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King Banaian
St. Cloud State University, kbanaian@stcloudstate.edu

Richard A. MacDonald
St. Cloud State University, macdonald@stcloudstate.edu

ST. CLOUD AREA QUARTERLY BUSINESS REPORT

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STEADY GROWTH CONTINUES

FUTURE PRICE INCREASES EXPECTED; HEALTH CARE REFORM IS TOP LEGISLATIVE PRIORITY

ABOUT THE AUTHORS

KING BANAIAN
School of Public Affairs,
St. Cloud State University,
320-308-4797

RICH MACDONALD
School of Public Affairs Research Institute,
St. Cloud State University,
320-308-4781

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

Steady performance characterizes the St. Cloud-area economy over the past three months. A shortage of qualified workers continues to plague area firms, although normal seasonal slowing of business activity has provided some temporary relief. Increased business activity and tight labor markets are expected to create wage and price pressures for area firms. Survey results indicate the highest future prices received index since 2006, and no area firms expect to pay reduced wages and salaries over the next six months.

Local job creation expanded at a 1.7 percent pace over the year ending in October — well above its annual average of 0.8 percent over the past 15 years. Job growth in the local private sector (which accounts for 86 percent of area employment) was even stronger, with a 2.5 percent annualized rate of job gains. An all-time high of 107,884 workers were employed in the St. Cloud area in October. The October unemployment rate in St. Cloud was 3.1 percent, a favorable improvement from 4 percent one year earlier and the lowest October unemployment rate since 2000.

Private sector employment gains in the St. Cloud area were led by a strong surge in the local construction and leisure/hospitality sectors. The construction sector (which includes mining and logging employment) experienced 16.1 percent year-over-year job growth in October. Annualized job gains of 6.7 percent were observed in the leisure/hospitality sector. Job losses occurred in information, financial activities and government sectors.

The St. Cloud Index of Leading Economic Indicators was down slightly in the last quarter and is flat for the past year. Three of the four indicators in the index declined. The St. Cloud Area Probability of Recession Index continues to show a zero probability of recession in the next four to six months.

Forty-three percent of 68 surveyed firms experienced improved business activity over the past three months, while 19 percent reported decreased activity. Twenty-nine percent of firms indicate expanded employment, 54 percent report paying higher wages and 37 percent increased capital expenditures.

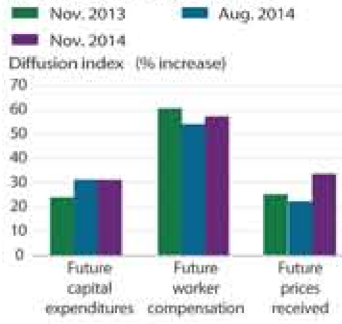
Survey results of the future outlook continue to be optimistic. Fifty-six percent of firms expect increased business activity by May 2015, and 6 percent expect activity to fall. Given seasonal patterns of activity for surveyed firms, this is a particularly strong performance in the November survey of future business conditions. Forty percent of firms expect to add workers to their payroll over the next six months, 57 percent anticipate higher future wages and salaries, and 31 percent of firms expect worker shortages to get worse over the coming months. Thirty-four percent of surveyed firms expect higher prices received by May 2015, and no firm expects lower future prices.

In the first of this quarter's special questions, area firms were asked to report the extent to which they may be impacted by rising future interest rates. More than half of surveyed firms expect a negative effect of rising interest rates, although most firms expect the negative impact to be small. Seven percent of firms expect a positive impact of rising rates, and 37 percent anticipate no effect.

A separate special question asked firms to identify priorities in the upcoming legislative session in St. Paul. The highest priorities for area firms are health care reform, tax burden, transportation policy and job creation. Health care reform is cited as the most important legislative priority of area firms.

ST. CLOUD INDEX OF LEADING ECONOMIC INDICATORS

KEY RESULTS OF SURVEY



THE ST. CLOUD AREA BUSINESS OUTLOOK SURVEY

CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the St. Cloud Area Business Outlook Survey. Responses are from 68 area businesses that returned the recent mailing in time to be included in the report. Participating firms are representative of the diverse collection of businesses in the St. Cloud area. They include retail, manufacturing, construction, financial, health services and government enterprises, both small and large. Survey responses are strictly confidential. Written and oral comments have not been attributed to individual firms.

Survey responses from Table 1 show a normal seasonal slowdown of our survey sample. Compared to other November survey results, this quarter's numbers stack up reasonably well. This quarter's diffusion index on current business activity (its current value is 23.5) is weaker than the last two November surveys, suggesting a steady (but not rapid) expansion of local economic activity. Note that this index has been as low as -21.8 in November 2008, so this quarter's index reflects favorable local conditions. 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.

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TABLE 1 - CURRENT BUSINESS CONDITIONS

	November 2014 vs. three months ago				August 2014
	Decrease (%)	No change (%)	Increase (%)	Diffusion Index[3]	Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	19.1	36.8	42.6	23.5	50.0
Number of employees on your company's payroll	7.4	63.2	29.4	22.0	29.4
Length of the workweek for your employees	8.8	63.2	25.0	16.2	26.4
Capital expenditures (equipment, machinery, structures, etc.) by your company	1.5	60.3	36.8	35.3	32.4
Employee compensation (wages and benefits) by your company	0	45.6	54.4	54.4	57.4
Prices received for your company's products	7.4	80.9	10.3	2.9	22.0
National business activity	5.9	47.1	35.3	29.4	33.8
Your company's difficulty attracting qualified workers	1.5	61.8	30.9	29.4	36.7

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.

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

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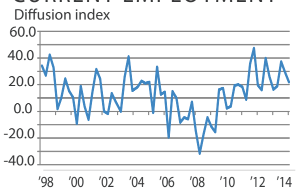
TABLE 2 - FUTURE BUSINESS CONDITIONS

	Six months from now vs. November 2014				
	Decrease (%)	No change (%)	Increase (%)	Diffusion Index[3]	August 2014 Diffusion Index[3]
What is your evaluation of:					
Level of business activity for your company	5.9	32.4	55.9	50.0	42.6
Number of employees on your company's payroll	2.9	50.0	41.1	38.3	29.4
Length of the workweek for your employees	5.9	69.1	17.6	11.7	-1.5
Capital expenditures (equipment, machinery, structures, etc.) by your company	4.4	54.4	35.3	30.9	30.9
Employee compensation (wages and benefits) by your company	0	36.8	57.4	57.4	54.4
Prices received for your company's products	0	57.4	33.8	33.8	23.6
National business activity	2.9	41.2	38.2	35.3	25.0
Your company's difficulty attracting qualified workers	0	55.9	30.9	30.9	36.8

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.

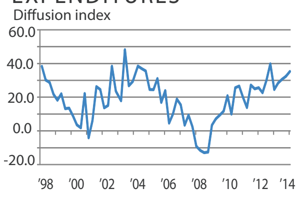
Sources: St. Cloud State University Department of Economics and School of Public Affairs Research Institute

CURRENT EMPLOYMENT



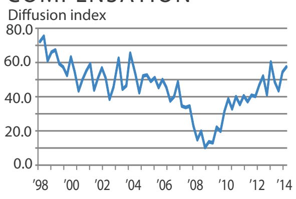
Area labor market conditions continue to be strong. The index on employment is somewhat lower than last quarter (a normal seasonal occurrence), but is tied with November 2005 for the highest employment number ever recorded in our November survey. The average hours worked index is the highest ever recorded in the November survey as is the survey item on difficulty attracting qualified workers.

CURRENT CAPITAL EXPENDITURES



Capital spending by area firms was once again strong over the past three months. Thirty-seven percent of firms report an increase in capital formation, and only one firm reduced capital expenditures. As can be seen in the accompanying chart, the current capital expenditures index continues to climb. National business activity was also solid with an index of 29.4 confirming the strength found in many recent reports of improved national economic conditions.

FUTURE EMPLOYEE COMPENSATION



With continued improvement in local economic performance, it is no surprise that area firms are reporting growing pressure on labor costs. As can be seen in the accompanying chart, this has translated into rising employee compensation at area firms. Fifty-four percent of firms report increased employee compensation in the recent quarter, and no firms paid reduced wages and salaries. The index number on this item is only slightly lower than it was last quarter (which was the highest recorded in the past 15 years). So far, firms have had little success passing on higher prices. This trend continued this quarter, with 10 percent of firms reporting increased prices received and 7 percent experiencing price reductions. Eighty-one percent of firms reported unchanged prices received in November. This is poised to change as local firms anticipate increased future pricing power.

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

» Need to figure out how to control health care costs.

» The governor needs to show more support for rural business and rural people.

» As the unemployment levels keep dropping, I do anticipate having to work harder to attract employees.

» Strength of the dollar is making products more expensive outside the US.

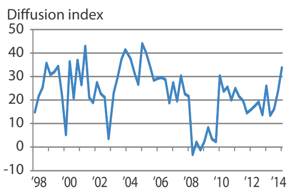
» Local area seems to have leaped ahead on minimum wage adjustments. Will raise our costs quicker than we thought.

» We continue to have great difficulty finding new staff who are willing to work hard and be committed to their work. They seem interested more in what we can do for them and less in what we can do for them and time off.

Future Outlook

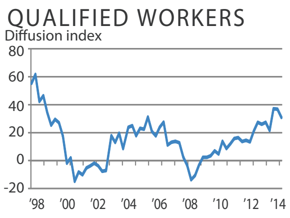
Table 2 reports the future outlook for area businesses. The six-month local outlook remains solid. The index on future overall business activity is higher than was reported last quarter (a normal seasonal effect); the value of 50 is well above what is normally expected in the November survey. Fifty-six percent of surveyed firms expect increased activity in six months and only 6 percent expect conditions to worsen. Forty-one percent of firms expect to expand payrolls over the next six months, and only two firms expect to trim employment. Most firms expect the length of the workweek to remain unchanged, although 18 percent think it will rise. Strong capital spending trends are expected to continue into May. The index on the future capital expenditures survey item is 30.9, the same as it was last quarter. Fifty-seven percent of surveyed firms expect employee compensation to rise by May 2015, and most firms expect no change or improved national business activity over the next several months.

FUTURE PRICES RECEIVED



The survey item that stands out in this quarter's future business conditions table is the question on future prices received. With 34 percent of firms expecting to receive higher prices in May 2015 and no firms expecting a price reduction, this survey item has an index value that is at its highest level since May 2006. It is unclear whether higher anticipated prices received will expand profit margins or be used to catch up with rising costs, but the current rise in this index is well beyond what is normally expected in the November survey.

FUTURE DIFFICULTY ATTRACTING QUALIFIED WORKERS



Finally, the area labor shortage is expected to continue into May 2015. Thirty-one percent of surveyed firms expect increased difficulty attracting qualified workers over the next six months, and no firms expect the worker shortage to diminish. With a value of 30.9, this is the highest November reading on this survey item ever recorded.

Special Questions

The Federal Reserve has spent the last several years structuring monetary policy to fight a financial crisis, prevent deflation, and stimulate a recessionary economy. Their strategy has been to use both conventional and nonconventional policy tools to both provide liquidity and contain risk in the financial sector. By now, these tools have become well-known to the public. They are known by acronyms such as QE, QE2, QE3, TALF, TAF, etc. Many of these tools have now been allowed to expire, and the Fed's new task is to attempt to normalize monetary policy. There is a lot of uncertainty related to the timing and magnitude of this normalization of monetary policy, but market participants appear to believe the Fed intends to begin raising interest rate targets in late spring/early summer of 2015 (see the sidebar with this report for more on this topic). The Fed has targeted the federal funds rate in the 0 to 0.25 percent range since December 2008. This interest rate target is now expected to rise in the coming months as the Fed begins a presumptive tightening action in an attempt to normalize monetary policy.

Implicit in the Fed's expected change in policy course is that economic performance is strong enough to withstand an increase in interest rates. While higher interest rates may benefit savers, it also increases the cost of business purchases of capital equipment, makes homes less affordable, and causes consumer financing to be more expensive. With this in mind, we decided to see how the St. Cloud-area business community expects to be impacted by rising future interest rates. We asked:

"Interest rates are widely expected to begin rising in late spring/early summer, as the Federal Reserve begins to adjust away from an expansionary bias in monetary policy. To what extent does your firm expect to be affected by rising interest rates?"

Fifty-two percent of survey respondents expect a negative effect of rising interest rates, although only one firm thinks the negative effect will be large. Thirty-two percent of respondents expect a "small negative effect," and 18 percent anticipate a "medium negative effect." Thirty-seven percent of firms think there will be no effect of rising rates, and 7 percent see a positive impact on their business. A couple of firms noted that their response depended on how high interest rates go, and another firm noted that they are working on new terms for their borrowing arrangements. But it appears most area firms believe an upcoming interest rate hike is manageable.

Over the years, we have occasionally asked firms to indicate their priorities for an upcoming legislative session in St. Paul. When we asked about legislative priorities in November 2005, the local economy was experiencing strong growth (the title of that quarter's QBR was "Strong Start Projected for 2006"). Consequently, "health care reform" was cited by 67 percent of surveyed firms and "tax burden" was a priority for 46 percent of firms. "Job creation" was only selected by 26 percent of surveyed firms as a legislative priority. Note that "health care reform" was cited as the most important priority by 30 percent of respondents — tax burden was the top priority of only 7 percent of firms.

Fast forward to when we last asked this question in November 2011, during a time when the local economy was in recovery mode, but job creation was weak. In this latter survey, 62 percent of firms selected "job creation," another 62 percent selected "tax burden" and 47 percent identified "health care reform" as a legislative priority. In that survey, "job creation" was cited by 43 percent of firms as their top legislative priority, while 16 percent of firms chose "tax burden" and 15 percent chose "health care re-

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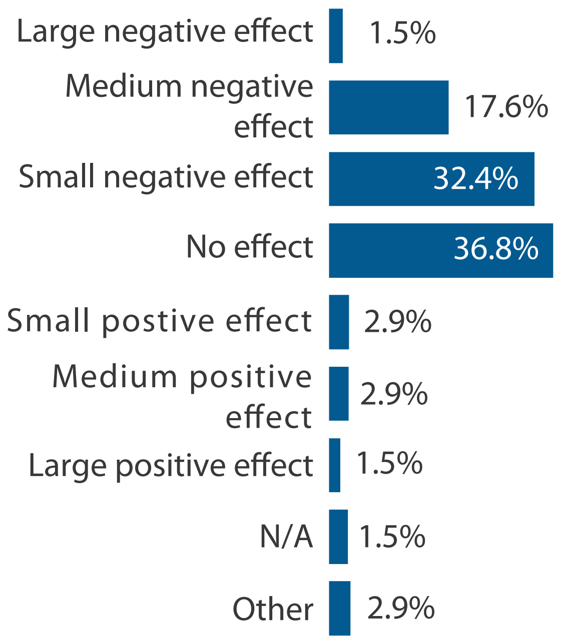
Special Question 1:
To what extent does your firm expect to be affected by rising interest rates?



PRICING POWER IN THE FACE OF FALLING PRICES?

This report includes results of our survey that show the local business leaders expect to increase prices for their own products in the next six months. Nationally, we find the same result (although the percentages differ, in part because the national numbers are seasonally adjusted). The National Federation of Independent Businesses reported in November that 13 percent of their survey respondents had reduced their prices in the last three months and 18 percent had increased prices. Yet only 4 percent of the respondents expected to cut prices in the next few months, and 23 percent expected to raise theirs.

Rising inflationary expectations would be a very important factor in policymaking. The Federal Reserve is in a heated debate at this time over when to raise interest rates, with some arguing inflationary expectations are rising and others not so sure. Higher inflationary expectations would be likely to speed up the first month in which the Fed increased its short-term interest rate. The NFIB survey would be pointed to as a sign for policymakers who wanted interest rates to rise sooner.

Where else might we find clues of incipient inflationary expectations? Economists often look to financial markets. The U.S. Treasury sells bonds that are protected from inflation, called TIPS, which can be used to calculate expected inflation by measuring the difference in prices for TIPS versus (unprotected) Treasury bonds of the same duration. One can also infer inflation rates from a "derivative" contract called an inflation swap, wherein someone trades a fixed payment for a payment tied to the consumer price index. Those types of estimators, according to the Federal Reserve Bank of Cleveland, are between 1.5 and 2 percent, with the upper bound not reached until 2025 or later.

Another factor in the discussion would have to be commodity prices. It's not only the price of oil that has fallen. As we said in the last QBR, corn and soybean prices have fallen. What has done better, and beef prices are high, but a broad index of 18 industrial commodities that are not usually traded for speculative purposes is down 4.7 percent since Dec. 1, 2013. Primary goods suppliers are undoubtedly facing weaker global demand, particularly from China.

But primary goods are not what local business supplies. Removing food and energy prices leaves inflation creeping towards 2 percent, the Fed's target. Local firms that had not been able to raise prices for a few years may find 2 percent price increases comfortable, particularly when the costs of goods sold may be steady to slightly down. And if other businesses can pass along those increases to customers with more discretionary income after visiting the gas station and the grocery store, 2015 could start out very nicely for St. Cloud-area firms.

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form."

To see how firms' legislative priorities have changed from these earlier periods, we asked the identical question from the previous surveys. We asked:

"Which of the following does your business feel is a priority of the 2015 legislative session in St. Paul? (Please check all that apply.)

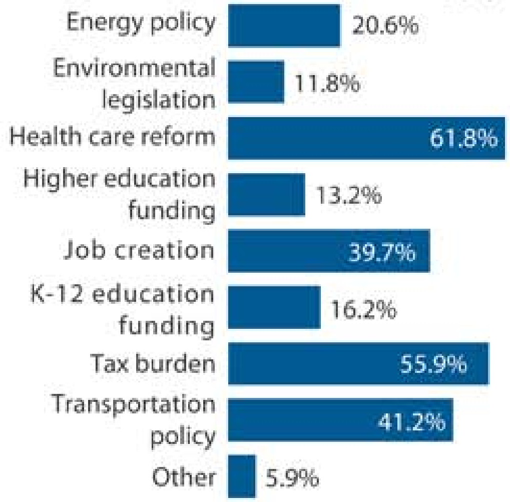
Sixty-two percent of surveyed businesses indicate "health care reform" as a priority and 56 percent consider "tax burden" to be a legislative priority. Forty-one percent of firms want the legislature to work on "transportation policy." "Job creation" comes in fourth on the list of priorities at 40 percent. The fifth concern on the list, energy policy, was supported by barely more than half of number backing the fourth priority, separating the top four from the remainder. We note that two firms suggested "regulatory reform" as a priority, one mentioned "cost cutting," and another suggested "early education."

To measure the intensity of firms' preferences in their legislative priorities, we asked:

"Which one of the legislative priorities listed above does your company feel is most important?"

"Health care reform" was the top selection of one-quarter of surveyed firms and "tax burden" came in a close second at 22 percent. "Transportation policy" was

Special Question 2:
Which of the following does your business feel is a priority of the 2015 legislative session in St. Paul? (Check all that apply)



selected by 13 percent of firms. No other priority was selected as the top priority by more than 10 percent of firms.

Firms were asked to explain their top legislative priority. Answers include:

» Higher ed funding as this is a significant customer segment.

» We feel we need to continue to grow our highway and airport infrastructure.

» Health care reform impact will be huge for our business, negatively impacting when costs are passed on.

» Tax burden. No direction other than to punish companies that stay in Minnesota.

» Minnesota must reduce the corporate income tax along with property tax if we want to create jobs in this state. Too many businesses are leaving or expanding outside of Minnesota because of the high rates.

» Tax burden — our taxes continue to go up and with fee-driven regulations (which is a form of taxes). This is getting out of hand.

» Health care reform. We might have to restructure our benefit plan.

» Regulatory reform.

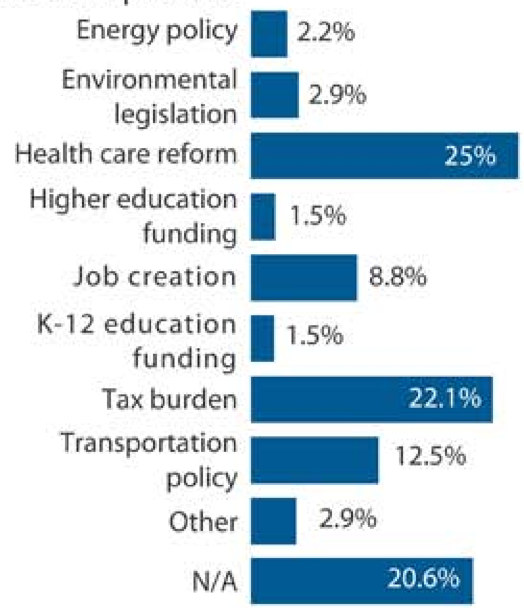
» Health care reform. We offer health care to all of our staff, so the fact that it is mandatory doesn't affect us. What does affect us, though, is the rising cost of healthcare every year due to increased healthcare cost and the need to pay the tab for everyone.

» Health care reform. Concerned about present reports that premiums are rising significantly. We pay for our employees' and their families' health care completely.

» Transportation, Northstar.

» HEALTH CARE REFORM!!! Our rates went up 57 percent from last year. I cannot raise our prices that much, so I guess it'll have to come out of the profit line. Not at all happy with the ACA.

Special Question 3:
Which one of the legislative priorities listed above does your company feel is most important?



» Job creation. Our business is somewhat dependent on the ability of clients to grow their business and create jobs.

» Health care reform. Needs to change as the reform has made it more expensive and more complicated.

» Medical insurance. We are still unsure of what to do next year.

» Tax burdens, which now exceed 50 percent, have created a tremendous disincentive to grow, add employees, borrow money and expand in general.

» Energy policy, since our company is directly impacted by state policy and mandates.

» Health cost can't keep going up forever.

» Transportation — upgrade the roads/interstate highways. Will increase jobs and business. Many vehicles heading through from Minnesota to the oil fields in North Dakota.

» Transportation. Roads are bad.

» Tax burden. Better use of tax dollars.

» Continue to fund K-12 education but stop passing unfunded mandates like the HITA bill.

» Energy and transportation because hauling is a major cost factor in our business.

» Health care reform. Rising costs are too much to bear for employees and employers. Need health care cost containment — insurers and doctors cannot continue as they are.

» Taxes are too high and hinder expansion.

» As a company, higher education funding. Students and families cannot shoulder the burden of these expenses.

» We need to get roads and bridges fixed in this state.

» Short-term, health care reform; long-term, education.

» Job creation, with training funds available.

» Jobs will make everything else work better, generate more taxes and bring transfers to Minnesota.

» Transportation policy. Roads and bridges continue needing updates. Interstate Highway 94 lane expansion to St. Cloud necessary.

» Job creation to help spur spending in economy.

» Reduce income and real estate taxes and estate (death) tax.

EMPLOYMENT KEEPS CHUGGING ALONG

The growth of area employment slowed a little to a 1.7 percent rate for the 12 months ending October 2014, as shown in Table 3, with some drag coming from state and local government employment. Construction employment rebounded sharply and is up more than 16 percent in the same period. Growth in the higher-paying parts of the service sector, such as health and education and in professional business services, also contributed to the rise in local employment. Leisure and hospitality employment has grown 6.7 percent in the last 12 months. Retail trade employment, after significant strength earlier in the year, has begun to cool. Manufacturing employment grew more slowly in St. Cloud than elsewhere in the state,

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but in this case may be the remainder of Minnesota catching up to the substantial growth we experienced in 2012 and 2013.

The local unemployment rate for October was 3.1 percent. Some national economics reporters have expressed skepticism about the unemployment rate because labor force participation is falling. But the area labor force, shown in Table 4, rose 1 percent for the 12 months prior to October 2014. Civilian employment rose 2 percent over the same time period. The 3.1 percent reading on the unemployment rate matches the lowest rate of the 2000s, in October 2001. October is normally the lowest unemployment rate of the year, so we should not be surprised to see a rate back over 4 percent later this winter. That happens every year.

The other good news in Table 4 came from a substantial drop in ini-

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TABLE 3 EMPLOYMENT TRENDS

	St. Cloud employmennt trends in %			Twin Cities employment trends in %			Minnesota unemployment trends in %		
	15-year trend rate of change	Oct. '13 - Oct. '14 rate of change	Oct. '14 employment share	15-year trend rate of change	Oct. '13- Oct. '14 rate of change	Oct. '14 employment share	15-year trend rate of change	Oct. '13- Oct. '14 rate of change	Oct. '14 employment share
Total nonagricultural	0.8%	1.7%	100%	0.5%	1.7%	100%	0.5%	1.8%	100%
Total private	0.8%	2.5%	85.5%	0.5%	1.7%	86.8%	0.5%	1.9%	85.2%
Goods producing	-0.1%	4.7%	20%	-1.2%	3.5%	14.2%	-1%	4.1%	15.7%
Construction/nat. resources	2.4%	16.1%	5.9%	-0.5%	-0.7%	3.8%	0%	6.1%	4.6%
Manufacturing	-1.0%	0.6%	14.1%	-1.4%	5.1%	10.4%	-1.4%	3.4%	11.2%
Service providing	1.1%	1%	80%	0.8%	1.4%	85.8%	0.8%	1.3%	84.3%
Trade/transportation/utilities	-0.5%	0.4%	19.6%	-0.5%	-0.8%	17.2%	-0.2%	0.5%	18.1%
Wholesale trade	1.1%	2%	4%	-0.3%	-2.5%	4.3%	0.3%	0.5%	4.6%
Retail trade	-1.2%	0.6%	12.3%	-0.4%	-1.1%	9.4%	-0.3%	0.3%	10.1%
Trans./warehouse/util.	0.7%	-2.3%	3.2%	-1.1%	2.1%	3.4%	-0.6%	1.3%	3.3%
Information	-1.7%	-4.8%	1.5%	-1.4%	-0.7%	2.1%	-1.3%	1.7%	1.9%
Financial activities	1.8%	-0.4%	4.2%	0.4%	-0.7%	7.6%	0.5%	-1.7%	6.2%
Professional, business serv.	2.4%	2.4%	8.6%	0.6%	2.9%	15.4%	0.9%	3.3%	12.6%
Education & health	3.0%	2.4%	19.4%	3.5%	3.3%	16.8%	3.1%	1.9%	17.7%
Leisure & hospitality	1.6%	6.7%	9%	1.4%	2.8%	9.3%	1.1%	2%	8.9%
Other services (excl. govt.)	-0.4%	-0.1%	3.2%	0.6%	0.0%	4.2%	0.4%	1.1%	4.2%
Government	0.8%	-2.7%	14.5%	0.3%	1.6%	13.2%	0.3%	0.8%	14.8%
Federal	2.5%	-0.4%	2%	-0.6%	-1.4%	1.1%	-0.3%	0%	1.1%
State	1.3%	-3.7%	4.5%	0.3%	2.2%	3.8%	0.7%	0.2%	3.6%
Local	0.1%	-2.6%	8%	0.4%	1.7%	8.4%	0.3%	1.1%	10.1%

TABLE 4 - Other Economic Indicators

	2013	2014	Percent change
St. Cloud MSA Labor Force October (Minnesota DEED)	108,966	110,037	1.0%
St. Cloud MSA Civilian Employment # October (Minnesota DEED)	104,582	106,674	2.0%
St. Cloud MSA Unemployment Rate* October (Minnesota DEED)	4.0%	3.1%	NA
Minnesota Unemployment Rate* October (Minnesota DEED)	4.2%	3.2%	NA
Mpls-St. Paul Unemployment Rate* October (Minnesota DEED)	4.3%	3.2%	NA
St. Cloud Area New Unemployment Insurance Claims August-October Average (Minnesota DEED)	727.3	633.0	-13.0%
St. Cloud Times Help Wanted Ad Linage August-October Average	2,285.0	2,161.0	-5.4%
St. Cloud MSA Residential Building Permit Valuation in thous., Aug.-Oct. Average (U.S. Dept. of Commerce)	10,338.7	9,890.3	-4.3%
New St. Cloud Index of Leading Economic Indicators October (SCSU) October 2001 = 100	102.4	102.4	0.0%

NOTE: July 2013 LEI estimated under experimental program. See text.
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

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tial claims for unemployment insurance. The 13 percent drop in the August to October of 2014 from the same period in 2013 is the most positive feature of our leading indicators series. Help wanted advertising declined slightly, and building permits were off a small amount from the very strong levels of 2013. As noted before, the St. Cloud Area Index of Leading Economic Indicators is virtually unchanged from year-ago levels.

Three of the four leading indicators were in negative territory in the most recent quarter. Only help wanted advertising contributed positively to the index, as shown in Table 5. As we often note, these elements enter into the index with different lags such that the quarter for incorporations will include three earlier months than those for help wanted advertising. So not all movements of the variables in Table 5 represent the most recent events. Some more recent information on those indicators with longer lags — initial claims on unemployment insurance and incorporations — show positive contributions to future LEI readings.

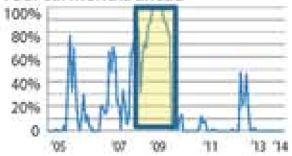
The St. Cloud Probability of Recession Index still registers a zero for the next four to six months. This index includes the indicators shown above plus survey results for the state as compiled by Creighton University. That indicator was very strong early in the summer and has slipped somewhat since, but still predicts expansion of the state economy.

TABLE 5 - ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from July to October 2014	Contribution to LEI
New claims for unemployment insurance	-0.08%
Professional employment	-0.10%
New business incorporations	-0.03%
Help-wanted advertising St. Cloud Times	0.07%
TOTAL	-0.14%

PROBABILITY OF RECESSION INDEX

Four-six months ahead



We warned in the previous issue about the impact of lower crop prices on farm incomes and the resulting pressure that places on retail trade in St. Cloud. That concern continues (see sidebar for more on the impact on inflationary expectations). A recent MPR story indicates farmers are living off past earnings and increased sales of dairy and livestock to survive a halving of corn prices and a sharp decline in soybean prices. With milk prices also expected to decline in the next year, we would not be surprised to see slowing of sales in consumer durables and automobiles at area retailers.

Retailers may be helped, on the other hand, by declining gas prices, which can free up discretionary income for households. This is not good for North Dakota but urban dwellers in St. Cloud and the Twin Cities will experience better economic times. The strength of the U.S. dollar also helps hold wholesale prices down, though sales are more difficult to find for area firms with international customers.

With restraint on input prices but expectations of price increases for their output, it is little wonder that area businesses express optimism. If you look hard enough for storm clouds you can find them, but we think the local economic expansion still has some room to run.

IN THE NEXT QBR

Participating businesses can look for the next St. Cloud Area Business Outlook Survey in February. The next St. Cloud Area Quarterly Business Report will appear in the St. Cloud Times in March 2015.