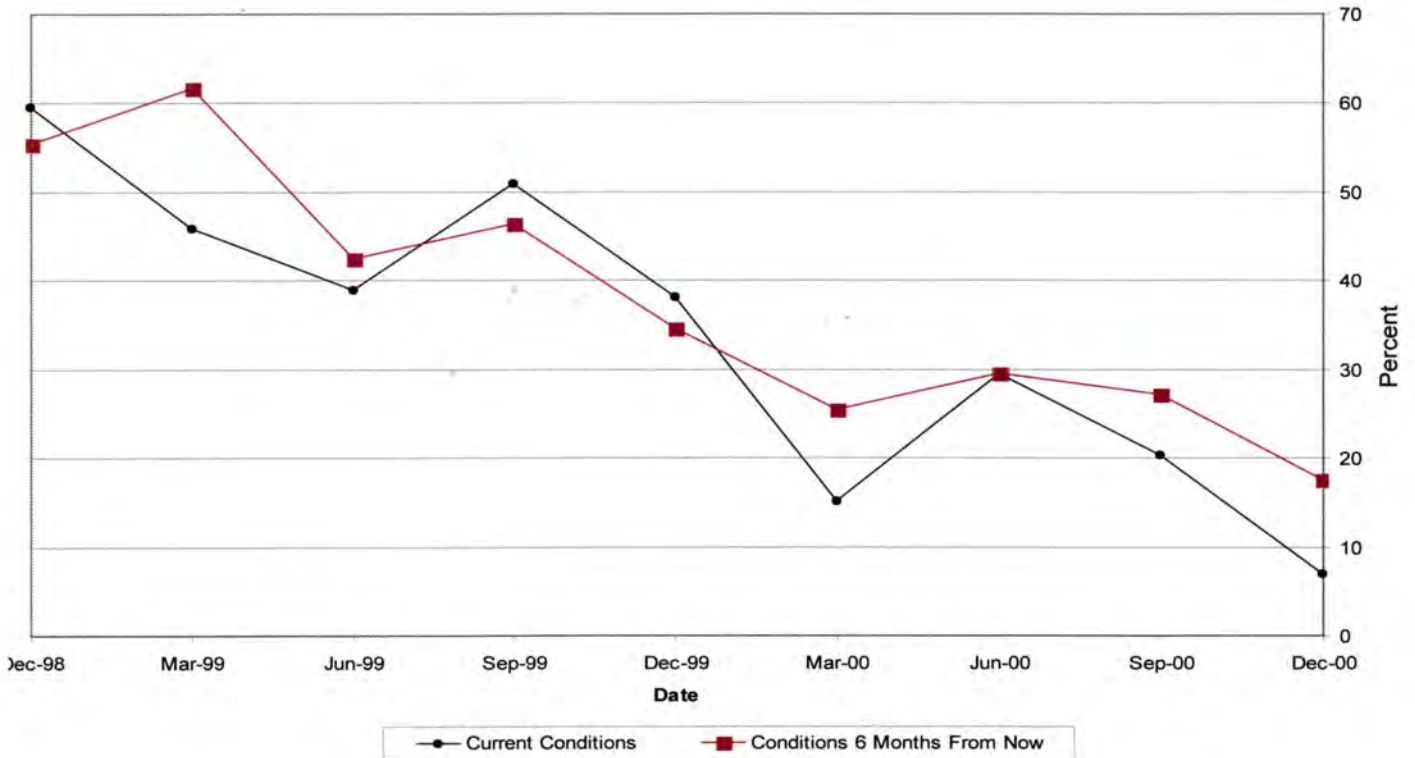
labor shortage will continue to subside. It is, of course, imperative that potential migrants into the St. Cloud area remain optimistic about job prospects for migration trends to continue. A perception of poor job prospects in the area will do more than just slow current conditions, it will also help turn off the new-migrant spigot that has helped feed long-term growth.

While anxiety about local and national economic performance appears to have risen in recent quarters, there are many reasons to remain optimistic. The Federal Reserve's recent moves to lower short-term interest rate targets should have a favorable effect on economic activity later in the year. This will be a welcome development for many area businesses. This adjustment follows recent declines in long-term inter-

est rates, which peaked in Spring 2000. Improved monetary conditions should also have a favorable impact on financial markets. Likewise, crude oil prices have declined since November 2000. This will hopefully translate into future declines in other energy prices, although recent attempts by OPEC nations to restrict oil output is worrisome. Finally, respondents to the St. Cloud Area Business Outlook Survey remain upbeat about their future prospects.

The Fed's recent moves should have a favorable effect later in 2001.

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



Residential building permits were up 36% in August--November 2000 quarter compared to 1999.

The labor-force shortage may have moderated, although it is premature to declare it dead.

A softer labor market is a signal of a slowing local economy, which can spell trouble if it produces a decline in local confidence

The St. Cloud Sectoral Outlook

One of the most favorable signs for the local economy is the broad-based job growth across almost all sectors. Table 1 shows that only manufacturing, retail trade, and other state government have experienced employment declines in the year ending November 2000. The Frigidaire strike explains the sharp 9.0 percent decline in manufacturing jobs. After adjusting for the strike, local manufacturing job growth would have been 0.8 percent, which exceeds the corresponding -0.2 percent and 0.5 percent rates experienced in Minnesota and the Twin Cities, respectively. While most local manufacturers appear to be persevering in this competitive and uncertain environment, it is this sector which is likely the most vulnerable to a national downturn and fierce global competition. Employment declines in retail trade can be largely explained by cut-backs at Herberger's and Fingerhut. Without these declines, retail job growth would have been closer to 2 percent in the most recent year. This suggests that most local retailers are faring reasonably well. Job statistics in the government sector are hard to interpret due to the large month-to-month variability in local government employment estimates. Moreover, the categories of government employment that have experienced negative job growth over the past year account for a fairly low share of total area employment.

Table 1 also shows that the leading sectors in explaining long-term trend growth in St. Cloud area employment are construction & mining, wholesale trade, finance, insurance & real estate (FIRE), and services. Long-term annual growth rates in these four sectors range from 3.5 to 4.6 percent. With the exception of FIRE, these sectors also had strong employment gains for the year ending in November 2000. The continuation of strength in what has been St. Cloud's star sectors shows why area job growth continues to match its long-term trend. Construction & mining's 9.6 percent November 1999-2000 growth rate illustrates the recent strength of the local construction sector. This far exceeds its 3.5 percent long-term trend growth rate. Federal Reserve interest rate tightening actions contributed to a 200 job reduction in construction & mining employment over the March 1999-2000 period. Yet, recent declines in long-term interest rates as well as continued population gains have helped produce more than 400 new construction & mining jobs in the year ending November 2000. Moreover, the U.S. Department of Commerce reports that residential building permits were up 36 percent in the

August-November 2000 quarter compared to the corresponding quarter in 1999, which bodes well for area home builders. November 1999-2000 job growth in both service and wholesale trade sectors, exceeded their long-term trend rates. Wholesale trade growth was 1.3 percent higher than trend over the year ending November 2000. The robust growth in services is concentrated in services net of health and educational services and likely reflects the emerging need for higher-level business services as the local area continues to grow (accounting, legal, and consulting services, for example).

Labor Market Conditions

Consistent with responses to the **St. Cloud Area Business Outlook Survey**, labor market data suggest that the labor-force shortage has moderated. The November 2000 St. Cloud MSA unemployment rate was 2.9 percent, considerably above the low 2.1 percent rate in November 1999. The November 2000 figure also reflects the highest November reading since 1996. The state unemployment rate (not seasonally adjusted) was 2.7 percent in November 2000, which is also above the 2.2 percent rate of the preceding year. All other Minnesota MSA unemployment rates are higher than their corresponding 1999 figures. While unemployment rates can show marked variability from month to month, these numbers do suggest that labor-short local employers have a growing pool of jobless workers to draw from. It should be noted, however, that Minnesota unemployment rates remain well below those experienced in the first-half of the 1990s. Hence, it is premature to declare that the area labor shortage is dead!

Other indicators also suggest that the local labor market is currently a little softer than in the latter part of the 1990s. Unemployment insurance claims in the St. Cloud area were up 74 percent in the quarter ending November 2000 compared to the corresponding period in 1999 (they were also up 22 percent for the state). While unemployment insurance claims can be quite volatile, this increase is consistent with a greater availability of workers. Total help-wanted ad linage in the St. Cloud Times was down 19 percent in the August-November quarter compared to year earlier levels, also suggesting a weaker labor market. On the one hand, a softer labor market is a signal of a slowing local economy, which can spell trouble if it produces a decline in local consumer confidence. On the other hand, difficulty in finding qualified workers has been a consistent com-

plaint of many local firms who have in recent years cited the area labor shortage as a key factor in limiting potential expansion. Overall, while there is cause to be concerned about the strength of the local and national economies, we remain cautiously optimistic that the local expansion will continue well into 2001.

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 Chamber of Commerce. Survey results reported in Tables 2 through 5 reflect the responses of 57 area business firms who returned the recent mailing of the **St. Cloud Area Business Outlook Survey**. 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.

Current Conditions

Many area businesses responding to the survey experienced a relative decline in business activity over the recently concluded quarter. This pattern, however, is expected to reverse course over the next six months. Table 2 reports survey results of area business leaders' evaluation of business conditions for their company in December 2000 versus three months earlier. The results suggest that current conditions are less favorable than those reported in September. 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 fell to -19.3 from a value of 23.8 in September. This is the first time since the survey was initiated in December 1998 that the diffusion index for this question has been negative. Twenty-six percent of surveyed firms reported an increase in business activity in this most recent quarter while 46% noted that business activity had decreased at their company.

The diffusion index for each question in Table 2 indicates a recent slowing of the local economy. In every category, the current business conditions index is below the figure reported three months ago. The decrease in the diffusion indexes for number of payroll employees and the length of the workweek is consistent with a further moderation of the area labor

shortage. This is confirmed by the decreased diffusion index for the question asking companies about their difficulty attracting qualified workers. The diffusion index for this latter question decreased from 20.3 in September to a current value of just 7.0. In recent months, surveyed firms have also found themselves less able to pass on price increases to customers. The diffusion index in this category decreased from 23.7 to 17.5 over the September to December period. Twenty-three percent of respondents indicate that prices received were higher in December than they were three months earlier. This is substantially lower than a similar 32 percent response in September (which itself was lower than the 43 percent response in June). Less intense price pressures in St. Cloud and elsewhere likely contributed to the Federal Reserve's recent decision to ease credit conditions. Only 30 percent of respondents indicated that employee compensation had increased in December relative to three months earlier, which compares to a 49 percent response in December 1999. This is further evidence of declining price pressures and a loosening worker shortage. A slowing of national business activity mirrors the performance of local business activity over the past three months. The diffusion index on national business activity declined from -1.7 to -17.5 over the most recent quarter.

Future Conditions

Responses tallied in Table 3 paint a decidedly more optimistic picture about the expected future pace of local business activity than is suggested by the current business conditions table. Summary results from questions related to survey respondents' expectations six months from now versus December 2000 are reported in this table. The diffusion index for the survey question that asks about the level of future business activity for area companies is a marked improvement over the similar item in Table 2. The diffusion index of 52.7 is also substantially higher than was reported in the September (20.4) and June (19.7) surveys. Sixty-seven percent of survey respondents expect an increase in business activity by mid-2001. This is sharply higher than the 44 percent of businesses that had a similar expectation in September. Twenty-four percent of business respondents expected a future decline in economic activity in the September 2000 survey compared to only 14 percent who anticipate worsening future conditions in the most recent survey.

Other results reported in Table 3 are nearly opposite

Many businesses experienced a decline in business activity, but, this is expected to reverse course in the future.

In every category, the current business conditions index is below the figure reported three months ago.

Responses paint a more optimistic picture about the expected future pace of local business activity.

TABLE 2--CURRENT BUSINESS CONDITIONS*

| ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary December 2000 | Decrease (%) | December 2000 vs. Three Months Ago | | | September 2000 Diffusion Index ³ |
|---|-----------------|------------------------------------|-----------------|---------------------------------|--|
| | | No Change (%) | Increase (%) | Diffusion Index ³ | |
| What is your evaluation of: | | | | | |
| level of business activity for your company | 45.6 | 24.6 | 26.3 | -19.3 | 23.8 |
| number of employees on your company's payroll | 17.5 | 54.4 | 28.2 | 10.6 | 15.3 |
| length of workweek for your employees | 21.1 | 61.4 | 15.8 | -5.3 | 11.8 |
| Capital expenditures (equipment, machinery, structures, etc.) by your company | 14.0 | 61.4 | 22.8 | 8.8 | 13.5 |
| employee compensation (wages and benefits) by your company | 1.8 | 66.7 | 29.8 | 28.0 | 52.5 |
| prices received for your company's products | 5.3 | 68.4 | 22.8 | 17.5 | 23.7 |
| National business activity | 29.8 | 42.1 | 12.3 | 7.0 | 20.3 |
| 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. | | | | | |

TABLE 3--FUTURE BUSINESS CONDITIONS*

| ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary December 2000 | Decrease (%) | Six Months from Now vs. December 2000 | | | September 2000 Diffusion Index ³ |
|---|-----------------|---------------------------------------|-----------------|---------------------------------|--|
| | | No Change (%) | Increase (%) | Diffusion Index ³ | |
| What is your evaluation of: | | | | | |
| level of business activity for your company | 14.0 | 15.8 | 66.7 | 52.7 | 20.4 |
| number of employees on your company's payroll | 5.3 | 45.6 | 45.6 | 40.3 | 25.4 |
| length of workweek for your employees | 7.0 | 64.9 | 24.6 | 17.6 | 0 |
| Capital expenditures (equipment, machinery, structures, etc.) by your company | 7.0 | 59.6 | 29.8 | 22.8 | 16.9 |
| employee compensation (wages and benefits) by your company | 0 | 33.3 | 63.2 | 63.2 | 52.5 |
| prices received for your company's products | 7.0 | 43.9 | 21.1 | 5.3 | 1.7 |
| National business activity | 8.8 | 61.4 | 26.3 | 17.5 | 27.1 |
| 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. | | | | | |

Your company difficult

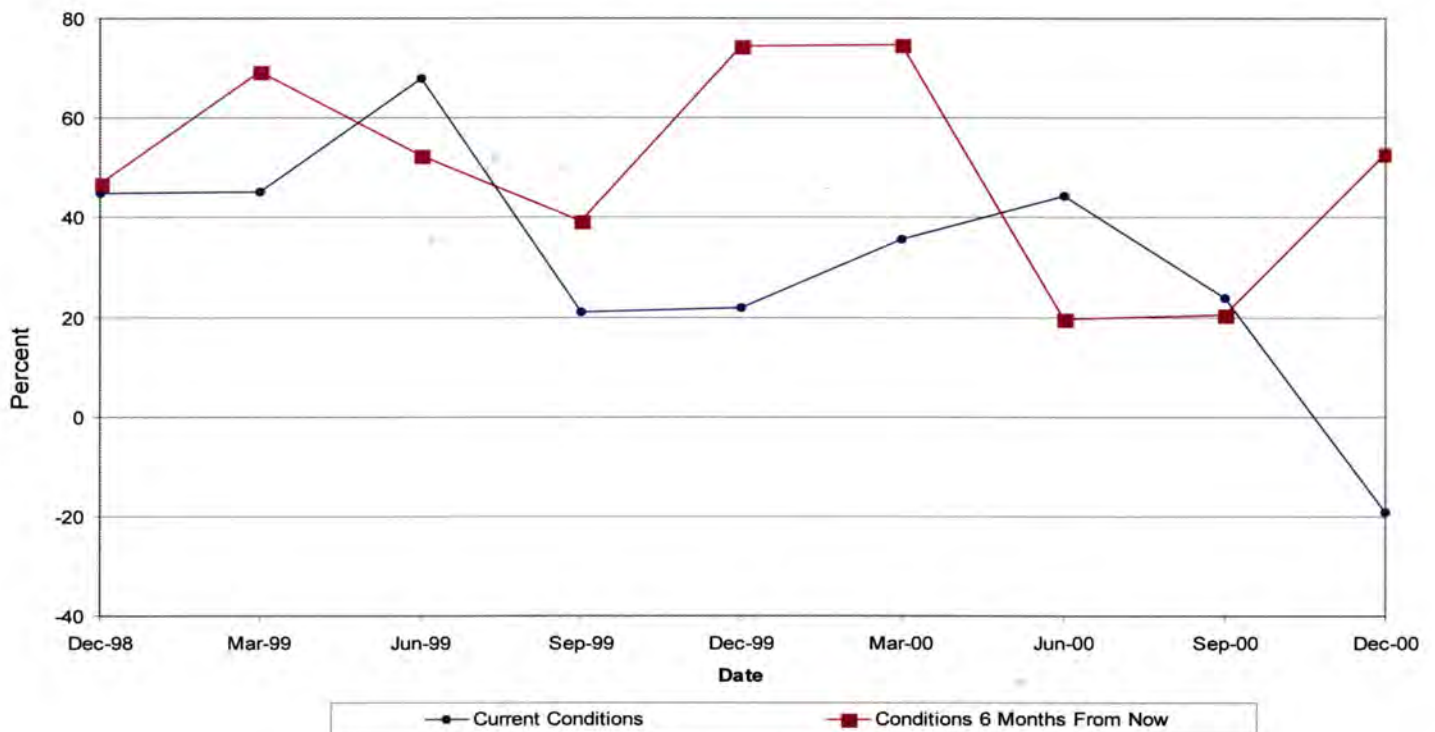
of those found in Table 2. Despite the recent softening of local conditions, these results uniformly suggest renewed optimism for continued local economic prosperity. These numbers are also markedly more uplifting than those reported in the October 2000 St. Cloud Area Quarterly Business Report. For example, 46 percent of surveyed businesses expect the number of employees on their company's payroll to grow over the next six months with only 5 percent expecting a decline in employment. One-fourth of the respondents expect an increase in the length of the workweek. This contrasts with only 7 percent who expect a decline in the length of the workweek. A pick-up in capital expenditures is expected by 30 percent of survey respondents with only 7 percent expecting a decrease in these purchases. While only 30 percent of responding businesses were paying higher compensation last quarter (see Table 2), almost two-thirds expect to pay higher rates of compensation six months from now. No firms expect to lower wage and benefit payments. Firms also expect to see an improvement in their future ability to pass on higher prices. Thirty-nine percent expect price percent anticipating lower prices. Local businesses are less certain about the future path of national busi-

ness activity. Twenty-one percent expect an increase in national business activity while a nearly offsetting 16 percent expect a decrease. Although this result is not substantially different than what was reported in the September 2000 survey, it is a marked improvement over their current assessment shown in Table 2. Finally, the reported decline in the diffusion index on companies' expected future difficulty in attracting qualified workers must be seen by area employers as a sign of upcoming relief from the worker shortage that has plagued them for the last few years. Figure 3 shows the trend in the diffusion indexes for both the current and future business conditions since the survey's inception in December 1998. First, note the substantial decline in the diffusion index on current business conditions over the past six months. The current conditions index has fallen from an all-time high of 67.8 in June 1999 to its current -19.3 level. Yet, the future business conditions diffusion index has rebounded from its weakness in the two preceding quarters. While the current 52.7 value of this diffusion index is sharply higher than its value of 20 in the September and June surveys, it is well below the all-time high of 74.6 in March 2000.

21% of local businesses expect an increase in national business activity and 16% expect a decrease.

continued on page 12

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



Local businesses strongly prefer tax relief.

Special Question #1: Upcoming Legislative Priorities

A special question of the St. Cloud Area Business Outlook Survey asked area business leaders to consider items that they felt are an important priority in the current Minnesota legislative session. Survey respondents were asked to identify each of the items listed in Panel A of Table 4 that they felt was an important priority. They were also asked to specify any other priorities that were not on the list. The two issues that are most important to surveyed businesses are a permanent personal income tax cut (64.9%) and property tax reform

(63.2%). Another issue that was identified by 47.4 percent of respondents is health care reform. Issues of lower legislative priority are improving K-12 education funding (31.6%), housing affordability (29.8%), and mass transit (10.5%). Other issues identified by 7 percent of survey respondents include highway funding, workers' comp reform, and privacy. Business leaders responding to the survey were also asked to provide comments, with some representative comments shown in Panel B of Table 4.

TABLE 4--Special Question 1: UPCOMING LEGISLATIVE PRIORITIES

*Question : Please check the box in front of each of the items that your business feels is an important priority in the upcoming Minnesota legislative session**

Panel A: Survey Results

| Permanent Personal Income Tax Cut | Improving K-12 Education Funding | Mass Transit | Property Tax Reform | Housing Affordability | Health Care Reform | Other |
|-----------------------------------|----------------------------------|--------------|---------------------|-----------------------|--------------------|-------|
| 64.9 | 31.6 | 10.5 | 63.2 | 29.8 | 47.4 | 7.0 |

* reported results are percent of surveyed businesses indicating the item is a legislative priority.

Panel B: Selected Survey Responses

- ◀ If the cost of business exceeds benefits, people will choose not to be in business.
- ◀ While focusing on fiscal responsibility, the legislature must strive to lower the tax burden in all areas.
- ◀ Income tax cut-no reason to run with huge reserves.
- ◀ Personal income tax cuts to reduce the increase in government spending. If the money is there, it is spent.
- ◀ As a small business, I feel at an extreme disadvantage when it comes to paying health care. No breaks on cost.
- ◀ There is no reason for Minnesota to be in the top 10 of any tax! It will make business retention/attraction much easier as the economy cools if we commit to be out of the top 10.
- ◀ Tax reform and personal tax rates. Rebates need to stop.
- ◀ Consider the 'fair tax'-sales tax only.
- ◀ K-12 funding directly affects our business.
- ◀ Income tax cuts-The rebates do not go to those who contributed more. We have had a budget surplus for far too long"
- ◀ Improve K-12 education funding-the student of today needs to be better educated and prepared for the new workplace"
- ◀ A tax cut would allow people to keep more of their own money and keep a lid on employers having to consistently raise prices and benefits.
- ◀ Tax reform-overtaxing if we have a surplus.
- ◀ Permanent personal income tax cut. With surplus as it has been, we are being overtaxed.
- ◀ Improving K-12 education funding. Has to happen to be able to do the others!.
- ◀ Of primary importance in the long run is to replace career politicians with citizens in order to control government spending by using common sense rather than buying re-election with spending.
- ◀ Health care reform...control vast increase in operating expense of company.
- ◀ The rising cost of health care is having a major impact on small businesses and needs to be addressed. We cannot continue 30-50% annual increases!.
- ◀ Permanent personal income tax cut = Balanced budget without a surplus in tax \$.

Special Question # 2: Commercial Use of the Internet

A second special question asked area business leaders to evaluate the extent to which their firm has experienced a competitive advantage, a competitive disadvantage, or neither, as a result of the commercial use of the Internet. Internet effects could include wider marketing and sales, greater ease and lower costs for purchasing inputs, and the lack of sales taxes on many internet purchases. Results reported in Panel A of Table 5 indicate that 50.9% of surveyed businesses believe that they have experienced neither a competitive advantage nor disadvantage from the Internet. More than one-third of survey respondents (35.1%) report that they feel they have experienced a competitive advantage as a result of the commercial use of the Internet. This far outweighs the seven percent of survey respondents who feel at a competitive disadvan-

tage. This interesting result suggests that, on balance, St. Cloud area businesses believe that they have achieved net relative gains from the commercial use of the Internet. Businesses were asked to comment on their response to this special question, with representative comments shown in Panel B.

Participating businesses can look for the next survey in March 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 April. Area businesses who wish to participate in the quarterly survey can call the SCSU Center for Economic Education at 320-255-2157 or mpartridge@stcloudstate.edu. Survey participants receive this report free of charge.

Most firms have gained from Internet use.

TABLE 5-Special Question 2: COMMERCIAL USE OF THE INTERNET

Question: Do you feel that your business has experienced a competitive advantage or a competitive disadvantage as a result of the commercial use of the Internet?

Panel A: Survey Results

| Competitive Disadvantage | Neither | Competitive Advantage | NA |
|--------------------------|---------|-----------------------|-----|
| 7.0 | 50.9 | 35.1 | 7.0 |

* reported results are percent of surveyed businesses

Panel B: Selected Survey Responses

- ◀ At this time, I feel our e-commerce is lagging behind the competition.
- ◀ We make extensive use of the Internet for communications but feel it only has a marginal impact on our competitive advantage.
- ◀ (Competitive disadvantage)-This should change during 2001.
- ◀ We utilize the Internet for client (services). This has increased dramatically the last few years.
- ◀ We feel we are leaders in our industry and we want to bring the best service to our customers.
- ◀ We are using the Internet more all the time. We generate business by using it.
- ◀ We have the capital to invest in marketing on the Internet and reach a wide variety of prospects. Other (competitors) do not and cannot afford to invest in that resource.
- ◀ It has little effect now, but I think that this will change in the near future especially in the advertising area.
- ◀ This is unconscionable! An Internet competitor collects no sales tax (almost always)- federal error-and pays no Minnesota commercial property taxes-state inequity-still #1 in the U.S.. The only plus for my industry is that Internet sales are still small today. Level the playing field now!
- ◀ Internet has improved efficiency by use of e-mail and sales have increased due to (industry trade publication available on the Internet). Fulfillment will now improve due to new capabilities.
- ◀ Our industry still depends strongly on traditional sales techniques.
- ◀ My niche has not been impacted, but this will be a factor in the future.
- ◀ We pick up sales from other are.
- ◀ Using the Internet as a tool to drive potential clients...(to our product). Also it increases the amount of (exposure) to clients ads.
- ◀ Forces us to keep our pricing very low and lose money on some items.
- ◀ We utilize the Internet and this will increase, but we have not found it to be an advantage or disadvantage competitively"
- ◀ It is another source for information and advertising.
- ◀ Too early to determine results from company web page.
- ◀ The Internet gives our customers yet another way of conducting their business. Its all about doing business where, when and how the customer desires.
- ◀ Our business is not using the Internet to create new accounts. This may hold true in the future.

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Economic Outlook 2001 and 39th Annual Winter Institute Speakers

On behalf of the SCSU Center for Economic Education, all readers of the **St. Cloud Area Quarterly Business Report** are invited to attend the 7th Annual Economic Outlook to be held at the **St. Cloud Civic Center** in downtown St. Cloud, MN at 5pm on Thursday, February 22, 2001. The theme of the program is **Economic Outlook 2001: Will the Prosperity Last?** and includes a panel of Dan Laufenberg, Chief Domestic Economist from American Express Financial Advisors, Art Rolnick, Director of Research at the Federal Reserve Bank of Minneapolis, Tom Stinson, Minnesota State Economist, and Mark Partridge, Director of the SCSU Center for Economic Education. In the cases of R&D these economists, to some degree, are regularly cited by national, state, and local media. In fact, Dan Laufenberg was recently rated as one of the most accurate U.S. forecasters for the year 2000 by *Business Week*. The Economic Outlook program is free to registered guests. For more information, contact the SCSU Center for Economic Education at 320-255-2157.

Readers are also invited to attend the *39th Annual Economic Education Winter Institute* to be held at 9am on February 23rd at Atwood Center on the campus of St. Cloud State University.

This year's theme is *The American Economy in Transition: New Issues and Future Challenges* and features two prominent speakers. Dr. Kevin Hassett is a Resident Scholar at the American Enterprise Institute and co-author of the worldwide bestseller *Dow 36000* which forecasts vigorous stock market performance. Dr. Hassett also served as the Chief Economic Advisor for Senator John McCain's presidential campaign. The title of his talk is *What Economic Policies will Our Gridlocked Government Choose?* The morning's second speaker is Professor Joseph Newhouse, the John D. MacArthur Professor at Harvard University. Dr. Newhouse is also the Vice-Chair of the Medicare Payment Assessment Commission, which advises the Congress and the Department of Health and Human Services about Medicare issues. The title of Newhouse's talk is *Will Medicare Be There For You (and Me)?* For more information about this nationally famous economics gathering, contact the SCSU Center for Economic Education at 320-255-2157.