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St. Cloud Area Quarterly Business Report, Vol. 4, No. 2

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St. Cloud Area Quarterly Business Report

Spring 2002

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Volume 4, Number 2

St. Cloud Area Economy Enters Uncharted Waters

Executive Summary

The St. Cloud economy will weather current and future layoffs at Fingerhut surprisingly well 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. Revised data from the Minnesota Department of Economic Security suggest the local economy dipped into recession during the fall of last year. While the quantitative predictions of the local leading indicators index and the business survey seem to indicate a recovery in area economic activity by late summer, exercising caution in assessing the near-term outlook seems prudent in light of the uncertainty surrounding the future of Fingerhut. If employment growth is used as a benchmark of overall area economic well-being, it is unlikely there is enough local economic strength to overcome the weakness that would result if Federated proceeds with its intention to shut down Fingerhut. A closure of Fingerhut is likely to forestall any area economic recovery until at least the end of the year.

Over the past 18 months, the St. Cloud economy has had to overcome a mild national recession as well as persistent weakness in the manufacturing sector. Overall adjusted employment growth in the St. Cloud area has been consistently negative since October 2001. A significant downsizing (or a complete shutdown) of employment at Fingerhut is quite likely to prolong these recessionary pressures for months to come. It seems highly unlikely that St. Cloud area annual job growth will return to its 2.8% long-term trend rate until well into 2003.

Without factoring in the uncertain effects associated with the future employment level at Fingerhut, the **St. Cloud Index of Leading Economic Indicators** predicts the St. Cloud area economy will grow modestly into late Summer 2002. After sharp increases in the local index in the fourth quarter of last year, the index peaked in January. The current strength of the index can be primarily attributed to strong recent gains in the U.S. Index of Leading Economic Indicators. Small increases locally in average weekly work hours of manufacturing production workers as well as new business start-ups and residential electrical hookups have also contributed favorably to 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.

Sixty-seven percent of area respondents to the **St. Cloud Area Business Outlook Survey** expect an increase in the level of business activity for their company over the next six months compared to only 6 percent who expect conditions to worsen. This is a marked improvement over the December 2001 survey in which 47 percent expected improved future business activity and 16 percent expected conditions to worsen. Businesses also expect a stronger local labor market over the next six months. Thirty-five percent of responding businesses expect to increase employment and twenty-two percent expect the length of the workweek to increase over the next six months. Respondents indicated economic activity has picked up over the past three

A closure of Fingerhut is likely to forestall area economic recovery.

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70% of surveyed firms indicate employment levels at Fingerhut impact their company.

months. Forty-one percent of surveyed businesses report the level of business activity in March was improved from three months earlier, and 27 percent indicated a decline. In December, thirty-one percent of responding firms indicated an improvement in current business conditions and 37 percent reported declining activity.

A special question in the March 2002 **St. Cloud Area Business Outlook Survey** asked area businesses to indicate the extent to which the employment level at Fingerhut influences their company's business activity. Eight percent of responding firms noted this has a "large effect" on their company, while 25% of firms indicated this has a "moderate effect." Thirty-seven percent of surveyed businesses say Fingerhut employment levels have a "small effect on their company, and 29% of respondents indicate this has "no effect." Retailers and, to some extent, housing and health care firms

appear to be the most concerned about the Fingerhut situation. Area companies which tend to focus on national and global markets seem less concerned about the direct and indirect effects of a possible closing. A second special question asked firms to identify the extent to which their business supports the use of public economic development assistance to facilitate the retention of large area employers. No surveyed firm reported they are "strongly opposed" and only 18% are "mildly opposed" to such assistance. On the other hand, 37 percent of respondents are "mildly in favor" and 10 percent are "strongly in favor" of economic development assistance for large area employers. Thirty-five percent responded "neither in favor nor opposed" to this special question. Since these incentives usually imply greater taxes for other firms (or residents), the general support for these measures is surprising.

St. Cloud Index of Leading Economic Indicators

The February 2002 **St. Cloud Index of Leading Economic Indicators** predicts the St. Cloud area economy will grow modestly (or at least not contract) into late Summer 2002. This surprisingly optimistic assessment of area economic conditions is also confirmed by those businesses who responded to the March **St. Cloud Area Business Outlook Survey**, which is described later in this report. Figure 1 shows a steady increase in the index through January, followed by a slight decline in February. The recent strength of the U.S. Index of Leading Economic Indicators is the primary reason for the rise in the local index. Small increases in average weekly work hours of manufacturing production workers, new business start-ups, and residential electrical hook-ups have also contributed to recent increases in the **St. Cloud Index of Leading Economic Indicators**. To be sure, the local index is a statistical model that does not account for events such as a possible Fingerhut shutdown, so its results need to be interpreted very cautiously. 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

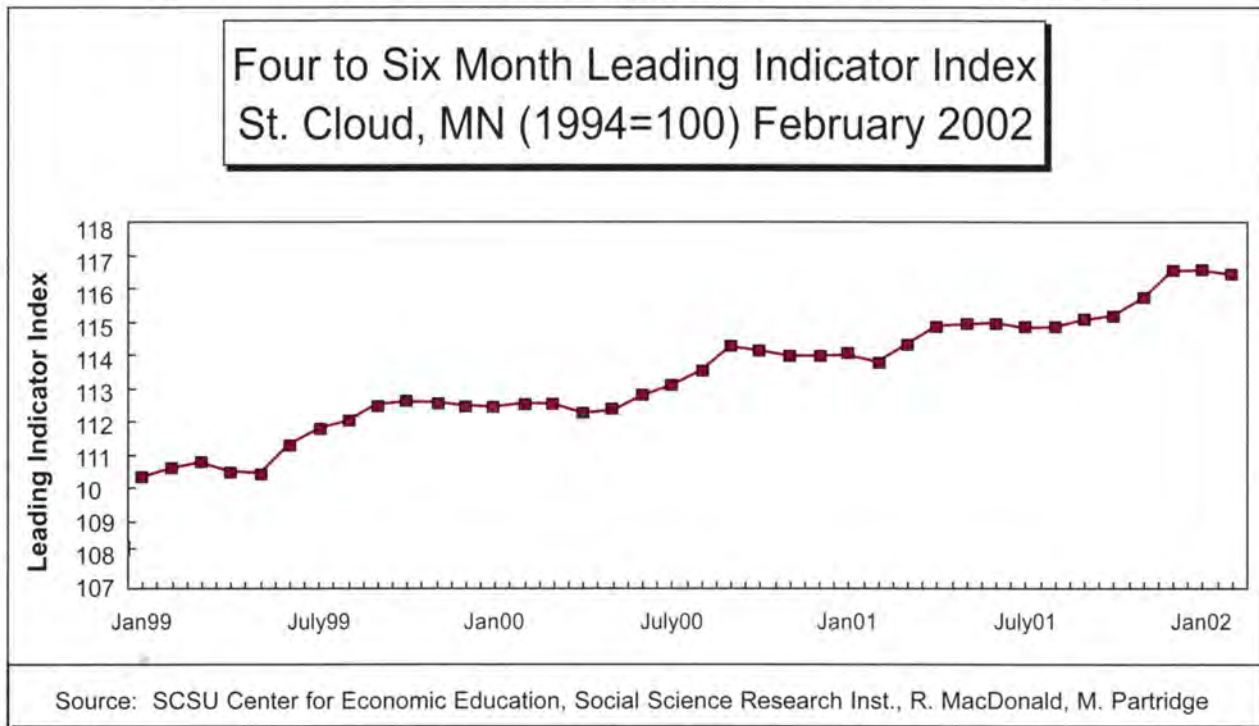
Over the last 18 months, the St. Cloud economy has suffered from a national recession, a sharp slowdown in the manufacturing sector, and the downsizing (and possible shutdown) of Fingerhut. Table 1 shows for the year ending February 2002, employment in the St. Cloud Metropolitan Area (MSA) contracted 0.1%, or about 100 jobs. On an annual basis, area employment

growth has been consistently negative since October 2001 (after adjusting for a quirk in the data due to the November 2000 strike at Frigidaire). Using employment as the basis, it appears St. Cloud entered recession in October. Continuing layoffs at Fingerhut ensure this local downturn will linger for at least the next several months. At this point, it appears highly unlikely St. Cloud area job growth will return to the 1988-2002 long-term trend growth rate of 2.8 percent until mid-2003 at the earliest.

Despite this somber outlook, it is remarkable how well the St. Cloud economy held up through the winter months. The surprisingly strong performance has occurred despite the downsizing of Fingerhut which began well before Federated's January 16, 2002 announcement that their subsidiary will close if a buyer cannot be found. From a December 1999 peak of 4,500, local employment at Fingerhut had declined to 2,670 on the eve of Federated's stunning announcement. At the time this report was going to press, several hundred additional Fingerhut workers had received lay-off notices, bringing the total decline in employment at one of St. Cloud's largest employers to about 3,000 in less than two-and-half years. Hence, it is really quite exceptional St. Cloud's year-over-year job growth rate of -0.1% was better than the -1.4% rate of job growth in the Twin Cities MSA and in Minnesota. Note that Rochester and Duluth-Superior also experienced significant job losses over the year ending February 2002. For the last several years, it has been quite common for Minnesota's job growth to exceed the national employment growth numbers. This is not the case today, as U.S. job growth fell one percent over the year ending February 2002. The only

It appears St. Cloud entered a recession in October 2001.

Figure 1--St. Cloud Index of Leading Economic Indicators (February 2002)



nearby MSAs that have experienced relatively strong economic performance in recent months include Fargo-Moorhead and Sioux Falls, each of which had positive employment growth over the last twelve months. Finally, in the most recent period, St. Cloud was one of just 40 U.S. metropolitan areas (out of a total of 322) that experienced a decline in their unemployment rate (see Table 2). Despite tough times at Fingerhut, this broader evidence suggests there are pockets of local economic strength.

Table 2 shows the St. Cloud economy would be well positioned for future growth were it not for the Fingerhut overhang. Unlike the declining St. Cloud unemployment rate over the past year, the state unemployment rate rose from 4 percent in February 2001 to 4.7 percent one year later. The unemployment rate in the Twin Cities leaped from 3 percent to 4.2 percent over the same period. Abstracting from the Fingerhut situation, another sign the local economy had begun to stabilize is the relatively small 6.2% increase in new unemployment insurance claims in the December-February quarter compared to one year earlier (note these numbers would not include any of the post-January 16 layoffs). The 32 percent increase in Minnesota unemployment insurance claims suggests the state labor market had not stabilized as of February, although recent signs do indicate improvement. Another sign of local economic strength is the 54 per-

cent increase in the value of new residential housing permits during the December-February period. This kind of underlying strength in new home construction would normally be viewed as quite favorable. However, a key problem in interpreting these housing permit data is the same period one year ago was marked by cold and snowy weather. Thus, these recent numbers may be an artifact of this year's unseasonably warm weather during the traditional winter months.

Despite these encouraging signs of economic strength in early 2002, the adverse effects of a possible Fingerhut shutdown will be severe and widespread. In assessing these effects, it is important to realize the losses to the local community are not exclusively limited to the Fingerhut workforce. The indirect effects on local retail, health care, hospitality, housing, and other industries, while difficult to measure, are nevertheless of quantitative significance. A study undertaken by researchers at SCSU, College of St. Benedict, and St. Johns University estimates the impending 2,670 layoffs announced on January 16 will result in another 682 indirect job losses. These job losses do not include the estimated 500 indirect job losses that resulted from downsizing at Fingerhut prior to January 16. Direct and indirect effects of post-January 16 Fingerhut layoffs are projected to cause an \$84 million loss of area wages. All totaled,

St. Cloud economy should bounce back in 2003.

when combined with the effects of earlier layoffs, the total projected loss of \$141 million in wages--over 5 percent of the area wage income--is bound to cause grave economic dislocation in the coming months.

Communities undergoing large economic shocks of this projected magnitude typically suffer very severe short-term outcomes. Large employment dislocations occurring during a plant shutdown are particularly challenging because the laid-off workforce usually possesses similar skills and experience. There are likely a limited number of jobs in the St. Cloud area which require those skills possessed by displaced Fingerhut workers. These workers face periods of unemployment longer than average, and displaced older workers are likely to take a large pay cut when work is eventu-

ally found. With the local economy unable to absorb job losses of this magnitude in the short run, families will naturally turn to stronger regional and national markets to seek employment. In the past, it would have been quite common for families to relocate to the Twin Cities or commute during such times. But the "metro" economy is also struggling, suggesting displaced area workers might be forced to look to more distant job markets to seek employment. Another possibility, particularly for younger Fingerhut workers, is to develop more transferable skills by pursuing advanced education or vocational training. This could have a favorable effect on enrollments at local post-secondary educational institutions. While displaced Fingerhut workers will qualify for unemployment insurance benefits, this is only a short-term cushion

Table 1--Employment Trends

	St. Cloud Employment Trends in Percent			Minnesota Employment Trends in Percent			Twin Cities Employment Trends in Percent		
	Long Term Trend Growth Rate	Feb 01- Feb 02 Growth Rate	Feb 2002 Employment Share	Long Term Trend Growth Rate	Feb 01- Feb 02 Growth Rate	Feb 2002 Employment Share	Long Term Trend Growth Rate	Feb 01- Feb 02 Growth Rate	Feb 2002 Employment Share
	Total Nonagricultural 1988-2002	2.8%	-0.1%	100.0%	2.1%	-1.4%	100.0%	2.0%	-1.4%
Total Nonagricultural 1992-2002	2.7%	-0.1%	100.0%	2.1%	-1.4%	100.0%	2.2%	-1.4%	100.0%
GOODS PRODUCING 1992-2002	1.9%	-3.8%	21.6%	0.9%	-5.1%	19.7%	0.8%	-3.7%	19.3%
Construction & Mining 1992-2002	3.6%	-4.8%	3.6%	4.7%	-0.8%	4.1%	6.1%	6.4%	4.1%
Manufacturing 1988-2002	2.8%	-3.6%	18.0%	0.5%	-6.2%	15.6%	0.0%	-4.8%	15.2%
Durable goods 1992-2002	3.0%	-5.0%	10.0%	0.9%	-7.4%	9.2%	0.6%	-5.4%	9.2%
Nondurable goods 1992-2002	2.1%	-1.8%	8.0%	0.0%	-4.5%	6.4%	-0.4%	-4.0%	6.0%
SERVICE PRODUCING 1992-2002	2.6%	0.9%	78.5%	2.3%	-0.4%	80.3%	2.5%	-0.8%	80.7%
Transportation & Public Utilities 1988-2002	2.8%	1.3%	3.7%	1.7%	-6.6%	4.8%	1.6%	-7.4%	5.2%
Trade 1988-2002	2.3%	-1.3%	27.2%	1.7%	-1.1%	23.5%	1.6%	-1.4%	23.4%
Wholesale Trade 1988-2002	4.5%	3.8%	5.5%	1.7%	-1.2%	5.8%	1.4%	-2.1%	5.9%
Retail Trade 1988-2002	1.8%	-2.5%	21.7%	1.7%	-1.1%	17.8%	1.6%	-1.1%	17.5%
Finance, Ins., & Real Estate 1988-2002	4.3%	5.4%	3.8%	2.4%	-0.3%	6.3%	2.6%	1.4%	7.7%
Services 1988-2002	4.6%	3.4%	28.7%	3.4%	-0.1%	29.7%	3.3%	-0.7%	30.2%
Health Services 1992-2002	3.4%	2.3%	8.3%	2.7%	2.4%	8.8%	2.3%	1.1%	7.4%
Educational Services 1992-2002	3.0%	0.1%	4.3%	3.2%	7.4%	1.8%	3.5%	7.0%	1.6%
Other Services 1992-2002	5.4%	4.8%	16.0%	3.3%	-1.9%	19.1%	3.5%	-1.8%	21.3%
Government 1988-2002	1.0%	-0.8%	15.0%	1.7%	2.1%	15.9%	2.0%	2.1%	14.2%
Federal 1992-2002	0.5%	1.0%	1.8%	-0.2%	0.2%	1.3%	-0.3%	-0.8%	1.3%
State 1992-2002	1.3%	-1.1%	4.5%	0.7%	1.7%	3.5%	1.4%	4.3%	3.9%
Local 1992-2002	1.5%	-1.0%	8.7%	2.2%	2.4%	11.1%	2.6%	1.7%	9.1%

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

	2002	2001	Percent Change
St. Cloud MSA Labor Force February (MN Workforce Center)	102,355	100,760	1.6%
St. Cloud MSA Civilian Employment# February (MN Workforce Center)	97,248	95,442	1.9%
St. Cloud MSA Unemployment Rate* February (MN Workforce Center)	5.0%	5.3%	NA
Minnesota Unemployment Rate* February (MN Workforce Center)	4.7%	4.0%	NA
Mpls-St. Paul/MSA Unemployment Rate* February (MN Workforce Center)	4.2%	3.0%	NA
St. Cloud Area New Unemployment Insurance Claims December- February Average (MN Workforce Center)	795.3	748.7	6.2%
St. Cloud Times Help Wanted Ad Linage December- February Average	3,961	4,997	-20.7%
St. Cloud MSA Residential Building Permit Valuation (\$1,000) December-February Average (U.S. Dept. of Commerce)	6,072	3,938	54.2%
St. Cloud Index of Leading Economic Indicators February (SCSU)	116.4	113.8	NA

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

that will lapse after a few months. While communities that experience large dislocations such as a plant closure will ultimately recover after several years, the near-term human anguish caused by such an event is indisputable.

Even if Federated finds a buyer, it seems likely the workforce at Fingerhut will be trimmed down with a corresponding reduction in compensation. Even under this more optimistic scenario, the area economy is likely to struggle through 2002. However, as is evident from the responses found in the **St. Cloud Area Business Outlook Survey**, there are pockets of the area economy that will fare well over the next year. The local firms which stand to benefit from improved national conditions (especially in the manufacturing sector) are among those likely to have a strong year. Most observers believe the national recovery has been underway for a few months and is now poised, failing a major shock such as September 11 or a dramatic increase in energy prices, for a return to normal rates of growth (see the SCSU Macroeconomic Forecasting Project at <http://coss.stcloudstate.edu/banaian/scmfp/index1.htm> for an example of the robust national economic growth being forecast for the next several quarters).

The St. Cloud Area Sectoral Outlook

Table 1 shows construction, manufacturing, and retail trade are the area's lagging sectors in terms of job growth (the nature of the decline in government

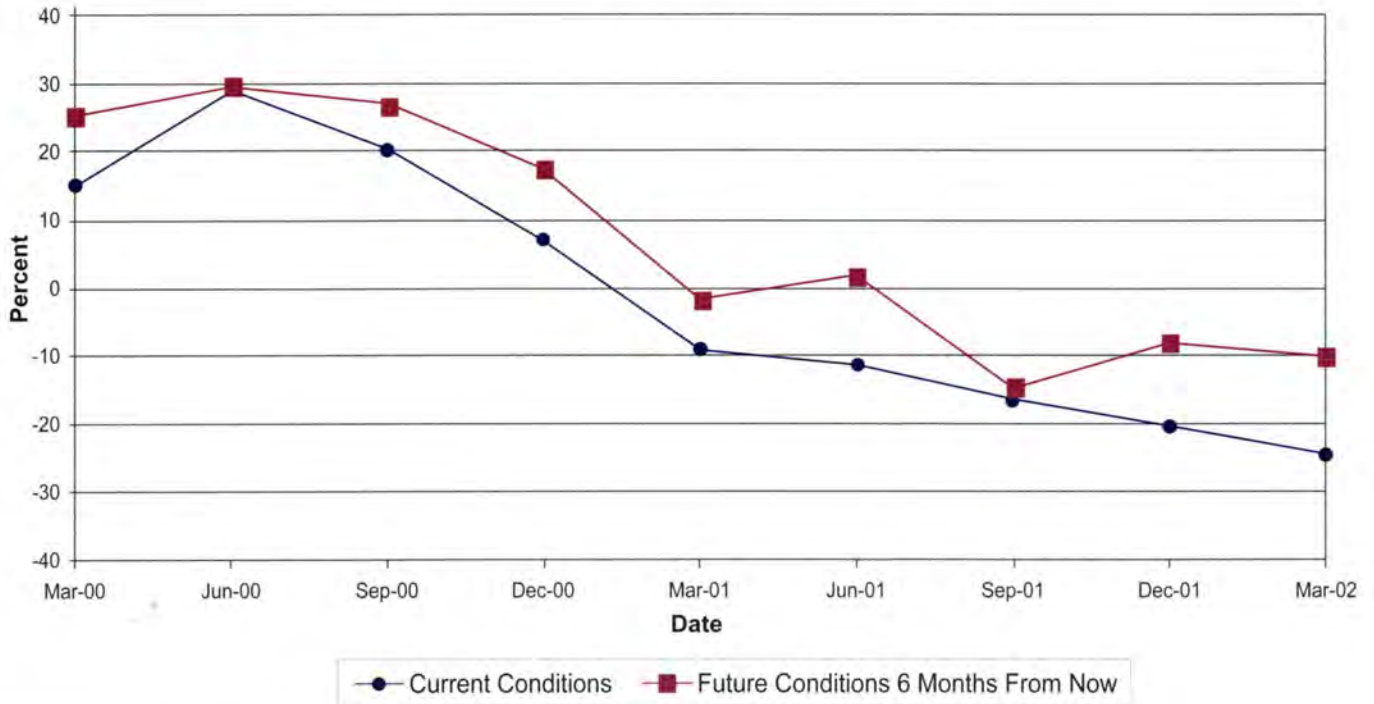
employment is difficult to assess due to the month-to-month volatility in government sector employment estimates). Construction employment was down 4.8% over the year ending February 2002. Improved weather, strong increases in new residential home permits, and a relatively healthy commercial construction sector all seem to indicate employment in this sector is likely to improve in the near future. Should Fingerhut close, elements of the local housing market (for example, some new home and multi-unit housing construction) are likely to suffer, yet this may be offset by the low-interest environment which has now been in place for several months. While the Federal Reserve is likely to begin a credit tightening process by the beginning of summer, this is unlikely to cause much change in long-term interest rates and seems fairly benign in its effects on local residential construction.

Local manufacturers shed 3.6 percent of their workforce over the year ending February 2002 (by comparison, state and national manufacturing employment fell 6 and 7 percent, respectively, over the same period). This sector is poised for improvement, both locally and nationally, over the last half of 2002. Average weekly hours worked by production workers are on the upswing which will ultimately lead firms to increase new hires instead of paying increased overtime to their existing workforce.

Table 1 also shows a decline of 2.5 percent in local retail employment over the past year. Keeping in mind

There are pockets of the area economy that will fare well over the next year.

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



this sector includes Fingerhut, which was downsizing through much of 2001, retail is holding up surprisingly well. It must be noted, however, about one-fourth of the adverse indirect effects from a possible Fingerhut shutdown are likely to appear in this sector. Therefore, it is likely to be another tough year for area retailers.

The foundation for the local economy's remarkable 20 year run of persistent growth has been its diversity. While this diversity still remains, it has been unable to prevent the local economy from entering its first recession in two decades. Thus, while most sectors of the St. Cloud economy are still showing signs of reasonably strong growth (the same cannot be said for the state or the Twin Cities MSA), weakness in manufacturing, retail, and, to some extent, construction has dragged down the local economy. The local finance, insurance, and real estate (FIRE) sector has fared quite well over the last twelve months. Employment in "other services" (this includes such interests as hotels and professional & business services) also grew at a healthy rate over the year ending February 2002. Since this sector accounts for 16 percent of area jobs, continued strength in "other services" is likely to be extremely important in upcoming months.

St. Cloud Area Labor Market Conditions

As shown in Table 2, help-wanted ad lineage in the St. Cloud Times fell 21 percent over year earlier levels during the December-February period. This decline, while better than the approximate 29 percent national drop in help-wanted ad lineage reported by the Conference Board, may be a little misleading. The February 2002 numbers, for example, are particularly weak. Moreover, recent help-wanted lineage is down 32% from the corresponding December to February period two years ago. While information technologies have probably led some firms to adjust the way they seek employees, it is unlikely this explains the magnitude of the decline in help-wanted ad lineage. This severe decline in job advertising is not typical in the initial phases of an economic recovery and is fully consistent with the view that either area employers are not looking for additional workers, or employers can easily attract applicants without spending money on newspaper advertisements.

Recent local labor market conditions are markedly softer than the boom period of the late 1990s. While the five percent February 2002 unemployment rate was lower than it was one year earlier, it is well

Recent local labor market conditions are markedly softer than the boom period of the late 1990's.

above the 3.7% rate which was observed in February 1999. Softness in the local labor market aggravates the problem of absorbing an additional 2,670 Fingerhut workers who may soon lose their jobs. While a few local firms may welcome an expanded labor pool from which they can hire, this is likely to be the exception, not the rule. The next several months is destined to be a challenging time for less-educated individuals to find work in the St. Cloud area.

There has been no evidence of a local labor shortage for well over a year. This pattern is once again confirmed by Figure 2, which shows the trend in the diffusion index (the percent of surveyed businesses responding "increase" minus the percent answering "decrease") of the quarterly **St. Cloud Area Business Outlook Survey** question asking businesses to evaluate their company's difficulty attracting qualified workers. Survey responses from local firms indicate only 6.1 percent of surveyed firms believed it was more difficult to attract qualified workers in March than in December, while 30.6 percent believed it was easier. This diffusion index has declined every quarter since June 2000. Looking ahead six months, the respondents' expectations are essentially unchanged from the December survey, with the overall diffusion index being slightly weaker in the current period. More respondents expect it will be easier to attract qualified applicants in six months than those who expect it will be more difficult. There is no question the local labor market continues to be much softer than in the late 1990s.

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. 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 March 2002 versus three months earlier. Results from Table 3 compare favorably to those reported in the December 2001 survey. It appears many area firms experienced stronger 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 increased from -6.1 to 14.3 in the current period. Forty-one percent of surveyed firms reported an increase in business activity in this most recent quarter while 27% noted it had decreased. One firm notes "weather is affecting the start of our main season." Another writes "the interest rate is the biggest factor in impacting our business. Public perception of what the economy is about to do, or doing is another. Competition is another." Interest rates and credit conditions are affecting one area firm which states "ability to deliver (our products) is negatively affected by the inability of our customers to obtain financing." One area firm identifies the "national economy (and) competition from China" as impacting its business. "National economy seems to be increasing along with our activity. Northeast U.S. is opening up" writes another area firm. Finally, one area firm reports "very strong optimism and confidence in the near future with regards to local and state economy. A sense of urgency to be ready as the pace of business picks up speed."

The diffusion index for number of payroll employees suggests an improvement from December. The index rose from -6.1 in December 2001 to 14.3 in March. The index on the length of the workweek declined from zero to -6.1 over the past three months. Area firms may have cut back on overtime hours and turned to new hires over the past quarter. Thirty-nine percent of surveyed firms indicate employee compensation increased in recent months. This is up sharply from a 16 percent response to the same item in December. The -24.5 diffusion index for the question asking area firms their evaluation of the difficulty attracting qualified workers over the past three months (discussed in the previous section) is a continuation of the trend observed for nearly two years. Most area firms are finding it easier to hire qualified workers. This is, of course, likely to get even easier if Fingerhut shuts down. It is worth noting that episodic reports still come in from area employers who indicate they are still having difficulty finding qualified workers (with specific skills) in their business.

Over the past quarter, surveyed firms have, on average, been unable to pass on price increases to customers. The diffusion index in this category remained negative (although it did increase from -16.3 to -2.0) over the December to March period. Only fourteen percent of respondents indicated prices received were higher in March than they were three months earlier. This was offset by the 16 percent who noted lower

Many area firms experienced stronger business activity over the past three months.

Survey respondents believe the national economy has improved.

Prices received are expected to rebound over next six months.

prices over the quarter. Over the past three months, respondents increasingly thought the national economy has improved. The diffusion index on national business activity increased from -12.2 to 0 over the past three months. Note this is a strong improvement over September 2001 when the index stood at -22.2.

There has been a recent rebound in area firms' capital expenditures. Twenty-five percent of surveyed businesses expanded capital purchases last quarter. This is a nice improvement from only 12 percent who reported increased capital expenditures in the December 2001 survey. This is one sign that many area firms are expecting improved economic conditions in the next several months.

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 March 2002 are reported in this table. The diffusion index for the question asking about the level of future business activity for area companies is 61.2 (up sharply from a value of 30.6 three months ago). Only 6 percent of surveyed businesses expect worsening business conditions over the next six months, which is a marked improvement over the September 2001 survey when 26 percent of firms expected weaker future conditions.

When compared to the results of the December 2001 survey, business respondents expect a somewhat softer labor market over the next six months. For example, the index on the survey item which asks about anticipated payroll employment is down from 32.7 to 26.5 over the past three months. Thirty-five percent of firms expect to increase hiring over the next six months (the corresponding number was 39% in December). While this is encouraging, it is not of the magnitude that will allow displaced Fingerhut workers to be easily absorbed by area employers. The diffusion index on length of the workweek is also modestly lower than it was in December. It should also be noted 61 percent of surveyed firms expect to increase employee compensation over the next six months and only 2 percent expect a decline. Finally, area firms continue to expect little trouble finding qualified workers. The diffusion index on this item is little changed from its December value. The labor market isn't the only area in which relative weakness is likely to be observed. Only 27 percent of surveyed firms report plans to increase capital expenditures over the next six months. This is down from a 35 percent response to this same item in the December survey.

Two areas about which surveyed businesses expect substantial improvements are prices received and national business conditions. After years of mixed success raising prices, area businesses are now poised

continued on page 12

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

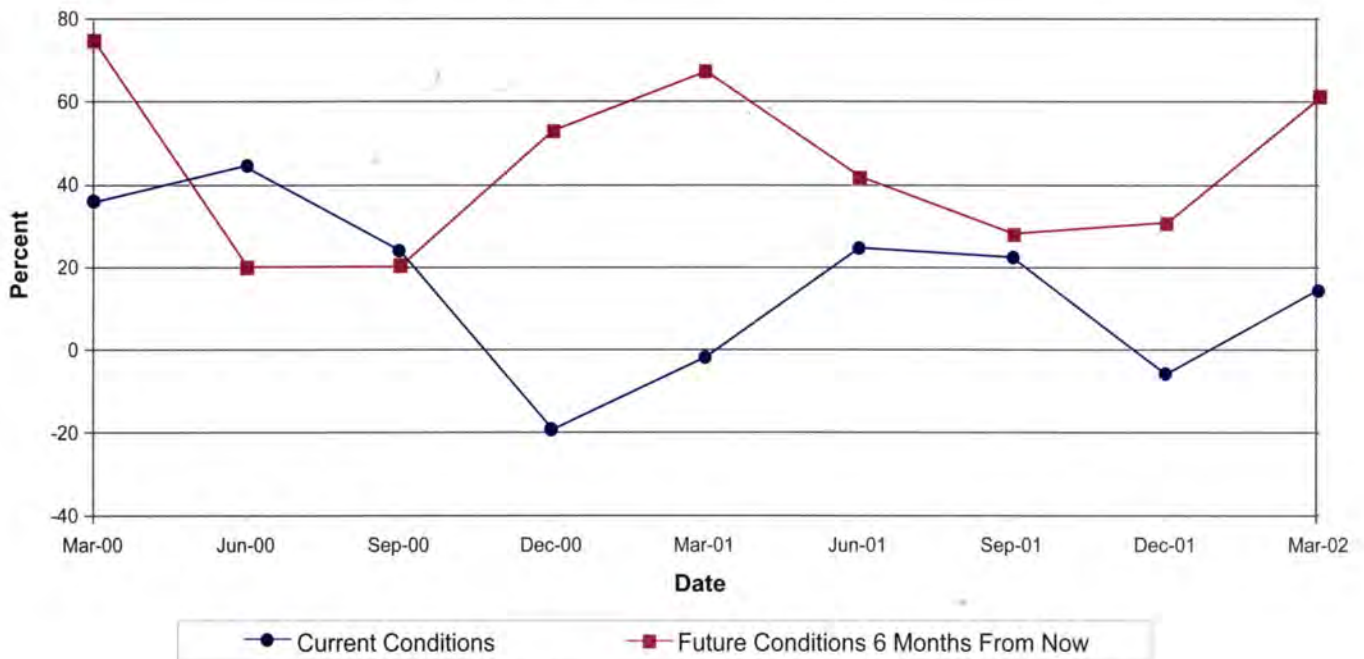


Table 3--Current Business Conditions*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary March 2002 <i>What is your evaluation of:</i>	March 2002 vs. Three Months Ago				December 2001 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
Level of business activity for your company	26.5	32.7	40.8	14.3	-6.1
Number of employees on your company's payroll	18.4	49.0	32.7	14.3	-6.1
Length of workweek for your employees	16.3	73.5	10.2	-6.1	0
Capital expenditures (equipment, machinery, structures, etc.) by your company	18.4	57.1	24.5	6.1	-4.1
Employee compensation (wages and benefits) by your company	4.1	57.1	38.8	34.7	10.2
Prices received for your company's products	16.3	67.3	14.3	-2.0	-16.3
National business activity	18.4	44.9	18.4	0	-12.2
Your company's difficulty attracting qualified workers	30.6	63.4	6.1	-24.5	-20.4
<p>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.</p> <p>* SOURCE: SCSU Center for Economic Education, Social Science Research Institute, and Department of Economics</p>					

Table 4--Future Business Conditions*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary March 2002 <i>What is your evaluation of:</i>	Six Months from Now vs. March 2002				December 2001 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
Level of business activity for your company	6.1	22.4	67.3	61.2	30.6
Number of employees on your company's payroll	8.2	53.1	34.7	26.5	32.7
Length of workweek for your employees	6.1	67.3	22.4	16.3	20.4
Capital expenditures (equipment, machinery, structures, etc.) by your company	14.3	55.1	26.5	12.2	22.5
Employee compensation (wages and benefits) by your company	2.0	32.7	61.2	59.2	55.1
Prices received for your company's products	2.0	44.9	44.9	42.9	26.5
National business activity	6.1	26.5	44.9	38.8	14.3
Your company's difficulty attracting qualified workers	20.4	63.3	10.2	-10.2	-8.1
<p>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.</p> <p>* SOURCE: SCSU Center for Economic Education, Social Science Research Institute, and Department of Economics</p>					

Special Question #1: The Effect of Fingerhut Area Business

A special question of the **St. Cloud Area Business Outlook Survey** asked area business leaders to assess the extent to which the employment level at Fingerhut influences their company's business activity. As discussed above, the direct and indirect effects of a possible closing of Fingerhut are likely to be large, accounting for a significant share of overall wage income in the St. Cloud area. Respondents to the **St. Cloud Area Business Outlook Survey** were remarkably upbeat about the future prospects for their company in the face of such uncertainty about a particularly large area employer. While many area employers are understandably neither directly or indirectly affected by events at Fingerhut (other than hiring workers and purchasing some supplies), it is likely others are certain to be impacted by a possible decision to close Fingerhut. This survey item reports the extent to which area business survey respondents are likely to feel the effect of a closing of Fingerhut. Surveyed businesses were also asked to comment on how uncertainty about future employment at Fingerhut has affected their business planning. For the most part, those businesses most concerned about the Fingerhut situation are in the local retail, housing, and construction markets. Businesses competing in national and global markets seem unconcerned about the impact of employment at Fingerhut on their operations. Only 29 percent of surveyed businesses indicated employment levels at Fingerhut have no effect on their business. On the other hand, a combined 33 percent expect this to have a moderate or large effect on their business. Even 37 percent of those surveyed say the employment level at Fingerhut has a small effect on their company. It is interesting to reconcile these numbers with those reported in Table 4 above. Area businesses seem to be widely optimistic in their responses in Table 4, but those results reported in Table 5 suggest taking a more cautious approach until more is known about the direct and indirect effects of a possible change in the level of employment at Fingerhut.

TABLE 5--Special Question 1--The Effect of Fingerhut on Area Businesses

To what extent does the employment level at Fingerhut influence your company's business activity?*

Large Effect 8.2	Moderate Effect 24.5	Small Effect 36.7	No Effect 28.6	No Response 2.0
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* reported results are percent of surveyed businesses.

Selected Survey Responses

Business leaders were asked to comment on how the uncertainty about future employment at Fingerhut has affected their business planning. These comments include:

- ◀ Some bid work "put on hold".
- ◀ I expect that if Fingerhut really does completely liquidate, it will be extremely difficult, if not impossible, to isolate whether or not Fingerhut or something else really "caused" anything specific to occur at our business. Nearly nothing changes our business plan from continually increasing our promotional efforts to attempt to increase our share of the market. We can do little to change the size of the [business] pie, but we can do more to attempt to gain a larger piece of the pie. We must continue to grow regardless of other employers leaving the market or more competitors entering the market.
- ◀ Demand for [our] materials will be less, corresponding with less demand for new houses and expanded service businesses.
- ◀ Attempt to determine how we can assist displaced workers.
- ◀ Keeping it somewhat at a wait and see status.
- ◀ We have little to no economic effect from Fingerhut. The loss of jobs and corresponding loss of demand in our local economy is a moderate concern for many of our clients.
- ◀ More psychological than anything.
- ◀ Has caused us to reduce forecast.
- ◀ Our company won't be able to tell the effects until 2-3 months from now.
- ◀ The statewide economic condition impacts our planning to much greater degree than the local economy.
- ◀ Depending on where they spend the salaries, it could have a more moderate effect on our business.
- ◀ I don't believe these people would use [our] company.
- ◀ The ripple effect that affects this industry has our company reforecasting revenue monthly vs. quarterly one year ago.
- ◀ With layoffs in the area, getting quality help increased. We'll hire some of these people in the next 3 months. We're adding [square footage] to our [firm] this spring.
- ◀ Large effect-[customers] are holding money. 2700 people are not buying cars/homes.
- ◀ Our business activity...is very strong and has every indication to continue to rise...
- ◀ Yes-unable to plan for services to be offered.

Special Question #2: Support for the Use of Public Economic Development Assistance to Retain Large Area Employers

A second special question asked employers to comment on the extent to which their business supports the use of public economic development assistance to facilitate the retention of large area employers. Economists are generally very skeptical about the use of such economic development tools. It is argued subsidies to businesses create economic inefficiencies that cause productive resources to be misallocated (i.e., to receive favorable economic incentives, firms locate in areas where they are less productive). Such subsidies can put other businesses at a competitive disadvantage and can cause adverse indirect effects including higher taxes for other firms and/or residents. Even more supportive economists offer only limited cases where such incentives should be utilized. Examples include retaining very-high wage employers, retaining firms who may in turn attract additional suppliers, and attracting job opportunities to areas with persistently high unemployment and poverty.

On the other hand, many (usually noneconomists) consider such economic development assistance to be a necessary evil. As long as other communities use it, it is important to utilize this assistance yourself so as not to lose competitive balance. The favorable spillover effects that arise when a business locates in a community is often touted as a key advantage. The use of public economic development assistance has, to date, seemingly never been a major issue in the discussion of the future of Fingerhut. But with highly visible use of such assistance in the St. Cloud area in recent years, it is interesting to see the extent to which area business leaders support the use of economic development assistance to retain our largest employers. The results clearly indicate a willingness on the part of business leaders to provide public assistance to retain large area employers. Almost one-half of survey respondents indicated they were either "mildly in favor" or "strongly in favor" of this assistance. Only 18 percent of respondents say they are "mildly opposed" to public monies for large businesses. No businesses were strongly opposed to the use of this economic development tool.

TABLE 6-Special Question 2-Support for the Use of Public Economic Development Assistance to Retain Large Area Employers

To what extent does your business support the use of public economic development assistance to facilitate the retention of large area employers?*

Panel A: Survey Results

Strongly Oppose	Mildly Oppose	Neither in Favor Nor Opposed	Mildly in Favor	Strongly in Favor
0	18.4	34.7	36.7	10.2

* reported results are percent of surveyed businesses.

Panel B: Selected Survey Responses

Business leaders were asked to comment on their responses. These responses include:

- ◀ The experience with [many of our large area employers] is a good example of corporate greed and the local cities' inability to control what happens after they have given funds and other perks away.
- ◀ Retention is easier and cheaper than acquisition.
- ◀ Each situation is different, however, in the case of Fingerhut, I don't believe public economic development funding would help. Further, I don't think government entities should shower businesses with public money to try to get it to relocate or stay in a particular city. But that appears to be the reality of business recruitment today.
- ◀ [Only support this] if there is a no risk return on investment.
- ◀ Clearly, economic development assistance is a mixed bag. I feel somewhat more positive about public expenditures to retain businesses than to attract new business. Even though I dislike this govt. interference/blackmail, as long as other competing governmental agencies have this tool/weapon, we must be prepared to use this tool wisely...especially in a state with its grossly non-competitive business tax climate...Bottom line, I'd like to see no development assistance of this type anywhere in the U.S. But if it's going to be offered anywhere, then we probably need to be ready to join the crap-shoot.

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to increase prices over the next several months. Forty-five percent of survey respondents indicate they plan to increase prices by the end of summer. Only 2% expect to reduce prices. This is much improved from responses in, say, December 2000 when only 21 percent of firms expected to raise prices. This also hints at the inflationary pressures likely to lead the Federal Reserve to tighten credit later this year. Respondents also expect national conditions to improve dramatically over what was observed in recent quarters. Forty-five percent of respondents expect national business activity to increase. Only 6 percent of area firms expect national conditions to deteriorate. In the December 2001 survey, only 25 percent of firms expected an improvement in national business activity.

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 rise in the diffusion index on current business activity over the past three months. This index is now at 14.3 (its record high of 67.8 was recorded in June 1999, while its low of -19.3 occurred in December 2000). This period's future

business activity diffusion index shows a significant improvement over last period's index. Although it remains lower than the all-time high of 74.6 recorded in March 2000, a recorded value of 61.2 is very high considering the many obstacles to broad-based growth the area economy is likely to encounter over the next several months.

Participating businesses can look for the next survey at the beginning of June 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 July. Area businesses who wish to participate in the quarterly survey can call the SCSU Center for Economic Education at 320-255-2157. All survey participants will receive a free copy of the **St. Cloud Area Quarterly Business Report** on a preferred basis.