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Southeast Minnesota Economic and Business Conditions Report, Second Quarter 2014

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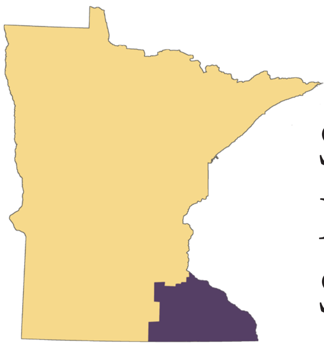

Southeast Minnesota
Economic and Business Conditions Report
Second Quarter 2014

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
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TABLE OF CONTENTS

Southeast Minnesota business conditions are expected to remain strong over the next several months according to the predictions of the St. Cloud State University (SCSU) Southeast Minnesota Index of Leading Economic Indicators (LEI). Improvements in consumer sentiment, an increase in new filings for business incorporation and limited liability company (LLC), a rise in the Minnesota Business Conditions index, and increasing Rochester metropolitan area residential building permits all helped lift the second quarter LEI by 5.42 points. The only component of the LEI that served as a drag on the leading index was initial jobless claims. The Southeast Minnesota Index is now 9.4 percent higher than one year ago.

There were 842 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the second quarter of 2014 — representing a 2.6 percent increase from one year ago. There were 75 new regional business incorporations in the second quarter, a 2.7 percent rise over year ago levels. Over the past 12 months, new limited liability company (LLC) filings in Southeast Minnesota increased by 10.1 percent — rising to 513 in the second quarter of 2014. New assumed names totaled 213 in this year's second quarter — a reduction of 14.1 percent from the second quarter of 2013. There were 41 new filings for Southeast Minnesota nonprofits in the second quarter — seven more filings than one year ago.

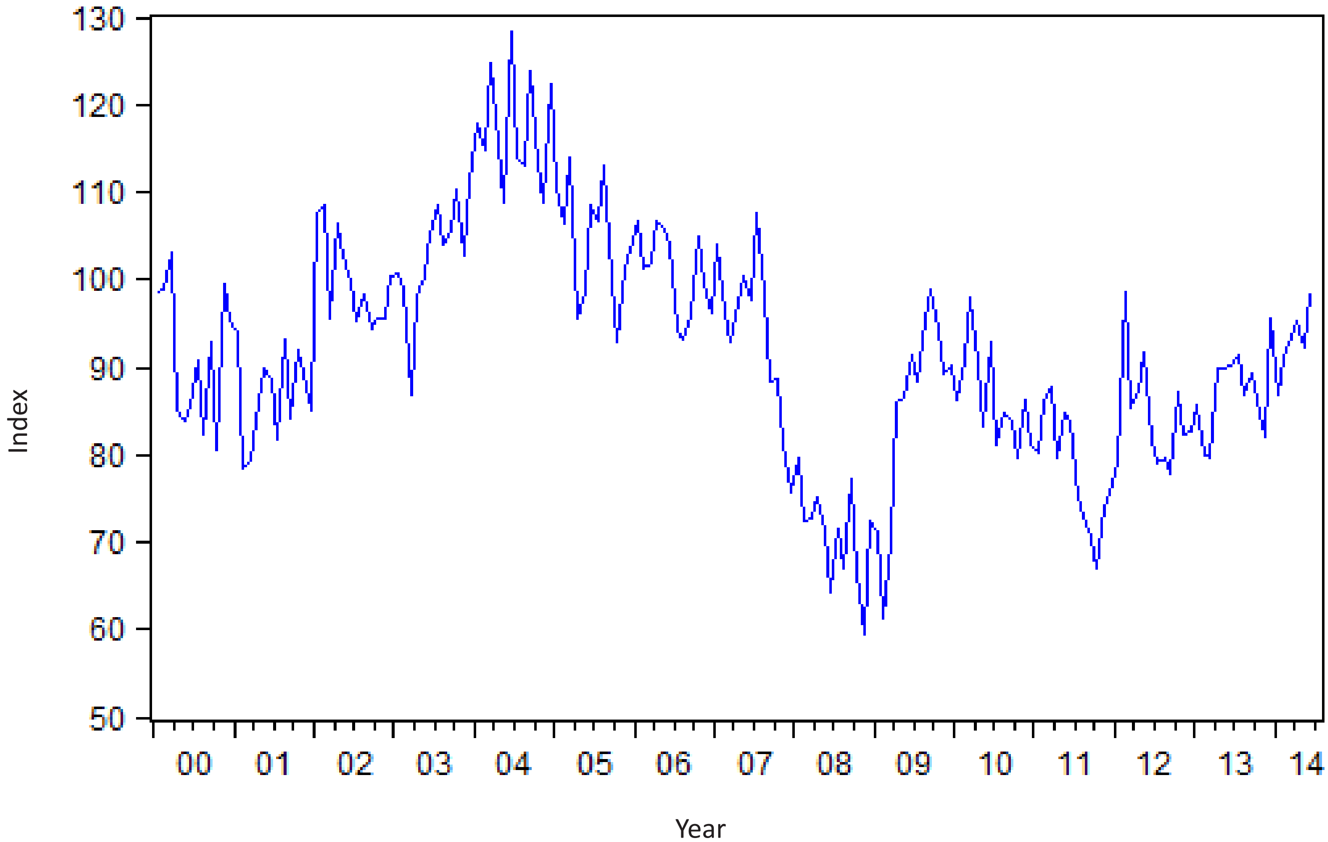
Employment of Southeast Minnesota residents increased by 0.4 percent over the year ending June 2014. Compared to June 2013, nearly 1,000 more residents of Southeast Minnesota now have jobs. The regional unemployment rate was 4.3 percent in June, an improvement from 4.9 percent in the year earlier period. Initial claims for unemployment insurance in June 2014 were little changed from one year ago. The average weekly wage in Southeast Minnesota increased to $887 — a 1.7 percent annual increase. The Southeast Minnesota labor force was little changed over the past twelve months.

Data from the Rochester area — the largest market in Southeast Minnesota — were mixed with solid gains in the value of residential building permits and a recent decline in initial jobless claims being offset by tepid overall employment growth, a reduction in employment in its key educational and health sector and a very modest increase in average hourly earnings.

Southeast Minnesota Leading Economic Indicators Index

The SCSU Southeast Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. With the exception of a couple of brief periods of decline, the LEI has steadily trended upward over the past two years. After a small decline in this year's first quarter, the index has posted a healthy 5.42 point gain in the current quarter and is now 9.4 percent higher than one year ago.

SCSU Southeast Minnesota Index of Leading Economic Indicators (December 1999 = 100)



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2014	Contribution to LEI, 1st quarter 2014
Minnesota Business Conditions Index	2.14	3.08
Southeast Minnesota initial claims for unemployment insurance	-2.60	-4.36
Southeast Minnesota new filings of incorporation and LLCs	2.90	-0.33
Rochester MSA residential building permits	1.15	0.25
Consumer Sentiment, University of Michigan	1.83	-1.83
TOTAL CHANGE	**5.42**	**-3.19**

Four of the five components in the LEI had favorable readings this quarter. Southeast Minnesota contains Rochester, a medical destination. Decisions to consume medical services depend in part on consumer choice, so consumer sentiment is used as a national-level indicator of Southeast Minnesota business activity. Sentiment improved in the most recent quarter. Residential building permits in the Rochester metropolitan area also drove the index higher in the second quarter. New filings for business incorporations and LLCs in Southeast Minnesota contributed favorably to the regional outlook, as did the Minnesota Business Conditions survey (conducted by Creighton University), which serves as a general measure of state business conditions. The only indicator that was a drag on the overall index was a rise in initial claims for unemployment insurance in the Southeast Minnesota planning area.

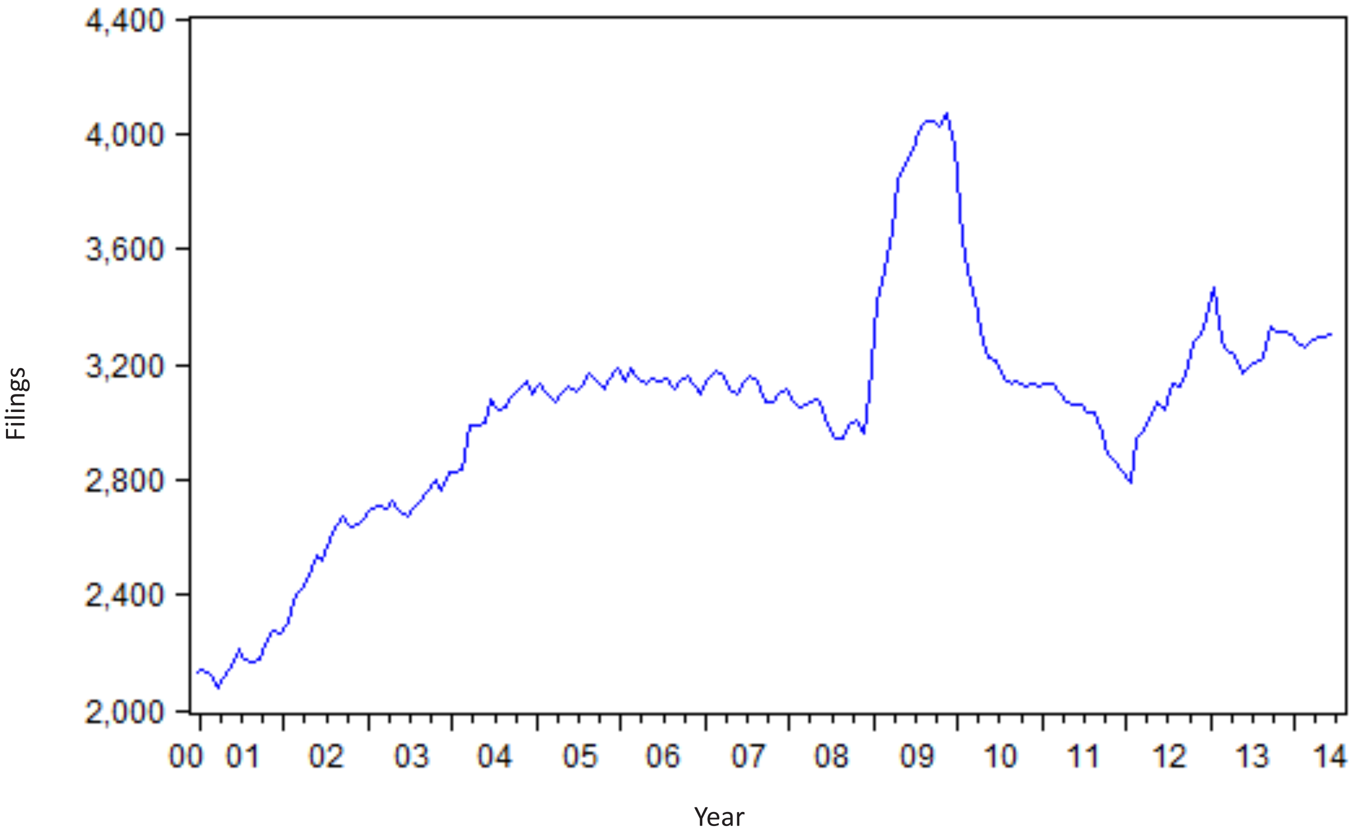
SCSU Southeast Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index June	70.1	56.2	24.7%
Southeast Minnesota initial claims for unemployment insurance June	1,354	1,358	-0.3%
Southeast Minnesota new filings of incorporation and LLCs Second Quarter	588	539	9.1%
Rochester MSA single-family building permits June	50	57	-12.3%
Consumer Sentiment, University of Michigan June	82.5	84.1	-1.9%
Southeast Minnesota Leading Economic Indicators Index June (December 1999 = 100)	98.5	90.0	9.4%

Southeast Minnesota Business Filings

Total new business filings grew rapidly from 2000 to 2005, at which point they leveled off for three years (from 2006 to 2008). The abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier (resembling a shark fin) is related to considerably higher filings in the construction industry due to legal and regulatory issues and appears to be a one-time only transitory event seen in the data in all regions of Minnesota. New filings declined during and after the Great Recession, but have rebounded since the beginning of 2012. Second quarter total new business filings were 2.6 percent higher than in the second quarter of 2013.

Note: The graphs in this section show the 12-month moving total for the various new business filings in Southeast Minnesota that are registered with the Office of the Minnesota Secretary of State. Doing so removes seasonal patterns in the data.

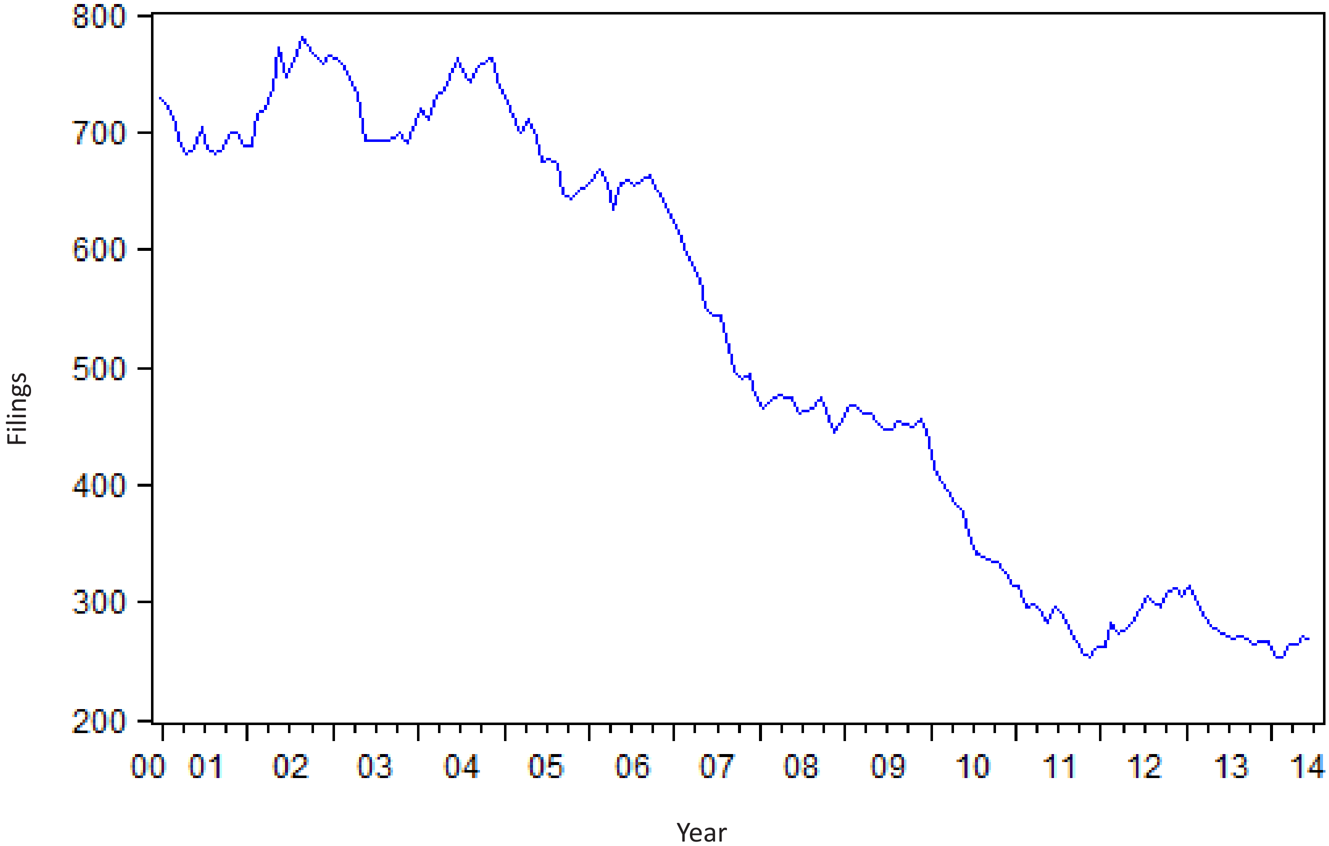
Total New Business Filings—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southeast Minnesota Total New Business Filings	821	842	780	847	842	2.6%

New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but they appear to have leveled off over the past two years. In the second quarter of 2014, this series increased by 2.7 percent from one year earlier.

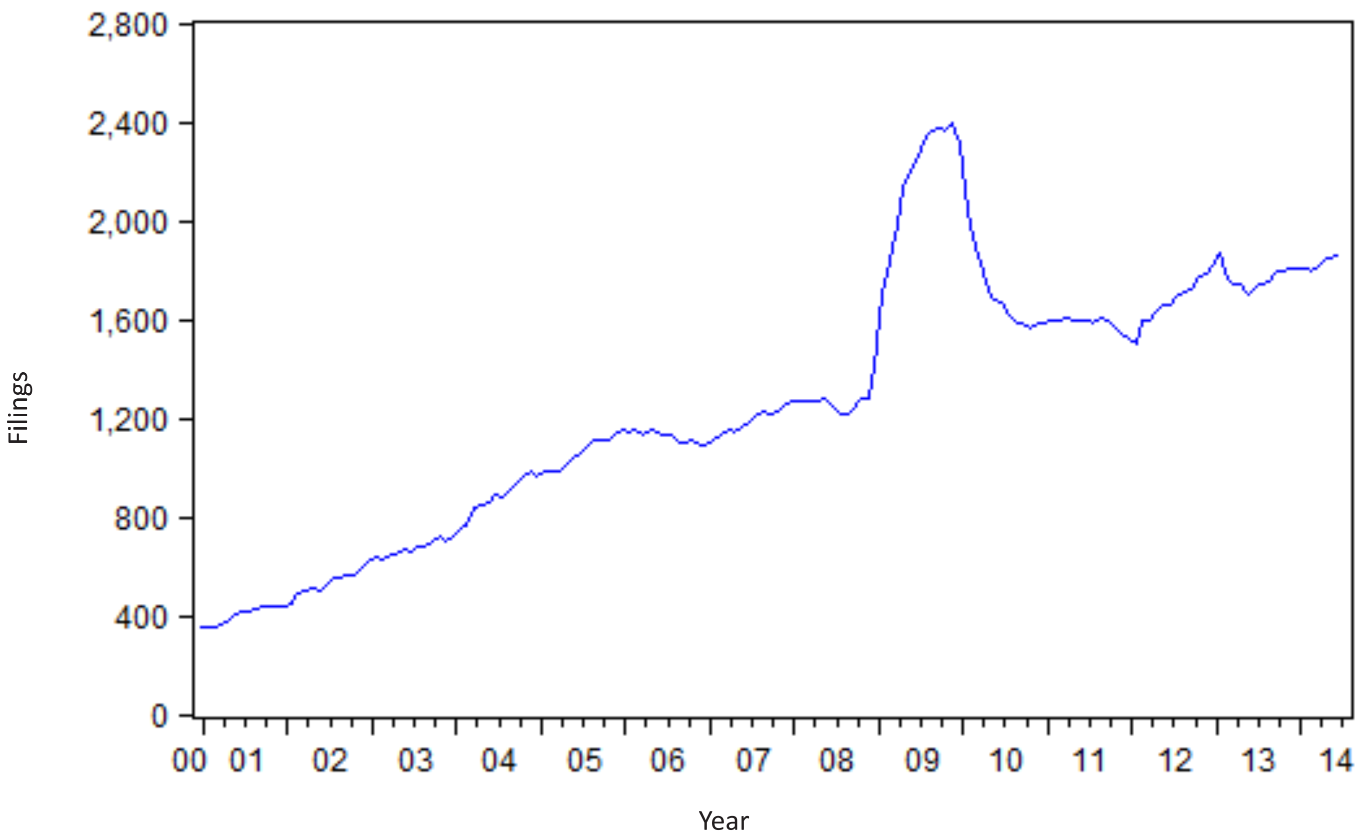
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southeast Minnesota New Business Incorporations	73	54	75	63	75	2.7%

There has been a move in Southeast Minnesota, as in all of the state, away from the traditional incorporation form of business organization towards the LLC. While new business incorporations remain an important indicator of new business formation in Southeast Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southeast Minnesota. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2000. Second quarter LLC filings increased by 10.1 percent over their year ago level. Other than the Southwest Minnesota planning area, this increase in new LLC filings was the largest percentage gain in all of Minnesota's six planning areas.

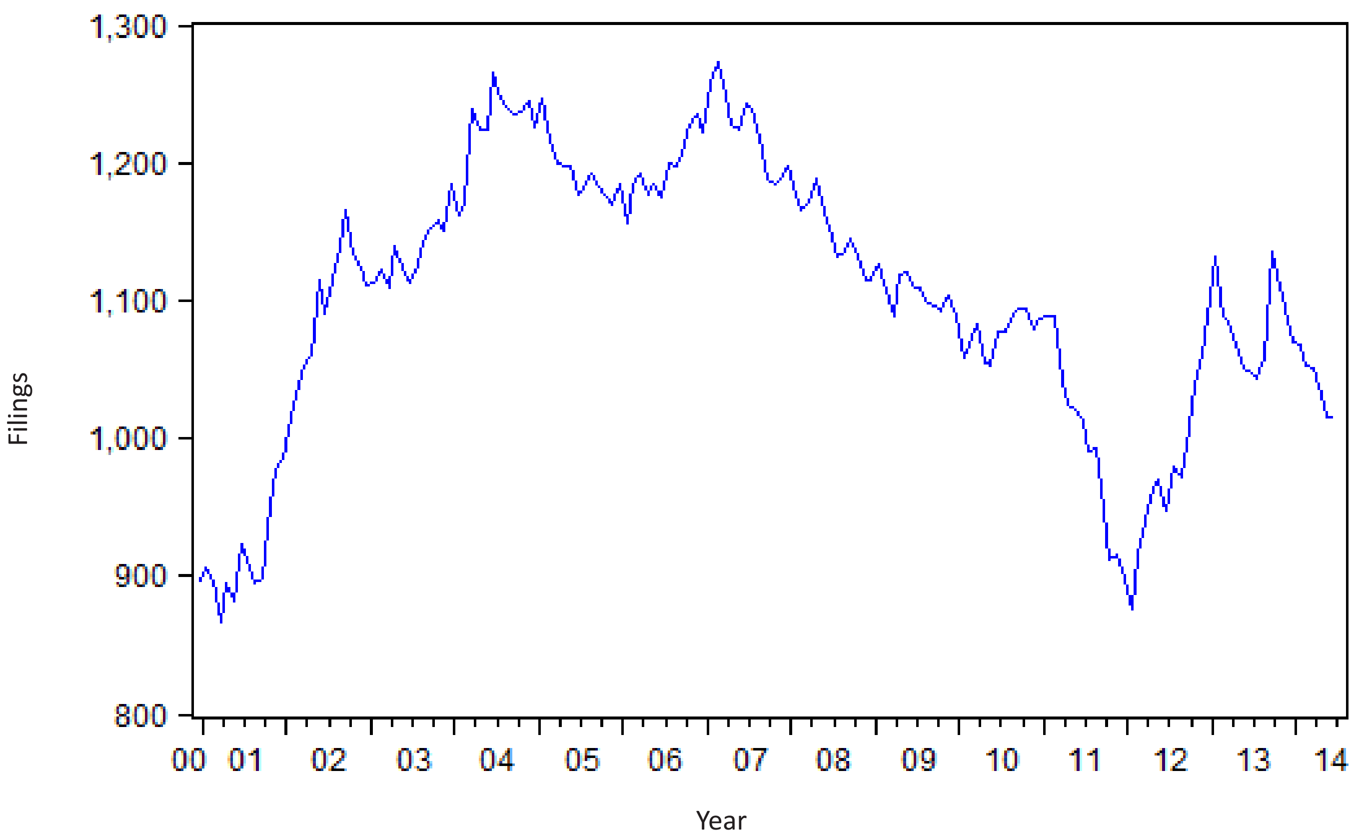
New Limited Liability Companies—Southeast Minnesota Planning Area
(12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southeast Minnesota New Limited Liability Companies	466	430	450	473	513	10.1%

Assumed names, which include sole proprietors or organizations that do not have limited liability, declined in most areas of Minnesota in the second quarter of 2014. Southeast Minnesota experienced a 14.1 percent year-over-year decline in assumed name filings in the recent quarter. As can be seen in the accompanying graph, this series remains very volatile.

New Assumed Names—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southeast Minnesota New Assumed Names	248	323	207	273	213	-14.1%

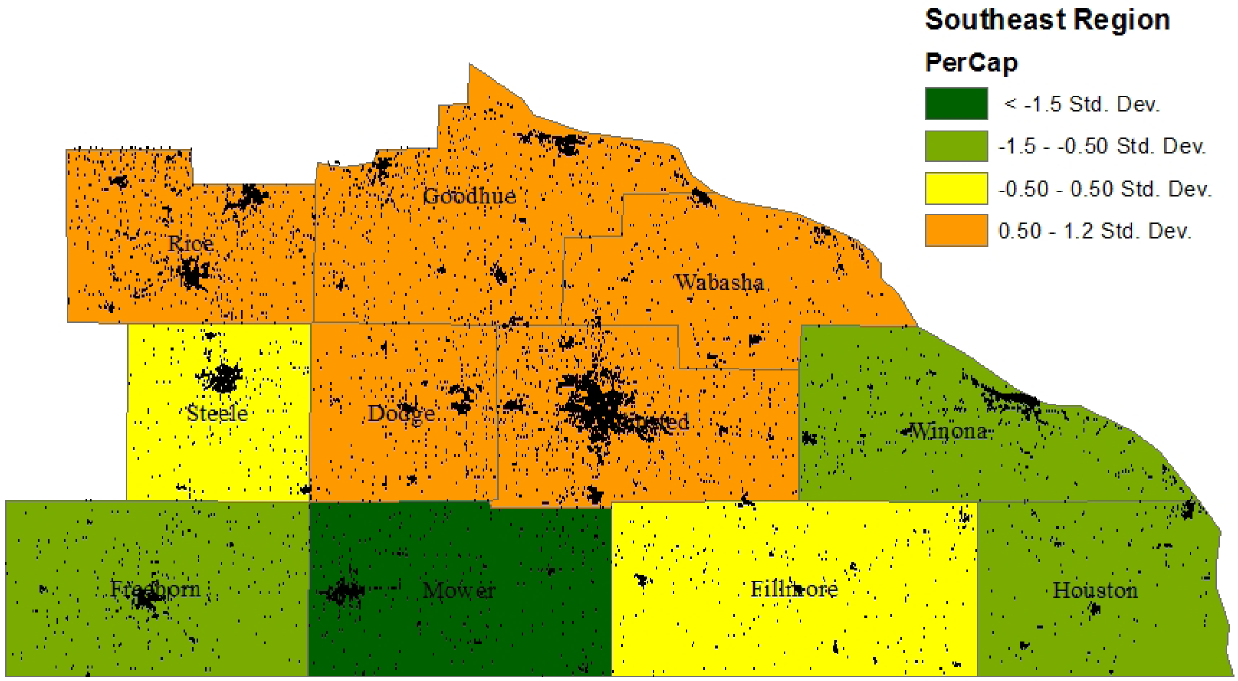
After bottoming out in 2010, the number of new Southeast Minnesota nonprofits registered with the Office of the Minnesota Secretary of State increased to levels seen just before the Great Recession. The number of newly formed nonprofits totaled 41 in the recent quarter (a 20.6 percent increase from last year's second quarter).

New Nonprofits—Southeast Minnesota Planning Area (12-month moving total)

Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southeast Minnesota New Nonprofits	34	35	48	38	41	20.6%

The highlighted area in the map below is the 11-county Southeast Minnesota planning area, consisting of the following counties: Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha and Winona. Each dot within the area is a new business filing that was registered between April 2000 and April 2010. These dates were chosen to represent when data collection began for the decennial census in each of these years. Over this period, the population of the State of Minnesota increased by 7.8 percent. Four counties in the Southeast Minnesota planning area experienced population growth that was more rapid than the state as a whole over this period: Dodge, Olmsted, Rice and Steele. Population grew at a lower rate than the state average in four other counties (Goodhue, Mower, Wabasha, Winona). Three Southeast Minnesota counties experienced declining populations from 2000 to 2010 (Fillmore, Freeborn, Houston).

Per Capita New Business Formation Between 2000 and 2010
Southeast Minnesota Planning Region



The coloration of the map reflects deviations in new business formation per capita from the planning area average over the 10-year period ending in 2010. For example, while Steele County (colored yellow) enjoyed substantial numbers of newly formed businesses over the decade of the 2000s, it also experienced significant population growth. Compared to the overall planning area, Steele County's new business formation per capita was just average (within +/- 0.5 standard deviation) over this period. As shown on the accompanying map, Fillmore County (colored yellow) also experienced average per capita business formation in the 2000s. Note that four counties (colored light green and dark green) experienced relative declines in per capita business formation. None of these counties had population growth that exceeded the state average (and two of them — Freeborn and Houston — actually had declining populations). Mower County stands out as experiencing a substantial decline in new per capita business formation over the 2000s. Several counties (colored orange) had relative gains in per capita business formation. These counties tend to be clustered in the Rochester Metropolitan Statistical Area (which is defined as Dodge, Olmsted and Wabasha counties) or border the Twin Cities metropolitan area.

For the Southeast Minnesota planning region, there appears to be a correlation between population growth and new business formation per capita. Those counties that experienced the most rapid population growth from 2000 to 2010 also appear to have experienced the greatest gains in per capita new business formation. This is particularly true of counties bordering on the Twin Cities planning region. Of course, what really matters is "net" business formation—a measure that would not only include business openings, but also business closings. Perhaps those counties that enjoy the greatest gains in newly formed businesses also experience the most closings. Data limitations currently constrain efforts to estimate net new business formation.

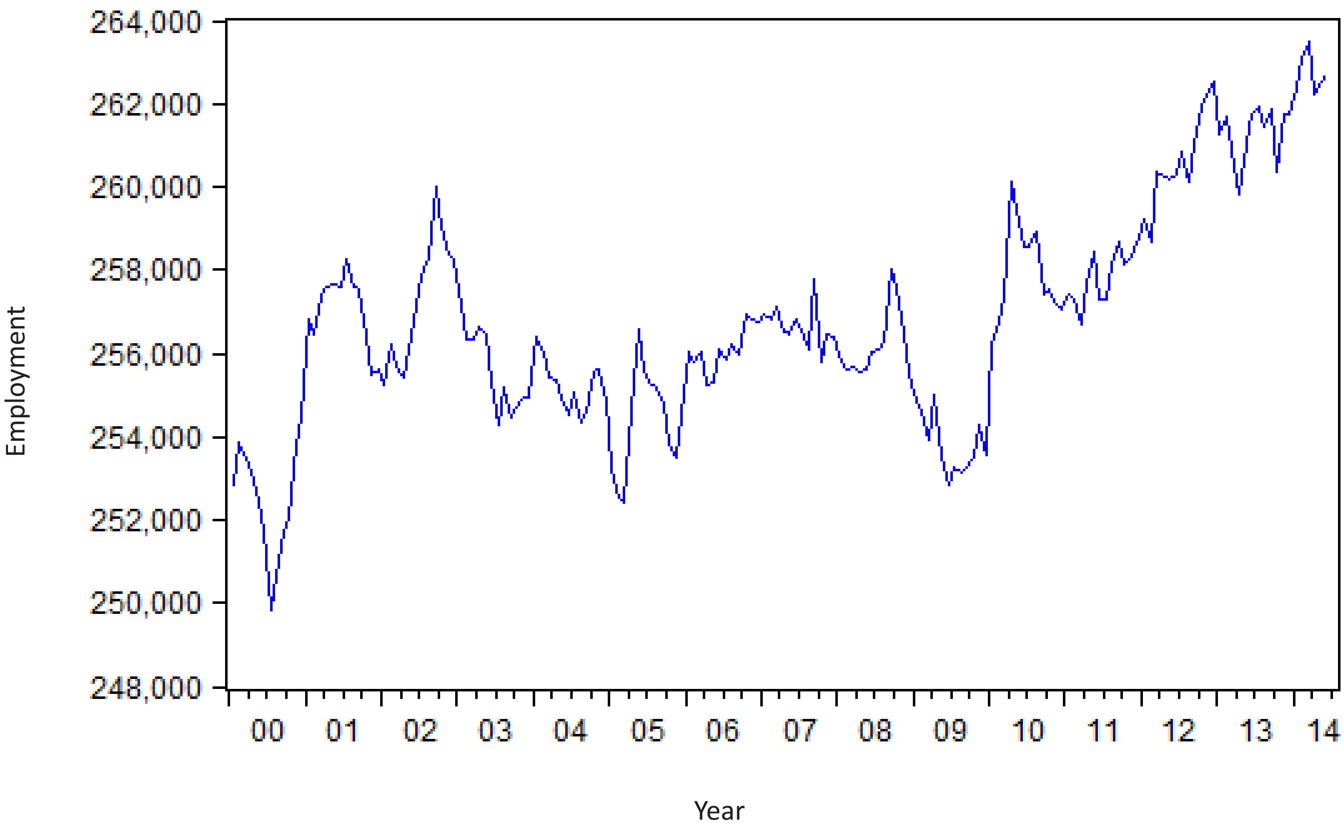
As noted in last quarter's report, one striking pattern of new business formation that emerges from this GIS mapping tool is the importance of roadways. In areas throughout the State of Minnesota, business formation tends to cluster around major roadways. This is evident in observing the pattern of dots in Southeast Minnesota that are clustered around U.S. Highways 14, 52, 61, and Interstate Highways 35 and 90.

Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area grew only 0.4 percent over the past year. As shown in the accompanying graph, the 12-month moving average of total employment has increased since the beginning of 2011.

Note: Seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, soparesearch@stcloudstate.edu.

Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Employment (Not seasonally adjusted)	264,229	257,812	258,340	260,428	261,528	262,841	265,210

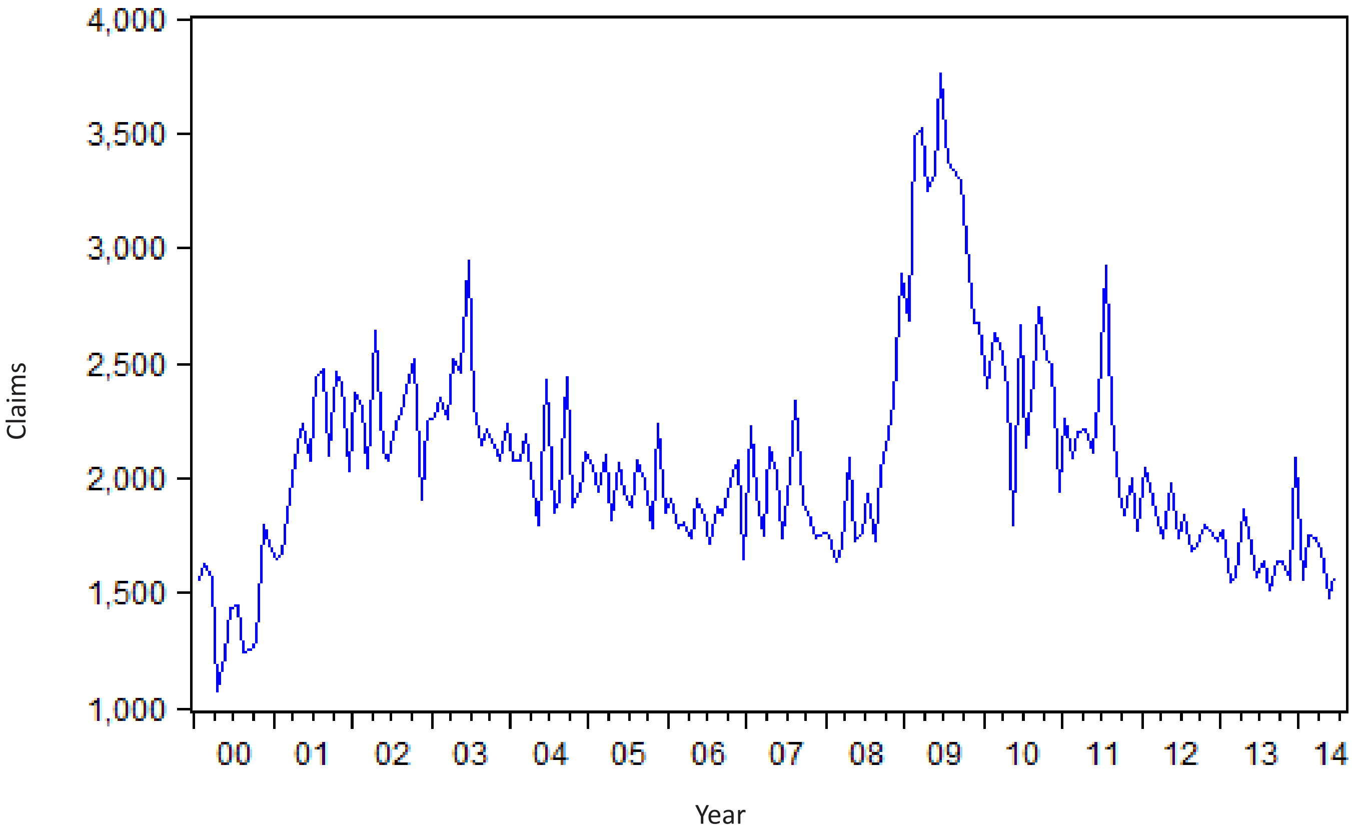
The seasonally adjusted unemployment rate in Southeast Minnesota continued to decline in the second quarter of 2014. The unemployment rate in this part of Minnesota has declined since peaking out at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 4.3 percent, considerably lower than the 4.9 percent rate observed one year ago.

Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area

Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Unemployment Rate (Not seasonally adjusted)	4.9%	5.4%	5.4%	5.2%	4.3%	4.0%	4.3%

New claims for June 2014 unemployment insurance were virtually unchanged from one year ago. On a seasonally adjusted basis, these claims have continued to fall since peaking out in the middle months of 2009.

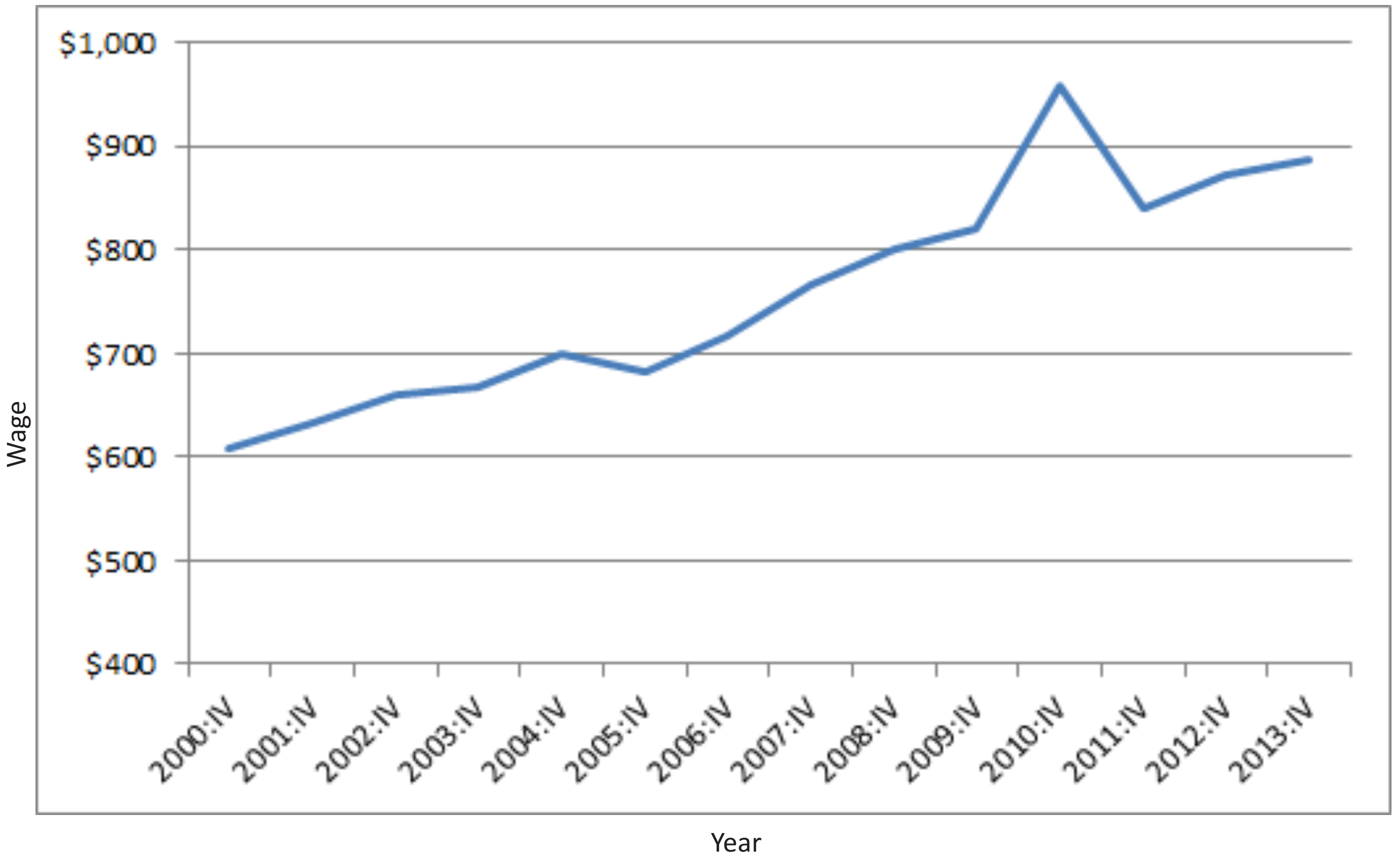
Total Initial Claims for Unemployment Insurance, seasonally adjusted
Southeast Minnesota Planning Area



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Initial claims (Not seasonally adjusted)	1,358	2,183	1,668	1,559	1,405	1,216	1,354

The average weekly wage in Southeast Minnesota in the fourth quarter of 2013 (the most recently available data) was 1.7 percent higher than it was one year earlier. At $887, the average weekly wage in Southeast Minnesota is the second highest of Minnesota's six planning areas (trailing only the Twin Cities planning area's $1,103 average weekly wage).

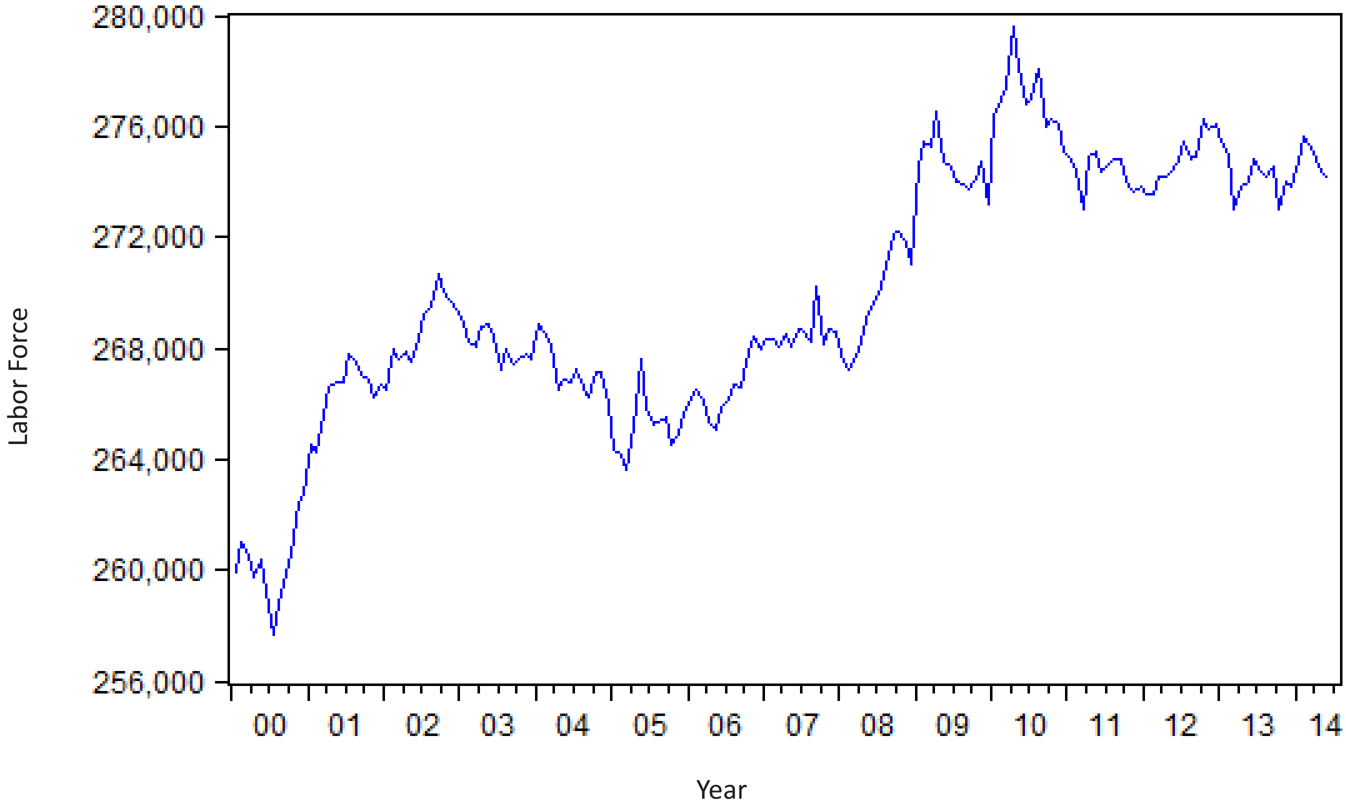
Average Weekly Wage—Southeast Minnesota Planning Area



Quarter	2008: 4th	2009: 4th	2010: 4th	2011: 4th	2012: 4th	2013: 4th
Average Weekly Wage	$801	$821	$960	$840	$872	$887

The Southeast Minnesota labor force has remained largely unchanged over the last few years. Since June 2011, the labor force in the Twin Cities and Central Minnesota planning areas has increased, while a declining labor force has been observed in the Northeast, Northwest and Southwest portions of the state.

Labor Force—Southeast Minnesota Planning Area (12-month moving average)



Year (June)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	277,656	279,891	277,353	277,777	277,872	277,200

Southeast Minnesota Economic Indicators

Rochester MSA Indicators

Labor Market	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2014 (m)	110,091	109,699	0.4% ↑	1.0%
Manufacturing Employment	June 2014 (m)	10,421	10,586	-1.6% ↓	-2.9%
Educational and Health Employment	June 2014 (m)	44,014	44,329	-0.7% ↓	2.8%
Average Weekly Work Hours Private Sector	June 2014 (m)	34.5	35.2	-2.0% ↓	32.7 (since 2008)
Average Earnings Per Hour Private Sector	June 2014 (m)	$33.74	$33.31	1.3% ↑	5.3% (since 2008)
Unemployment Rate	June 2014 (m)	4.0%	4.5%	NA	4.3%
Labor Force	June 2014 (m)	106,996	107,294	-0.3% ↓	0.6%
Initial Jobless Claims	July 2014 (m)	353	525	-32.8% ↓	NA
Business Formation					
Total New Business Filings	Second Quarter 2014	392	336	16.7% ↑	335
New Business Incorporations	Second Quarter 2014	38	27	40.7% ↑	118
New Limited Liability Companies	Second Quarter 2014	244	194	25.8% ↑	15
New Assumed Names	Second Quarter 2014	92	99	-7.1% ↓	54
New Nonprofits	Second Quarter 2014	18	16	12.5% ↑	149
Rochester Residential Building Permit Valuation	June 2014 (m)	14,922	12,248	21.8% ↑	15,175

(m) represents a monthly series

Southeast Minnesota contains the Rochester MSA, an area that derives much of its employment from the educational and health sector. This sector continues to be a pillar of economic vitality for Rochester (and for Southeast Minnesota). While year-over-year overall employment in the Rochester area increased by 0.4 percent, employment in this key sector declined by 0.7 percent. This is well below the 2.8 percent long-term annualized growth of employment in this sector. This is worth noting, since the share of employment in Rochester's educational and health sector has increased from 31.1 percent of employment to 40.2 percent since 1999. Average earnings per hour in the private sector grew at a 1.3 percent rate over the year ending June 2014, which is well below the average annual rate since 2008. Rochester saw a significant year-over-year increase in the valuation of residential building permits in June 2014 and its initial jobless claims also declined substantially in July.

State and National Indicators

MINNESOTA Indicators	June 2014	March 2014	June 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,822,400	2,812,000	2,776,000	0.4%	1.7%
Average weekly hours worked, private sector	34.5	34.0	34.3	1.5%	0.6%
Unemployment rate, seasonally adjusted	4.5%	4.8%	5.1%	NA	NA
Earnings per hour, private sector	$25.71	$25.83	$25.55	-0.5%	0.6%
Philadelphia Fed Coincident Indicator, MN	163.54	162.45	159.10	0.7%	2.8%
Philadelphia Fed Leading Indicator, MN	1.43	1.27	1.30	12.6%	10.0%
Minnesota Business Conditions Index	70.1	66.1	56.2	6.1%	24.7%
Price of milk received by farmers (cwt)	$23.40	$25.90	$19.90	-9.7%	17.6%
Enplanements, MSP airport, thousands	1,609.6	1,615.7	1,561.1	-0.4%	3.1%

NATIONAL Indicators	June 2014	March 2014	June 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	138,795	137,964	136,285	0.6%	1.8%
Industrial production, index, SA	103.9	103.2	99.6	0.7%	4.3%
Real retail sales, SA	185,067	184,187	181,193	0.5%	2.1%
Real personal Income less transfers	11,227	11,176	10,975	0.5%	2.3%
Real personal consumption expenditures	10,929	10,903	10,682	0.2%	2.3%
Unemployment rate	6.1%	6.7%	7.5%	NA	NA
New building permits, thousands	973	1,000	938	-2.7%	3.7%
Standard & Poor’s 500 stock price index	1,947.09	1,863.52	1,618.77	4.5%	20.3%
Oil, price per barrel in Cushing, OK	$105.79	$100.8	$95.77	5.0%	10.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Average weekly hours worked and earnings per hour in the private sector each rose 0.6 percent over the past year. Broader indicators suggest strength in the state economy. Milk prices are lower than last quarter but remain 17.6 percent higher than one year ago — an important favorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul Airport increased by 3.1 percent over the last 12 months.

National output growth in the second quarter was strong, suggesting the national economy has overcome the weather-induced weakness of the first quarter. Compared to year earlier levels, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment and the unemployment rate all look strong. Oil prices have increased over the past year, taking some discretionary income out of consumers’ hands. While geopolitical uncertainties have the potential to derail continued economic progress, it looks like the end of 2014 will look considerably better than its beginning.

The Southeast Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest and Twin Cities. The Southeast Minnesota Planning Area consists of 11 counties: Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha and Winona.

Reports on third quarter 2014 business and economic conditions in each of the six planning areas will be available in December 2014.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Joseph Kucan. Our thanks to Professor David Wall of the SCSU Geography Department for GIS assistance.

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Federal Reserve Board of Governors: Industrial Production.

Metropolitan Airports Commission: MSP Enplanements.

Minnesota Department of Employment and Economic Development (and U.S. Department of Labor Bureau of Labor Statistics): Average Hourly Earnings, Average Weekly Wage, Average Weekly Work Hours, Educational and Health Employment, Employment, Initial Claims for Unemployment Insurance, Labor Force, Manufacturing Employment, Unemployment Rate.

Office of the Minnesota Secretary of State: Assumed Names, Business Incorporations, Limited Liability Companies, Nonprofits.

Standard & Poor's: Standard & Poor's 500 Stock Price Index.

Thomson Reuters and University of Michigan: Index of Consumer Sentiment.

U.S. Bureau of Census: Residential Building Permits, Retail Sales.

U.S. Department of Agriculture: Milk Prices.

U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income.

U.S. Energy Information Administration: Oil Prices.