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St. Cloud Area Quarterly Business Report

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# St. Cloud Area Quarterly Business Report, Vol. 3, No. 2

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# St. Cloud Area Quarterly Business Report

April 2001

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Volume 3, Number 2

## St. Cloud Economy Springs Back

### Executive Summary

The St. Cloud area economy should experience moderate 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. The local economy continues to outpace the performance of the U.S. and Minnesota economies. A national decline in manufacturing employment is not being experienced in the St. Cloud area. The well publicized uncertainties associated with domestic and global economic performance appear to have had little effect on area firms' future outlook. Most firms see only a small likelihood that the local economy will slip into recession by year end.

The **St. Cloud Index of Leading Economic Indicators** has leveled out in recent months, suggesting stable sustainable growth in the near term. Continued strong growth in new residential electrical hook-ups in the St. Cloud area have contributed favorably to the local index, but a persistent decline in the U.S. Index of Leading Indicators has had an offsetting negative influence. Area nonfarm employment grew at a rate of 2.2% over the year ending February 2001. This exceeds the rate of national and state job growth over the same period. It is, however, much slower than the 4.4% rate of job growth that was experienced in the St. Cloud area one year ago. Recent employment growth rates appear to be sustainable on a long-term basis, although growth has been below the trend growth rate in the St. Cloud area over the 1988-2001 period.

Strong growth in the St. Cloud area labor force

has helped alleviate the local labor shortage, which had been of primary concern to area employers in recent years. St. Cloud's area job growth remains balanced across almost all sectors. While manufacturing employment has declined nationwide and across the state of Minnesota, this sector remains remarkably healthy in the St. Cloud area. Careful attention will need to be paid to the local construction and financial sectors in future months to see if recent declines in job growth in these sectors are reversed by declining interest rates.

Seventy-five 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 7% who expect conditions to worsen. This is a marked improvement from conditions observed in the recently concluded quarter. Thirty-six percent of surveyed firms report that business activity was lower in March 2001 than it was three months earlier, while 35% reported an increase. This follows a pattern observed in the December 2000 survey of current business conditions. In that survey, 46% of surveyed businesses reported slower activity than three months earlier. 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% of surveyed businesses indicate that they expect increased difficulty attracting qualified workers in six months' time. This is completely offset by 16% who expect a decrease in the difficulty finding workers. Only about 10% of survey respondents indicate that the labor shortage worsened over the recently concluded quarter. These numbers compare favorably to those that were reported in 1999 (in which more than one-half

Area  
Job Growth  
exceeds  
State  
and  
Nation.

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Area  
Inflation  
pressures  
have  
moderated.

of responding firms routinely indicated a worsening of the area labor shortage).

While 38% of surveyed businesses expect to receive higher prices for their products six months from now, there appears to have been a continued moderation in area inflationary pressures over the recently concluded quarter. Only 18% of survey respondents indicate that prices received for their company's products were higher over the past three months, which is offset by the twenty percent of firms that received lower prices over the past quarter. Local firms are perhaps most concerned about national business conditions. Thirty-three percent of responding businesses noted a deterioration in national business conditions over the past three months. Area firms' outlook of future national business conditions is not quite as grim however. Only eleven percent of surveyed firms expect national business activity to be lower six months from now, while 31% expect increased national business activity. This is a marked improvement over the results reported in last quarter's survey.

A special question in the March 2001 **St. Cloud Area**

**Business Outlook Survey** asked area businesses to assess the probability that the local economy will enter recession by the end of 2001. Survey respondents seem somewhat optimistic that a local recession can be avoided. Forty-two percent of responding businesses indicated a probability between 0 and 20% that the local economy would enter recession this year. An equal 42% felt that the probability of local recession was between 20 and 40%. This contrasts with only 6 percent of firms who believe the probability of an upcoming recession in the St. Cloud area is greater than 60 percent.

A second special question asked businesses to evaluate the importance of the commercial revitalization of downtown St. Cloud. Eighteen percent of survey respondents indicated that this is "no priority" while 35% replied that it was a "low priority." Forty percent of surveyed businesses indicated that the commercial revitalization of downtown St. Cloud is a "medium priority" and 7% noted that it is a "high priority." No surveyed business feels that it is a "top priority."

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### ***St. Cloud Index of Leading Economic Indicators***

The February 2001 **St. Cloud Index of Leading Economic Indicators** predicts that the St. Cloud area economy will continue to grow into Summer 2001. The indicators series is suggestive that stable growth will endure, albeit at a pace that is below the area's long-term average growth rate. Figure 1 shows that the index reached a record high in September 2000 and has slightly declined since that time. While the decline in the index is consistent with a natural slowdown from the unsustainable growth that was experienced in late 1999, it certainly does not signal a full-blown local recession. Quite to the contrary, growing evidence suggests that the area economy has begun to pick up from its relative weakness at the end of last year. Recent declines in the **U.S. Index of Leading Economic Indicators**, reflecting the sluggish national economy, and a modest reduction in area business startups lie behind the recent fall in the **St. Cloud Index of Leading Economic Indicators**. Increases in local residential electrical hookups have contributed favorably to the local index in recent months. This is further evidence that new residents continue to flock to the St. Cloud area. Increases in the average manufacturing production workweek have also given the index a boost in the last couple of months. This highlights a surprisingly strong performance by area manufacturers. 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 or a slowing of economic growth.

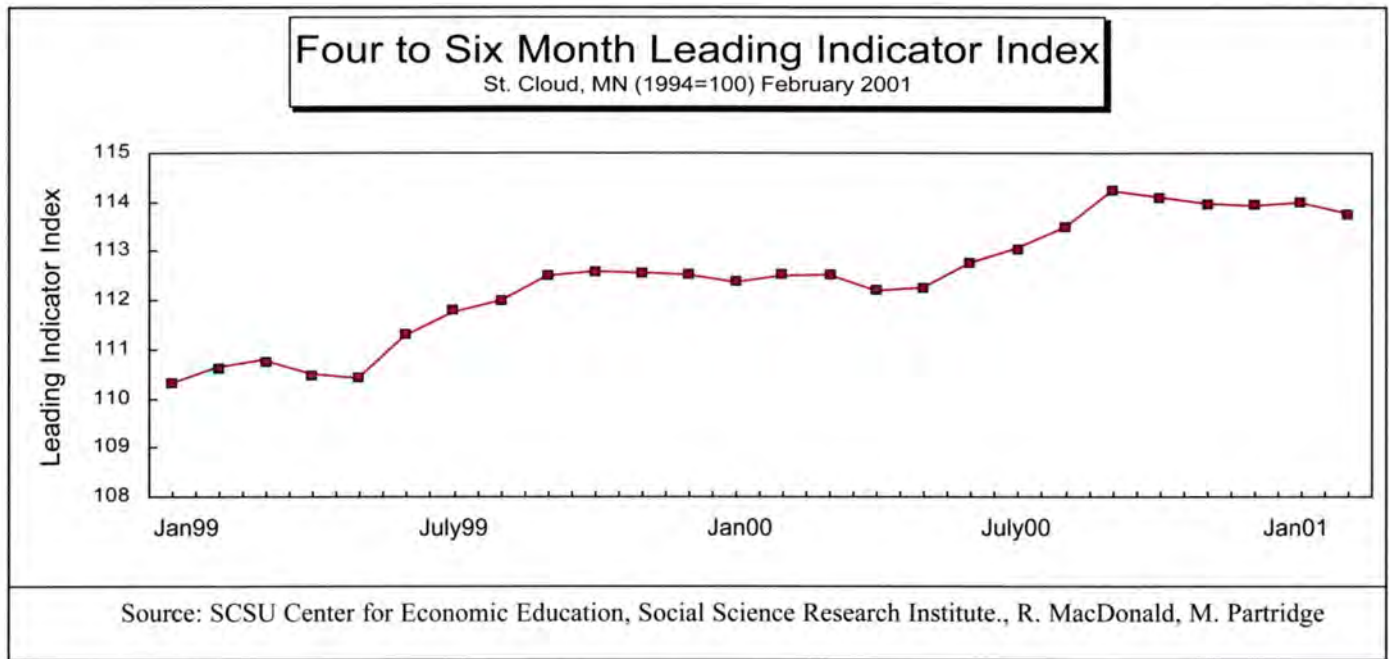
### ***The St. Cloud Area Overall Outlook***

Despite unsettling layoff announcements at the end of last year, the St. Cloud area economy appears to be holding its own in recent months. For the year ending February 2001, nonfarm employment grew at a 2.2% rate in the St. Cloud Metropolitan Area (MSA). While this is below the 3.1% long-term trend employment growth rate recorded over the 1988-2001 period (see Table 1), this recent performance is quite strong under the circumstances. After peaking in late 1999 at a rate in excess of five percent, annual job growth bottomed out last November at 0.4% (when a strike at St. Cloud's Frigidaire production facility reduced the employment numbers). Since that time, annual job growth has increased every month. This rebound in the local economy is consistent with the optimistic expectations displayed by respondents to the St. Cloud Area Business Outlook Survey at the end of last year.

Performance of the St. Cloud economy continues to exceed that of both the state and the nation. U.S. employment grew at 1.3% over the year ending

Indicators  
point  
to stable  
growth.

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



February 2001 and, as shown in Table 1, state employment also grew at the same 1.3% rate over the same period. The local economy also continues to fare better than other MSAs in Minnesota. Table 1 shows that Twin Cities employers created 1.6% more jobs for the year ending February 2001. Rochester and Duluth employment growth rates were 1.3% and 0.9%, respectively (not shown). Rochester in particular has struggled with sharp layoffs in manufacturing. While there has been some anxious moments for area employers and employees in recent months, the local economy continues to outperform most other metropolitan-area economies in Minnesota and the Upper Midwest.

Even with the recent firming of the local economy, job growth is only one-half the rate of one year ago. At 4.4%, employment growth for the year ending February 2000 was robust. While it was clearly implausible to sustain employment growth at this rapid rate, the sharp drop in job growth over the past year no doubt caught many people off guard. St. Cloud is not alone in experiencing slower growth in recent months. National job growth has slowed from a 2.0% annual rate in the year ending February 2000, while Minnesota employment growth has fallen from 2.8% one year ago. The Twin Cities job growth rate has followed a similar

pattern in falling from 3.0% over the same period.

St. Cloud's superior performance relative to its neighbors is associated with the continuing influx of new residents into the area. Consistent with the large increases in residential electrical hookups reported above, the Minnesota Department of Economic Security estimates that the St. Cloud area MSA labor force grew by a stunning 5% over the year ending February 2001. While labor force estimates are subject to revision, this compares favorably to labor force growth of 3.9% for the entire state and even surpasses the sizable 4.7% gain in the Twin Cities MSA. By comparison, U.S. labor force growth was a more modest 0.8% over the same period. New residents not only stimulate demand for locally produced goods and services, but they have also helped mitigate the area's labor shortage.

While the area economy is obviously growing less rapidly than it was at the end of the 1990s, there are signs that the worst is over for local businesses. As continued strength in the face of large local layoffs seems to suggest, it will be hard to derail St. Cloud area growth without a powerful external shock such as a full-blown national recession.

While national economic prospects were worrisome

St. Cloud job growth bottomed-out in November.

Energy costs and consumer confidence dampen national outlook.

for respondents to the St. Cloud Area Business Outlook Survey (see Table 3) in the recent quarter, area employers expect national conditions to improve over the next six months (see Table 4). It will remain important for area firms to look for signs of further deterioration in national conditions over the next couple of quarters. Of particular concern is the decline in U.S. manufacturing employment as well as continued volatility of the stock market. Such concerns could continue to erode consumer confidence and spill over to the local economy. Another sharp increase in energy costs could further reduce consumers' buying power and the prospect of a summer of sporadic electric supply disruptions on the West Coast have the potential to dampen consumer confidence. Labor problems and threatened strikes in the airline industry could compound this problem.

The Federal Reserve has taken decisive action in reducing short-term interest targets over the last three months. These actions typically affect the national economy with a considerable lag, so it may be at least into the third quarter of this year before the stimulative impact of these aggressive moves is felt. A careful watch of interest-sensitive sectors of the economy (especially construction and manufacturing) in the next several months seems warranted. Finally, the proposed tax cut being debated in Washington (even if enacted quickly, which seems unlikely) would probably have only a very modest effect on economic activity in the short run. Note that respondents to the St. Cloud Area Business Outlook Survey remain sanguine about the local economic performance over the rest of 2001. Eighty-four percent of surveyed businesses expect less than a 40% probability of a local recession by year end

**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 00- Feb 01 Growth Rate	Feb 2001 Employment Share	Long Term Trend Growth Rate	Feb 00- Feb 01 Growth Rate	Feb 2001 Employment Share	Long Term Trend Growth Rate	Feb 00- Feb 01 Growth Rate	Feb 2001 Employment Share
	<b>Total Nonagricultural 1988-2001</b>	3.1	2.2	100.0	2.3	1.3	100.0	2.2	1.6
<b>Total Nonagricultural 1992-2001</b>	3.1	2.2	100.0	2.7	1.3	100.0	2.6	1.6	100.0
<b>GOODS PRODUCING 1988-2001</b>	2.7	2.4	22.3	1.4	0.1	20.5	0.9	0.9	19.9
Construction & Mining 1992-2001	4.3	1.6	3.6	5.2	-4.9	4.1	6.2	9.9	4.0
Manufacturing 1988-2001	3.4	2.6	18.7	1.0	-0.8	16.4	0.5	0.4	15.9
Durable Goods 1992-2001	3.9	3.6	10.4	1.7	-1.0	9.7	0.5	0.8	9.7
Nondurable Goods 1992-2001	2.8	1.2	8.3	0.7	-0.4	6.7	0.2	-0.3	6.3
<b>SERVICE PRODUCING 1988-2001</b>	2.2	2.2	77.7	2.5	1.7	79.5	2.6	1.8	80.1
Transport. & Pub. Utility 1988-2001	3.2	5.5	3.7	2.4	1.8	5.1	2.4	2.1	5.6
Trade 1988-2001	3.0	0.5	28.9	1.9	1.4	23.6	1.7	1.7	23.3
Wholesale Trade 1988-2001	5.2	5.3	5.8	1.9	0.7	5.8	1.8	2.6	6.1
Retail Trade 1988-2001	2.5	-0.6	23.1	1.9	1.7	17.7	1.7	1.4	17.2
Finance, Ins. & Real Estate 1988-2001	3.9	0.9	3.5	2.4	0.8	6.1	2.5	0.9	7.4
Services 1988-2001	4.4	3.3	26.9	3.6	7.6	29.4	3.6	2.6	30.1
Health Services 1992-2001	3.1	1.6	7.7	2.6	1.4	8.4	2.4	2.1	7.3
Educational Services 1992-2001	3.3	5.7	4.3	2.4	2.7	1.6	2.9	1.0	1.4
Other Services 1992-2001	5.1	7.5	14.9	3.9	3.5	19.3	6.5	3.2	21.4
Government 1988-2001	1.1	2.9	14.8	1.7	0.9	15.4	2.0	0.7	13.8
Federal 1992-2001	0.5	5.9	1.7	-0.4	0.0	1.3	-0.3	-0.1	1.3
Federal Health 1992-2001	-0.5	5.2	1.0	-0.9	6.9	0.2	-1.8	3.3	0.2
Federal Other 1992-2001	2.0	6.8	0.7	-0.4	-3.0	1.1	0.0	-3.6	1.1
State 1992-2001	1.4	2.8	4.4	0.9	0.6	3.6	1.7	0.6	3.9
State Education 1992-2001	1.5	3.5	3.9	1.6	-0.3	2.2	3.0	0.2	2.5
State Other 1992-2001	0.1	2.7	0.5	-2.2	0.3	1.4	-0.3	1.4	1.4
Local 1992-2001	1.8	2.4	8.7	2.0	2.0	10.6	2.5	0.9	8.7
Local Education 1992-2001	1.7	5.5	5.8	1.7	1.4	5.7	2.6	0.8	4.9
Local Other 1992-2001	1.9	-3.4	2.8	2.5	1.7	4.9	2.3	0.8	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

(see Table 5). Currently, most sectors of the area economy appear strong enough to prevent a local recession from occurring.

### **The St. Cloud Sectoral Outlook**

St. Cloud area job growth remains balanced across almost all sectors. The diversity of the area economy contributes favorably to this balance and no doubt lessens the probability that a dramatic slowdown in local economic activity will be felt this year. As shown in Table 1, retail trade is the only major sector that has experienced an employment decline for the year ending February 2001. These retail figures are noticeably influenced by cutbacks at Herbergers' former headquarters location as well as Fingerhut's St. Cloud distribution center. Factoring out these cutbacks, local retailers are adding jobs at a healthy pace. The other two sectors that have experienced job losses are each relatively small government sectors. Note that *total* government employment is up by 2.9% over the past year, so job losses in these two small sectors should not be a cause for concern.

In terms of employment growth in the latest year, the three leading private-sector industries in Table 1 are transportation & public utilities, wholesale trade, and educational services. All three of these industries experienced job growth over the past year that is in excess of their long-term trend growth rates. Growth in the wholesale trade industry reflects St. Cloud's greater role as a distribution hub. Wholesale trade data dating back to the late 1980s confirm that this has been one of the fastest growing industries in the St. Cloud area over the past several years. Local manufacturing employment grew at a 2.6% rate for the year ending February 2001, a rate that is only modestly less than the long-term trend growth of manufacturing employment of 3.4%. This strong performance is especially encouraging given the weakness of manufacturing throughout the country. National manufacturing employment fell by 1.9% over the year ending February 2001, while Minnesota manufacturing job losses were 0.8% over the same period. Rochester manufacturers have been especially hard hit with their payrolls declining by over 11%.

Table 1 also reveals some worrisome recent trends. Foremost is the relatively sluggish 1.6% growth in construction employment over the past year. Construction has been a key sector of the St. Cloud area economy over the past several years as illustrated by long-term trend employment growth of 4.3% in this industry. Construction has generally served as a good

signal of the future path of area economic activity, so the recent relative weakness on this sector will need to be carefully monitored. Higher interest rates at the end of 2000 along with a minor slowdown in local business activity may be taking a toll on this industry. For example, in the quarter ending in February, the U.S. Department of Commerce reported that the value of local residential building permits declined 13% from the same period one-year before. Local construction growth began to decline sharply in December 2000 on a year-over-year basis, suggesting that the harsh winter weather may have played a role. Improvement in the weather, recent interest rate reductions, and continued in-migration of new residents will hopefully reverse this recent unfavorable trend in the local construction industry. Another local sector in which employment growth is well below long-term trend growth rates is finance, insurance, and real estate (FIRE). FIRE's 0.9% job growth rate over the year ending February 2001 is well below its long-term trend of 3.9%. Recent slowing in this local industry may be related to consolidation in financial services as well as uncertainties associated with recent turbulence in financial markets.

### **St. Cloud Area Labor Market Conditions**

There are clear signs that the labor shortage that has been of such great concern to area employers over the past few years has now faded. Figure 2 shows the trend in the diffusion index (the percent of surveyed businesses responding "increase" minus the percent answering "decrease") for the quarterly St. Cloud Area Business Outlook Survey question that asks businesses to evaluate their company's difficulty attracting qualified workers. While there are no consistent publicly available sources on the extent of regional worker shortages, this figure documents an unmistakable trend. It is now apparent that the labor shortage has eased significantly for many local employers.

Other signs also support the claim that the local labor shortage has moderated. The above-noted rapid increase in the St. Cloud MSA labor force has allowed job creation to continue despite an increase in the area unemployment rate. The St. Cloud MSA unemployment rate rose from 4.3% in February 2000 to 4.8% one year later (see Table 2). This represents the highest February unemployment rate in the St. Cloud area since 1997. A further indication of a softening labor market is the 14.7% year-over-year decline in help-wanted lineage in the St. Cloud Times (for the quarter ending February 2001). Table 2 also shows that during the quarter that ended in February, new unemploy-

Local construction activity bears watching for signs of weakness.

Area firms in Manufacturing and Wholesale Trade are performing especially well.

**Table 2--Other Economic Indicators**

	2001	2000	Percent Change
St. Cloud MSA Labor Force February (MN DES)	102,897	98,026	5.0%
St. Cloud MSA Civilian Employment# February (MN DES)	97,978	93,786	4.5%
St. Cloud MSA Unemployment Rate* February (MN DES)	4.8%	4.3%	NA
Minnesota Unemployment Rate* February (MN DES)	3.7%	3.9%	NA
Mpls-St. Paul/MSA Unemployment Rate* February (MN DES)	2.7%	2.8%	NA
St. Cloud Area New Unemployment Insurance Claims December-February Average (MN DES)	749	671	11.6%
St. Cloud Times Help Wanted Ad Linage December-February Average	4,997	5,855	-14.7%
St. Cloud MSA Residential Building Permit Valuation (\$1,000) December-February Average (U.S. Dept. of Commerce)	3,938	4,527	-13%
St. Cloud Index of Leading Economic Indicators February (SCSU)	113.8	112.5	NA
# - The employment numbers here are based on resident estimates, not the employer payroll estimate in Table 1. * - Not Seasonally Adjusted NA - Not Applicable			

Area labor shortage fades.

ment insurance claims in the St. Cloud area grew by 11.6% from their one-year earlier level. Note that new unemployment insurance claims are also up by 14.1% for the entire state over this period. All of these signs indicate increased worker availability.

While the fading labor shortage is welcomed by local firms, area employees will need to adjust to the new setting in which job opportunities are less plentiful and wage growth pressures are less obvious. The labor shortage is no doubt one of the driving forces that led to accelerating wages in recent years. For example, over the three months ending in February 2001, average hourly manufacturing production worker wages were up 6.4% in the St. Cloud MSA compared to the same period one year ago (note that national manufacturing production wage growth was only 3.2%). While some of this manufacturing wage growth is likely related to a relatively robust local manufacturing climate, much can be attributed to the overhang of many years of worker shortages. But wage pressures are likely to ease now that the economy is growing at a more sustainable rate and local labor market tightness has moderated.

There are also signs that the labor shortage is moderating faster in the St. Cloud area than in the rest of the state. In support of this claim, note that the St. Cloud MSA labor force is growing faster than it is statewide. In addition, unlike St. Cloud, the state unemployment rate in February 2001 was lower than one year earlier,

which was also the case for the Twin Cities and Rochester MSAs. Like St. Cloud, the unemployment rate increased in the Duluth-Superior MSA from one year ago, but the distinguishing characteristic is much stronger job growth in the St. Cloud area. Overall, even though area employment continues to grow, worker availability has become a smaller problem for local employers.

**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 Chamber of Commerce. The survey results reported in Tables 3 through 6 reflect the responses of 55 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

**Current Conditions**

Many area businesses responding to the survey experienced a relative decline in business activity over the recently concluded quarter. This pattern, however, is expected to reverse course over the next six months.

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

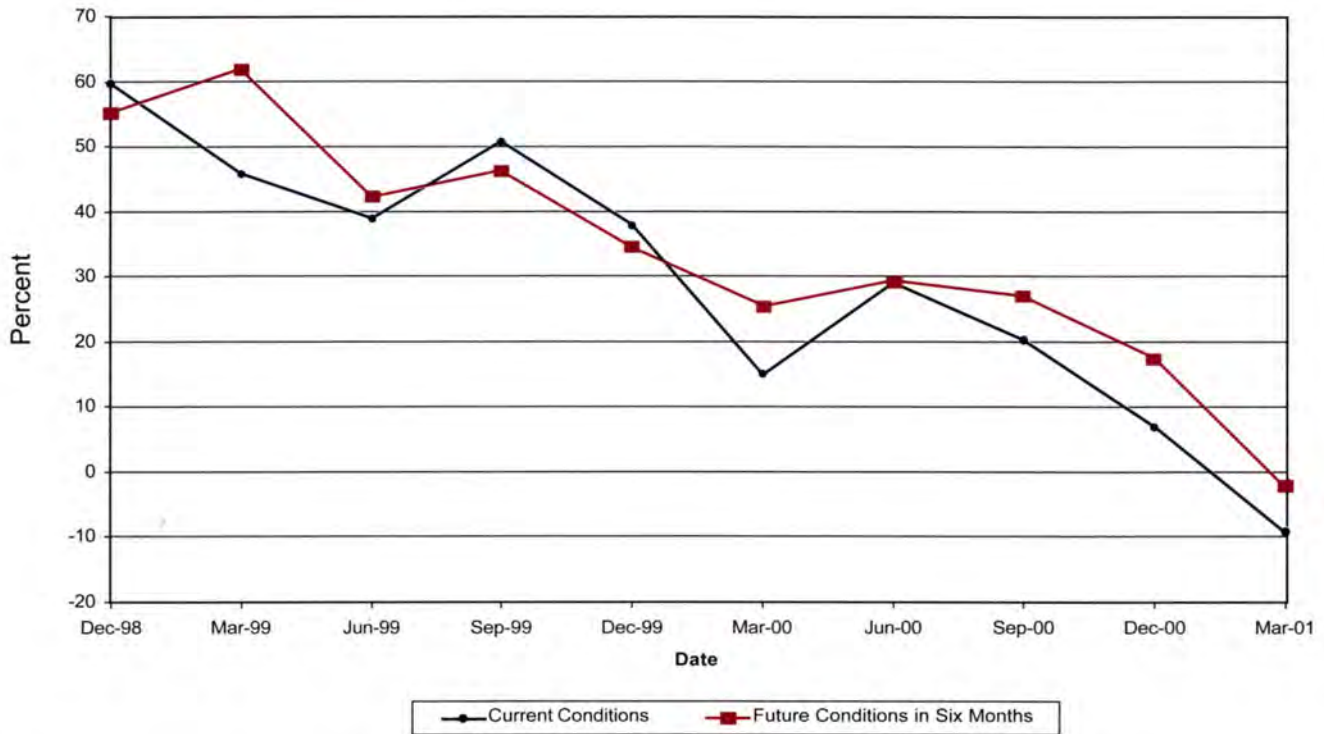


Table 3 reports survey results of area business leaders' evaluation of business conditions for their company in March 2001 versus three months earlier. Some of the results from this table are similar to those that were reported three months ago, while other results show a marked difference from the December 2000 survey. 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 a December value of -19.3 to -1.9 (note that the value of this item's diffusion index was 35.6 one year ago). Thirty-five percent of surveyed firms reported an increase in business activity in this most recent quarter, while 36% noted that business activity had decreased at their company. One firm notes that "we are currently in our slow time of the year-we are very busy from May through January each year." Another survey respondent notes the "increase of competition from outside this area. Sales and mergers of national firm[s] will make our sales more difficult."

The decrease in the diffusion indexes for number of payroll employees and the length of the workweek is

consistent with a further easing of the labor shortage in the St. Cloud area. This is confirmed by the decreased diffusion index for the question asking companies about their difficulty attracting qualified workers. The diffusion index for this latter question decreased from 7.0 in December to a current value of -7.4. This is the first time that this number has been negative. Only 11% of surveyed businesses indicate that their difficulty attracting qualified workers increased over the last quarter. Note that in recent years, 40 to 50% of surveyed firms routinely expected that labor availability would worsen.

In recent months, surveyed firms have also found themselves less able to pass on price increases to customers. The diffusion index in this category decreased from 17.5 to -1.8 over the December to March period. Eighteen percent of respondents indicate that prices received were higher in March than they were three months earlier, which is more than offset by the 20% who experienced a decline. The implication is that there appears to be little inflationary pressure in the St. Cloud economy at this time. Less intense price pressures support the Federal Reserve's rationale for their

Responding firms note slower conditions in past quarter.



National economy is of greatest concern to local firms.

Local firms are optimistic about next six months.

Local firms expect to continue capital investments.

recent easing of short-term credit conditions. Indeed one firm notes that "prices (in the company's industry) are getting cheaper and cheaper." Although one firm has had a different experience. It mentions that "for the first time in over four years we may see price deflation stop ravaging us." Forty-nine percent of survey respondents indicate that employee compensation increased in March relative to three months earlier. This is sharply higher than a 30% response to the same item in the December survey.

Over the past three months, responding businesses continued to show signs of concern for the national economy. The diffusion index on national business activity slipped from -17.5 to -23.6 over the most recent quarter. Yet there seems to be little evidence that deteriorating national economic conditions are spilling over into the local economy (see discussion of Table 5 below). Although one firm does mention that "interest rates have a direct effect on our business..." Another firm simply notes that their business is being affected by "stock market prices and consumer confidence." All in all, the responses to the current-conditions questions are consistent with the slower growth that local businesses have experienced since early 2000.

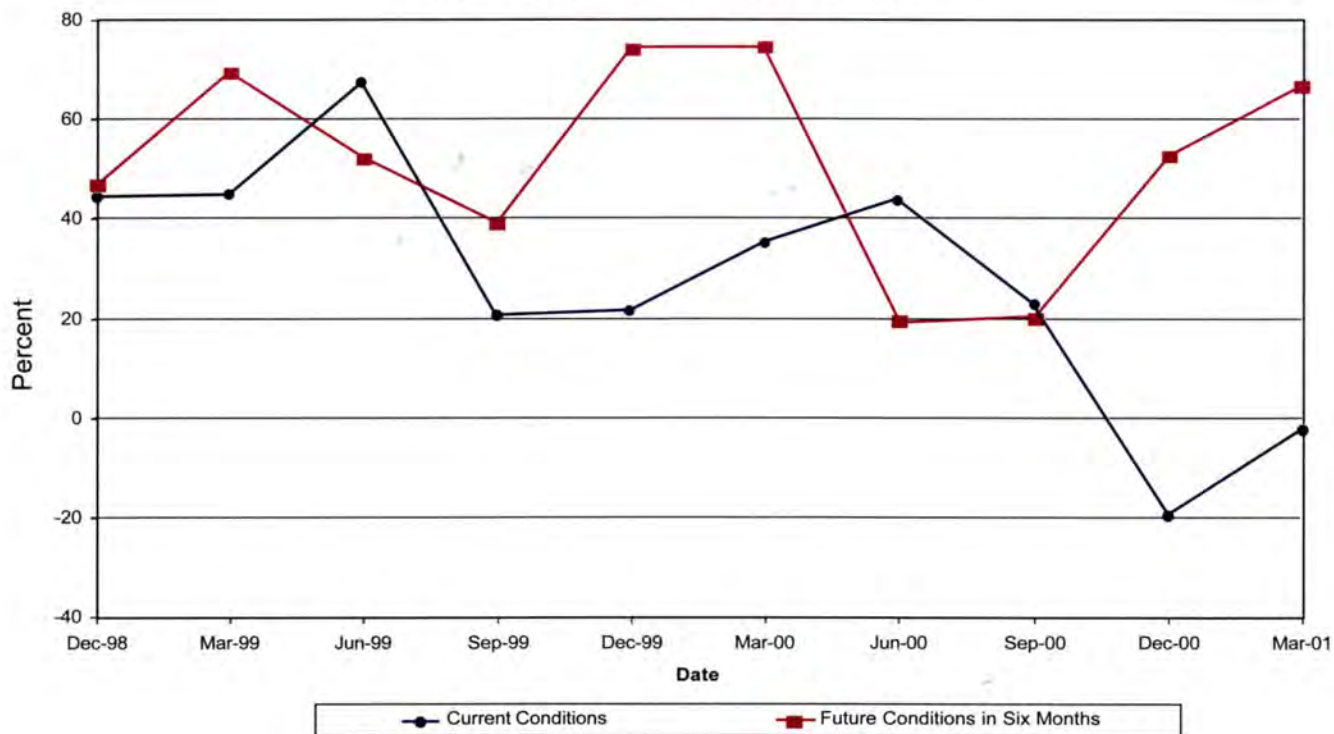
**Future Conditions.**

Summary results from questions related to survey respondents' expectations six months from now versus March 2001 are reported in Table 4. The reported figures paint a decidedly more optimistic picture about the expected future pace of local business activity. The diffusion index for the survey question that asks about the level of future business activity for area companies is a marked improvement over the similar item in Table 3. The diffusion index of 67.2 is also substantially higher than was reported in the December (52.7) and September (20.4) surveys. Seventy-five percent of survey respondents expect an increase in business activity by Fall 2001. This is sharply higher than the 44% of businesses that had a similar expectation in September. Twenty-four percent of business respondents expected a future decline in economic activity in the September 2000. This compares to only 7% who anticipate worsening future business conditions in the most recent survey. One firm states that "we have made a change in the way we do business so that we will increase our business in 2001." One firm notes, however, that "it's hard to forecast the next six months."

Other results reported in Table 4 are nearly the oppo-

*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<sup>1,2</sup>**

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary March 2001 <i>What is your evaluation of:</i>	March 2001 vs. Three Months Ago				December 2000
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index <sup>3</sup>	Diffusion Index <sup>3</sup>
Level of business activity for your company	36.4	25.5	34.5	-1.9	-19.3
Number of employees on your company's payroll	30.9	45.5	21.8	-9.1	10.6
Length of workweek for your employees	18.2	70.9	9.1	-9.1	-5.3
Capital expenditures (equipment, machinery, structures, etc.) by your company	18.2	58.2	21.8	3.6	8.8
Employee compensation (wages and benefits) by your company	3.6	45.5	49.1	45.5	28.0
Prices received for your company's products	20.0	58.2	18.2	-1.8	17.5
National business activity	32.7	49.1	9.1	-23.6	-17.5
Your company's difficulty attracting qualified workers	20.0	67.3	10.9	-9.1	7.0
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<sup>1,2</sup>**

ST. CLOUD AREA BUSINESS OUTLOOK SURVEY Summary March 2001 <i>What is your evaluation of:</i>	Six Months from Now vs. March 2001				December 2000
	Decrease (%)	No Change (%)	Increase (%)	Diffusion Index <sup>3</sup>	Diffusion Index <sup>3</sup>
Level of business activity for your company	7.3	16.4	74.5	67.2	52.7
Number of employees on your company's payroll	1.8	36.4	60.0	58.2	40.3
Length of workweek for your employees	3.6	69.1	25.5	21.9	17.6
Capital expenditures (equipment, machinery, structures, etc.) by your company	7.3	61.8	29.1	21.8	22.8
Employee compensation (wages and benefits) by your company	0	43.6	54.5	54.5	63.2
Prices received for your company's products	1.8	54.5	38.2	36.4	31.6
National business activity	10.9	47.3	30.9	20.0	5.3
Your company's difficulty attracting qualified workers	16.4	65.5	14.5	-1.9	17.5
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: Probability of Local Recession by the end of 2001

Area firms see little chance of local recession.

A special question of the St. Cloud Area Business Outlook Survey asked area business leaders to consider the probability that the local economy would enter recession by the end of 2001, with the results summarized in Panel A of Table 5. In attempting to determine whether the local economy is indeed at a turning point, this question tries to gauge whether the respondents' assessment of the overall local economy parallels their assessment of their individual firm.

Consistent with responses about their firm, answers to this question clearly indicate that most respondents do not anticipate a local recession to occur this year. Forty-two percent of survey respondents believe that

the probability of a local recession in 2001 is between 0 and 20%. An equal percentage of those surveyed think the probability is between 20 and 40%. Thus, 84% of surveyed businesses think the chance of a local recession is below 40%. Note that only 5.4% of firms believe there is higher than a 60% probability of recession. These findings further indicate that short of a major shock hitting the local economy, there is little likelihood of a local recession this year. Finally, business leaders responding to the survey were also asked to comment on their response to this special question. Many of these comments are included in Panel B of Table 5.

**TABLE 5--Special Question 1: Probability of Local Recession by the end of 2001**

*Question : Please indicate what you believe is the probability that the local economy will enter recession by the end of 2001\**

### Panel A: Survey Results

0-20% Probability	20-40% Probability	40-60% Probability	60-80% Probability	80-100% Probability
41.8	41.8	10.9	3.6	1.8

\*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:**

- ◄ Although there is much more risk of recession today as compared to 90 days ago, we don't believe the entire economy will head that far south.
- ◄ During the past three months, our industry has experienced a dramatic slow down; lower interest rates will help, but additional tax cuts and renewed consumer confidence are key to spur our economy. This must take place very soon or we will be in for a long recovery period.
- ◄ Feel the national economy has softened and our local economy may see some of that happening, but (we are) sheltered somewhat by the continual growth along the south corridor.
- ◄ I see the local economy as relatively strong and stable.
- ◄ (There has been a change in the) national economy. St. Cloud is slightly isolated from the national trend.
- ◄ Only with the loss of a major employer in our market area (would we experience a local recession by year end).
- ◄ Our economy shows signs of stress. I believe a recession will be avoided through lower interest rates.
- ◄ I have become more pessimistic about the economy in the last three months.
- ◄ Three months ago I would have indicated 0-20% probability. However, since then there continues to be more signs that the economy is slowing. I believe the Fed caused this to happen with their series of rate increases.
- ◄ We also expect that the U.S. economy will slow but not result in a recession before growth begins to accelerate again. Economic conditions are different by industry today. We have not been affected to date.
- ◄ Definition of recession is "2 quarters in a row with declining GNP." While we may have a month or two of negative GNP, we have a very small chance of two back to back quarters.

## Special Question # 2: The Importance of the Commercial Revitalization of Downtown St. Cloud

A second special question asked area business leaders to evaluate the importance of commercial revitalization of downtown St. Cloud by taking into consideration both direct and indirect effects on their firm. Improving downtown St. Cloud has been touted as a way to improve the area's livability, as well as an avenue to improve St. Cloud's burgeoning convention business. Therefore, this question assesses whether local business leaders view this as a worthwhile goal.

ranked this as a "medium priority" and 7% placed it as a "high priority." No survey respondent indicated that this is a "top priority." A majority of responding firms indicated that commercial revitalization of downtown St. Cloud is either "no priority" or "low priority." Although downtown revitalization affects the entire community, these results suggest that city leaders may need further input from area businesses before decisions are made on downtown St. Cloud.

St. Cloud downtown revitalization is not a high priority.

The results to special question 2 are summarized in Panel A of Table 6. Eighteen percent of responding firms indicated that revitalization was "no priority." They were joined by another 35% who listed this as "low priority." Forty percent of survey respondents

Businesses were also asked to comment on their response to this special question, with some of the responses reported in Panel B of Table 6.

**TABLE 6-Special Question 2: The Importance of the Commercial Revitalization of Downtown St. Cloud**

*Taking into consideration both direct and indirect effects on your business, how important is the commercial revitalization of downtown St. Cloud?\**

### Panel A: Survey Results

\* reported results are percent of surveyed businesses

No Priority	Low Priority	Medium Priority	High Priority	Top Priority
18.2	34.5	40.0	7.3	0

### 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:

- ◀ As a materials supplier, the revitalization of downtown St. Cloud would have an indirect effect..
- ◀ Downtown can be a viable center for banking, legal, medical, and entertainment. Retail will not and need not be a realistic goal for downtown St. Cloud.
- ◀ Changing downtown St. Cloud will have no effect on a global company.
- ◀ I (have an) office downtown. Because of lower rents, the downtown has spawned numerous startups. Let it evolve without subsidy. It could in time become much more high density residential.
- ◀ We have little direct or indirect business in the downtown that can't be readily accessed in other parts of the city.
- ◀ Important to some degree for community. But not important to our business.

*continued from page 8*

site of those found in Table 3 and uniformly suggest continued optimism for the future performance of the local economy. These numbers are, for the most part, more uplifting than the very favorable future business conditions results reported in the January 2001 St. Cloud Area Quarterly Business Report. For example, 60% of surveyed businesses expect the number of employees on their company's payroll to grow over the next six months. Only 2% of these companies expect a decline in payroll employment. One out of every four expects an increase in the length of the workweek in the future with only 4% expecting a decline. A pick-up in capital expenditures is expected by 29% of survey respondents. Only 7% of businesses expect a decrease in capital purchases. These capital-expenditure figures suggest that over-capacity problems that are plaguing certain sectors of the national economy are not a major concern for area businesses.

The diffusion index on employee compensation is 54.5, with no firms indicating that they expect lower wages and benefits six months from now. Note that this is down from a 63.2 figure on the same item in the December survey. Firms also expect to see an improvement in their future ability to pass on higher prices. Thirty-eight percent expect prices received to be higher in the fall compared to the only 2% who anticipate lower future prices. Local businesses are more upbeat about the future path of national business activity than they were in December. Thirty-one percent expect an increase in national business activity by Fall 2001, while only 11% expect a decrease, implying a diffusion index of 20 for this survey item. This compares quite favorably to a 5.3 diffusion index reported in the December survey. Needless to say, survey respondents are significantly more optimistic about future national conditions than they are about current national conditions (see Table 3 above). Finally, the reported decline in the diffusion index

on companies' expected future difficulty attracting qualified workers must be seen by area employers as a welcome sign of upcoming relief from the area worker shortage. There appears to be an end in sight to the "labor shortage" that has plagued area businesses over the past several years.

Figure 3 presents the evolution of the current- and future-business conditions diffusion indexes since the survey's inception in December 1998. This shows a significant increase in the diffusion index on current business conditions 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 -19.3 in December. Perhaps this is a sign that whatever weakness existed in the St. Cloud economy has now passed. The future business conditions diffusion index continues to rebound from its weakness six months ago. Its current 67.2 value is sharply higher than its value of 20 in the September and June surveys, and only marginally lower than the all-time high of 74.6 recorded one year ago.

Participating businesses can look for the next survey in early 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 July. Area businesses who wish to participate in the quarterly survey can call the SCSU Center for Economic Education at 320-255-2157 or [mpartridge@stcloud-state.edu](mailto:mpartridge@stcloud-state.edu). Survey participants receive this report free of charge on a preferential basis.