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# St. Cloud Area Quarterly Business Report, Vol. 15, No. 1

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ST. CLOUD AREA  
QUARTERLY  
BUSINESS REPORT

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LOCAL EXPANSION REMAINS STRONG

MIXED VIEWS ON GOVERNOR’S TAX PROPOSALS

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King Banaian specializes in analyzing data and writing about it in the second portion of this report. Rich MacDonald collects and analyzes responses to the St. Cloud Area Business Outlook Survey, covered in an early portion of the report. Only MacDonald has access to the confidential list of surveyed businesses and the returned surveys. Questions about the survey can be directed to him. Special questions asked in the survey may at times deal with public policy but do not reflect a political agenda of either of the authors.

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EXECUTIVE SUMMARY

Overall economic performance remains strong in Central Minnesota. While annual data revisions suggest more limited employment gains than were previously reported, favorable survey responses and other indicators of local economic activity point to a favorable economic outlook.

Current readings of the St. Cloud Index of Leading Economic Indicators as well as the local Probability of Recession Index predict a continuation of recent local economic strength. While dysfunctional conditions in the nation’s capitol persist, it appears a lot of the extreme uncertainty over the resolution of the “fiscal cliff” that clouded last quarter’s local outlook has been lifted. Area businesses are less likely to be “very concerned” about the potential for contractionary fiscal policy than they were three months ago.

Area employment grew at a 1.1 percent rate over the year ending January 2013, although the private sector created jobs at a 1.7 percent annualized rate over this same period. Once again, our suggestion that previously reported local employment data are subject to substantial revisions in the state’s release of the January labor market data appears to have been warranted. The annual revisions to the local employment numbers have reduced the rate of area job growth by at least a full percent, largely by revising upward 2011 employment. The area private sector remains strong, as nearly all sectors of the local private economy created jobs

ST. CLOUD INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average



during the past year. Only business and professional services, leisure and hospitality, and other service sectors shed jobs over the past year. Wholesale trade, financial activities, retail trade, and education and health sectors each experienced above average job growth over the last 12 months.

The January local unemployment rate was 7.3 percent, an increase from the 6.6 percent jobless rate recorded one year earlier. The number of people unemployed in the St. Cloud area rose to 7,957 in January — about 700 more than one year ago. The area labor force fell slightly from year-ago levels. Much of this is due to data revisions. St. Cloud-area payrolls were revised upward, showing now that the area is within 1,000 workers of reaching its highest levels, set in the mid-2000s. Growth at the rates seen in the last two years would lead to employment reaching the 2006-07 highs by mid-year.

The St. Cloud Index of Leading Economic Indicators rose in the latest quarter, now reaching its historical high. Two of four indicators in the index were positive. The St. Cloud Probability of Recession Index stood at 34.3 percent in January, placing the chances of recession at slightly better than 1 in 3.

Forty-four percent of 75

KEY RESULTS OF SURVEY

February 2013    November 2012

Diffusion index (% increase) minus (% decrease)



surveyed firms experienced improved business activity over the past three months, while only 21 percent reported decreased activity. This is weaker than reported last quarter, but this is a normal seasonal effect. In fact, most of the February 2013 current activity survey numbers are well above the normal readings for this time of the year.

Survey results of the future outlook are particularly strong. Seventy-three percent of surveyed local firms expect to enjoy increased business activity in six months’ time. Only 5 percent of firms expect decreased future activity. The readings on this future outlook are the best ever recorded in our February survey. Firms also remain optimistic about future employment conditions — the numbers suggest the best jobs outlook in seven years. And, they continue to be (at least somewhat) more optimistic about the ability to increase prices received. There is also modest evidence of tightening of the local labor market, as twenty-four percent of firms expect it to be more difficult attracting qualified workers by August.

In the first special question, we updated the informa-

tion we received from area businesses last quarter regarding their concerns about the “fiscal cliff.” While fiscal cliff issues remain, area firms are less likely to be “very concerned” about these issues than they were last quarter. Last quarter, 54 percent of survey respondents were “very concerned” about the fiscal cliff, and 26 percent were “moderately concerned.” In this quarter’s survey, only 21 percent of respondents are “very concerned,” although 37 percent express “moderate concern.” Eleven percent of firms are “not at all concerned,” a clear improvement from 6 percent we reported last quarter.

In our second special question, we report mixed reviews by area business leaders of Gov. Mark Dayton’s January tax proposal. Thirty-six percent of firms are “strongly opposed” to adding a new income tax bracket for higher income individuals and couples. Nineteen percent of firms are “strongly opposed” to a property tax rebate of \$500 per homeowner (the same percentage of surveyed firms are “mildly opposed” to this proposal). Thirty-seven percent of those surveyed are “strongly opposed” to lowering the sales tax rate but expanding the tax base. Forty-three percent of firms are “strongly in favor” of hiking the cigarette/tobacco tax, and 21 percent of firms are “moderately in favor” of reducing the corporate tax rate but ending several exemptions and expanding the number of businesses covered by the tax. Finally, 24 percent of firms are “strongly opposed” to a snowbird tax on part-time residents.

THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 75 area businesses that returned the recent mailing in time to be included in the report. Participating firms are representative of the diverse collection

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TABLE 1-CURRENT BUSINESS CONDITIONS

	February 2013 vs. three months ago			Diffusion Index <sup>3</sup>	November 2012 Diffusion Index <sup>3</sup>
	Decrease (%)	No Change (%)	Increase (%)		
What is your evaluation of:					
Level of business activity for your company	21.3	34.7	44	22.7	43.9
Number of employees on your company's payroll	10.7	62.7	26.7	16	19.5
Length of the workweek for your employees	16.0	68	14.7	-1.3	-1.2
Capital expenditures (equipment, machinery, structures, etc.) by your company	5.3	65.3	28	22.7	25.6
Employee compensation (wages and benefits) by your company	2.7	56	40	37.3	35.4
Prices received for your company's products	10.7	65.3	22.7	12	3.7
National business activity	12	38.7	37.3	25.3	20.7
Your company's difficulty attracting qualified workers	1.3	76	18.7	17.4	9.8

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

Source: St. Cloud State University Center for Economic Education, Department of Economics and School of Public Affairs

MORE ONLINE

The St. Cloud Area Quarterly Business Report has been produced four times each year since January 1999. Electronic access to all past editions of the QBR is available at <http://repository.stcloudstate.edu/scqbr/>



QBR

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of businesses in the St. Cloud area. They include retail, manufacturing, construction, financial, health services and government enterprises both small and large. Survey responses are strictly confidential. Written and oral comments have not been attributed to individual firms.

Survey responses from Table 1 are stronger than we have found in the February Current Business Conditions survey in recent years. This quarter's diffusion index on current business activity is the highest ever recorded in our winter survey. Note that this period is historically weaker for surveyed firms than is found at other times of the year, so it is not a surprise that the business activity index reported in Table 1 is lower than it was in November 2012. A diffusion index represents the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given quarter. For any given item, a positive index usually indicates expanding activity, while a negative index implies declining conditions.



The current employment index at +16 is higher than any February survey except 2005. In February 2009, in the depths of the Great Recession, the current employment index was -31.6. Other labor indicators found in Table 1 are also quite favorable. The index measuring employee compensation is the second-highest value recorded in six years, and the item on current difficulty attracting qualified workers rebounded in the recent quarter.



All other items in Table 1 have remained solid over recent quarters. The index on current prices received suggests a nice improvement in area firms' success in passing on higher prices to customers. In addition, the national business activity index rebounded over the last quarter, and the capital expenditures index remained at a healthy level. As always, firms were asked to report any factors that are affect-

TABLE 2-FUTURE BUSINESS CONDITIONS

TABLE 2-FUTURE BUSINESS CONDITIONS	Six months from now vs. February 2013				November 2012
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index <sup>3</sup>	Diffusion Index <sup>3</sup>
What is your evaluation of:					
Level of business activity for your company	5.3	20	73.3	68	36.6
Number of employees on your company's payroll	2.7	45.3	49.3	46.6	21.9
Length of the workweek for your employees	1.3	66.7	30.7	29.4	8.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	2.7	61.3	32	29.3	30.5
Employee compensation (wages and benefits) by your company	1.3	49.3	48	46.7	40.2
Prices received for your company's products	5.3	69.3	22.7	17.4	15.9
National business activity	4	41.3	42.7	38.7	24.4
Your company's difficulty attracting qualified workers	2.7	70.7	24	21.3	13.4

Notes: (1) Reported numbers are percentages of businesses surveyed. (2) Rows may not sum to 100 because of "not applicable" and omitted responses. (3) Diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion. Source: St. Cloud State University Center for Economic Education, Department of Economics and School of Public Affairs

ABOUT THE DIFFUSION INDEX

The diffusion index represents the percentage of survey respondents who indicated an increase minus the percentage indicating a decrease.

ing their business. **These comments include:** » Again we ask, why are gas prices continuing to climb? We purchase a lot of fuel for our business and the roller coaster ride on the gas prices is getting very old. It seems there's always an excuse for the price increases but never concrete answers.

» Finding qualified workers (that are willing to actually work). » The unstable and high prices of gas and diesel. This hurts all businesses. » Concern about Europe/further financial crises there. » Proposed sales tax, cost of healthcare on a small business, recruitment of needed talent — all huge challenges for 2013! I understand why businesses leave Minnesota and choose not to expand here!! » Opening new business venture in order to compensate for decreased sales in other areas.

» Extra taxes and delayed income tax filing has negatively affected first quarter units so far. » Government is trying to regulate most of us out of business. I feel they are going overboard. Give small firms a chance to grow. » Reason business is down versus three months ago — we're somewhat seasonal and we had a great fourth quarter. I look for 2013 to be good year — businesses I deal with had good years in 2012 and they look for the trend to continue. Why is it as soon as the economy picks up steam, the government wants to raise

taxes? » Health care expenses — concerns with the ACA and the Minnesota exchange. » Decrease in rural population and how it will affect business. Education, employment, supplies, customers, cost of doing business is going to make for some real change. » We are surprised by the lack of construction activity in the St. Cloud area. We will have no choice but to look outside this area for projects to bid. » North Dakota energy boom is helping our area. » The health care environment in the coming years will have a negative impact on our employees. » Concerns over the "fiscal cliff" remain because no action was taken to address the underlying deficits. This combined with uncertainty on new health care laws and pending activity on climate change leaves business very uncertain. » Interest rates remaining low have offered homeowners underwater an opportunity to do something about their predicament. And, it has increased refi activity, which ups our business. Increased rates and changes to the interest deduction would change that. » Excessive federal regulation and overbearing examinations have become very costly and a detriment to growing business. » It's very difficult to find committed employees, which still remains a mystery given the economy. New younger hires want to come and go as they please and ask what the company will do for them. » Washington continues to spend money it doesn't have ...

FUTURE OUTLOOK

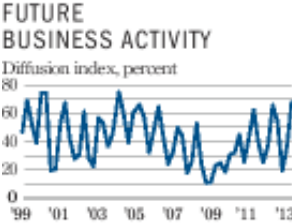


Table 2 reports the

future outlook for area businesses. The index on future overall business activity is the highest recorded since the Winter 2004 survey. Seventy-three percent of surveyed firms expect increased activity in six months, and only 5 percent of firms expect conditions to worsen. Likewise, the index on future employment is the highest recorded in seven years. Nearly half of our survey respondents expect to add workers to their payrolls by August. This outlook, combined with an improved future employee compensation index (48 percent of firms expect to increase wages and benefits), suggests the local labor market is in better shape than it has been for several years.



The remaining items in Table 2 also look very healthy. The index on future capital expenditures remains strong as area firms take advantage of low interest rates and an improved outlook to improve their capital stock. Expected national business activity is also improving — 43 percent of surveyed firms expect improved national business activity, and only 4 percent think national conditions will worsen. Area firms are expecting slight improvements in their ability to raise prices. While the index on future prices received is slightly higher than it was last quarter, at a value of 17.4, this number is markedly lower than its all-time high in November 2005 (when it stood at 44).

FUTURE DIFFICULTY ATTRACTING QUALIFIED WORKERS



Finally, we have often noted that the diffusion

indexes on difficulty attracting qualified workers have followed a cyclical pattern that fairly closely tracks the overall performance of the local economy. In the accompanying chart, readers can see that area firms expect it to be increasingly difficult to attract qualified workers over the next several months. Indeed, at a value of 21.3, the index on future difficulty attracting qualified workers is markedly higher than the value it recorded four years ago (in February 2009, the index reading was -13.7). On the one hand, this recent uptick in the worker shortage index does portend improved local economic conditions. However, we are once again starting to hear area businesses' frustrations regarding the increased difficulty attracting qualified workers — a development that we will watch closely in coming quarters.

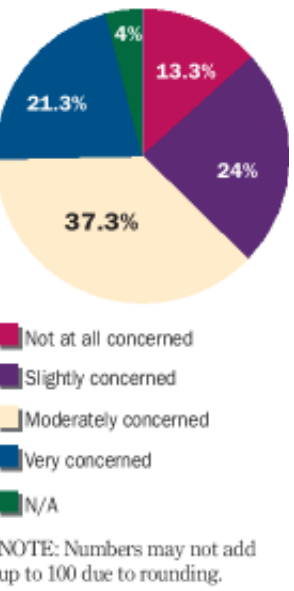
SPECIAL QUESTIONS

The threat of an impending "fiscal cliff" was one of the lead stories three months ago. Fears of a contractionary fiscal policy composed of across-the-board increases in income tax rates, higher payroll taxes, reduced unemployment insurance benefits and sequestered cuts in federal government spending loomed large as 2013 approached. Indeed, 54 percent of area firms were very concerned about this fiscal cliff when we surveyed them in November 2012. Another 26 percent were moderately concerned, and 12 percent were slightly concerned. Only 6 percent of local firms were "not at all concerned." In a last minute agreement in early January, the president and Congress agreed to maintain most of the lower income tax rates and extend unemployment insurance benefits, a move that was seen by many as preventing us from going over the "fiscal cliff." Although increased marginal tax rates and an elimination

of the partial payroll tax holiday that had been in place increased taxes for a large share of the population, the overall effect was not seen sufficient to derail the national recovery. What remained to be addressed were automatic federal government spending cuts that would kick in if Congress and the president couldn't agree to a permanent fiscal package by March 2013. These cuts are now in effect. It does not appear that area businesses are as concerned about a "fiscal cliff" scenario as they were three months ago.

QUESTION 1

**Last quarter, we asked about the extent to which your business was concerned about the "fiscal cliff." Given recent actions taken in Washington, to what extent is your business concerned about issues associated with this "fiscal cliff?"**



While 83 percent of businesses are concerned in some way about this issue, only 21 percent are "very concerned," a clear reduction from the extreme concerns expressed last quarter. Thirteen percent of firms are "not at all concerned" about the "fiscal cliff." Written comments suggest local businesses are tiring of the ongoing policymaking paralysis in Washington.

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ST. CLOUD EMPLOYMENT DATA REVISED UPWARD, AGAIN

Each March, the state of Minnesota's Labor Information Office of DEED revises the data we use for employment in the St. Cloud area. The data revisions extend back to the March of two years ago up to the most recent December. Thus, data for the latter 10 months of a year are revised twice. One year ago, we reported that the data for St. Cloud was revised upward for 2011

to show a stronger local economic outlook than we had thought. The current revision, completed earlier this month, revised those data upward again. For example, the December 2011 level of employment in the St. Cloud MSA was initially reported in January 2012 at 99,033 workers. In March 2012, this number was revised to 99,593, an increase of 560 workers. In March 2013, the



number was revised again to 101,009 workers, 1,416 higher. Thus December 2011 employment now stands 1.8 percent

higher than thought in January 2012 and 1.2 percent higher than thought a month ago. A graph near this box shows the effect of the latest revisions. Notice that December 2012 employment was revised upward by 463 workers. While growth rates shown in our tables are below those seen previously (see Table 3), we note that this is more due to an up-

ward revision of 2011 employment than any softening of the St. Cloud economy. Overall, St. Cloud area employment grew 1.8 percent in 2012 and 2 percent in 2011, after three years of decline. Growth in the mid-2000s was at 2.2 percent. Despite the rise in unemployment in January, we have good reason to believe the trend of the last two years continues.



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## These comments include:

» Feeling that Washington will continue to make it a non-issue.

» Feds need to stop spending more than they take in to provide for economic growth. Too many free loaders and not enough people working to support the free stuff.

» The stock market's positive movement (year to date) indicates to me that this isn't as much of an issue today as it was in the 4th quarter of 2012.

» Health care-related costs, Minnesota's proposed taxes on services definitely impact business activity.

» Tired of lack of leadership by the president.

» Consumer spending for our products is directly affected by the certainty of our nation's fiscal status.

» Employees have noticed more coming out of their check.

» The President and Congress just kicked the can down the road for a few months. We have only increased taxes, not addressed the deficit.

» All they have done is move the problem down the road.

» At some point, the federal government will have to address its deficit and start making hard choices on where to spend money.

» The reality is what the American people perceive. If the people believe our way of life is in peril they will shut down their spending faster than on oil refin-

ery would before a tropical storm.

» Washington is going to do what they want to do!

» Business improved last year. If this does happen late spring, it could affect business climate.

» They just pushed things off further down the road.

» Taxes and health care — ObamaCare.

» We just cannot wait for them.

» Since there was no substantial change after the fiscal cliff deadline, I believe people have become complacent about the problem.

» This is a hyped-up political hot button and won't affect the country.

» I am concerned about how this will affect our customers and their spending.

» Our government needs to get their act together so we are able to forecast and plan for our futures.

» Fiscal cliff issue was fabricated by Washington and actual cuts aren't that significant.

» It appears that there will be some sort of compromise on spending. It is an area all agree must be contained. How it is done will be the tough question.

» There are still many unknowns such as ObamaCare, Gov. Dayton's tax increase and just plain increases in our expenses.

» Just kicked the can down the road.

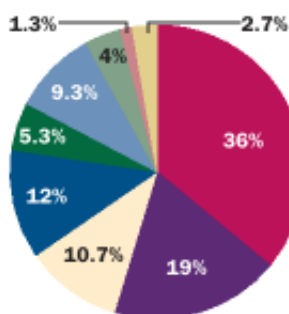
» The taxes being implemented for businesses our size will have a significant and negative impact on our ability to continue to grow and provide jobs.

» Any federal activity

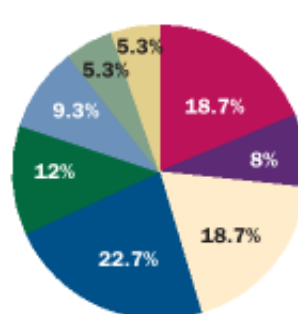
GOV. MARK DAYTON HAS PROPOSED A NUMBER OF NEW TAX POLICIES IN HIS RECENTLY RELEASED BUDGET. WHILE WE RECOGNIZE THAT THE PROPOSAL SHOULD BE TAKEN AS A WHOLE AND THAT THE ABILITY TO OFFER ONE ELEMENT OF THE BUDGET DEPENDS ON THE OTHER ELEMENTS, WE ARE INTERESTED IN EVALUATING THE KEY COMPONENTS OF THE PLAN. PLEASE INDICATE THE EXTENT TO WHICH YOUR BUSINESS IS EITHER IN FAVOR OF OR OPPOSED TO EACH INDIVIDUAL TAX PROPOSAL LISTED BELOW.

Strongly opposed Moderately opposed Mildly opposed Neither in favor nor opposed  
Mildly in favor Moderately in favor Strongly in favor Other NA

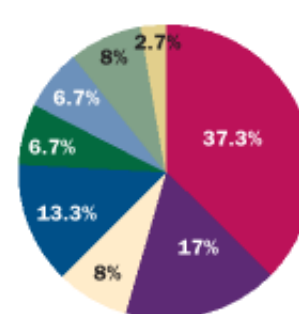
Adding a new income tax bracket for higher-income individuals and couples (proposal increases upper tax bracket from 7.85% to 9.85%)



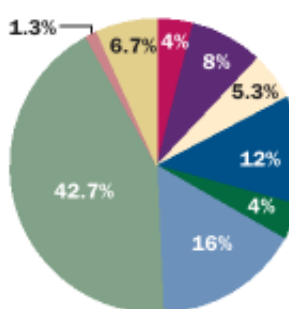
A property tax rebate of up to \$500 per homeowner



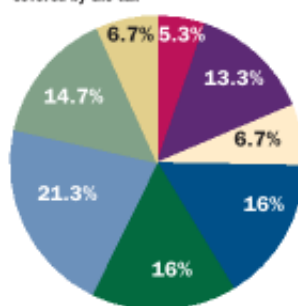
Lowering the sales tax rate from 6.875% to 5.5%, but expanding the sales tax base by including consumer goods/services (ex. Clothing) and business services



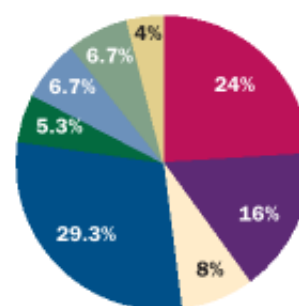
Increase in cigarette/tobacco tax



Reducing corporate tax rate from 9.8% to 8.4% but ending several exemptions and expanding the number of businesses covered by the tax



Snowbird tax on part-time residents



NOTE: Numbers may not add up to 100 due to rounding.

that impacts the economy of our market is of concern.

» Until there is a long-term solution, we will have a higher level of uncertainty.

In his January budget message, Gov. Dayton proposed a sweeping overhaul of the state's tax structure. This included many elements, ranging from an increase in the highest marginal state income tax rate, a property tax rebate, a lower sales tax rate (but an expansion of

the tax base), an increase in cigarette/tobacco taxes, a corporate tax rate reduction (but an elimination of many exemptions and an expansion in businesses covered), and a snowbird tax on part-time residents. To say that this tax proposal has encouraged discussion by business leaders around the state would be to put it mildly. There has been ranging discussion of substantial opposition to the governor's proposal from a

chorus of voices in all corners of the state. This now appears to have led Gov. Dayton to reconsider various elements of his tax proposal. The governor recently announced that he would not try to expand the sales tax to include business services and would give up on taxing clothing valued at more than \$100 and other consumer sales taxes. Because of the budgetary effects of this announcement, the governor will no longer be able to afford the

proposed property tax reduction in his budget. Proposed reductions in sales taxes and corporate business taxes are also likely to be removed from the budget proposal.

At the time that Gov. Dayton made his initial budget proposal, we were interested in what area businesses thought about various elements of his tax plans. While we knew it would be difficult to pass such sweeping overhaul of the state tax system, we were curious to see what area firms felt about the proposal. We asked firms about six key elements of the proposed tax plan:

## QUESTION 2

**Gov. Dayton has proposed a number of new tax policies in his recently released budget. While we recognize that the proposal should be taken as a whole and that the ability to offer one element of the budget depends on the other elements, we are interested in evaluating the key components of the plan. Please indicate the extent to which your business is either in favor of or opposed to each individual tax proposal listed below.**

There is a lot of information in the above charts, so we will let our readers draw their own conclusions about the support for (or opposition to) these various elements of the governor's tax plan. We will note that the elements of the proposal to which area businesses are

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most strongly opposed are the increase in income taxes (two-thirds of surveyed businesses express some form of opposition), the sales tax plan which has now been abandoned (62 percent were opposed in some way), the snowbird tax (48 percent opposed), and the property tax rebate (45 percent opposed). This latter proposal has now been abandoned. The two elements of the tax proposal for which there was more local support than opposition were the cigarette/tobacco tax (63 percent of businesses in favor, many of them strongly in favor) and the reduced corporate tax accompanied by ending several exemptions and expanding the tax base (52 percent of survey respondents were in some way in favor of this proposal). It remains to be seen what will come of those elements of the governor's tax plan that he has not taken off the table. Of course, the sense of urgency for finding new revenues has been reduced by the recently released budget forecast that reduces the state's projected budget shortfall to a more manageable \$627 million over the biennium that begins on July 1.

#### Written comments include:

» We propose the idea that instead of a property tax rebate that the money be used for road repairs or education. The sales tax on business-to-business services is not a good idea. In other words we would

TABLE 3 -  
EMPLOYMENT  
TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend rate of change	January '12-January '13 rate of change	January '13 employment share	15-year trend rate of change	January '12-January '13 rate of change	January '13 employment share	15-year trend rate of change	January '12-January '13 rate of change	January '13 employment share
Total nonagricultural	1.1%	1.1%	100%	0.6%	2%	100%	0.5%	1.9%	100%
Total private	1.1%	1.7%	84.2%	0.6%	1.9%	86.4%	0.6%	2%	84.6%
Goods producing	-0.1%	2.3%	19%	-1.5%	1.9%	13.1%	-1.4%	1.6%	14.4%
Construction/natural resources	1.5%	9.5%	4.2%	-0.6%	2.6%	2.8%	-0.3%	3.4%	3.3%
Manufacturing	-0.5%	0.4%	14.8%	-1.7%	1.7%	10.3%	-1.7%	1.2%	11.2%
Service providing	1.4%	0.9%	81%	1%	2%	86.9%	0.9%	1.9%	85.6%
Trade/transportation/utilities	0.0%	2.8%	20.5%	-0.2%	2%	18.1%	0%	2.7%	18.8%
Wholesale trade	1.4%	6.8%	4.1%	0%	3.2%	4.7%	0.3%	4.5%	4.8%
Retail trade	-0.7%	2.1%	13%	-0.1%	1.9%	9.9%	-0.3%	1.8%	10.5%
Trans/warehouse/utilities	1.3%	0.8%	3.4%	-0.8%	0.5%	3.5%	-0.2%	2.9%	3.5%
Information	-1.4%	0.1%	1.6%	-0.9%	1.7%	2.2%	-0.8%	4.2%	2%
Financial activities	1.8%	5.1%	4.4%	0.9%	1.4%	8%	1%	1.2%	6.5%
Professional & business services	3.8%	-0.1%	7.9%	0.7%	0.5%	15.2%	0.9%	1.6%	12.2%
Education & health	3.2%	2%	18.9%	3.6%	4.1%	16.6%	3.3%	2.5%	17.8%
Leisure & hospitality	1.2%	-1%	8.5%	1.3%	1%	8.8%	1.1%	1.2%	8.5%
Other services (excluding govt.)	-0.1%	-1.3%	3.4%	0.9%	0.9%	4.3%	0.5%	1%	4.3%
Government	1.1%	-1.9%	15.8%	0.4%	2.6%	13.6%	0.4%	1.3%	15.4%
Federal government	2.2%	-2.1%	2.1%	-0.6%	-2.5%	1.1%	-0.4%	-1.8%	1.1%
State government	1.4%	-4.1%	4.7%	0.4%	3.9%	3.8%	0.8%	1.4%	3.6%
Local government	0.8%	-0.7%	9%	0.6%	2.7%	8.6%	0.3%	1.6%	10.6%

Note: Long-term trend growth rate is the compounded average employment growth rate in the specified period.

Sources: Minnesota Department of Employment and Economic Development and author calculations.

be paying 5.5 percent on our business-to-business services and then charging our customer 5.5 percent when they make a purchase from our company. It's very confusing and it creates more bookwork for businesses.

» I am quite concerned that with a Democratic senate, house and governor that there are few "checks and balances" in place. I would suggest that our legislators study the "Simpson-Bowles" federal proposal for ideas that could be applied to the state.

» Proposed taxes on services will negatively impact ANY growth plans for my business in 2013.

» Sales tax plan in-

dicates increased revenue of \$31 million — paid mostly by the low income who can't afford it.

» We have not taken a position on these matters.

» Snowbirds will change state of residency.

» If Minnesota isn't careful we will drive our high net worth people out of the state. Especially the retired.

» Wait until the middle class discover the costs to Gov. Dayton's proposals. We do not need more revenue — we need to cut spending!

» Concerned that they will not really achieve what they feel they will.

» We have a spending problem, not a raising-

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TABLE 4 - OTHER ECONOMIC INDICATORS

	2012	2013	Percent change
St. Cloud MSA labor force January (DEED)	108,876	108,436	-0.4%
St. Cloud MSA civilian employment # January (DEED)	101,655	100,479	-1.2%
St. Cloud MSA unemployment rate* January (DEED)	6.6%	7.3%	NA
Minnesota unemployment rate* January (DEED)	6.5%	6.7%	NA
Minneapolis-St. Paul unemployment rate* January (DEED)	5.9%	6.1%	NA
St. Cloud-area new unemployment insurance claims November-January average (DEED)	1,713	1,632	-4.7%
St. Cloud Times help-wanted ad lineage November-January average	1,551	2,084	34.4%
St. Cloud MSA residential building permit valuation In thousands, November-January average (U.S. Department of Commerce)	1,783	2,972	66.7%
St. Cloud index of leading economic indicators January (St. Cloud State University)**	99.4	108.9	9.5%

MSA = St. Cloud Metropolitan Statistical Area, composed of Stearns and Benton counties.

# - The employment numbers here are based on household estimates, not the employer payroll estimate in Table 3.

\* - Not seasonally adjusted

\*\* - October 2001=100

N/A - Not applicable



# QBR

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enough-taxes problem.

» Come on, 1) most reasonable people see the downfall in this. 2) People spend more when their monthly income goes up, not when their expenses go down. Most people have this escrowed so it would be years before they felt it anyway. 3) Really? 4) What are we going to do when people go across the border for their smokes and the total revenue goes down? 5) Great, less competition for us when competing businesses move out of state. 6) The snowbirds will move out all together; this is a good idea?

» Taxes will stifle business. Small business owners that make over \$250,000 usually use that income to purchase goods to sell—not their actual take home.

» If we raise individual taxes, we will just chase those wealthy residents out of the state who will go to states with no income tax. Retirees are doing this. When you pull money out of IRA or other retirement funds you want the lowest tax rate possible.

» Put sales tax on clothing.

» Still no movement on the biggest expenditure in the state: social service programs. Until that issue is really looked at, the tax issue for me is a moot point.

» The governor needs to determine where and how big the cuts are in non-essential government services and then balance the budget with increase,

TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from November to January	Contribution to LEI
Help-wanted advertising in St. Cloud Times	2.58%
Hours worked	0.79%
New business incorporations	-0.12%
New claims for unemployment insurance	-0.65%
<b>Total</b>	<b>2.6%</b>

not the opposite.

» Haven't heard about the snowbird tax?

» Following the broadband initiative, need to show more guts on exploring and mining non-ferrous (minerals) on the Iron Range.

» As a matter of policy, we do not take positions on political issues.

» The proposed tax on (our product) ... is a triple threat to our industry. It will also negatively impact retailers and advertisers.

» I think the sales tax rate should be lower, closer to 3 percent to 3.5 percent in order to really charge up buying. The property tax rebate will become labor/money intensive yearly.

» The loss of the tax break certainly has an effect.

» Strongly opposed to tax on services, mildly opposed to tax on clothing, etc.

## DATA ANALYSIS

We see in Table 3 that growth of employment continued in St. Cloud through January. A sharp increase in construction employment led the gains, followed by increases in wholesale trade, financial services, retail trade and education and health sectors. Public sector employment continued to drag down the total, as did leisure and hospitality and miscellaneous service sec-

tor areas. Much of the gain in construction seems tied to increased multi-unit residential buildings. Permits for construction of apartment buildings with five or more units accounted for \$3.32 million of the \$8.92 million in construction permits pulled between November 2012 and January 2013, according to census data, which signals that this sector can be expected to continue to grow. Wholesale trade employment was helped by consolidation of Nash Finch operations in St. Cloud, adding 80 jobs; Capital One 360's purchase of the ING Direct operation in St. Cloud helped add 40 financial services jobs.

Other areas of the state showed some softness. Most of the difference between St. Cloud and other parts of Minnesota came in state and local government employment. Local government employment grew in the Twin Cities MSA while declining in the St. Cloud MSA. (The use of MSA level data indicates that these differences encompass many levels of government, not just one or two cities or counties.) Growth in construction and in education and health were largely felt around the state.

The unemployment rate in St. Cloud grew substantially in January

PROBABILITY OF RECESSION



compared to December and compared with other parts of Minnesota, as seen in Table 4. This is the first month we have experienced this, and it is hard to draw a trend from one data point. We notice that Duluth appears to have experienced the same increase and wonder if the effect is on the manufacturing sector again.

Elsewhere the data look quite good. The increase in building permits has been, as previously stated, largely due to construction of multi-unit buildings. Anecdotally, building managers have said to one of us that the rental applications they are receiving come from a group of families unlike what they have seen before — families that normally buy homes. The Minnesota Housing Partnership recently reported that fair market rent for a two-bedroom apartment in St. Cloud rose from \$682 in 2011 to \$699 in 2012.

Initial claims for unemployment insurance fell slightly versus year-ago levels. There has not yet been much increase from the closing of the Verso mill. Help-wanted lineage rose substantially. The St. Cloud Index of Leading Economic Indicators is up 9.5 percent from January 2012 to January 2013. This series has substantial monthly fluctuations,

but its six-month moving average is currently at the highest point in its 14-year history.

Help-wanted advertising and hours worked contributed to that increase in the index, as seen in Table 5. An elevation in initial claims for unemployment insurance and a slight decline in new business incorporations detracted from the index. Such strong growth over the last 12 months makes us quite confident that the probability of recession going forward is quite low.

The Probability of Recession Index continues to stay in an inconclusive region. This index last flashed a signal of economic expansion in December 2011, well after the current expansion began. On the other hand, it has remained below the level at which we would predict the onset of a new recession. Currently, the index sets the probability of recession at 34.3 percent, or nearly 2-1 odds against recession in the next four to six months.

There is thus a general sense that at the national and at the local level, the economic environment for business leaders is improving. It has taken time for us to get back to where St. Cloud was in both employment and in output. Real per capita GDP in 2011 (the last year for which data was published this February) in the St. Cloud MSA was \$34,939, falling from \$39,084 in 2004. In that same period, Mankato's real per capita GDP rose from \$35,322 to \$36,059. Given that St. Cloud's real per capita personal

## IN THE NEXT QBR

Participating businesses can look for the next St. Cloud Area Business Outlook Survey in May. The next St. Cloud Area Quarterly Business Report will appear in the St. Cloud Times on Sunday, June 16.

income rose by \$1,012 in the same period, the evidence is that more St. Cloud-area workers are making their income working for firms that do not produce in St. Cloud, from 2.8 percent of personal income in 2004 to 7.9 percent in 2011. The area benefits by having a mobile labor force that is regional and perhaps even global. National trends thus matter more for the area than they did 10 years ago.

So we pay attention to two parts of our area economic survey. The diminishing uncertainty about the macroeconomic environment is clearly encouraging area businesses. This is expanding plans for hiring, for the length of the workweek and for capital investment. Employment in the last two years has grown nearly as fast as it did in the boom period of 2004-06. To the extent that growth is not carrying through to local area wages, however, growth elsewhere in Minnesota, particularly in the Twin Cities, seems to be help shore up personal income in the area. All signs point to continuation of these trends as we approach summer 2013.