

Winter 2002

St. Cloud Area Quarterly Business Report, Vol. 4, No. 1

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St. Cloud Area Quarterly Business Report

Winter 2002

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Volume 4, Number 1

St. Cloud's Recovery Dealt Severe Blow

Special Note

On January 16, Federated announced they intend to close their Fingerhut subsidiary, including Fingerhut's St. Cloud distribution center, by early 2003. At the time of the announcement, Fingerhut employed about 2,670 workers in their St. Cloud facility. Note that the raw economic data and the **St. Cloud Area Business Outlook Survey** responses do not reflect this surprise announcement. Just as this report was going to press, the discussion was modified to account for this sudden event.

Executive Summary

The St. Cloud economy should grow more rapidly 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 local economic growth remains slower than it was in the first half of 2000, until Federated's Fingerhut announcement, the area economy was expected to rebound and grow at a more rapid pace by the middle of 2002. Yet, the expected national economic recovery in the first-half of 2002 should provide a needed boost to the area economy.

In 2001 the area economy was able to avoid the recession plaguing the nation. The low point for the local economy appears to have been during the summer months, well before the events of September 11th. By comparison, the nation entered recession last March and the state seems to have followed the nation into recession during the summer. Local year-over-year employment growth was about two percentage points faster than in the state and nation at the end of 2001 (after factoring out the effects of the 2000

Frigidaire strike). The November 2001 St. Cloud unemployment rate is actually below the corresponding November 2000 rate. Yet, local manufacturers are still struggling with fierce global competition.

The **St. Cloud Index of Leading Economic Indicators** predicts the St. Cloud area economy will grow at a faster pace into late Spring 2002. Most of the adverse effects of various layoffs in 2001 and the September 11th attacks are fortunately wearing off and the local economy appeared well positioned for faster growth, until Federated's surprise announcement. The index began climbing again in September, reaching a record in November. The continuing increase in the number of local residential electrical hookups underlies the strength of the St. Cloud Index of Leading Economic Indicators. The local index has also been aided by increases in the U.S. leading economic indicators index (which increased in October and November) and a small increase in the number of new business start-ups. Declines in the local average manufacturing production workweek have had a depressing influence on the index. As a rule of thumb, three consecutive positive changes in the St. Cloud Index of Leading Economic Indicators suggest an expanding economy, while three consecutive decreases suggest a contracting economy and/or a slowing of economic growth.

Forty-seven percent of area businesses participating in the **St. Cloud Area Business Outlook Survey** expected an increase in the level of business activity for their company over the next six months compared to only 16 percent who expect conditions to worsen. Businesses also expected conditions to improve in the area

Fingerhut's possible closing creates more uncertainty.

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47% of surveyed firms expect an increase in business activity.

labor market over the next six months. Thirty-nine percent of responding businesses expected to increase employment by midyear. This compares favorably to a 22 percent response in the survey conducted three months ago. Twenty-seven percent of survey respondents expected the length of the workweek to increase over the next six months. Only nine percent of firms had a similar expectation in the September survey. Respondents indicated economic activity was weaker over the past three months. Only 31 percent of surveyed businesses reported the level of business activity in December was improved from three months earlier, and 37 percent indicated business activity had declined. These numbers were markedly weaker than reported three months ago. In September, thirty-nine percent of responding firms indicated an improvement in current business conditions while only 17 percent reported declining activity.

A special question in the December 2001 **St. Cloud**

St. Cloud Index of Leading Economic Indicators

The November 2001 **St. Cloud Index of Leading Economic Indicators** predicts the St. Cloud area economy will grow at a faster pace into late Spring 2002. As indicated by the St. Cloud Area Business Outlook Survey, the attacks of September 11th had a modestly depressing impact on the local economy. Fortunately, most of these adverse effects have worn off and the local economy appeared well positioned for faster growth until Federated's bombshell on January 16. Figure 1 shows the index began climbing again in September, reaching a record in November. The continuing increase in the number of local residential electrical hookups underlies the strength of the **St. Cloud Index of Leading Economic Indicators**. In addition, the U.S. leading economic indicators index increased in October and November, further reinforcing the recent increase in the local index. Finally, increases in the number of new business start-ups have had a small positive effect while declines in the local average manufacturing production workweek have had a depressing impact. As a rule of thumb, three consecutive positive changes in the **St. Cloud Index of Leading Economic Indicators** suggest an expanding economy, while three consecutive decreases suggest a contracting economy and/or a slowing of economic growth.

The St. Cloud Area Overall Outlook

In the last year, the St. Cloud economy has been hit by well-publicized layoffs as well as suffering the blow of the September attacks. Further jolts have been caused by the national recession, which officially began in March 2001. Despite these setbacks, Table 1 shows St. Cloud Metropolitan Area (MSA) employment grew

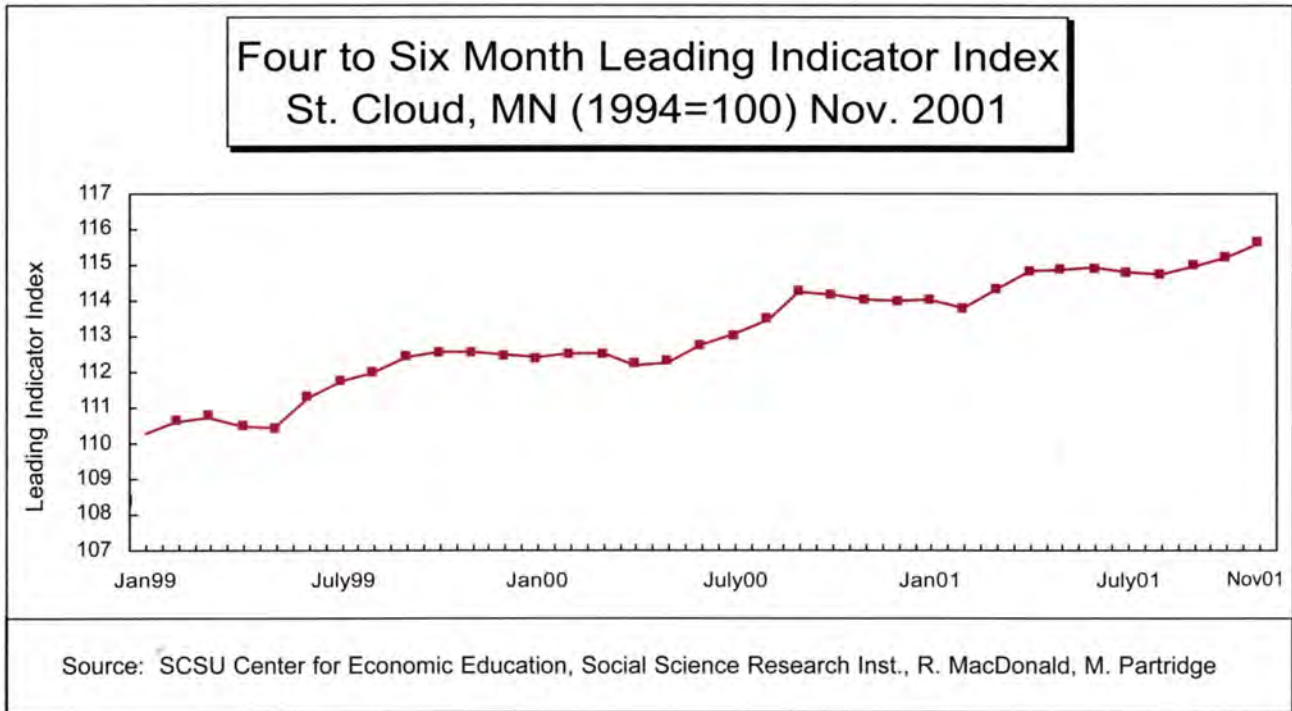
Area Business Outlook Survey asked area businesses to indicate the extent to which the September 11 terrorist attacks affected business activity at their firm. Ten percent of responding firms noted this caused a "significant decrease" in business activity while 45 percent noted "some decrease." Thirty-seven percent of surveyed firms reported the attack had no effect on their business activity. A second special question asked those firms who have experienced a downturn in recent months to indicate when they expect a turnaround to occur. Thirty-one percent of responding firms expected a turnaround no earlier than July 2002, and 16 percent thought the recovery had already begun. Twelve percent of respondents expected the turnaround to occur in the current quarter and 20 percent thought the recovery would begin in the second quarter of 2002. Generally, local respondents were a little more pessimistic than the consensus forecast for the nation. The Fingerhut news will have certainly added to the concerns of local business leaders.

2.5 percent in the year ending November 2001. Even after factoring out the effects of the November 2000 strike at Frigidaire, annual job growth appears to have been just over 1 percent. In fact, irregardless of the events of September 11th, annualized local job growth appears to have reached its 2001 low point in July and August 2001. On an annual basis, local job growth has not been negative since 1997. One implication is the St. Cloud area apparently dodged the national recession, but it now faces a downturn later in 2002 if Fingerhut ceases operation. At this point there are few indications the local area will reach the 2.8% annual 1988 - 2001 trend growth rate in the near future.

Federated's bombshell that they intended to close their Fingerhut operations throws a major obstacle into what had been shaping up to be a much-improved year for the local economy. Fingerhut had employed about 4,500 workers during the holiday rush in 1999, and their layoffs in 2000 and 2001 were a major factor behind the slowing of the area economy beginning in late 2000. The fact the local economy had been so resilient to these events was very impressive. However, besides the obvious human costs, the local economy can not afford to lose another 2,670 jobs (especially if most of these cutbacks occur rather quickly in the first-half of 2002). Even though the local economy had avoided the state and national recession in 2001, local economic activity was in a fragile state. Businesses and households were just beginning to shake off the effects of slower economic growth and the events of 9-11. Fingerhut's closing will again erode local confidence and the layoffs will have indirect effects as current and former Fingerhut

St. Cloud avoided recession in 2001.

Figure 1--St. Cloud Index of Leading Economic Indicators (November 2001)



employees begin to scale back their local purchases. A reasonable guess based on so-called economic-base multipliers is that several hundred additional local jobs will be at risk elsewhere in the economy from these adverse spillovers. In particular, retailers, building contractors, health-care providers, and realtors will feel these painful effects rather quickly. Should a buyer of Fingerhut emerge, some of these adverse conditions may be partially avoided, but there is no guarantee that total employment and average wages will remain unchanged after a change of ownership.

Fingerhut's closing notwithstanding, the underlying fundamentals that caused St. Cloud to historically grow faster than the rest of the state remain unchanged. There are good reasons to be optimistic that the local area will experience a rather strong recovery, but the recovery will likely be delayed until the very end of 2002 or early 2003. Another reason to be optimistic is that studies of communities that experienced military base closings have generally found that most of these communities recover in a few years. This past evidence of the effects of adverse economic events along with St. Cloud's strong economic fundamentals suggest that the local economy will again be quite robust, but the area's twenty-year streak of avoiding recession appears over.

Moving into 2002, local job growth far exceeded the

state and nation. U.S. and state nonfarm job growth equaled -0.8 percent and -0.6 percent respectively in the year ending last November. The Minnesota economy appears to have entered a recession sometime during last summer, approximately four months after the officially dated peak for the national economy. Twin Cities MSA nonfarm employment growth also declined -0.8% during the period. On a cautionary note, given the close linkage between the national and Twin Cities' economies, if the national downturn ends up to be more severe than forecasted, this could spill over into the St. Cloud area economy. Job growth also declined 0.4 percent in the Duluth-Superior MSA during the past year. In 2001, other than St. Cloud, the Rochester MSA represented the only bright spot in the Minnesota economy with nonfarm employment growing a brisk 2.6 percent during the November 2000 - November 2001 period.

Job losses are not isolated to Minnesota. Among neighboring MSAs, Grand Forks, Fargo, Des Moines, and LaCrosse also experienced job losses, while only Eau Claire (0.9%) Sioux Falls (2.3%), and Sioux City (0.1%) have bucked the trend. The clear point is that in the upper-Midwest, the St. Cloud area had one of the region's healthiest economies in 2001.

Manufacturing and retail trade continue to be the two lagging sectors in the local economy. Although Table

Many local manufacturers and retailers have struggled.

1 indicates local manufacturing employment increased a stunning 8.1 percent in the year ending November, manufacturing job growth was really between -0.5 percent and -1.0 percent when factoring out the effects of the November 2000 Frigidaire strike. Clearly, the national and global downturns are having a negative impact on local manufacturers. Moreover, the surprising strength of the U.S. dollar means international competition will remain fierce in 2002. The national manufacturing downturn is even more severe than in St. Cloud. U.S. manufacturers shed 6.6 percent of their workforce between November 2000 and November 2001 (and the 3.7 percent decline for state manufacturers is only slightly less gloomy). Even as there are few signs local manufacturing will dramatically recover in the near future, the local performance is actually quite

strong when viewed from this broader perspective.

Table 1 also shows local retailers continue to shed jobs at a faster clip than in the state and Twin Cities. The apparent strength in area-holiday shopping suggests some of the decline might have been caused by local retailers underestimating their holiday sales. However, near term anxiety over Fingerhut's future will likely mean the area retail slump (which dates back to 1999) will continue.

Table 2 provides further evidence that the local economy strengthened in late 2001. For example, while the national unemployment rate increased almost two percentage points in the year ending November, the local

Table 1--Employment Trends

	St. Cloud Employment Trends			Minnesota Employment Trends			Twin Cities Employment Trends		
	in Percent			in Percent			in Percent		
	Long Term Trend Growth Rate	Nov 00- Nov 01 Growth Rate	Nov 2001 Employment Share	Long Term Trend Growth Rate	Nov 00- Nov 01 Growth Rate	Nov 2001 Employment Share	Long Term Trend Growth Rate	Nov 00- Nov 01 Growth Rate	Nov 2001 Employment Share
Total Nonagricultural 1988-2001	2.8%	2.5%	100.0%	2.0%	-0.8%	100.0%	2.0%	-0.8%	100.0%
Total Nonagricultural 1992-2001	2.6%	2.5%	100.0%	2.1%	-0.8%	100.0%	2.2%	-0.8%	100.0%
GOODS PRODUCING 1988-2001	1.9%	6.6%	22.4%	1.0%	-2.3%	21.7%	0.7%	-0.7%	20.1%
Construction & Mining 1992-2001	2.8%	0.9%	4.6%	4.7%	2.6%	5.0%	5.2%	2.1%	4.5%
Manufacturing 1988-2001	2.8%	8.1%	17.8%	0.5%	-3.7%	15.7%	0.2%	-1.5%	15.6%
Durable goods 1992-2001	3.5%	15.5%	9.8%	0.9%	-4.1%	9.3%	0.8%	-2.3%	9.4%
Nondurable goods 1992-2001	2.3%	0.3%	8.0%	0.0%	-3.2%	6.5%	-0.1%	-0.3%	6.2%
SERVICE PRODUCING 1992-2001	2.5%	1.4%	77.7%	2.3%	-0.4%	79.3%	2.5%	-0.9%	79.9%
Transp. & Public Utilities 1988-2001	2.3%	-2.5%	3.6%	1.6%	-6.5%	4.8%	1.8%	-4.9%	5.3%
Trade 1988-2001	2.1%	-0.8%	28.5%	1.7%	-0.4%	23.9%	1.6%	-1.4%	23.5%
Wholesale Trade 1988-2001	4.8%	3.1%	5.8%	1.7%	-1.2%	5.8%	1.5%	-1.9%	5.9%
Retail Trade 1988-2001	1.6%	-1.7%	22.8%	1.8%	-0.2%	18.2%	1.6%	-1.3%	17.6%
Finance, Ins., & Real Estate 1988-2001	3.8%	1.8%	3.5%	2.2%	-0.8%	6.0%	2.4%	-0.6%	7.3%
Services 1988-2001	4.5%	3.6%	27.3%	3.4%	0.6%	29.5%	3.4%	0.6%	30.4%
Health Services 1992-2001	3.0%	1.0%	7.5%	2.6%	2.2%	8.5%	2.3%	0.9%	7.3%
Educational Services 1992-2001	3.4%	-0.8%	4.3%	3.7%	12.4%	1.8%	4.0%	5.3%	1.6%
Other Services 1992-2001	4.9%	6.3%	15.5%	3.1%	-1.1%	20.1%	3.5%	0.2%	21.5%
Government 1988-2001	1.6%	2.3%	14.8%	1.5%	-0.2%	15.2%	1.8%	-1.6%	13.5%
Federal 1992-2001	0.3%	1.4%	1.7%	-0.1%	-1.0%	1.2%	0.5%	2.3%	1.3%
State 1992-2001	1.2%	2.8%	4.5%	0.7%	-1.8%	3.5%	1.4%	-4.6%	3.7%
Local 1992-2001	1.4%	1.7%	8.6%	1.9%	0.4%	10.5%	2.1%	-0.9%	8.5%

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

SOURCE: MN Workforce Center

Table 2--Other Economic Indicators

	2001	2000	Percent Change
St. Cloud MSA Labor Force November (MN Workforce Center)	104,451	101,247	3.2%
St. Cloud MSA Civilian Employment# November (MN Workforce Center)	101,389	98,029	3.4%
St. Cloud MSA Unemployment Rate* November (MN Workforce Center)	2.9%	3.2%	NA
Minnesota Unemployment Rate* November (MN Workforce Center)	3.4%	2.9%	NA
Mpls-St. Paul/MSA Unemployment Rate* November (MN Workforce Center)	3.3%	2.3%	NA
St. Cloud Area New Unemployment Insurance Claims September- November Average (MN Workforce Center)	500	456	9.5%
St. Cloud Times Help Wanted Ad Linage September- November Average	4,574	6,423	-28.8%
St. Cloud MSA Residential Building Permit Valuation (\$1,000) September-November Average (U.S. Dept. of Commerce)	8,292	9,715	-14.6%
St. Cloud Index of Leading Economic Indicators November (SCSU)	115.7	114.1	NA

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

unemployment rate is estimated to have slightly declined. Following the national trend, the Minnesota unemployment rate increased by 0.5 percent and the Twin Cities MSA unemployment rate increased by a full percentage point. Likewise, in the quarter ending in November 2001, new St. Cloud area unemployment insurance claims increased by 9.5 percent over the corresponding period in 2000. While new unemployment insurance claims are higher than in 2000, this marks a solid improvement over the preceding quarter when new claims were up almost 40 percent over the corresponding period in 2000. Likewise, state unemployment insurance claims continued to be about 40 percent above year earlier levels. The most troubling sign in Table 2 is the valuation of St. Cloud MSA building permits, which was about 15 percent below year-earlier levels during the quarter ending in November. Further evidence of a slowing local construction sector is the relatively sluggish 0.9 percent increase in job growth over the November 2000 - November 2001 period. This is well below the 2.8 percent 1992-2001 long-term trend for this sector. While the slowdown in local construction is discouraging, this may represent some of the anxiety in the wake of the September 11th terrorist attacks.

As anticipated in the Fall 2001 edition of the St. Cloud Area Quarterly Business Report, the national recession is now known to have officially begun in March, well before the September terrorist attacks. The current consensus among national forecasters is the U.S. econ-

omy will begin expanding sometime in early spring. In fact, the surprisingly strong recent performance of U.S. financial markets appears to be based on the belief that the recovery may have already begun. Among the set of optimistic national forecasters is SCSU economics professor King Banaian, who is forecasting positive growth in the first quarter of 2002 (see <http://coss.stcloudstate.edu/banaian/scmfp/index1.htm>)

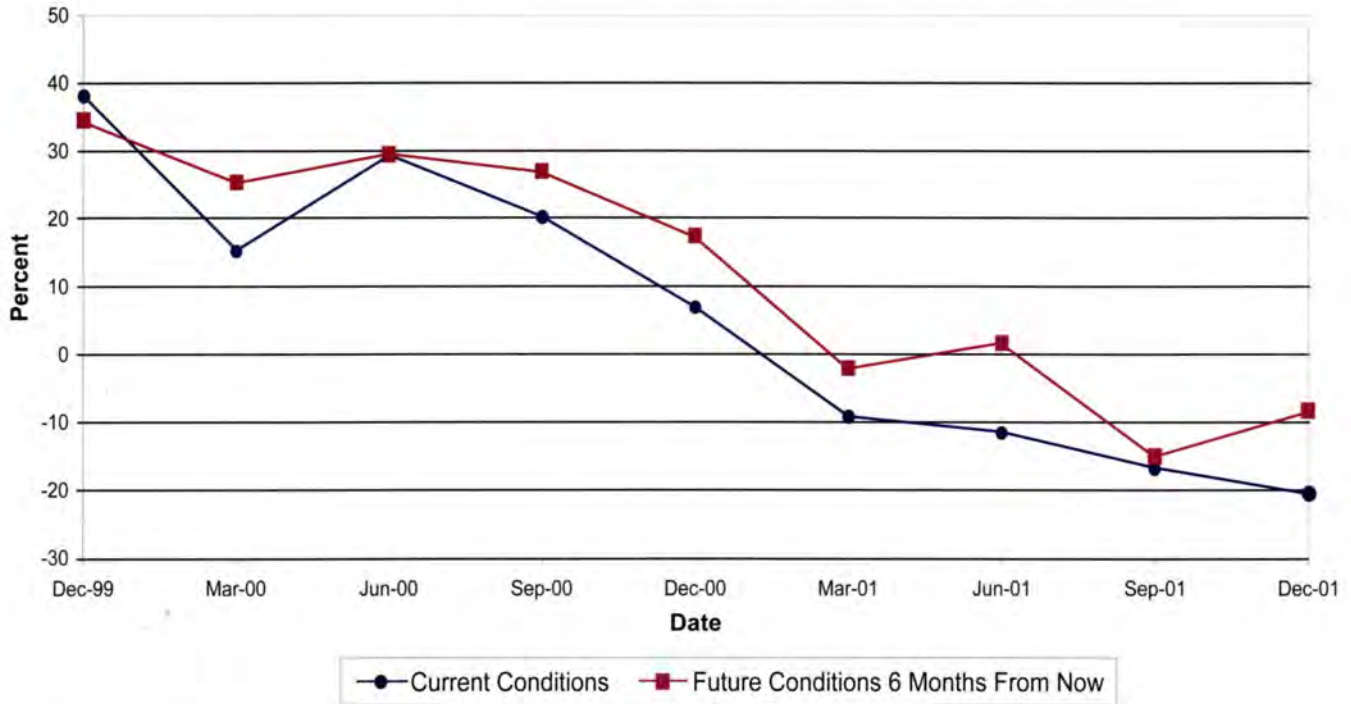
The anticipation that the national economy will begin to recover in the first-half of 2002 appears to be based on the eleven short-term interest rate cuts initiated by the Federal Reserve during 2001. Given the approximate one-year lag between the interest rate changes and real economic activity, we should see the desired effects of the interest rate cuts in early 2002. Low interest rates should help expand local and national construction activity. Lower energy prices have also provided another boost to the national economy. Although most analysts believe energy prices will remain restrained in 2002, recent moves by OPEC to limit world oil production may reverse some of this stimulus. Another factor lifting the spirits of businesses and households is the apparent successes in the war against terrorism. By contrast, most economists are not concerned by the recent demise of a federal stimulus package. Its effects would likely have been small and felt well after the current national recession has ended.

The St. Cloud Area Sectoral Outlook

Recent issues of the *St. Cloud Area Quarterly*

The expected U.S. upturn will provide a lift to the area economy.

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



Business Report have stressed a key foundation for the local economy's resilience is its diversity across all sectors. Table 1 clearly shows the breadth of local growth. Along with durable goods manufacturing (which would be in decline without the November Frigidaire 2000 strike), the only other local sectors showing an employment decline are transportation & public utilities, retail trade, and educational services. By comparison, a majority of sectors at the state level and in the Twin Cities are in decline.

The problems faced by local retailers and manufacturers were discussed in the previous section and monthly employment estimates for local educational services are subject to considerable random variation. The transportation & public utilities sector has struggled due to the sluggish national economy and the adversity faced by many information-technology providers. Fortunately, the expected national economic upturn will provide a needed boost to local transportation firms.

One favorable development is the strength in the local finance, insurance and real estate (FIRE) sector, with employment rising 1.8 percent during the year ending November 2001. To illustrate the relative strength in the local FIRE sector, as late as April 2001 this sector

was shedding jobs compared to year earlier levels. Even though current job growth in FIRE remains well below its 3.8 percent 1988-2001 long-term trend rate, the outlook for this sector must be considered optimistic. Recent issues of the *St. Cloud Area Quarterly Business Report* have suggested FIRE would be a key sector to track in determining whether the local economy has returned to a solid footing.

St. Cloud Area Labor Market Conditions

Area labor market conditions remain softer than the boom period of the late 1990s. Even as Table 2 shows growth in new unemployment insurance claims are starting to level off, they remain about twice as high as late 1999. Moreover, help-wanted ad lineage in the *St. Cloud Times* remains about 28% below the levels of late 2000 and is about 57% below the corresponding period in 1999. While this turn of events may seem discouraging, it was impossible for the local economy to sustain the incredible job growth and economic activity it experienced in the late 1990s. Regardless, these indicators showed clear signs of firming in recent months.

More evidence the local labor market stabilized in late 2001 is shown in Figure 2. Figure 2 shows the trend in the diffusion index (the percent of surveyed business-

Low interest rates should boost new construction.

The local unemployment rate fell over the past year.

es responding "increase" minus the percent answering "decrease") of the quarterly **St. Cloud Area Business Outlook Survey** question that asks businesses to evaluate their company's difficulty attracting qualified workers. Survey responses from local firms indicate only 8.2 percent of surveyed firms believed it was more difficult to attract qualified workers in December than in September, while 28.6 percent believed it was easier. This diffusion index declined slightly between September and December 2001. Looking ahead six months, the respondents' expectations are essentially unchanged from the September survey, with the overall diffusion index being slightly higher in December. More respondents expect it will be easier to attract qualified applicants in six months than those who expected it will be more difficult. Clearly, the days of a widespread "labor shortage" will likely remain only a memory.

St. Cloud Area Business Outlook Survey

The **St. Cloud Area Business Outlook Survey** is a survey of current business conditions and area firms' future outlook. It is administered quarterly with the cooperation of the St. Cloud Area Economic Development Partnership. Note that all of the responses were received before the Fingerhut announcement. Survey results reported in Tables 3 through 6 reflect the responses of forty-nine area business firms who returned the recent mailing. Participating firms are representative of the collection of diverse business interests in the St. Cloud area. They include retail, manufacturing, construction, financial, and government enterprises of sizes ranging from small to large. Survey responses are strictly confidential. Written and oral comments have not been attributed to individual firms.

Table 3 reports survey results of area business leaders' evaluation of business conditions for their company in December 2001 versus three months earlier. Results from Table 3 compare unfavorably to those reported in the September 2001 survey (note about one-half of the surveys returned in September were mailed after the September 11 terrorist action). It appears many area firms experienced weak business activity over the past three months. For example, the diffusion index (representing the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given category) for the level of business activity fell from 22.2 to -6.1 in the current period (although the value of this item's diffusion index was -19.3 one year ago). Thirty-one percent of surveyed firms reported an increase in business activity in this most recent quarter while 37% noted it had decreased. Written remarks by area firms highlight seasonal

effects as well as special conditions influencing business activity within their company. For example, one firm notes, "nice weather has extended our season. (This may be) offset in (the) spring (so as to) have no impact." Another firm writes "historically our business slows down February through May, (a) large project (arrives) in late May and lasts through August. We tend to be strong through January." A third area company suggests "the real estate industry, both locally and nationally (but especially locally), has continued to be strong with record numbers both in unit sales and average sale prices." Other firms indicate the seasonal nature of their business in writing "holiday season is driving current increases," "highly seasonal business," and "decreases in business activity are seasonal." Finally, one area firm notes "competition of Chinese-made products has had (a) significant negative impact."

The diffusion index for number of payroll employees suggests the labor market is softer. The index fell from 3.7 in the September 2001 survey to -6.1 in December. This is also markedly lower than the 10.6 index on this item one year ago. The index on the length of the workweek also declined from 9.2 to zero over the past three months. Only 16 percent of survey respondents indicate employee compensation increased in December relative to three months earlier. This is sharply lower than a 39 percent response to the same item in September and a 51 percent response in the June survey. Yet another sign of a softening local labor market is the -20.4 diffusion index on the question asking area firms their evaluation of the difficulty attracting qualified workers over the past three months (discussed in the previous section). Twenty-nine percent of responding firms noted a decrease in the difficulty attracting qualified workers over the last quarter. Only eight percent of area firms found it more difficult to find workers. Just two years ago, the December 1999 diffusion index on this item was 38.1, with 45% of surveyed firms indicating increased difficulty finding qualified workers and only seven percent noting an easing of the labor shortage. Despite this dramatic reversal in labor market conditions in the St. Cloud area, there are still periodic reports of sectoral difficulties finding qualified workers at existing wages. For example, one firm writes "qualified employees (are) still hard to find. Twin Cities wages are taking away our people."

Over the past quarter, surveyed firms have, on average, been unable to pass on price increases to customers. The diffusion index in this category fell from 0 to -16.3 over the September to December period. Only six percent of respondents indicated prices

Fall activity was slow for area businesses.

Price hikes are harder to pass on.

Firms were optimistic about their future.

received were higher in December than they were three months earlier. This was more than offset by the 22 percent who noted lower prices over the quarter. This is further confirmation of the recent economic weakness experienced by area firms. It comes as no surprise that over the past three months, responding businesses continued to show signs of concern for the national economy. The diffusion index on national business activity remained low at -12.2. The only bright spot on this item is the index actually increased from a value of -22.2 three months ago. Twenty-seven percent of responding firms believed national business activity declined over the last three months.

The national downturn and the events of September 11 appear to have adversely affected area firms' capital spending plans. In addition to adjusting prices and payrolls, area firms have also trimmed capital expenditures over the past three months. To cope with economic weakness, 16 percent of surveyed firms decreased capital expenditures while only 12 percent increased spending in this category. The -4.1 index on this item represents a sharp decline from its value of 22.2 in September.

Firms had planned to increase new hiring.

Responses tallied in Table 4 are much more optimistic than is suggested by the current business conditions table. Summary results from questions related to survey respondents' expectations six months from now

versus December 2001 are reported in this table. The diffusion index for the question asking about the level of future business activity for area companies is 30.6 (up from a value of 27.8 three months ago). Only 16 percent of surveyed businesses expected worsening business conditions over the next six months, which is a marked improvement over the September survey when 26 percent of firms expected weaker future conditions.

Survey respondents expected a stronger labor market over the next six months. For example, the index on the survey item asking about anticipated payroll employment is up sharply from 9.2 to 32.7 over the past three months. Thirty-nine percent of firms expected to increase hiring over the next six months (the corresponding number was 22% in September) and only six percent expected a reduction in employment.

Likewise, the diffusion index on length of the workweek increased sharply over the past quarter. Twenty-seven percent of surveyed firms expected the workweek to lengthen over the next half year. Only nine percent expected this to occur in the September survey. Even in this difficult economic environment, 55 percent of surveyed firms expect to increase employee compensation over the next six months and none expect a decline. A final indication that local labor conditions strengthened in late 2001 is the diffusion

continued on page 11

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

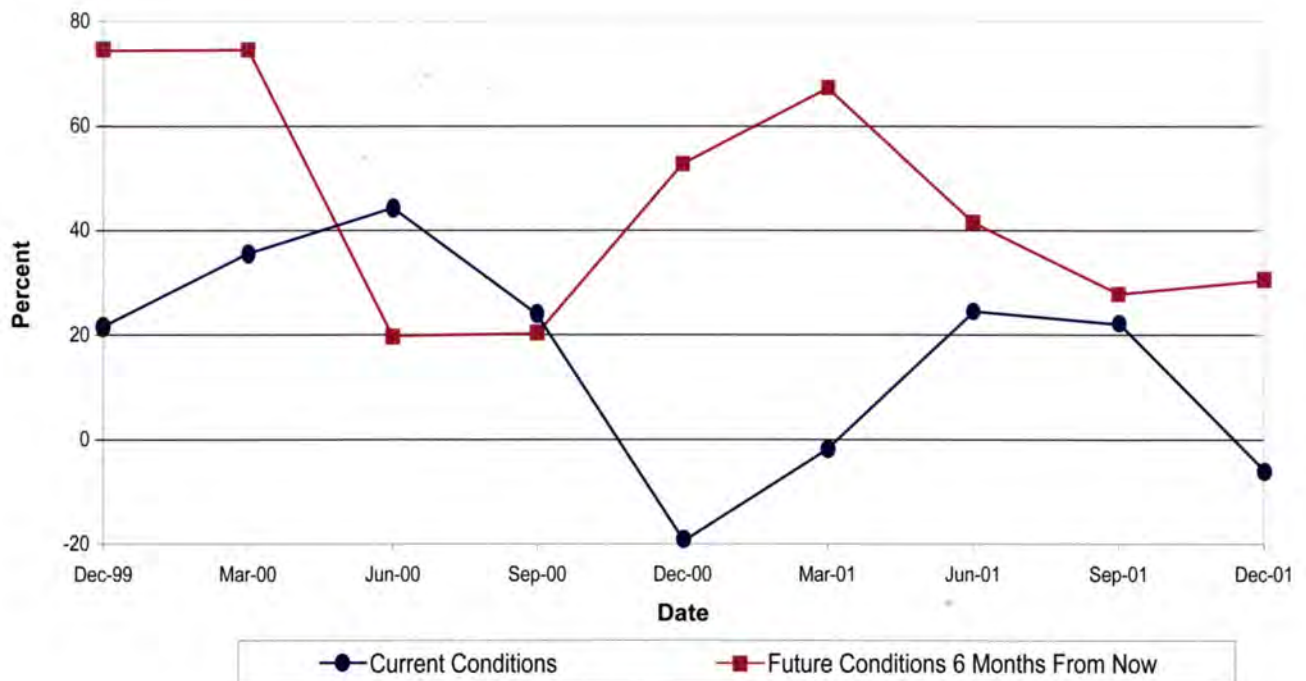


Table 3--Current Business Conditions*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary December 2001 <i>What is your evaluation of:</i>	December 2001 vs. Three Months Ago				September 2001 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
Level of business activity for your company	36.7	32.7	30.6	-6.1	22.2
Number of employees on your company's payroll	26.5	53.1	20.4	-6.1	3.7
Length of workweek for your employees	14.3	71.4	14.3	0	9.2
Capital expenditures (equipment, machinery, structures, etc.) by your company	16.3	69.4	12.2	-4.1	22.2
Employee compensation (wages and benefits) by your company	6.1	77.6	16.3	10.2	37.0
Prices received for your company's products	22.4	69.4	6.1	-16.3	0
National business activity	26.5	44.9	14.3	-12.2	-22.2
Your company's difficulty attracting qualified workers	28.6	59.2	8.2	-20.4	-16.6

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

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

Table 4--Future Business Conditions*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary December 2001 <i>What is your evaluation of:</i>	Six Months from Now vs. December 2001				September 2001 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
Level of business activity for your company	16.3	34.7	46.9	30.6	27.8
Number of employees on your company's payroll	6.1	53.1	38.8	32.7	9.2
Length of workweek for your employees	6.1	65.3	26.5	20.4	-7.4
Capital expenditures (equipment, machinery, structures, etc.) by your company	12.2	51.0	34.7	22.5	25.9
Employee compensation (wages and benefits) by your company	0	42.9	55.1	55.1	50.0
Prices received for your company's products	10.2	49.0	36.7	26.5	37.0
National business activity	10.2	51.0	24.5	14.3	11.1
Your company's difficulty attracting qualified workers	16.3	69.4	8.2	-8.1	-14.8

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

Special Question #1: The Effect of the September 11 Terrorist Attack on Area Business Activity

A special question of the **St. Cloud Area Business Outlook Survey** asked area business leaders to assess the separate impact of September 11 from the general lackluster performance of the economy. It was recently reported the national economy officially entered recession in March 2001. To the extent that economic conditions in the St. Cloud area had deteriorated prior to the terrorist action, this survey item asks area businesses to isolate the effects of September 11 on their firm's activity. Note, these responses were received prior to the Fingerhut announcement.

The results of this special item are reported in Table 5. Ten percent of responding firms indicate 9-11 caused a "significant decrease" in their business. Forty-five percent, almost one-half of the firms surveyed, report "some decrease" in business activity, while 37 percent indicate September 11th had no separate effect on their business. Six percent of responding firms note "some increase" in firm activity in the wake of the attack. The overall impact was modestly negative, with responses being consistent with the view that the effects of 9-11 were initially quite severe, but activity returned to near "normal" after about a month. Yet, there are pockets still experiencing the fallout from 9-11 including the travel and tourism industries.

When a Turnaround in Business Activity is Expected to Occur

Not all responding firms have experienced a downturn in economic activity over the past several months. But those who have observed weaker business conditions were asked when they expect to see a recovery. Panel A of Table 6 has the survey results while Panel B contains some survey comments.

Responses reported in Table 6 further suggest area firms are not equally sharing in the economic weakness that has struck the economy in recent months. Thirty percent of surveyed firms expected their business activity to improve no earlier than July 2002. This is partially offset by 16 percent who indicated the turnaround has already occurred. Twelve percent of responding firms thought the recovery would begin in the next three months and 20 percent expected a turnaround in the spring. One surprising finding is local respondents appeared to have been a little more pessimistic about a local turnaround than forecasters of the national outlook. Historically, local respondents have been more optimistic about the area outlook than they have been about the nation. In light of Federated's announcement, their relative pessimism may have been prophetic.

TABLE 5--Special Question 1--The Effect of the September 11 Terrorist Attack on Area Business Activity

*Question: Economists are trying to assess the separate impact of the events of September 11 from the general performance of the overall economy. As best you can determine, how have the terrorist attacks of September 11 affected business activity at your firm?**

Significant Decrease	Some Decrease	No Effect	Some Increase	Significant Increase
10.2	44.9	36.7	6.1	0

* reported results are percent of surveyed businesses.

TABLE 6--Special Question 2--When a Turnaround in Business Activity is Expected to Occur

*If you experienced a downturn in activity either before or after September 11, when do you expect to see a turnaround?**

Panel A: Survey Results

Has Already Occurred	First Quarter 2002	Second Quarter 2002	After Second Quarter 2002	Not Applicable
16.3	12.2	20.4	30.6	20.4

* reported results are percent of surveyed businesses.

Panel B: Selected Survey Responses

Business leaders responding to the survey were also asked to comment on their responses to the special questions. These comments include:

- ◀ "No question we lost business 9/11 - 9/20, but [the month of] September 2001 was our second best September ever. October 2001 was the best month in our history."
- ◀ "The strong housing market has allowed our business activity to remain relatively steady across the country. September 11th events caused customer calls and orders to nearly stop for about a month. Since then, activity has returned to pre-9/11 [levels]."
- ◀ "Public works projects will carry us through this downturn until private [parties] gain enough confidence to start their projects."
- ◀ "We saw a slowdown for about a month after the attacks. I think [the firm's industry] wanted to see what affect this would have on our economy. The [firm's industry] has continued as before the attacks."
- ◀ "The [firm's industry] was crippled by 9-11. We are on the mend, but it will take at least a year to get back on track."

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index on the item asking area firms about their difficulty attracting qualified workers (which strengthened from -14.8 to -8.1 since September).

Local firms were expecting an upturn in first-half of 2002.

Other results reported in Table 4 suggest area businesses are still anxious about future conditions. Twenty-five percent of respondents expected national business activity to increase. Only 10 percent of area firms expected national conditions to deteriorate. Almost one-half of surveyed firms expected no change in prices received for their products over the next six months. Note, however, 37 percent of surveyed firms expect to receive higher prices within six months while only 10 percent expected prices to fall. This result is less favorable to area businesses than reported three months ago. At that time, businesses were more optimistic about their ability to raise prices. Finally, the current weakness in area capital expendi-

tures is likely to improve. More than one-third of surveyed firms expect increased spending on machinery, equipment, and structures by midyear while only 12 percent expect to reduce capital purchases.

An historical view of the evolution of the diffusion indexes on current and future business conditions over the past several quarters is presented in Figure 3. This shows a reduction in the diffusion index on current business activity over the past three months. This index is now at -6.1 (its record high of 67.8 was recorded in June 1999, while its low of -19.3 occurred one year ago). This period's future business activity diffusion index shows a modest improvement over last period's index, although it remains sharply lower than the all-time high of 74.6 recorded in March 2000.

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Economic Outlook 2002 and 40th Annual Economic Education Winter Institute

On behalf of the SCSU Center for Economic Education, all readers of the St. Cloud Area Quarterly Business Report are invited to attend the 8th Annual Economic Outlook to be held at the St. Cloud Civic Center in downtown St. Cloud at 5 pm on Thursday, February 28, 2002. The theme of the program is **Economic Outlook 2002: "The Prospects for Recovery"** and includes Dan Laufenberg, Chief Domestic Economist, American Express Advisers, Mark Partridge, Professor of Economics, SCSU, Art Rolnick, Director of Research and Senior Vice President, Federal Reserve Bank of Minneapolis, and Tom Stinson, Minnesota State Economist. The Economic Outlook program is held in coordination with the SCSU Minnesota Economic Development Center and is free to registered participants. For more information, contact the SCSU Center for Economic Education at 320-255-2157.

Readers are also invited to attend the **40th Annual Economic Education Winter Institute** to be held at 8:45 am on March 1 at the Ritsche Auditorium on the campus of St. Cloud State University. This year's themes include **The Economics of Terror** and **The Economics of Affordable Housing**. Dr. Martin Regalia, Vice President, Economic Policy and Chief Economist, U.S. Chamber of Commerce and Dr. John Lott, Jr., Resident Scholar, American Enterprise Institute, will share their expertise on issues related to the economics of terror. Regalia is a highly visible

national economic forecaster who has recently written on the effects of the terrorist actions on U.S. businesses. His appearance at the Winter Institute is presented in coordination with the St. Cloud Area Chamber of Commerce. John Lott is well known for his work on the economics of crime and is currently working on economic issues related to national security.

The Winter Institute program concludes with an Affordable Housing Panel consisting of King Banaian, Professor and Chair, SCSU Department of Economics, Dan Finn, Clemens Professor of Economics and the Liberal Arts and Professor of Theology, St. John's University, George Karvel, Professor and holder of the Distinguished Chair in Real Estate, University of St. Thomas, and Steve Mooney, Professor and Chair, Department of Finance, Insurance, and Real Estate, and holder of the Minnesota Chair in Real Estate, SCSU. The Winter Institute is free and open to the general public. For more information about this nationally famous gathering, contact the SCSU Center for Economic Education at 320-255-2157.

Participating businesses can look for the next survey at the beginning of March and the accompanying **St. Cloud Area Quarterly Business Report** (including the **St. Cloud Index of Leading Economic Indicators** and the **St. Cloud Area Business Outlook Survey**) in late April. Area businesses who wish to participate in the quarterly survey can call the SCSU Minnesota Economic Development Center at 320-255-4934. All survey participants will receive a free copy of the **St. Cloud Area Quarterly Business Report** on a preferred basis.

40th Winter Institute features U.S. Chamber of Commerce Chief Economist.

Affordable housing panel also on Winter Institute program.