

Summer 2001

St. Cloud Area Quarterly Business Report, Vol. 3, No. 3

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St. Cloud Area Quarterly Business Report

Summer 2001

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Volume 3, Number 3

St. Cloud Area Growth Slows

Executive Summary

The St. Cloud area economy should experience modest growth 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 the local economy is growing at a slower rate than was observed one year ago, there is ample evidence that growth will continue through the end of the year. The local economy continues to outperform the national and state economies and is among the leaders in economic growth in the North Central U.S. Although there has been sluggish growth in area manufacturing employment in recent months, local manufacturers may take comfort in the fact that they have been able to avoid the slump in this sector that has been observed around the state and nation. While area firms report that rising energy prices have adversely affected their profitability in recent months, there appears to be little evidence at this time that an overall decline in local economic activity will be observed in the foreseeable future.

The **St. Cloud Index of Leading Economic Indicators** has risen in recent months. Continued strong growth in new residential electrical hook-ups as well as recent improvements in the U.S. leading economic indicators index have contributed favorably to the local index. A decline in the local average manufacturing production workweek and in the number of new business startups have offset some of the gains observed in the St. Cloud area index. Area nonfarm employment grew at a rate of 1.2% over the year ending May 2001. This

exceeds the rate of national and state job growth over the same period. It is, however, much slower than the 5.0 percent rate of job growth that was experienced in the St. Cloud area in early 2000.

Fifty-seven percent of area businesses participating in the **St. Cloud Area Business Outlook Survey** expect an increase in the level of business activity for their company over the next six months. This compares to 15 percent who expect conditions to worsen. This is a modest improvement over conditions observed in the recently concluded quarter. Twenty-one percent of surveyed businesses report that business activity was lower in June 2001 than it was three months earlier while forty-five percent of responding firms reported an increase in their company's business activity over the past three months. Continuing a trend that has been observed over the past year, the local labor shortage is no longer a primary concern of surveyed employers. Only 15 percent of surveyed businesses indicate that they expect increased difficulty attracting qualified workers in six months. This is almost completely offset by thirteen percent who expect a decrease in the difficulty finding workers. Only about thirteen percent of survey respondents indicate that the labor shortage worsened over the recently concluded quarter while 1 out of every 4 businesses report a decrease in their difficulty attracting qualified workers over the three months ending June 2001. In addition, only 32% of surveyed firms expect to increase the number of employees on their company's payroll over the next six months (the corresponding number in the March 2001 survey was 60%). Fifteen percent of

St. Cloud
area economy
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57% of surveyed firms expect an increase in business activity.

businesses expect an actual decline in payroll employment by the end of the year (only 2% expected such a decline in the survey conducted three months ago).

A special question in the June 2001 **St. Cloud Area Business Outlook Survey** asked St. Cloud area businesses to indicate how they felt about the use of public money to build a professional baseball stadium in the Twin Cities. Results were mixed, with about equal numbers of businesses being "strongly opposed", "mildly opposed", "neither opposed nor in favor", or "mildly in favor" of the stadium issue. A smaller number of businesses indicated that they are "strongly in favor" of this proposal. While this issue appears to have lapsed in the recently concluded legislative session, these mixed responses indicate that both future support

and opposition can be found in the area business community if the issue makes a comeback next year.

A second special question asked business leaders to indicate the extent to which their firm's profitability has been affected by rising energy prices in recent months. Forty-two percent of surveyed firms indicate that profitability has been "mildly affected" and 30% report being "moderately affected" by rising energy prices. The profitability of seventeen percent of surveyed businesses has been "strongly affected" by rising energy prices while nine percent of firms indicate that this has had "no effect". Most area firms must welcome the recent decline in fuel prices that has been observed in the St. Cloud area.

St. Cloud Index of Leading Economic Indicators

The May 2001 **St. Cloud Index of Leading Economic Indicators** predicts that the St. Cloud area economy will continue to grow at a reasonable pace through Fall 2001. Although the local area has experienced a slowdown over the past year, the indicators series suggests that area economic growth may improve over the next few months. Figure 1 shows that the index reached three consecutive record highs beginning in March of this year. The recent increase in the **St. Cloud Index of Leading Economic Indicators** has been primarily caused by a persistent rise in the number of local residential electrical hook-ups as well as a strengthening of the U.S. leading economic indicators index. This latter indicator hints at a firming of the national economy. A decline in the local average manufacturing production workweek, along with a fall in the number of new business start-ups have had an unfavorable effect on the local 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.

The St. Cloud Area Overall Outlook

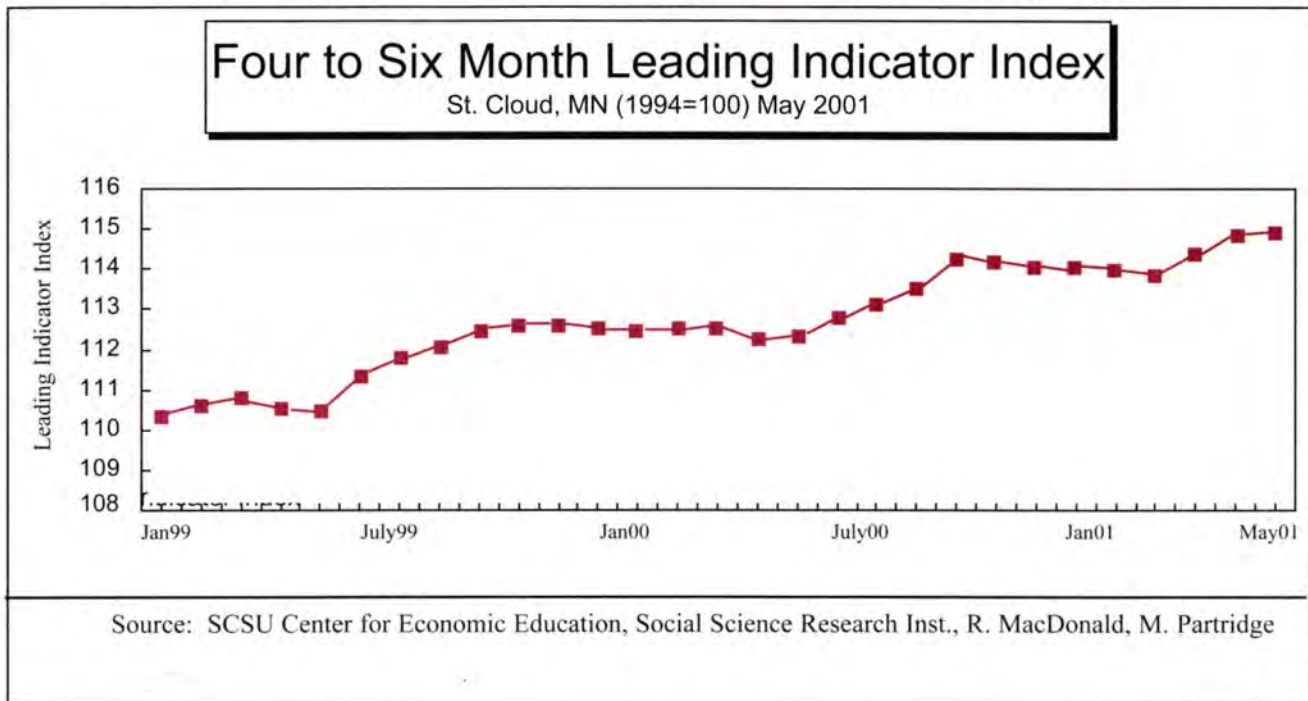
Economic growth in the St. Cloud area has declined rather sharply over the past year. For the year ending May 2001, St. Cloud Metropolitan Statistical Area (MSA) nonfarm employment grew

at a sluggish 1.2% rate compared to a sizzling 5% rate of job growth at the beginning of 2000. Some of this slowdown is to be expected given the unsustainable pace of local growth experienced in the St. Cloud area in recent years. But local layoffs in retail and manufacturing have certainly taken their toll on area businesses and workers. This has helped push area employment growth well below the 3.1% trend rate of job growth over the 1988-2001 period. But to put this in perspective, it should be noted that the area economy does continue to grow, and there are few signs that an actual recession (which is, among other things, characterized by *falling* employment) might arise in the near future. Consequently, we remain reasonably optimistic that the area economy will not worsen by year end.

Local job growth continues to outpace both state and national employment growth. U.S. and Minnesota nonfarm employment grew an anemic 0.4% and 0.8%, respectively, over the year ending May 2001. Rochester MSA employment led the state with a 2.9% growth rate over the past year while job growth in the Twin Cities was just 1.0% and employment actually declined by 0.3% in the Duluth-Superior MSA over the year ending May 2001. Declining employment and sharply higher unemployment rates in northeastern Minnesota suggest that the Arrowhead region of Minnesota

Recent local employment growth is below its long term trend.

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



may be on the verge of slipping into a recession. It should be noted that employment has also declined in the Fargo-Moorhead MSA and the Grand Forks MSA over the past year. Considering these pockets of weakness in many regional economies throughout the north central U.S., the relatively strong performance of the St. Cloud area economy is to be applauded.

One reason why the area continues to enjoy reasonable growth is the surprising relative strength of local manufacturers. While local manufacturing employment is only up by 0.7% over the year ending May 2001, this is far superior to the respective decline of 1.5% and 3.3% in state and national manufacturing employment over the same period. The national manufacturing sector has slumped since Spring 1998. Most observers attribute this slump to a rather persistent appreciation in the value of the dollar, a recent weakening of the domestic economy, continued weakness of foreign economies, and hyper-competitive global markets, among other things. The recession in national manufacturing has, of course, caused economic dislocations elsewhere in the U.S. economy. So it must be a relief to area businesses and workers that with all of this recent weakness in national manufacturing (employment in this sector has declined by 5.3% since May 1998), overall local manufacturing employment has increased by a rather

remarkable 11.5% over the past three years. To be sure, some area manufacturers are experiencing lean times. Nondurable manufacturing employment fell 0.6% over the year ending May 2001. This weakness is further reinforced by a decline in the average manufacturing production workweek since the start of the year. It will bear watching to see if local manufacturers can continue to dodge the recession that has recently plagued their national counterparts.

One explanation of the relative strength of the St. Cloud economy over the past year is its small share of "new-economy" industries. While national employers have struggled under restructuring in the telecommunications industry as well as the well-publicized shake-out of "dot.com" firms, St. Cloud has remained fairly insulated from these pressures. It should be noted that, while this has had a seemingly favorable effect on the local economy in the short-term period, the lack of high-tech, "new economy" firms could deal a long-term blow to the local economy as these firms represent likely candidates for significant future growth in high-wage employment.

A steady inflow of new residents has been a major factor underlying St. Cloud's two decade run of economic prosperity. There appears to be little evidence that the continued growth of the area

Area
manufacturers
outperform
national
counterparts.

There is little evidence that the continued growth of the area labor force will end any time soon.

labor force will end any time soon. New residential electrical hook-ups continue to show solid growth and Table 2 shows that the Minnesota Department of Economic Security estimates that the area labor force grew at a 4.8% rate over the year ending May 2001. Overall, Minnesota's labor force growth shows a healthy 4.4% increase (the comparable U.S. figure is 0.5%). These strong labor force figures seem to contradict reports from the U.S. Census Bureau. Recent 2001 census figures suggest that the St. Cloud area population grew at about the same rate as the state average in the 1990s. But a recent Minneapolis *StarTribune* article called some

of these numbers into question by pointing out that the Bureau of the Census apparently missed large numbers of institutionalized residents (including those around SCSU and the St. Cloud prison). There is perhaps good reason to expect the Census figures to be adjusted to reflect these additional residents. This would make the population figures more consistent with observed labor market data.

At this time, the key local economic uncertainty is the national outlook. There are certainly pockets of weakness in the national economy and we continue to receive mixed signals about the pace of

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	May 00- May 01 Growth Rate	May 2001 Employment Share	Long Term Trend Growth Rate	May 00- May 01 Growth Rate	May 2001 Employment Share	Long Term Trend Growth Rate	May 00- May 01 Growth Rate	May 2001 Employment Share
Total Nonagricultural 1988-2001	3.1	1.2	100.0	2.2	0.8	100.0	2.1	1.0	100.0
Total Nonagricultural 1992-2001	2.9	1.2	100.0	2.3	0.8	100.0	2.4	1.0	100.0
GOODS PRODUCING 1988-2001	2.3	0.8	23.3	1.3	-1.0	20.8	0.8	0.1	20.1
Construction & Mining 1992-2001	3.7	1.4	4.8	0.1	0.8	4.9	5.2	2.1	4.5
Manufacturing 1988-2001	3.3	0.7	18.5	0.8	-1.5	15.9	0.3	-0.4	15.6
Durable Goods 1992-2001	3.4	1.7	10.3	1.3	-2.5	9.4	1.0	-0.5	9.5
Nondurable Goods 1992-2001	2.6	-0.6	8.2	0.6	-0.1	6.6	0.1	-0.4	6.2
SERVICE PRODUCING 1988-2001	2.2	1.4	76.7	2.5	1.2	79.2	2.5	1.3	79.9
Transport. & Pub. Utility 1988-2001	2.8	-0.5	3.6	2.3	1.8	5.1	2.4	2.0	5.6
Trade 1988-2001	2.7	-0.1	28.4	1.8	0.7	23.5	1.6	0.6	23.1
Wholesale Trade 1988-2001	4.9	5.5	5.8	1.7	-0.3	5.8	1.6	0.3	5.9
Retail Trade 1988-2001	2.2	-1.4	22.6	1.8	1.0	17.8	1.7	0.7	17.2
Finance, Ins. & Real Estate 1988-2001	3.9	0.6	3.4	2.4	4.1	2.9	2.5	0.7	7.3
Services 1988-2001	4.5	3.1	27.1	3.6	3.0	29.6	3.6	2.8	30.3
Health Services 1992-2001	3.1	2.7	7.6	2.6	2.2	8.3	2.4	2.2	7.2
Educational Services 1992-2001	3.4	1.6	4.2	2.6	5.8	1.6	2.7	1.6	1.4
Other Services 1992-2001	4.9	3.6	15.9	3.7	3.1	19.7	6.4	3.0	21.7
Government 1988-2001	1.3	1.8	14.2	1.6	-1.3	15.0	2.0	-0.9	13.6
Federal 1992-2001	0.3	-8.5	1.7	-0.4	-19.2	1.2	0.0	-14.5	1.3
Federal Health 1992-2001	-0.5	6.6	1.0	-0.6	4.7	0.2	-1.4	-0.3	0.2
Federal Other 1992-2001	1.6	-24.1	0.7	-0.4	-21.9	1.1	-0.1	-16.3	1.1
State 1992-2001	0.1	3.9	3.9	0.6	0.2	3.4	1.4	-0.4	3.7
State Education 1992-2001	0.0	3.3	3.3	1.2	-1.3	2.0	2.6	-0.8	2.4
State Other 1992-2001	0.9	8.0	0.6	-0.3	2.5	1.4	-0.3	0.4	1.3
Local 1992-2001	2.0	3.1	8.7	1.9	0.9	10.4	2.4	1.2	8.7
Local Education 1992-2001	1.8	5.6	5.7	1.5	0.5	5.5	2.4	0.6	4.8
Local Other 1992-2001	2.3	1.4	2.9	2.5	1.3	4.9	2.4	2.1	3.8

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 Department of Economic Security

national activity. Aggressive Federal Reserve actions since the beginning of the year to ease up on credit and lower short-term interest rate targets are likely to provide a stimulus to employment and production by year end. The decline in interest rates has had a more immediate impact on financial markets, where overall equity prices (perhaps with the exception of the volatile technology sector) seem to have stabilized and bond prices have surged. This has helped improve overall consumer confidence which should give the national economy a boost. Less clear will be the effect of federal (and state) tax relief. Many economists believe that the short-run stimulative effects of a (minor) tax cut are limited. Fortunately, unless some large and unpredictable shock hits the U.S. economy over the next few months, a full-blown national recession seems unlikely. But national growth will likely remain quite slow until the new year, when the stimulative monetary policy of the past several months is likely to take hold.

Overall, the fundamentals suggest that the local economic outlook over the next several months is one of reasonably moderate growth, but it is unlikely that the area will reach its long-term trend growth rate in the foreseeable future. This view seems to be confirmed by the **St. Cloud Area Business Outlook Survey** (see Table 4), in which 57% of responding businesses indicate that they expect improved business conditions over the next six months (in contrast to 15% who expect a decline in business activity). While these are fairly strong results, it should be noted that 75 percent of businesses expected improvement in future business conditions in the March 2001 survey. These survey results, along with written comments of area business leaders, seem to indicate that many area firms have adopted a "wait-and-see" strategy. They seem to be taking a more cautious approach to new hires until they receive a clear sign about the future direction of the national, regional, and local economies. Given all of the current economic uncertainty that appears to exist, this approach seems prudent.

The St. Cloud Area Sectoral Outlook

Job growth continues to be balanced across most local sectors (see Table 1). Aside from nondurable manufacturing, retail trade is the only major sector of the local economy that experienced a decline in employment over the year ending May 2001. It should be noted that well-publicized cutbacks at the beginning of the year at Fingerhut's St. Cloud distribution center is the primary reason for this retail

employment decline. Factoring out these cutbacks, retail employment probably grew around 2% (which is close to its long-term trend growth rate) over the past year. Local federal employment is also down sharply over the last twelve months. But the 8.5% decline in this sector is very similar to what was experienced in Minnesota and the Twin Cities MSA over the same time period. It seems likely that the May federal employment numbers are a statistical anomaly as St. Cloud government employment estimates are usually very "noisy" on a monthly basis.

Outside of the public sector, wholesale trade and other services are the two fastest growing local sectors. Employment in wholesale trade grew at a 5.5% rate over the year ending May 2001 (this is faster than the impressive 4.9% trend growth rate for this sector over the 1988-2001 time period). Employment in federal health, other state, and local education also experienced annual growth rates in excess of 5% over the past twelve months. It is important to keep in mind, however, that local government employment estimates are so volatile that it is difficult to detect a long term trend in the jobs data.

Given its important role as a signal of the future health of the local economy, the relative sluggishness of the construction sector is a potentially worrisome sign. Over the past twelve months, St. Cloud MSA construction employment increased by only 1.4%, which is well below its long-term trend growth rate of 3.7% and reflects a significant slowdown since December. Significant cuts in targeted short-term interest rates by the Federal Reserve have not yet been fully matched by equal-sized reductions in long-term interest rates. Since construction decisions typically depend upon, among other things, the behavior of long-term rates, it is not entirely surprising that construction employment growth has not yet been elevated to levels that are likely to occur in future months. Poor weather in the winter and spring, as well as the effect on the data of now-completed large construction projects last year, also probably account for the slower growth of construction employment. There is little to be concerned about in the construction sector if these transitory factors are the explanation of the slowing of employment in this sector. Of far greater concern for this sector, however, would be signs that there has been a decline in local consumer confidence. While no such measure exists, data from the U.S. Department of Commerce indi-

National growth may remain slow until the effects of an easier monetary policy take hold later in the year.

Job growth continues to be balanced across most local sectors.

Table 2--Other Economic Indicators

	2001	2000	Percent Change
St. Cloud MSA Labor Force May (MN DES)	103,996	99,269	4.8%
St. Cloud MSA Civilian Employment [#] May (MN DES)	100,152	96,353	3.9%
St. Cloud MSA Unemployment Rate* May (MN DES)	3.7%	2.9%	NA
Minnesota Unemployment Rate* May (MN DES)	3.4%	2.9%	NA
Mpls-St. Paul/MSA Unemployment Rate* May (MN DES)	2.9%	2.3%	NA
St. Cloud Area New Unemployment Insurance Claims March-May Average (MN DES)	451	333	35.4%
St. Cloud Times Help Wanted Ad Linage March-May Average	5,130	7,610	-32.6%
St. Cloud MSA Residential Building Permit Valuation (\$1,000) March-May Average (U.S. Dept. of Commerce)	9,369	10,731	-12%
St. Cloud Index of Leading Economic Indicators May (SCSU)	114.9	112.3	NA

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

The local labor market is showing the signs of a softer economy.

cates that the value of local residential building permits declined 13% over the same period one year ago in the quarter ending May 2001 (although there was a pick-up in May local building permits). Because building permits are a good leading indicator, it will be important to track the progress of this local sector over the next few months.

Finally, there appears to be some recent weakness in the local finance, insurance, and real estate (FIRE) sector. FIRE's 0.6% job growth rate over the year ending May 2001 is well below the 3.9% long-term rate of employment growth in this sector. Fortunately, lower interest rates should provide a needed lift to this sector. A good gauge of when the aggressive credit easing policies of the Federal Reserve are beginning to take hold in the local economy is likely to be when employment begins to rise in the construction and FIRE sectors of the local economy.

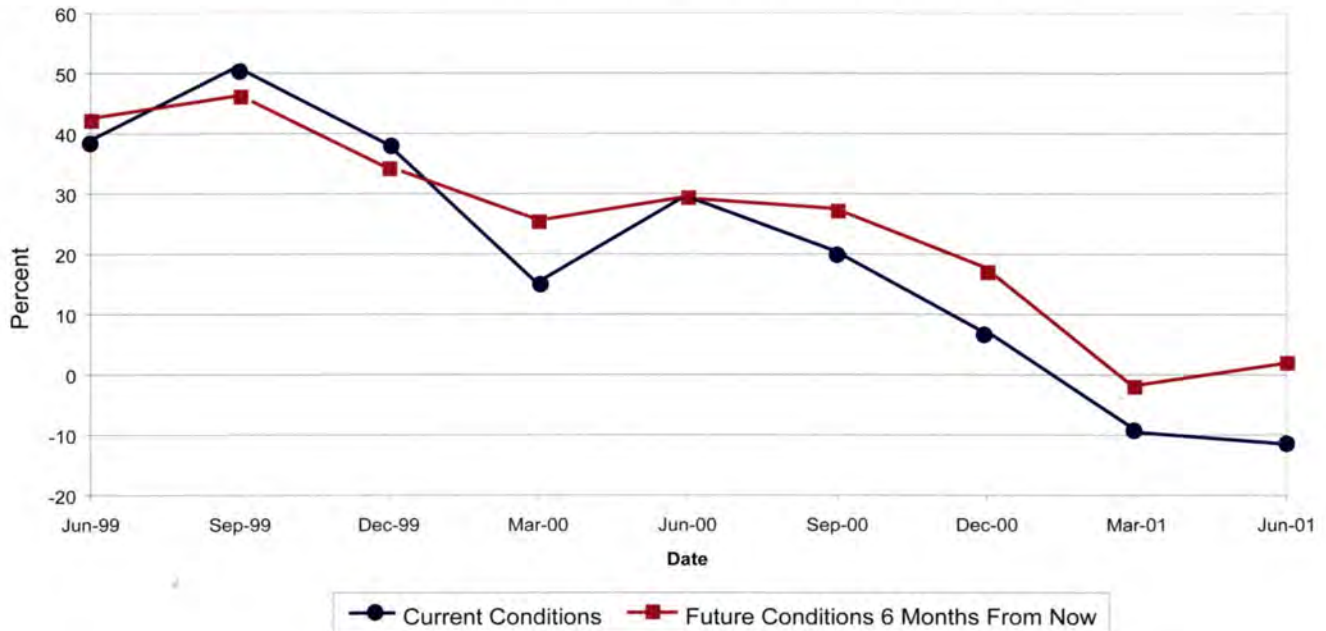
St. Cloud Area Labor Market Conditions

The local labor market is showing the signs of a softer economy. Figure 2 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 that asks

businesses to evaluate their company's difficulty attracting qualified workers. Responses from surveyed firms seem to indicate that the typical local firm is finding qualified workers, although firms in some local sectors may still be having some difficulty with worker shortages. The local supply of and demand for labor appears to be in much better balance than was experienced in the recent era of "labor shortages." It will be important for new entrants to the labor force and "job-hoppers" to adjust their expectations to this new environment in which fewer offers may be forthcoming and there is lesser upward pressure on employee compensation.

Table 2 provides further evidence of the softening of the local labor market over the past year. The St. Cloud MSA unemployment rate rose from 2.9% in May 2000 to 3.7% one year later. This latter figure is the highest May unemployment rate in the St. Cloud area since 1996. This mirrors a similar pattern of increases observed in the U.S. as well as statewide. The state unemployment rate was 3.4% (not seasonally adjusted) in May while the U.S. rate was one percent higher at 4.4%. Following a national trend, new local unemployment insurance claims are up about 35% from their year earlier levels for the quarter

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



ending May 2001. It should be noted that this is far better than the 77% statewide increase of new jobless claims over the same period. Finally, help-wanted lineage in the *St. Cloud Times* in the quarter ending May 2001 was down 33% over the corresponding period twelve months earlier. Some of this decline probably reflects a structural change in the way that firms now advertise their position openings (posting job ads on the Internet for example), but a one-third reduction in help-wanted lineage is a sure indicator of a cooling of the local labor market. It must be noted, however, that data from the Minnesota Department of Economic Security indicate that average manufacturing production worker wages were up a healthy 6.4% in the quarter ending May 2001 compared to the similar period one year earlier. This is the same pace of local wage growth that was reported in the April 2001 **St. Cloud Area Quarterly Business Report**.

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 fifty-

three area business firms who returned the recent mailing of the **St. Cloud Area Business Outlook Survey**. Participating firms are representative of the collection of diverse business interests in the St. Cloud area. They include retail, manufacturing, construction, financial, and government enterprises of sizes ranging from small to large. Survey responses are strictly confidential. Written and oral comments have not been attributed to individual firms.

Many area businesses responding to the survey experienced a relative increase in business activity over the recently concluded quarter. This pattern is also expected to improve over the next six months. Table 3 reports survey results of area business leaders' evaluation of business conditions for their company in June 2001 versus three months earlier. In general, results from this table compare favorably to those that were reported in the March 2001 survey. It appears that many area business experienced reasonably (and perhaps surprisingly) strong 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 to 24.5 from a

The St. Cloud area labor market is stronger than elsewhere.

It appears that many area businesses experienced surprisingly strong activity over the past three months.

March value of -1.9 (note that the value of this item's diffusion index was 44.3 one year ago). Forty-five percent of surveyed firms reported an increase in business activity in this most recent quarter while 21% noted that business activity had decreased at their company. One firm notes that "we are in a specialty market that is growing. The general economic slowdown has not impacted us as much as other companies in other markets." But not all area firms have had the same fortune. One firm notes that "business is slow! I see and feel a recession!" Mother Nature is to blame for the recent woes of another area firm because "excessive rain has slowed demand for our products." Another firm is concerned whether "confidence by the business community that the economy has stabilized; until this happens only minor local and state growth will take place." One respondent notes the seasonality of his business. He notes that he experiences a "hot market" from February to May, a "good market" from June to September, a "slow market" in October and November, and a "weak market" in December and January. "Constant problems with suppliers and vendors to meet industry standards" and a "shortage of plumbers at any price" are troubling another area firm. One area firm refers to "big dollar items and a

slumping stock market-mixed with high fuel prices-conservative outlook in this market will keep business soft." Finally, one firm notes what it feels is really needed in stating that "we don't need a sales tax increase to fund pet projects by [local politicians]. We need another east to west through road."

The increase in the diffusion indexes for number of payroll employees and the length of the workweek reverses a pattern that had been observed over the past year. The diffusion indexes for these two items had declined since the June 2000 survey. This is perhaps a hopeful sign for area workers and businesses. In recent months, surveyed firms have found themselves somewhat more able to pass on price increases to customers. The diffusion index in this category rose from -1.8 to 5.6 over the March to June period. Twenty-six percent of respondents indicate that prices received were higher in June than they were three months earlier. Twenty-one percent of surveyed firms experienced a decline in prices received last quarter. One firm notes that "overall...(product compensation) rates are increasing." But another firm notes that "we have maintained volume by some price reductions and by accelerating new products." It will be interesting to

continued on page 10

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

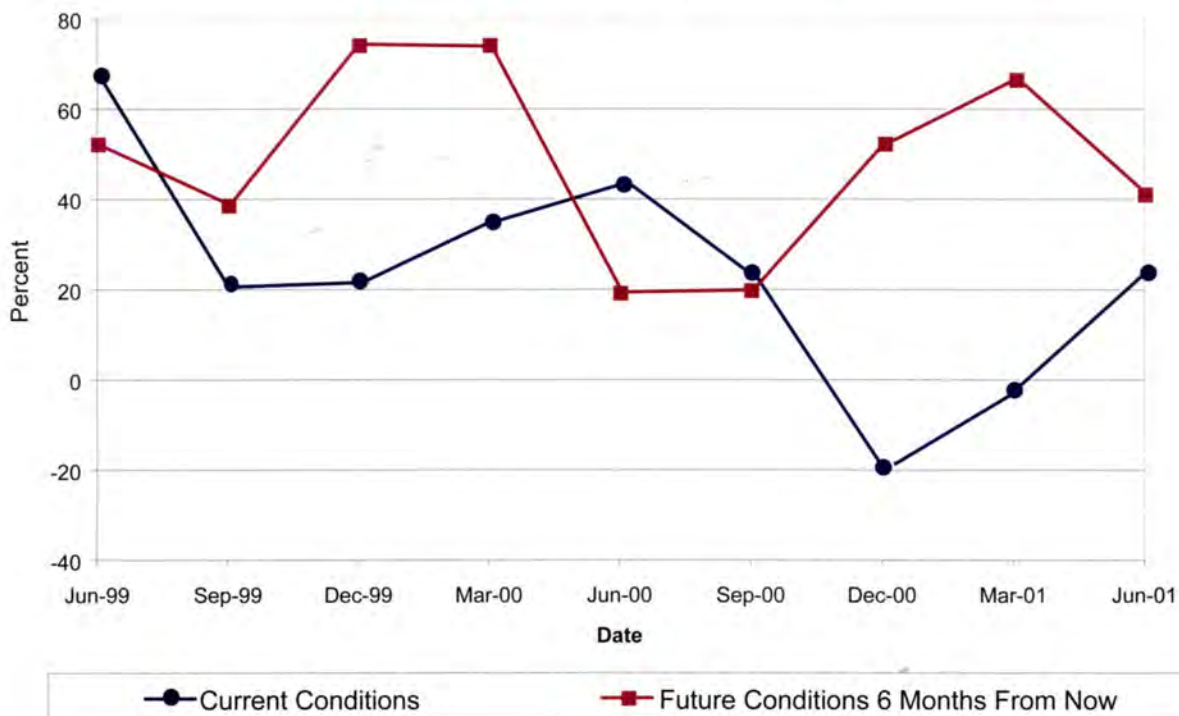


Table 3--Current Business Conditions*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary June 2001 <i>What is your evaluation of:</i>	June 2001 vs. Three Months Ago				March 2001 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
Level of business activity for your company	20.8	34.0	45.3	24.5	-1.9
Number of employees on your company's payroll	11.3	58.5	30.2	18.9	-9.1
Length of workweek for your employees	9.4	71.7	18.9	9.5	-9.1
Capital expenditures (equipment, machinery, structures, etc.) by your company	20.8	56.6	22.6	1.8	3.6
Employee compensation (wages and benefits) by your company	0	49.1	50.9	50.9	45.5
Prices received for your company's products	20.8	49.1	26.4	5.6	-1.8
National business activity	24.5	45.3	18.9	-5.6	-23.6
Your company's difficulty attracting qualified workers	24.5	60.4	13.2	-11.3	-9.1
Notes: (1) reported numbers are percentages of businesses surveyed. (2) rows may not sum to 100 because of "not applicable" and omitted responses. (3) diffusion indexes represent the percentage of respondents indicating an increase minus the percentage indicating a decrease. A positive diffusion index is generally consistent with economic expansion. SOURCE: SCSU Center for Economic Education, Social Science Research Institute, and Department of Economics					

Table 4--Future Business Conditions*

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary June 2001 <i>What is your evaluation of:</i>	Six Months from Now vs. June 2001				March 2001 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index ³	
Level of business activity for your company	15.1	26.4	56.6	41.5	67.2
Number of employees on your company's payroll	15.1	49.1	32.1	17.0	58.2
Length of workweek for your employees	15.1	67.9	15.1	0	21.9
Capital expenditures (equipment, machinery, structures, etc.) by your company	5.7	66.0	26.4	20.7	21.8
Employee compensation (wages and benefits) by your company	0	54.7	43.4	43.4	54.5
Prices received for your company's products	9.4	50.9	30.2	20.8	36.4
National business activity	9.4	52.8	24.5	15.1	20.0
Your company's difficulty attracting qualified workers	13.2	67.9	15.1	1.9	-1.9
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 Use of Public Money to Build a Professional Baseball Stadium in the Twin Cities

A special question of the St. Cloud Area Business Outlook Survey asked area business leaders to indicate how their business feels about the use of public money to build a professional baseball stadium in the Twin Cities. Projects such as new sports stadiums are viewed as an example of a “soft” economic development program. These projects can increase business activity by attracting new residents by improving the overall quality of life. Yet, the increased taxes to fund these proposals have an offsetting negative effect such that the net effect on the economy is *a priori* uncertain.

Table 5 shows that responses were mixed, with approximately 46% of surveyed businesses being either strongly or mildly opposed to this proposal and 31% being either mildly or strongly in favor of the stadium issue. Twenty-one percent of responding firms were neither opposed nor in favor of the use of public money to build a professional baseball stadium in the Twin Cities. While this issue seems to have expired for the current legislative session, these results indicate that both support and opposition for this public issue can be found in the St. Cloud area business community should it make a comeback next year.

TABLE 5--Special Question 1: The Use of Public Money to Build a Professional Baseball Stadium in the Twin Cities

*Question: How does your business feel about the use of public money to build a professional baseball stadium in the Twin Cities?**

Strongly Opposed	Mildly Opposed	Neither Opposed Nor in Favor	Mildly in Favor	Strongly in Favor
26.4	18.9	20.8	22.6	7.5

*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 response to this special question.

These comments include:

- ◀ What’s wrong with what we have?
- ◀ A public funded stadium makes it available for other events such as high school, college and amateur playoffs and yet [is] paid for [mostly] by the professional team.
- ◀ The government incentives for a stadium should be no more than any other business considering locating to a community.
- ◀ We really need to watch how much public money should help with stadiums. It should be a small part of the total.

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see how this survey item evolves over the next several months. While it is too early to tell, the aggressive credit easing moves undertaken by the Federal Reserve over the past several months could inevitably prove inflationary. Strong growth of the money supply since the beginning of the year has led some observers who are afraid of heightened inflationary pressures to urge the Federal Reserve to exercise caution in considering any further credit easing moves.

Fifty-one percent of survey respondents indicate that employee compensation increased in June relative to three months earlier. This is sharply higher than a 30 percent response to the same

item on the December 2000 survey. Over the past three months, responding businesses continued to show signs of concern for the national economy. While the diffusion index on national business activity improved from -23.6 to -5.6 over the most recent quarter, 1 of every 4 responding firms believed that national business activity declined over the last three months. Finally, area businesses appear to have had mixed strategies with regard to capital expenditures over the past quarter. Only 23% of surveyed firms indicated that capital purchases had increased since March. This was almost entirely offset by 21% of firms that decreased capital expenditures. This is another indication that area firms do

Special Question #2: The Effect of Rising Energy Prices on Business Profitability

A second special question asked area business leaders to evaluate the extent to which the profitability of their business has been affected by rising energy prices in recent months. Beside the immediate impact on local business, this question is very important when viewed in an historical context. Three of the last four recessions are linked to sharply higher energy prices.

Fortunately, local businesses are indicating that higher energy prices have not reached a crisis level (the survey was conducted

in early June, when energy prices were much higher). More than seventy percent of surveyed firms indicated that their firm's profitability had been either mildly or moderately affected by rising energy prices. Seventeen percent of firms indicated that profits have been strongly affected by surging energy prices. Only nine percent of responding firms felt that their business profits had not been affected by rising prices. It appears that local businesses will welcome the recent decline in fuel prices that has been observed in the St. Cloud area.

TABLE 6--Special Question 2: The Effect of Rising Energy Prices on Business Profitability

*Question: To what extent has the profitability of your business been affected by rising energy prices in recent months?**

Unaffected	Mildly Affected	Moderately Affected	Strongly Affected
9.4	41.5	30.2	17.0

*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 response to this special question. These comments include:

- ◀ Our budget did not reflect such a dramatic increase in energy prices.
- ◀ Energy costs reflected in much higher gas prices.
- ◀ Price of auto gas has cut the net profit.
- ◀ High diesel fuel prices are (hurting our business).
- ◀ Not only rising energy, but also rising and unstable fuel pricing is affecting profitability.

not seem to have a clear sense of the future direction of the economy.

On a positive note, responses tallied in Table 4 are, for the most part, 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 June 2001 are reported in this table. The diffusion index for the survey question that asks about the level of future business activity for area companies is 41.5. While this means a substantially larger number of local firms expect an increase in business activity than expect a decrease over the next six months, this is a

rather sharp decline from its value of 67.2 three months ago. Fifty-seven percent of survey respondents expect an increase in business activity by the end of the year (the corresponding number was 75 percent in the March 2001 survey). Only fifteen percent of business respondents expect a future decline in economic activity by year end (only 7% of businesses expected a decline in the March survey). Other results reported in Table 4 suggest that area businesses have considerable uncertainty about what is likely to happen over the next six months. Twenty-five percent of respondents expect national business activity to increase over the next six months. Only 9% of area firms expect national conditions to deteriorate. Thirty percent of surveyed

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firms expect to receive higher prices by the end of the year while only nine percent expect prices to fall. It should be noted that the results on these two items are somewhat less favorable to area businesses than was reported three months ago. At that time, businesses were more optimistic about a rebound in the national economy and an improvement in their ability to raise prices than is currently the case. One heartening result was the relatively healthy 20.7 diffusion index on planned capital expenditures, which roughly parallels the March 2001 figure. This figure suggests a somewhat upbeat assessment by local businesses that business activity will accelerate and it may represent the first sign that the stimulative effects from lower interest rates will take hold by the end of the year.

Two areas of concern in Table 4 are the items on number of employees and the length of the workweek. The diffusion indexes in these two categories have declined sharply from the March 2001 survey. While thirty-two percent of surveyed firms expect to add workers by year end, this number is well down from the sixty percent response in March. Only two percent of firms expected a future decrease in employment in the March survey. This number has increased to 15% in this quarter's survey. Similar comments can be made about the length of workweek question. The diffusion index declined from 22 to 0 in this category over the past three months. These numbers hint at a further expected cooling of the labor market and reflect a heightened amount of uncertainty that is being experienced by local businesses. It will be interesting to see next quarter's survey results.

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 significant increase in the diffusion index on current business activity over the past three months. While this index is well off of its all-time high of 67.8 in June 1999, it did improve measurably from its level of -1.9 in March 2001. This period's future business activity diffusion index showed some weakness relative to what had been observed in recent quarters. While 41.5 value of this diffusion index is higher than its value of 20 in the September and June 2000 surveys, it is sharply lower than the 67.2 value last quarter and is well below the all-time high of 74.6 recorded in March 2000. The current and future business conditions indexes are yet another mixed signal of the future direction in the St. Cloud economy.

Participating businesses can look for the next survey at the beginning of September 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 October. 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 receive a free copy of the St. Cloud Area Quarterly Business Report on a preferred basis.