

Q ST. CLOUD AREA QUARTERLY BUSINESS REPORT

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BUSINESSES AWAIT MIDYEAR EXPANSION

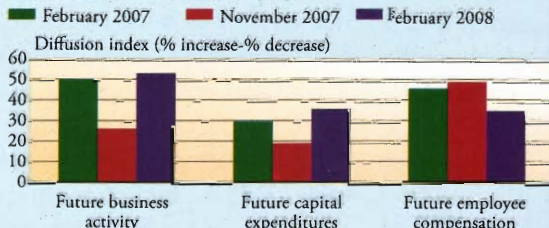
EXECUTIVE SUMMARY

St. Cloud-area firms experienced weak conditions in the past three months as key sectors continued to adjust to challenging market conditions. Along with ordinary seasonal weakness in the winter quarter, area firms also saw conditions of a more cyclical nature. This weakness was widely expected and, to date, there is no formal evidence that the local economy has slipped into recession — though economic weakness abounds.

Substantial local employment growth revisions suggest the area economy was much stronger through much of 2007 than many generally believed. Area employment growth for the 12 months ending in January 2008 was 1.7 percent — well above employment growth in the Twin Cities, and almost equal to St. Cloud's longer-term trend job growth rate. While conflicting signals have been a challenge in forecasting local economic conditions, evidence seems to show a period of very weak growth through spring, followed by an expansion in growth in the final half of 2008. The St. Cloud probability of recession index fell to a reading of 32.8 percent in February, indicating subsiding recessionary pressures. The St. Cloud Area Index of Leading Economic Indicators continued to drift sideways.

Twenty-nine percent of surveyed firms reported an increase in economic activity in the past three months, while 31 percent reported a decrease. Current employment conditions are also very weak, with only

KEY RESULTS OF SURVEY



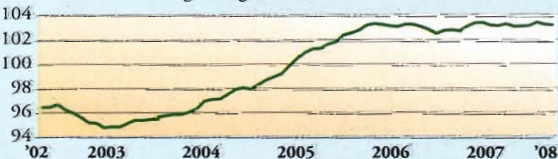
13 percent of 87 firms who returned this quarter's business outlook survey reporting increased hiring in the past three months — and 18 percent trimming employment. The capital expenditures survey index was virtually flat over the past three months and the national business activity survey item was very weak. Employee compensation numbers remained low.

The future outlook is much brighter, as 60 percent of surveyed firms expect an increase in activity in six months and only 7 percent expect conditions to worsen. Employment and hours worked are expected to pick up, though this is, in part, a seasonal pattern. National business conditions are expected to modestly improve. After several periods of relative weakness in capital expenditures, this area is expected to rise substantially. However, 59 percent of firms report no expected plan to increase worker pay over the next six months.

Forty-six percent of area firms expect a slowdown in local commercial construction in the next year, while 11 percent expect that local sector to expand. Almost one-half of surveyed firms report the effects of increased ethanol demand have had "no discernible effect" on their business (although almost one out of every 10 firms says it has had a large unfavorable effect). Forty-four percent of firms believe we are in or are soon headed for local recession, while 33 percent expect below normal local growth (but no recession) and 20 percent expect normal growth.

INDEX OF LEADING ECONOMIC INDICATORS

Six-month moving average



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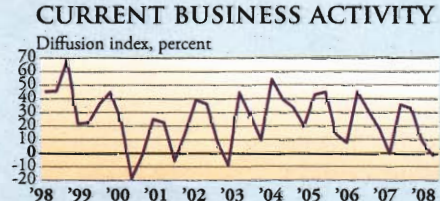


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CURRENT ACTIVITY

Tables 1 and 2 report the most recent results of the business outlook survey. Responses are from 87 area businesses that returned the mailing in time for the report. Firms represent a diverse collection of businesses, including retail, manufacturing, construction, financial, health services and government enterprises of sizes ranging from small to large. Responses are confidential. Written and verbal comments have not been attributed to individual firms.

Survey responses suggest that, in the past three months, the St. Cloud area experienced economic conditions that are weaker than normal for this time of year. The current activity diffusion index (representing the percentage of respondents indicating an increase minus the percentage indicating a decrease in any given quarter) is -2.3 in this quarter's survey, which is about the same as was reported one year ago (-1.1), but is well below the February 2005 reading of 19.3.

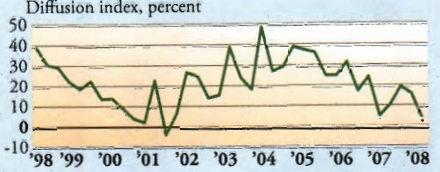


The employment diffusion index was also lower than normal in February (although it is usually at its seasonal low in this quarter). However, it is markedly improved from the -19.4 recording registered one year ago. Similar comments can be made for the survey question on length of workweek. Area firms still report some difficulty hiring qualified workers, but they seem to be hanging on to those they have. Prospective labor force entrants may be finding it difficult to obtain the requisite skills and experience employers find so valuable.

Firms' capital expenditures were very weak over the past three months. With a value of 3.4, the index on this item is the lowest since the winter 2002 survey, when the area economy was mired in recession. Concerns about capital spending are worth noting, because this is such a key indicator of firms' outlook. Fortunately, while current capital expenditures were very weak, the future outlook on this survey item (see Table 2) is much more favorable. With a value of 35.6, the future capital expenditures index is the highest recorded in two years. Expectations of a rebounding economy, accompanied by more favorable federal tax policy and lower interest rates, may stimulate capital purchases by midyear.

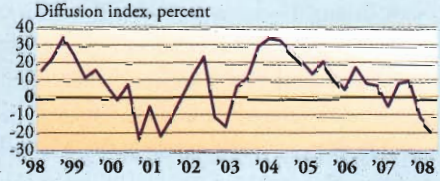
The current national business activity in-

CURRENT CAPITAL EXPENDITURES



dex is the lowest recorded since the fall 2001 survey — although this outlook is expected to improve (see Table 2) in six months' time. The current prices received index is positive, but we don't observe much local pricing pressure. Many commentators have suggested a stagflationary scenario could play out in the U.S. economy. While there are genuine risks this could happen, so far it seems inflationary expectations are sufficiently in check to manage the risk for now.

CURRENT NATIONAL BUSINESS ACTIVITY



OUTLOOK

Recent quarters' future outlook has been seasonally tepid. We have consistently observed a future outlook below what's expected during normal times.

TABLE 1-CURRENT BUSINESS CONDITIONS

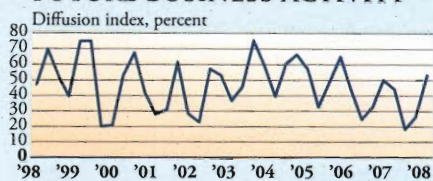
	February 2008 vs. Three months ago			Diffusion Index ³	November 2007 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)		
What is your evaluation of:					
Level of business activity for your company	31.0	40.2	28.7	-2.3	8.3
Number of employees on your company's payroll	18.4	67.8	13.8	-4.6	-8.3
Length of the workweek for your employees	23.0	64.4	12.6	-10.4	-13.1
Capital expenditures (equipment, machinery, structures, etc.) by your company	16.1	63.2	19.5	3.4	15.5
Employee compensation (wages and benefits) by your company	4.6	56.3	39.1	34.5	25.0
Prices received for your company's products	17.2	55.2	27.6	10.4	-3.6
National business activity	28.7	51.7	10.3	-18.4	-11.9
Your company's difficulty attracting qualified workers	5.7	78.2	14.9	9.2	14.2

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

For the first time in several quarters, the survey seems to suggest a brighter future outlook. With a value of 52.9, the diffusion index on future business activity is the highest observed in two years. To be sure, this recording is below its high of 75 in winter 2004, but it is also well above the 30.6 reading in winter 2002 (when the outlook was bleak).

FUTURE BUSINESS ACTIVITY



Unfortunately, this improved outlook is only expected to marginally impact workers. While an index of 23 on expected future employment is a welcome relief from the 2.3 value recorded last quarter (and the negative number recorded before that), it is well below normal winter survey expectations. For example, the winter 2004 survey number was 42.9. Expected increases in average hours worked (as well as higher future capital expenditures) will play a large role in firms' future expansion efforts.

At a value of 34.5, the average value of the expected future employee compensa-

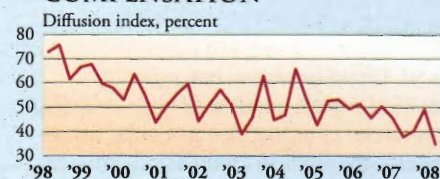
WHAT IS AFFECTING YOUR COMPANY?

Comments to this question include:

- "One area of concern is increasing property tax rates, especially commercial property tax. I am involved in several commercial real estate projects and I am seeing that the excessive burden of real estate taxes is starting to be a deterrent to investment."
- "Foreclosure market is a direct competition for new construction as many foreclosed homes are five or less years old."
- "Increase in gas tax will negatively affect our business. Local taxes have skyrocketed. Our Legislature has misspent our gas tax on social programs, etc., over the years."
- "We are in a normal seasonal slowdown. We are fortunate to be diversified (in type of work we do and multiple locations served)."
- "Federal Reserve cuts and further cuts will materially affect older depositors who live off dividends — reducing their spending habits."
- "Reduced demand for (building materials) has caused increased pressure on prices from competitors in that market segment."
- "The media needs to balance reporting to include some good signs to the economy or we can talk ourselves into a recession."
- "Our business is strongly influenced by the new housing market. With it being slow — we are slow. ..."

tion index has slowly declined. On one hand, this may not be good news for the work force. On the other hand, this may be part of a natural evolutionary market dynamic resulting from economic weakness. Many economic models incorporate reductions in real wages as the natural adjustment firms make to challenging market conditions, so this series may be saying something about that. These adjustments are ultimately necessary to put an economy back on a path of sustainable growth.

FUTURE EMPLOYEE COMPENSATION



As noted, while some seem to be concerned about stagflationary pressures, there is no real evidence of this in the prices received column of Table 2.

While inflationary pressures seem to be a consideration in, for example, world commodity markets, the reverse is found in housing markets, where housing price declines continue to emerge across the United States.

TABLE 2-FUTURE BUSINESS CONDITIONS

	Six months from now vs. February 2008			Diffusion Index ³	November 2007 Diffusion Index ³
	Decrease (%)	No Change (%)	Increase (%)		
What is your evaluation of:					
Level of business activity for your company	6.9	31.0	59.8	52.9	26.1
Number of employees on your company's payroll	9.2	56.3	32.2	23.0	2.3
Length of the workweek for your employees	3.4	71.3	23.0	19.6	4.8
Capital expenditures (equipment, machinery, structures, etc.) by your company	6.9	47.1	42.5	35.6	19.0
Employee compensation (wages and benefits) by your company	2.3	58.6	36.8	34.5	48.8
Prices received for your company's products	10.3	57.5	29.9	19.6	27.4
National business activity	13.8	56.3	19.5	5.7	0
Your company's difficulty attracting qualified workers	6.9	69.0	20.7	13.8	13.1

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.

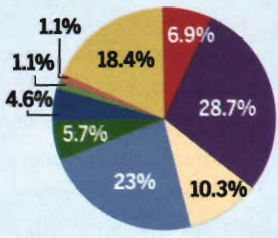
Source: SCSU Center for Economic Education, Social Science Research Institute and Department of Economics

SPECIAL QUESTIONS

Anyone driving around the St. Cloud area in the past several months has noticed several high-visibility commercial construction projects. Examples include the ING downtown expansion, St. Cloud's new public library, a new parking ramp and Science Building expansion at SCSU, and the Sauk Rapids bridge and associated commercial development. With many of these projects soon approaching their ends, we thought it appropriate to ask businesses to comment on what is in the pipeline. Specifically, we asked the following question:

QUESTION 1

The St. Cloud economy has recently benefited from a number of high-visibility commercial construction projects, some of which are nearing completion. Relative to the past 12 months, which of the following does your business expect for area commercial construction projects in the next 12 months?



- A large slowdown
- A moderate slowdown
- A small slowdown
- About the same pace as the past 12 months
- A small expansion
- A moderate expansion
- A large expansion
- Other
- N/A

*Numbers may not add up to 100 due to rounding.

Almost half of firms expected a slowdown in commercial construction relative to the past 12 months. Many observers have noted how important commercial construction contracts have been for area home-builders who have shifted into commercial projects. To date, much of this high visibility construction has helped support this key local sector, so it will be worth watching to see what happens if commercial construction weakens at the same time the area housing market is weak.

Written responses include:

- “(A moderate slowdown) due to recession talks.”
- “Our clients are delaying expansion projects.”
- “Low interest rates should entice some companies to build.”
- “(A moderate expansion.) As a supplier

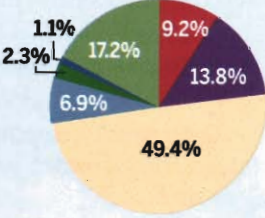
of construction supplies, we have orders booked for spring of 2008.”

- “We are seeing a decrease in new loan requests for commercial construction and expect that will continue.”

QUESTION 2

Ethanol markets have received attention in recent months as ethanol gasoline requirements, among other things, have led to increased demand for corn. This has not only pushed up gas prices, it has also led to secondary effects in which grain supplies have declined (leading to higher grain prices) as farmers allocated a greater share of their acreage to planting corn. This has caused higher food and beverage prices, among other impacts. We asked area firms the following question:

Many observers have noted that increased demand for ethanol has caused an increase in feed (and other) prices. To what extent has your business (either directly or indirectly) been influenced by the increase in ethanol demand?



- Large unfavorable effect
- Small unfavorable effect
- No discernible effect
- Small favorable effect
- Large favorable effect
- Other
- N/A

*Numbers may not add up to 100 due to rounding.

While almost one-half of firms report the increase in ethanol demand has had no discernible impact on their firm, the results are more interesting than that. Twenty-three

percent indicate an unfavorable impact and 9 percent report a favorable impact. The written responses are most illuminating about the relative distribution of costs and benefits of the ethanol requirements. Farmers (and those who sell to farmers) seem to be better off, while any firm that uses corn or grain as a productive input are worse off.

Written responses include:

- “Our cost for grain and protein products has gone up over 75% in the last year. Capital required for inventory has dramatically increased.”

• “High commodity prices have increased income. Capital investment by farmers has increased business for us. Less account delinquency and increased farm income.”

• “We are in (an industry that uses grains as an input) and we’ve seen more farmers growing corn versus (grains). The price for (grains) has increased by 50% and that has also raised (our final product) prices.”

• “I think the ethanol program will go in the history books as one of the largest boondoggles to ever hit the state of MN and the country.”

• “Wheat prices are three times what we paid a year ago. We expect our (processed inputs) to go up also as soybeans are affected.”

• “Farmers are spending more money due to increased revenue from this demand.”

• “Increased production of ethanol from corn is the primary reason corn and soybean prices have doubled. Wheat prices are up 300 percent due to crop shortfalls. Grain markets will remain high to attract acres. Food prices will increase substantially in 2008. Expect rising inflation. Our energy policy is basically a tax on food. This impacts food prices in the U.S. and globally, leading to more starvation and hunger.”

• “Farmers are profitable and able to invest in capital equipment.”

• “Hydrogen is the fuel of the future for the U.S. 2009 red and white meat costs will be at all-time highs. 2008 will be the largest weather market in the history of U.S. farming and agriculture.”

QUESTION 3

This quarter’s final question is on a topic of high interest to the authors of the St. Cloud Area Quarterly Business Report. We have spent much of our professional lives teaching students about the characteristics of the business cycle and their key components, particularly expansions and recessions. There has been a media clamor — some might say an obsession — with the desire to call the current situation a recession, even though economists generally agree that it takes months to determine when one has started. Recessions are big events and are not to be taken lightly — most economists agree that business sentiment drives investment decisions — so it is wise not to get too far ahead of the data in

making premature pronouncements.

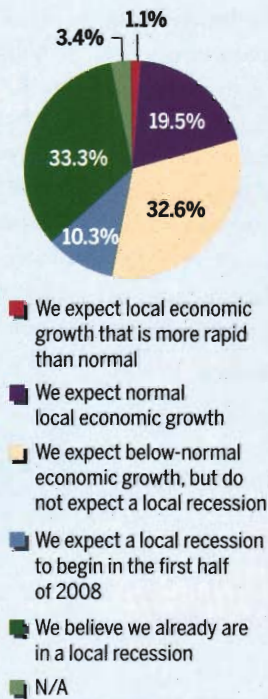
It may well be that the local economy has slipped (or will soon slip) into recession, although we cannot say for sure at this time. We decided to take a different approach and ask area firms if they thought we were in recession, heading for recession or could expect differing degrees of local economic growth in the year ahead. We asked:

There has been a lot of recent discussion about the possibility of a national, state and local recession. Which of the following best describes your company's expectation about the prospects of a local recession in 2008?

We will let the chart (and the accompanying comments) do most of the talking, but suffice it to say economists are not the only ones who are uncertain about whether we are in, heading for or will avoid a recession. One interesting note is 44 percent of surveyed firms report they believe we are either in recession — or will be in the coming months. This is remarkably close to the 45 percent of economists recently surveyed by the National Association of Business Economists who indicated recession is likely this year.

Written responses include:

- “We will see an increase in business revenue due to a recession. We will experience a slow-down in the number of new clients due to the reduced number of new startup businesses and the delay in expansion by our existing client base.”
- “We continue to see weakness in housing both in commercial developers and residential demand. This is leaking over to commercial retail.”
- “Slowdown — but small scale.”
- “I feel the spring will be slow, but if interest rates and high gas prices continue to drop, it could stimulate the economy for a good fall and start of 2009.”
- “There has been and will be a decrease in growth, but I would not call it a recession.”
- “Unless we’re buying into the rumors, it seems that disposable income isn’t as plentiful and people are watching their spending.”
- “While we don’t expect a ‘technical’ recession, we do expect a slowing local economy during the next six months and slow growing economy thereafter.”
- “We expect recession will continue to show signs for all of 2008. High gas prices and poor performing stock market has placed a lot of people in a conservative behavior.”



*Numbers may not add up to 100 due to rounding.

THAT'S SOME REVISION!

WE LIVE IN A TIME WHERE CHANGE HAPPENS FASTER AND FASTER. That can create issues for government workers who try to figure out how many people are employed. Firms come and go faster, entrepreneurship activities increase, and thus more jobs are created in places we do not know about.

The data we report as employment comes from a survey of a sample of businesses. Government cannot survey them all. Annually, it looks back at data from all employers it can track, primarily using unemployment insurance information, to revise the estimates they reported the previous two years. The revisions typically change the monthly estimates by 0.5 percent to 0.9 percent, according to the Bureau of Labor Statistics.

The revisions reported in March on the level of St. Cloud employment were larger than this, as the graph below shows. On average, the number of area jobs reported monthly was raised by more than 500 workers in the first half of 2007 and by 1,252 in the second half. The impact of this change cannot be understated. Our previous Quarterly Business Report had reported job growth of 0.8 percent for the year through October based on the previous data. This was consistent with a story of a slowing economy and job growth from levels experienced in the first half of the year.

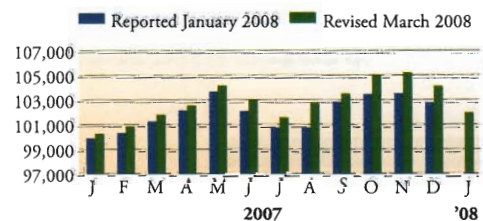
The data now revised show growth job growth of 2 percent, which would mean real output in the area grew perhaps 0.8 percent to 0.9 percent faster than we previously thought. This is possibly the difference between recession and continued normal growth in the local economy. Area employment growth from December 2006 to December 2007 was 2 percent rather than 0.5 percent reported in late January. (January over-the-year growth in employment locally eased to 1.7 percent.) The revised figure is consistent with normal employment growth in the area.

This same pattern occurred last year and was reported in last April's QBR. Indeed, the revisions in second-half 2006 employment averaged 1,942 workers, larger than this year. As we noted then, the usual explanation for this is the churn of firms may be larger. The old firms drop out of the sample when the firm surveyed reports it is no longer in business, but the workers may go to a new concern that is not in the set of surveyed firms. Government data collectors can only learn about those new firms from the tax filings.

What sectors accounted for the differences? One probable source of new firms is the construction sector. Unlike past statements we may have made about this sector, revised data show average employment at 17,393 in 2007, up from 17,232 in 2006. Almost a thousand jobs were added in the health and education super-sector, more than double previous estimates.

This should be a reminder to users of local area data that the data are subject to substantial revisions that could cause us to change our views of what is going on locally. We can no longer say the area economy was slowing in the second half of 2007 as the previous data was suggesting. This will lead us as well to revise downward our projections of a recession slightly.

ST. CLOUD EMPLOYMENT AND REVISION



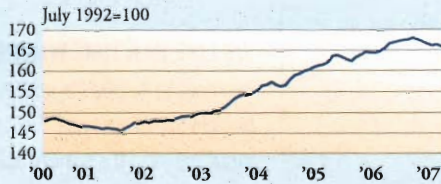
RECESSION OR NOT?

Since state economist Tom Stinson stated Jan. 15 that Minnesota is in a recession, that word has dominated conversations about the local economy. At that time, his data on jobs over the year was a decline of 353. The revisions discussed in the special box revised that number to a gain of 6,217. Growth in Minnesota jobs was 0.6 percent, almost on a par with the 0.7 percent experienced by the United States as a whole.

Still, the question was whether the decline in jobs was sufficient to trigger a call of recession for the state or local economy. There are data available for the state economy that some economists have used. One project at the Federal Reserve Bank of Philadelphia is an index derived from a set of data on income, employment and unemployment data, and hours worked in manufacturing. The data since 2000 is plotted in the chart at top right and shows that since late summer, the trend has been down for the Minnesota economy, which could indicate the state has begun a period of recession.

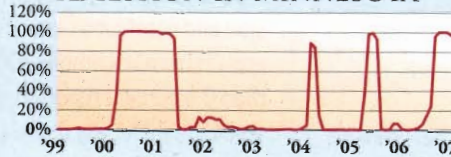
Consistent with the method we have used in the last few issues of QBR — and in fact part of our inspiration for the model — economists at the St. Louis Federal Re-

MINNESOTA COINCIDENT INDICATORS



serve have provided a model that instead provides a probability of recession. It has an advantage that ours lacks insofar as it makes much stronger statements of whether a state or local economy is in recession. But as can be seen in the graph below, it can give a false positive reading of recession. The authors advise caution in using it in isolation; the model's predictions have to be placed in context with other information the forecaster has about the state of the economy. But the signal from this data — given before revisions in employment reported in early March — suggests Min-

PROBABILITY OF RECESSION IN MINNESOTA



nesota was in recession from August 2007.

Data revisions may change this result. Some anecdotal data received since then indicate sales tax revenues in the state slowed sharply in December, and the unemployment rate fell 0.2 percent in January. Each indicator pushes in opposite directions. The mix of data generally makes the forecasting environment even more treacherous than usual for a potential turning point.

Locally, Table 3 shows that growth in employment locally was relatively broad-based. Local manufacturing employment was up 1.5 percent in the 12 months to January, and growth in services kept about the same pace. The retail and leisure-hospitality sectors put some drag on area employment, as higher oil prices and narrowing access to easy credit to home credit lines harmed retailers nationwide, particularly for higher-end retailers. The decline in retail was more severe in St. Cloud than elsewhere in the state. We also note that with the latest data revisions, the annual share of employment in manufacturing has moved below 17 percent for the first time since data collection began in 1990. St. Cloud is not immune to the secular decline in manufacturing employment occurring nationally, as productivity gains

TABLE 3 -
EMPLOYMENT
TRENDS

	St. Cloud (Stearns and Benton)			13-county Twin Cities area			Minnesota		
	15-year trend growth rate	Jan. '07-Jan. '08 growth rate	Jan. '08 employment share	15-year trend growth rate	Jan. '07-Jan. '08 growth rate	Jan. '08 employment share	15-year trend growth rate	Jan. '07-Jan. '08 growth rate	Jan. '08 employment share
Total nonagricultural	2.0%	1.7%	100.0%	1.5%	0.4%	100.0%	1.5%	0.6%	100.0%
Total private	2.2%	1.3%	85.1%	1.6%	0.4%	86.4%	1.6%	0.4%	84.6%
Goods producing	2.0%	0.8%	21.0%	0.3%	-2.8%	14.9%	0.5%	-2.2%	16.2%
Construction/natural resources	3.9%	-2.1%	4.2%	3.2%	-6.8%	3.7%	2.9%	-5.3%	3.9%
Manufacturing	1.6%	1.5%	16.8%	-0.4%	-1.4%	11.2%	-0.1%	-1.1%	12.3%
Service providing	2.0%	1.9%	79.0%	1.8%	1.0%	85.1%	1.7%	1.1%	83.8%
Trade/transportation/utilities	0.4%	0.4%	21.0%	1.1%	0.2%	19.1%	1.1%	1.0%	19.4%
Wholesale trade	1.8%	0.2%	4.3%	1.5%	0.2%	4.9%	1.5%	0.9%	4.8%
Retail trade	-0.4%	-0.9%	13.1%	1.2%	-0.1%	10.5%	1.0%	0.8%	11.1%
Trans./warehouse/utilities	2.4%	5.5%	3.5%	0.3%	1.6%	3.7%	0.6%	1.5%	3.5%
Information	1.5%	-3.4%	1.2%	0.8%	0.7%	2.4%	0.5%	0.1%	2.1%
Financial activities	4.1%	0.9%	4.5%	1.6%	0.0%	8.0%	1.8%	-0.3%	6.5%
Professional & business service	5.7%	3.8%	8.3%	2.1%	0.4%	14.7%	2.4%	0.3%	11.8%
Education & health	3.2%	4.9%	16.4%	3.4%	3.8%	14.3%	3.3%	3.3%	15.8%
Leisure & hospitality	2.8%	-1.8%	8.8%	2.1%	1.9%	8.9%	1.9%	1.4%	8.6%
Other services (excluding govt.)	1.3%	-0.9%	3.7%	1.6%	-0.3%	4.2%	1.1%	-2.1%	4.1%
Government	1.0%	3.9%	14.9%	1.1%	0.2%	13.6%	0.8%	1.3%	15.4%
Federal government	0.5%	3.0%	1.7%	0.1%	0.8%	1.2%	-0.1%	0.2%	1.2%
State government	0.8%	4.4%	4.3%	1.4%	-1.0%	4.0%	0.8%	0.7%	3.5%
Local government	1.2%	3.8%	8.9%	1.2%	0.7%	8.4%	0.9%	1.6%	10.6%

Note: Long-term trend growth rate is the compounded average employment growth rate in the specified period.

Source: Minnesota Department of Employment and Economic Development and author calculations.

TABLE 4-OTHER ECONOMIC INDICATORS

	2007	2008	Percent change
St. Cloud MSA labor force January (Minnesota Workforce Center)	106,407	107,456	1.0%
St. Cloud MSA civilian employment # January (Minnesota Workforce Center)	100,066	101,282	1.2%
St. Cloud MSA unemployment rate* January (Minnesota Workforce Center)	6.0%	5.7%	N/A
Minnesota unemployment rate* January (Minnesota Workforce Center)	5.4%	5.4%	N/A
Minneapolis-St. Paul unemployment rate* January (Minnesota Workforce Center)	4.7%	4.7%	N/A
St. Cloud-area new unemployment insurance claims Nov.-Jan. average (Minnesota Workforce Center)	1,623.3	1,566.7	-3.5%
St. Cloud Times help-wanted ad linage Nov.-Jan. average, in inches	5,057	4,733	-6.4%
St. Cloud MSA residential building permit valuation In thousands, Nov.-Jan. average (U.S. Department of Commerce)	6,689.3	3,096.0	-53.7%
St. Cloud index of leading economic indicators January (St. Cloud State University)**	102.3	102.8	0.5%

MSA = St. Cloud Metropolitan Statistical Area, composed of Stearns and Benton counties.
 # - The employment numbers here are based on household estimates, not the employer payroll estimate in Table 3.
 * - Not seasonally adjusted
 ** - January-March 2001=100
 NA - Not applicable

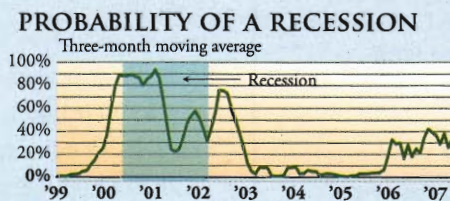
allow firms to expand production and firms report skilled labor shortages.

Other local data found in Table 4 provide mixed signals. Unemployment is traditionally high in St. Cloud in January, so the current reading of 5.7 percent is high compared with last summer but below the 6 percent reading of January 2007. Unemployment insurance claims have fallen slightly, suggesting improvement in the local labor market. However, lines of help-wanted advertising has fallen 6.5 percent over the year, and building permits fell by more than half. Regional economists point out that the decline in permits and building starts has affected not only construction but also the sale of wood products, appliances and other items that go into new homes.

Help-wanted advertising has moved higher in the past few months (on a seasonally adjusted basis), and this is the only item in the St. Cloud Area Index of Leading Economic Indicators that increased. Its strength more than counteracted the slight declines in the other three indicators, as seen in Table 5. Unemployment claims rose late in the last year, and hours worked did not increase as much as normal for this season. Incorporations of new firms were virtually flat. Those items are also assembled in our

TABLE 5-ELEMENTS OF ST. CLOUD INDEX OF LEI

Changes from October 2007 to January 2008	Contribution to LEI
Help-wanted advertising in St. Cloud Times	2.27%
Hours worked	-0.50%
New business incorporations	-0.05%
New claims for unemployment insurance	-0.63%
Total	1.09%



recession forecast index, which had a reading of 32.8 percent probability of recession for February 2008. This forecast is a statement of the probability of a recession four to six months ahead, so compared to our forecasts of last fall for actions this spring, the latest reading indicates a weakening risk of recession for summer 2008.

National forecasts generally put the risk of recession somewhere between 40 percent and 50 percent for this spring. That number moved up slowly but steadily throughout fall. Forecasters generally moved up their

forecasts for growth for the second half of 2008 on the expectation that the stimulus package passed in February will increase consumer spending by mid- to late-summer, and perhaps the cuts in interest rates made by the Federal Reserve would gain more traction at that time. GDP growth in the first half of 2008 will either be negative (if there is a recession) or anemic (if not).

Forecasts of home prices for 2008 nationally show a 4.5 percent decline according to the February forecast of The Wall Street Journal's Economic Forecasting Survey. Federal Reserve policy is expected to be expansionary through the first half of the year, with Fed funds rates in the area of 2 percent to 2.5 percent expected by most forecasters by June. While many writers appear concerned about the Fed's perceived lack of concern for inflation, forecasters still put their forecasts of CPI inflation by December 2008 at 2.3 percent — slightly higher than the Federal Reserve's perceived target of 2%, but unlikely to constrain its actions if the situation should warrant further cuts in interest rates.

Question marks for 2009, which forecasters are projecting for the first time, vary dramatically. The National Association of Business Economists survey finds a median forecast of 2.9 percent GDP growth. Those who have had lower expectations for recession in 2008 had higher expectations of recession in 2009 in the WSJ survey. Uncertainty of professional forecasters and of our business survey participants in the special question about recession are about equal.

This does not mean there necessarily will be a recession in either year. A problem is in the defining of local recessions — there is no independent arbiter. Even for state recessions, nobody agrees on one body to make an "official" declaration (even national recession dating is done by a private group.) Suppose employment growth, after final revisions of data, did register a growth rate of 0.1 percent or 0.2 percent, and unemployment rose above 6 percent. Would observers want to say that was not a recession because the number somehow stayed positive? Economists argue that one can have a recession without a slump in employment. That may be what happens this time.