

7-2000

St. Cloud Area Quarterly Business Report, Vol. 02, No. 03

Richard A. MacDonald

St. Cloud State University, macdonald@stcloudstate.edu

Mark Partridge

St. Cloud State University

Follow this and additional works at: <https://repository.stcloudstate.edu/scqbr>



Part of the [Business Commons](#), and the [Economics Commons](#)

Recommended Citation

MacDonald, Richard A. and Partridge, Mark, "St. Cloud Area Quarterly Business Report, Vol. 02, No. 03" (2000). *St. Cloud Area Quarterly Business Report*. 48.

<https://repository.stcloudstate.edu/scqbr/48>

This Newsletter is brought to you for free and open access by the School of Public Affairs Research Institute at theRepository at St. Cloud State. It has been accepted for inclusion in St. Cloud Area Quarterly Business Report by an authorized administrator of theRepository at St. Cloud State. For more information, please contact rswexelbaum@stcloudstate.edu.

ST. CLOUD AREA QUARTERLY BUSINESS REPORT

CONTACT: Rich MacDonald at (320) 255-4781 and/or Mark Partridge at (320) 255-2072, Department of Economics, SCSU

July 2000
Volume 2, Number 3

Executive Summary

Growth of the St. Cloud area economy is likely to slow 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 area businesses continued to experience strong growth over the most recent quarter, there are an increasing number of signs that area firms can expect a pause in the rapid growth that has been experienced in recent years. It is important to note that it is unlikely that this growth slowdown will regress into an actual contraction of business activity.

The **St. Cloud Index of Leading Economic Indicators** has declined in recent months from its all-time high in February 2000. Despite this, the index remains above its year earlier level. Modest increases in new residential electrical hookups as well as an increase in the length of the local manufacturing workweek have been offset by reduced new area business start-ups and recent sluggishness in the U.S. leading economic indicators index to produce the observed pattern of the local index. Area nonfarm employment grew at a 2.6 percent rate for the year ending May 2000. This equals the rate of national job growth and is greater than that experienced in Minnesota over the same period. It is, however, much slower than the nearly 5 percent annual rate experienced in the St. Cloud area in late 1999. This evidence confirms that the St. Cloud economy remains healthy and is likely to grow at a rate that is more sustainable on a long-term basis over the next several months.

Forty-four percent 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 25 percent who expect conditions to worsen. This is a clear reversal from the March 2000 survey. Results from the earlier survey indicated that 78 percent of surveyed firms expected improved business conditions while only 3 percent expected declining activity. Conditions in the local labor market also appear to be changing. Thirty-nine percent of surveyed businesses expect to add employees over the next six months, while 10 percent of these firms expect employment to decline. In the March 2000 survey, 58 percent of firms expected an increase in employment and no firms expected a reduction in their work force. In addition, 13

percent of area firms expect the length of the workweek to increase over the next six months, but 18 percent expect it to decline. This is also a departure from the March survey in which 29 percent of area firms expected the workweek to lengthen and only two percent expected it to fall. Despite this, area firms continue to report a shortage of qualified workers. Thirty-four percent expect the labor shortage to worsen in coming months. While this is similar to the March results, it is a reduction from the forty-four percent response to this question that was reported one year ago. In addition, fifty-seven percent of surveyed firms expect to pay higher future employee compensation.

The Federal Reserve's worries about rising inflationary pressures receive support from the most recent survey. Forty-three percent of surveyed firms expect to receive higher prices over the next half year. This compares to only 8 percent who expect lower prices. One year ago, only 32 percent of firms responding to the survey expected to receive higher future prices. Finally, local firms appear to be concerned about national business conditions. An approximately equal number of businesses expect a future decrease in national economic activity as expect an increase. Local respondents appear to be more pessimistic than most national forecasters, although a small but growing number of national forecasters are forecasting a recession before the end of 2001. Hence, the overall findings are a little less optimistic than what has been seen in previous issues of the **St. Cloud Area Quarterly Business Report**.

A special question in the June 2000 **St. Cloud Area Business Outlook Survey** asked St. Cloud area businesses to assess the extent to which the current level of service at the St. Cloud airport is inadequate for the current and future health of the area business community. Fifty-seven percent of surveyed businesses either agreed or strongly agreed that current services at the airport are inadequate. Only 16 percent disagreed or strongly disagreed with this concern. In a related question, 69 percent of businesses indicated that they agreed or strongly agreed that expansion of the airport is a high priority compared to other projects such as an events center, road projects, park improvements, and commuter rail service. These results are interesting given recent decisions by Northwest AirlinK to scale back scheduled air service to the St. Cloud airport.

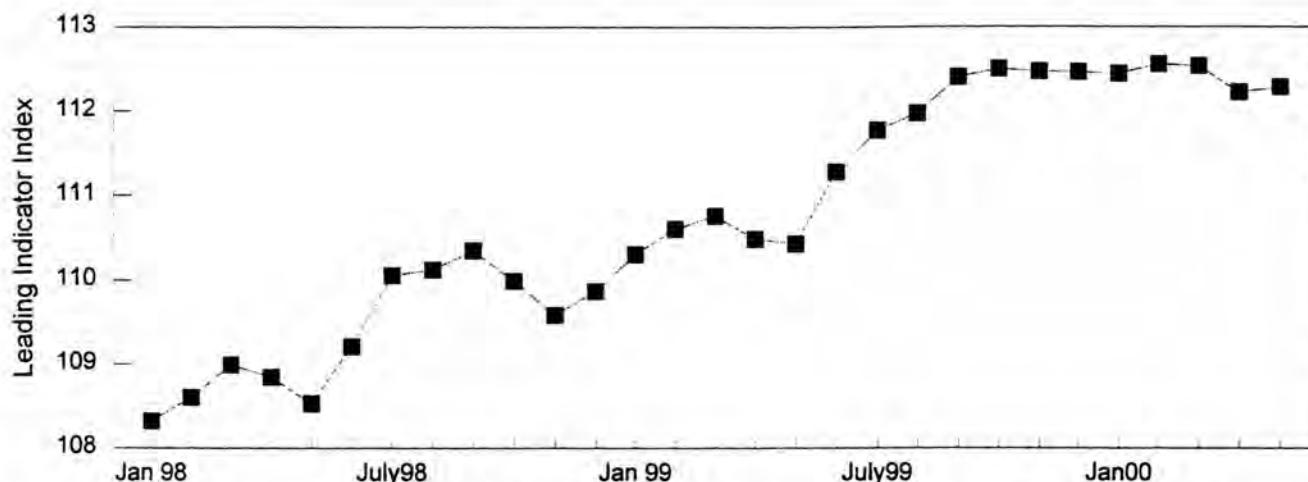
St. Cloud Index of Leading Economic Indicators

The May 2000 **St. Cloud Index of Leading Economic Indicators** forecasts that local economic activity will be stable into Fall 2000. After more than two years of red-hot economic growth, the local economy, like that of the U.S., is apparently taking a breather. The index is being modestly lifted by new St. Cloud residential electrical hookups and by a longer average area manufacturing workweek. Small declines in the number of new local business start-ups and the U.S. Index of Leading Economic Indicators have had a moderating effect. The **St. Cloud Index of Leading Economic Indicators** had been holding steady since September 1999 until its recent decline. As a rule of thumb, three consecutive positive changes in the index suggest an expanding economy, while three consecutive decreases indicate a contracting economy and/or a slowing of economic growth.

Moderating growth of the local economy can be seen in the number of nonfarm jobs that have been created in recent months. For the year ending May 2000, St. Cloud metropolitan area

Four to Six Month Leading Indicator Index

St. Cloud, MN (1994=100) May 2000



Source: SCSU Center for Economic Education, Social Science Research Inst., R.MacDonald, M.Partridge

(MSA) job growth was a relatively modest 2.6 percent, equaling the U.S. rate. But local job growth is down from the nearly 5% annual rate experienced in late 1999. Minnesota annual employment growth rate was 2% over the same period, which also represents a slowdown dating back to late 1998. At a rate of 1.9% for the year ending May 2000, job growth in the Twin Cities metropolitan area mirrored that of the entire state. Employment growth in the Duluth and Rochester MSAs was 2.3% and 3.2%, respectively. Duluth appears to be the only Minnesota MSA that has not experienced a moderation in job growth in the last two years. Continuing a trend dating back to 1998, St. Cloud continues to out-perform the rest of Minnesota in job creation. However, a recent Creighton University report cautions that, compared to other midwestern states, Minnesota firms have experienced the sharpest drop-off in future business expectations (which is consistent with results from the most recent **St. Cloud Area Business Outlook Survey**). It should be noted that this report's author did not believe that Minnesota was entering a general downturn.

While there are likely to be a multitude of reasons (which themselves vary across firms and industries) for a moderating of job growth in Minnesota and St. Cloud, three stand out. First, many firms have simply been unable to afford to hire new workers in a labor-tight environment. Respondents to the **St. Cloud Area Business Outlook Survey** continue to express concerns about the availability of labor at compensation levels that would allow their firm to remain

profitable. This pattern is especially true in the lower paying sectors of the economy. For example, the 1.3% decline in the number of St. Cloud area retail jobs in the last year may be related to these difficulties. Even in the Twin Cities MSA, retail employment growth has slowed to 0.3% in the year ending May 2000. Lower paying firms continue to struggle to find qualified low-wage workers.

Second, increases in interest rates and energy costs over the past year have helped reduce business profitability and dampen consumer demand, acting to reduce the demand for new workers. Interest rates and gasoline prices have recently moderated, which may mean these concerns are abating. Indeed, the interest-sensitive construction sector in St. Cloud has recently rebounded from a brief retreat earlier this year. Third, declines in the stock market this spring may have generated some anxiety among consumers and business owners. While these three factors point to an overall pause in the rapid economic growth experienced in the St. Cloud area over recent years, they are not likely to lead to a more general decline. In fact, slower economic growth may be a welcome sign for those area businesses which have been operating at an unsustainably rapid pace. These businesses may find relief from an easing of hiring requirements, allowing them to focus greater attention on product quality and customer service.

Most sectors of the St. Cloud economy have expanded in recent months. Brisk job growth over the year ending in May was experienced in construction (11.8%), wholesale trade (4.6%), services net of health and educational services (7.9%), federal government (14.7%), and local government (6.1%). Employment in services net of education and health (e.g. legal, accounting, hotels, etc.) has been expanding rapidly since May 1998, with over 2200 new jobs created since that time. If interest rates remain stable (or even decline), the local construction industry should continue its recent rebound. Indeed, the U.S. Department of Commerce recently reported a sharp increase in new home building permits in the St. Cloud area for the months of April and May. Recent increases in area government employment are more difficult to interpret. Because of the marked volatility of area government employment in recent years, it is tough to discern a trend from monthly employment data in this sector. Overall manufacturing (especially durable goods) is another sector that appears to be faring reasonably well despite a competitive global environment. Total manufacturing employment rose 0.2% between May 1999 and May 2000, outpacing declines experienced in both the state and nation.

A few local sectors experienced declines in job growth over the year ending in May. Of these sectors, nondurable manufacturing (-1.5%), retail trade (-1.3%), and non-government educational services (-0.2%) were the most prominent. It is likely that retail trade is primarily being hampered by a lack of low-wage workers. The non-government educational services sector has behaved very erratically in recent years, so it is no surprise that there has been a slight decline in employment in this area. In the short run, a depreciation of the dollar would likely breathe more life into U.S. manufacturing, including the struggling state and local nondurable manufacturing sector. Although it does not show up in monthly employment data, one area that bears watching is the farm sector. The business climate for local farmers has been quite unfavorable in recent years. While it is too early to forecast how well local agriculture will fare in 2000, anecdotal evidence suggests that this could be a make-or-break year for many operators. While a struggling farm sector represents a drag on the local economy, agriculture no longer carries the weight it

once did. For example, data from the U.S. Bureau of Economic Analysis shows that the farm sector accounted for about 12% of total employment in the St. Cloud MSA in the early 1970s, but less than 5% by the late 1990s.

Other quantitative indicators of local economic activity yield mixed signals. New unemployment insurance claims in the St. Cloud area are at very low levels. Over the three month period ending May 2000, new St. Cloud area unemployment claims were one-half the level experienced during the corresponding period in 1999. Likewise, new residential building permits in February through April this year were running more than 38% above the rate experienced over the same period in 1999. Some other indicators, however, suggest that economic growth may be moderating. Although the May 2000 unemployment rate for the St. Cloud metropolitan area was relatively low at 2.7%, this does represent the highest rate for the month of May since 1997. Even so, many local firms would welcome a greater availability of workers. Also pointing to a slower labor market is declining help-wanted ad lineage in the *St. Cloud Times*. Total help-wanted ad lineage during the quarter ending in June was running about 5% below the corresponding period in 1999. As in the recent past, the largest threats to local economic activity appear to be a resumption in Federal Reserve credit tightening, sharp increases in fuel prices, and major declines in the stock market. Improved access to global markets as well as the economic recovery that is now being experienced by many world economies may create new opportunities for area firms.

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 1 and 2 reflect the responses of sixty-one 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.

While area businesses experienced strong growth this spring, there are clear indications of increased concerns about future business conditions for their companies. Table 1 reports survey results of area business leaders' evaluation of business conditions for their company in June versus three months earlier. The results from this table, although mixed, are generally favorable. 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 35.6 in March to 44.3 in June. More than 57 percent of surveyed firms reported an increase in business activity in this most recent quarter. Thirteen percent noted that business activity had decreased at their company. One firm comments that "much of the changes in our business activity reflect the seasonality of our business—however, our business was up much more than the seasonality would account for." Another notes that "we have a large project that runs from June through August each year (which) doubles our staff. Also February through May are the slowest months of the year and September through January is historically busy." One area firm notes that is being acquired "which will greatly expand our business across the nation."

Some firms are also facing new challenges. For example, one respondent reports that “fuel prices, interest rates, (worker) shortages, and upcoming (regulations) have put a damper on our customers’ ability and willingness to buy new or used (products sold by our company).” Another firm remarks that “the quality and timeliness of products and vendors we deal with has decreased tremendously. Increased fuel prices have increased our overhead and therefore decreased profits.”

Other indicators of increased business activity that are found in Table 1 include the increase in the diffusion indexes for number of payroll employees and the length of the workweek. These results are, of course, consistent with a worsening of the labor shortage in the St. Cloud area, which is confirmed by the increased diffusion index for the question asking companies about their difficulty attracting qualified workers. The diffusion index for this question increased to 29.5 in June from a value of 15.2 three months earlier. Increased difficulties attracting qualified workers in June may be (at least in part) a reflection of increased worker out-migration associated with the dismissal of area colleges and universities in May. Surveyed firms have also seen an improvement in their ability to pass on price increases to customers. The diffusion index in this category increased from 23.7 to 34.4 over the March to June period. Almost 43 percent of respondents indicate that prices received were higher in June than they were three months earlier. This could be interpreted to be direct evidence justifying the inflationary concerns that have been expressed by Federal Reserve officials. The only areas in which a slowing of business activity was reported were in capital expenditures (where the diffusion index slipped from 22 to 13.2) and national business activity. The recent slowing of national economic growth, which has been attributed to rising fuel prices, higher interest rates, and increasingly volatile financial markets, appears to have contributed to a decline in the diffusion index on national business activity from 15.2 to 6.6 over the most recent quarter.

Responses tallied in Table 2 paint a less optimistic picture about the expected future pace of local business activity. Summary results from questions related to survey respondents’ expectations six months from now versus June 2000 are reported in this table. A striking result is the diffusion index for the survey question that asks about the level of future business activity for area companies. This index declined to 19.7 in June, from a 74.6 level in the March survey. Businesses have thus gone from wildly optimistic to reservedly cautious in the span of three months. While 44 percent of survey respondents expect business activity to increase six months from now, 25 percent expect a slowdown. Note that 58 percent of the companies surveyed in March 2000 expected improved future business conditions while *only three percent* expected a decrease in activity. Observations of increased concern about future business conditions are confirmed by survey responses to questions two and three. While firms expect to increase employment over the next six months, this is less apparent than it was three months ago. The diffusion index on payroll employment decreased from 57.6 in March to 29.5 in the June survey. Likewise for the length of the workweek. In fact, more employers expect the length of the workweek to decline over the next six months than expect an increase (as is reflected in the diffusion index of -4.9). This is a dramatic reversal from the March 2000 results.

Although they are anticipated to be less burdensome than they were one year ago (continuing a moderating trend over the last couple of quarters), worker shortages are expected to persist over

the next six months. Thirty-four percent of surveyed firms expect increased difficulty attracting qualified workers six months from now. While this is not an encouraging sign for area employers, it is an improvement on the 44 percent response that was reported in the July 1999 **St. Cloud Area Quarterly Business Report**. Higher anticipated employee compensation will help area firms overcome worker shortages. Fifty-seven percent of surveyed firms expect to pay higher wages and benefits over the next six months. This is a continuation of a trend observed in previous surveys. One area firm notes that "competition for skilled labor is very keen and wages are attaining levels on par with the Twin Cities."

Firms that expect higher future labor costs may find relief from anticipated increases in prices received for their products. Forty-three percent of responding firms expect to receive higher future prices over the next six months. This is comparable to the results reported in March 2000 but significantly higher than the 32 percent tally recorded one year ago. It is interesting that despite the cautious views about future business activity, there does appear to be growing price pressures in the St. Cloud area.

A primary reason that firms have turned less optimistic about future business conditions is increased uncertainty about national business activity. While 20 percent of surveyed firms expect an increase in national business activity over the next six months, an almost offsetting 15 percent expect the opposite. The diffusion index for this survey item is 4.9, far lower than the 27.1 result reported in March 2000. Perhaps concerns related to expected credit tightening by the Federal Reserve, along with rising fuel prices and volatile financial markets, have led area firms to become more cautious about their growth prospects over the next six months.

The St. Cloud Regional Airport

Survey respondents were asked two special questions related to the proposed future expansion of the St. Cloud Regional Airport, with almost all firms responding *before* Northwest Airlink's announcement to cut back service in St. Cloud. Area business leaders appear to be very supportive of efforts to expand the level of service at the airport. The decision by Northwest Airlink to reduce scheduled local air service is clearly inconsistent with the wishes of survey respondents. Firms also believe that airport expansion is a high priority when compared to other proposed projects. Fifty-seven percent of surveyed firms "agree" or "strongly agree" that "the current level of service at the St. Cloud airport is inadequate for the current and future health of the St. Cloud area business community." Only 16 percent of responding firms "disagree" or "strongly disagree" with this statement. One respondent notes that the level of service is "adequate today and the near future." "Ridership is leveling off" according to another. Finally, one respondent states that "I have personally experienced very poor reliability on keeping scheduled flights. I will now drive and fly out of Minneapolis/St. Paul."

An expansion of the St. Cloud airport to improve scheduled air service fares well when compared to other alternatives such as an events center, road projects, park improvements, and commuter rail service. Sixty-nine percent of surveyed firms responded either "agree" or "strongly agree" when asked if expansion of the airport was a high priority compared to these other alternatives. Only 15 percent of responding firms answered "disagree" or "strongly disagree" to this item.

Survey respondents were asked to rank each of the above alternatives in order of importance. In every instance that a firm responded to this request, "road projects" was listed first in priority followed by "expansion of airport". Commuter rail, park improvements, and the proposed events center were clearly rated a lower priority than road projects and airport expansion.

Road improvements and airport expansion have the advantage of benefitting both business productivity as well as representing a household amenity that reduces travel and commute times. Because of this, improved transportation can be an effective economic development tool. Airport expansion would make it easier for businesses to meet customer demands in national and international markets and could help attract those high-skilled workers who are concerned about geographic isolation. Northwest Airlink service cutbacks in St. Cloud and increasing congestion in traveling to the Minneapolis-St. Paul airport will likely increase calls for improved air service. Still, airport expansion may be expensive and support may wane when more specific plans are put forward. Other costs to airport expansion that need to be considered are that busy airports are associated with increased congestion and they can increase noise levels.

Some comments from survey participants include:

"Road projects, airport expansion, and park improvements are ranked in priority as 'future health need'. Events center and commuter rail could likely have more cost than benefit."

"(Airport expansion is) considered a priority for the long term."

"Improving airport service is important, but other 'quality of life' issues are of equal if not greater importance."

"We should have a better airport and forget the quick rail idea. We need people coming in, not leaving for better pay in the city and send us big city problems."

"Commuter rail service will significantly change the dynamics of the reasonable footprint for locating workplace talent."

"We have too many parks already—we don't need an events center—let's quit wasting money—lower taxes."

"I don't feel that commuter rail will be a benefit to St. Cloud and could actually pull qualified workers out of the St. Cloud workforce."

Area business leaders obviously have strong opinions about future priorities. This will be investigated in more detail in future issues of the **St. Cloud Area Business Outlook Survey**. One issue that will be examined is whether rising health care costs are inhibiting the growth of local businesses. Look for the next survey in September and the accompanying **St. Cloud Area Quarterly Business Report** (including the **St. Cloud Index of Leading Economic Indicators**) in October 2000.

TABLE 1--CURRENT BUSINESS CONDITIONS*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary June 2000	June 2000 vs. Three Months Ago				March 2000 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
What is your evaluation of:					
level of business activity for your company	13.1	29.5	57.4	44.3	35.6
number of employees on your company's payroll	14.8	44.3	39.3	24.5	10.2
length of the workweek for your employees	8.2	68.9	23.0	14.8	8.4
capital expenditures (equipment, machinery, structures, etc.) by your company	9.8	67.2	23.0	13.2	22.0
employee compensation (wages and benefits) by your company	0	49.2	50.8	50.8	52.5
prices received for your company's products	8.2	47.5	42.6	34.4	23.7
national business activity	16.4	45.9	23.0	6.6	15.2
your company's difficulty attracting qualified workers	4.9	60.7	34.4	29.5	15.2
SPECIAL QUESTION 1: The current level of service at the St. Cloud airport is inadequate for the current and future health of the St. Cloud area business community.	Strongly Disagree 3.3	Disagree 13.1	It is Just About Right 23.0	Agree 44.3	Strongly Agree 13.1
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.					

* Source: SCSU Center for Economic Education, Social Science Research Institute,
and Department of Economics

TABLE 2--FUTURE BUSINESS CONDITIONS*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary June 2000	Six Months from Now vs. June 2000				March 2000 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
What is your evaluation of:					
level of business activity for your company	24.6	27.9	44.3	19.7	74.6
number of employees on your company's payroll	9.8	45.9	39.3	29.5	57.6
length of the workweek for your employees	18.0	65.6	13.1	-4.9	27.1
capital expenditures (equipment, machinery, structures, etc.) by your company	8.2	55.7	32.8	24.6	22.0
employee compensation (wages and benefits) by your company	0	39.3	57.4	57.4	59.3
prices received for your company's products	8.2	44.3	42.6	34.4	31.9
national business activity	14.8	45.9	19.7	4.9	27.1
your company's difficulty attracting qualified workers	4.9	57.4	34.4	29.5	25.4
SPECIAL QUESTION 2: Considering other alternatives such as an events center, road projects, park improvements, and commuter rail service, an expansion of the St. Cloud airport to improve scheduled air service is a high priority for the future health of the St. Cloud area business community.	Strongly Disagree 4.9	Disagree 9.8	Have a Neutral Opinion 16.4	Agree 57.4	Strongly Agree 11.5
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