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Twin Cities Minnesota Economic and Business Conditions Report, Second Quarter 2014

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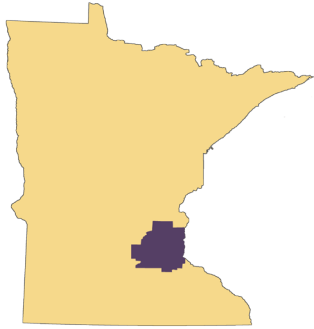
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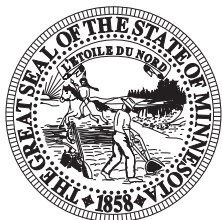
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Metropolitan Area
Economic and Business Conditions Report
Second Quarter 2014



OFFICE OF THE MINNESOTA
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SCHOOL OF PUBLIC AFFAIRS
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Executive Summary

Twin Cities business conditions are expected to pick up over the next several months according to the predictions of the St. Cloud State University (SCSU) Twin Cities Index of Leading Economic Indicators. The leading economic indicator index (LEI) was lifted by a rise in new filings for business incorporations and limited liability companies (LLC) in the Twin Cities. Improvement in two general measures of statewide business conditions also contributed positively to the Twin Cities outlook. Lower initial jobless claims further enhanced projected economic growth in the seven-county metro area. The Twin Cities index increased 5.38 points in the second quarter and is now 13.3 percent higher than one year ago.

There were 10,137 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the second quarter of 2014 — representing a 2.5 percent increase from one year ago. There were 1,449 new regional business incorporations in the first quarter, a 1.5 percent increase over year ago levels. Over the past 12 months, new LLC filings in the seven-county metro area increased by 8.0 percent — rising to 6,146 in the second quarter of 2014. New assumed names totaled 2,145 in this year’s second quarter — a reduction of 11.1 percent from the second quarter of 2013. There were 397 new filings for non-profits in the Twin Cities in the second quarter of 2014, an 11.8 percent increase from one year earlier.

Twin Cities employment increased by 1.8 percent over the year ending June 2014. The regional unemployment rate was 4.5 percent in June, an improvement on its 5.2 percent reading one year ago. Initial claims for unemployment insurance were well below year ago levels, falling by 8.2 percent to 8,107 in June. The average weekly wage in the Twin Cities fell slightly over the last year to \$1,103. Despite this, metro wages are much higher than in any of Minnesota’s other planning areas. The labor force continues to expand in the Minneapolis-St. Paul area. At 1,657,577, the Twin Cities labor force accounts for nearly 55 percent of the state’s work force.

Twin Cities Leading Economic Indicators Index

The SCSU Twin Cities Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. After rising by 2.32 points in the first quarter, the LEI jumped by 5.38 points in this year's second quarter. The LEI is 13.3 percent higher than one year ago, suggesting strong future growth in the Twin Cities metro through the end of 2014.

The SCSU Twin Cities Leading Economic Indicators Index



Components of SCSU Twin Cities Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2014	Contribution to LEI, 1st quarter 2014
Minnesota Business Conditions Index	1.78	2.58
Twin Cities initial claims for unemployment insurance	2.77	-1.73
Twin Cities new filings of incorporation and LLCs	0.93	1.77
Mpls. St. Paul residential building permits	-0.29	0.2
Philadelphia Fed Minnesota leading indicators	0.19	-0.5
TOTAL CHANGE	5.38	2.32

The Twin Cities LEI contains five factors—two reflecting state business conditions and three for local conditions (the LEI is an index equal to 100 in December 1999). The Federal Reserve Bank of Philadelphia (which creates a leading economic indicator series for each of the 50 states) reported some volatility in Minnesota’s LEI during the first half of 2014, but this series remained in positive territory this quarter and thus had a marginally favorable effect on the Twin Cities outlook. Likewise, the Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—rose in the second quarter of 2014.

Two of the three local measures were positive in this year’s second quarter. New Twin Cities filings of incorporation and LLCs continued their strong run in the second quarter. In addition, lower initial claims for unemployment insurance helped push the LEI higher in the second quarter. The one drag on the leading index was the residential building permit component, which was marginally weaker in the second quarter.

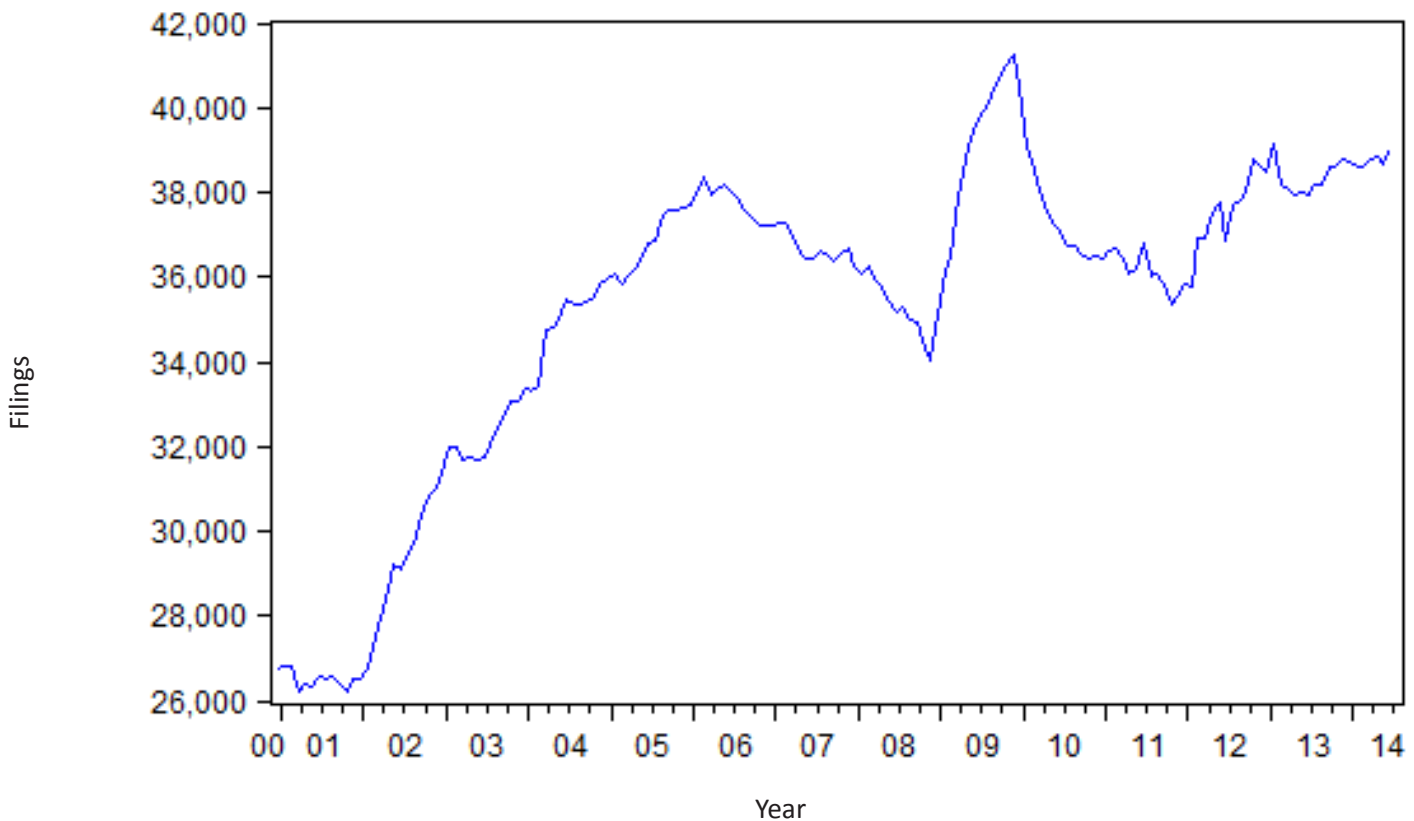
SCSU Twin Cities Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index June	70.1	56.2	24.7%
Twin Cities initial claims for unemployment insurance June	8,107	8,827	-8.2%
Twin Cities new filings of incorporation and LLCs Second Quarter	7,595	7,117	6.7%
Twin Cities MSA single family building permits, June	692	700	-1.1%
Index of Leading Economic Indicators Philadelphia Federal Reserve, June	1.43	1.30	10.0%
Twin Cities Leading Economic Indicators Index June (December 1999 = 100)	91.7	80.9	13.3%

Twin Cities Business Filings

Total new business filings grew rapidly from 2000 to 2005, after which they declined for three years. 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. Total business filings have trended upward since the second half of 2011. Total business filings in the second quarter of 2014 were 2.5 percent higher than one year earlier.

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

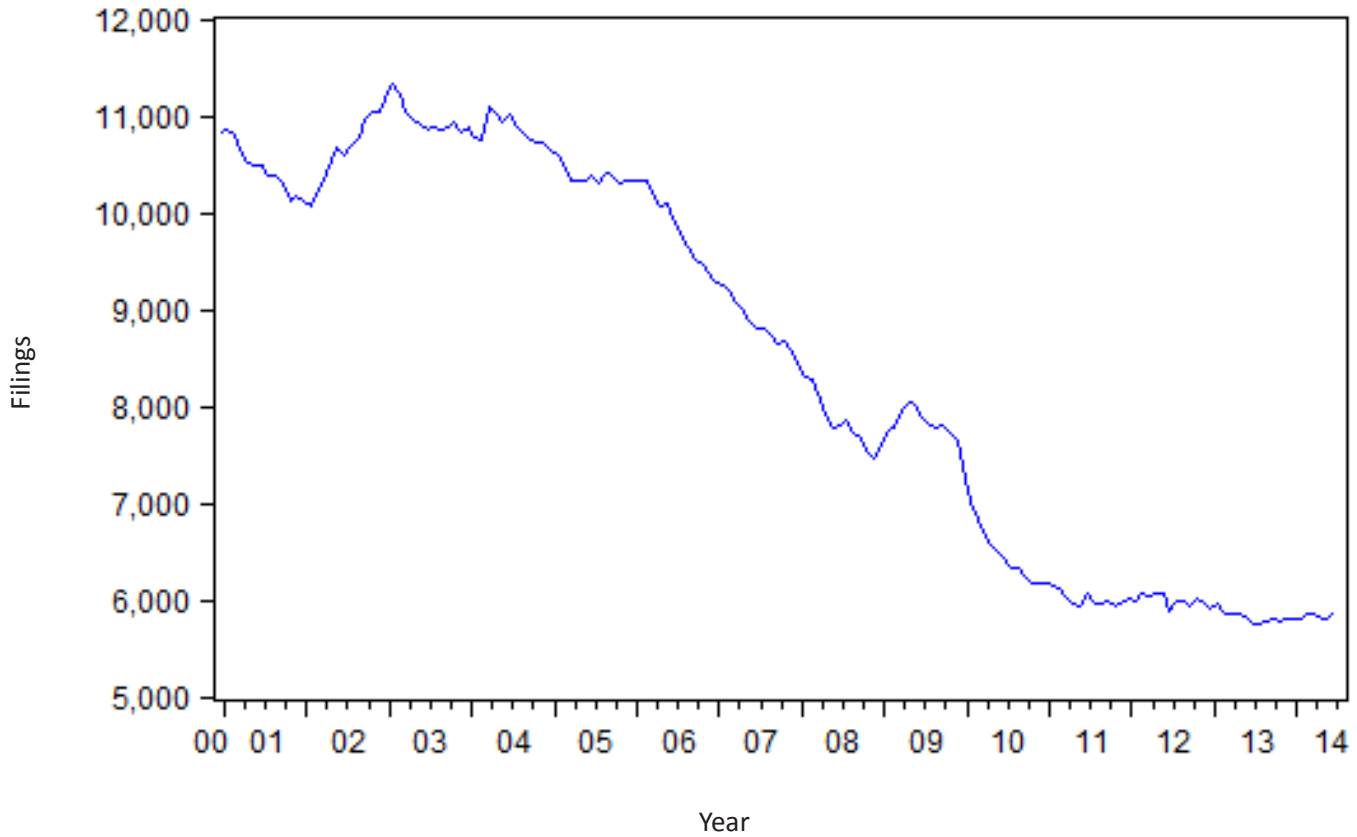
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Twin Cities Total New Business Filings	9,885	9,411	9,080	10,406	10,137	2.5%

New business incorporations trended downward in the Twin Cities from 2004 to 2011, and have been relatively flat since that time. Filings for new business incorporations rose 1.5 percent from one year earlier in the second quarter of 2014.

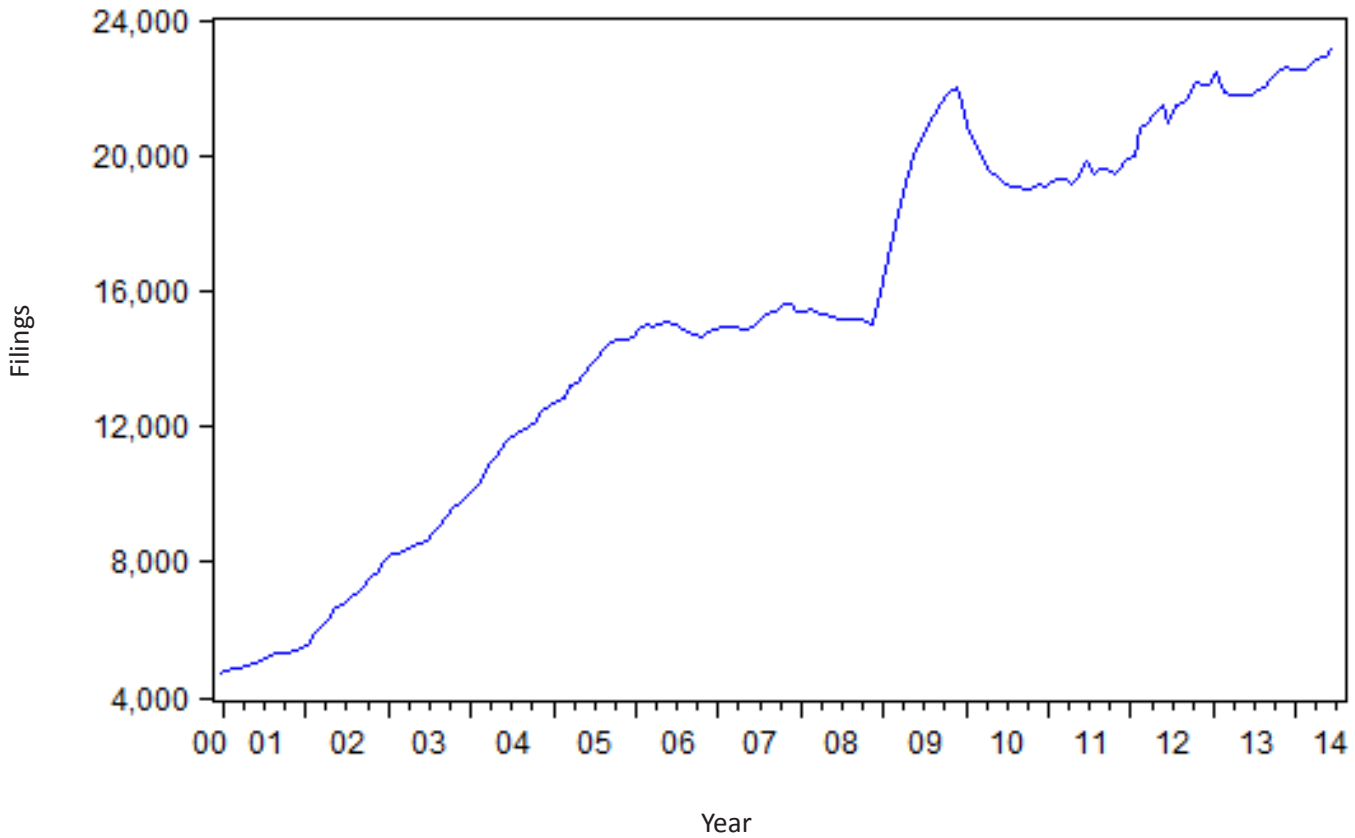
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Twin Cities New Business Incorporations	1,427	1,413	1,414	1,594	1,449	1.5%

There has been a move in the Twin Cities (and the rest of the state) away from the traditional incorporation form of business organization toward LLCs. While new business incorporations remain an important indicator of new business formation in the Twin Cities, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in the Twin Cities which continued in recent months. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2000. At a level of 6,146 new filings for LLC in the second quarter of 2014 were 8 percent higher than one year earlier.

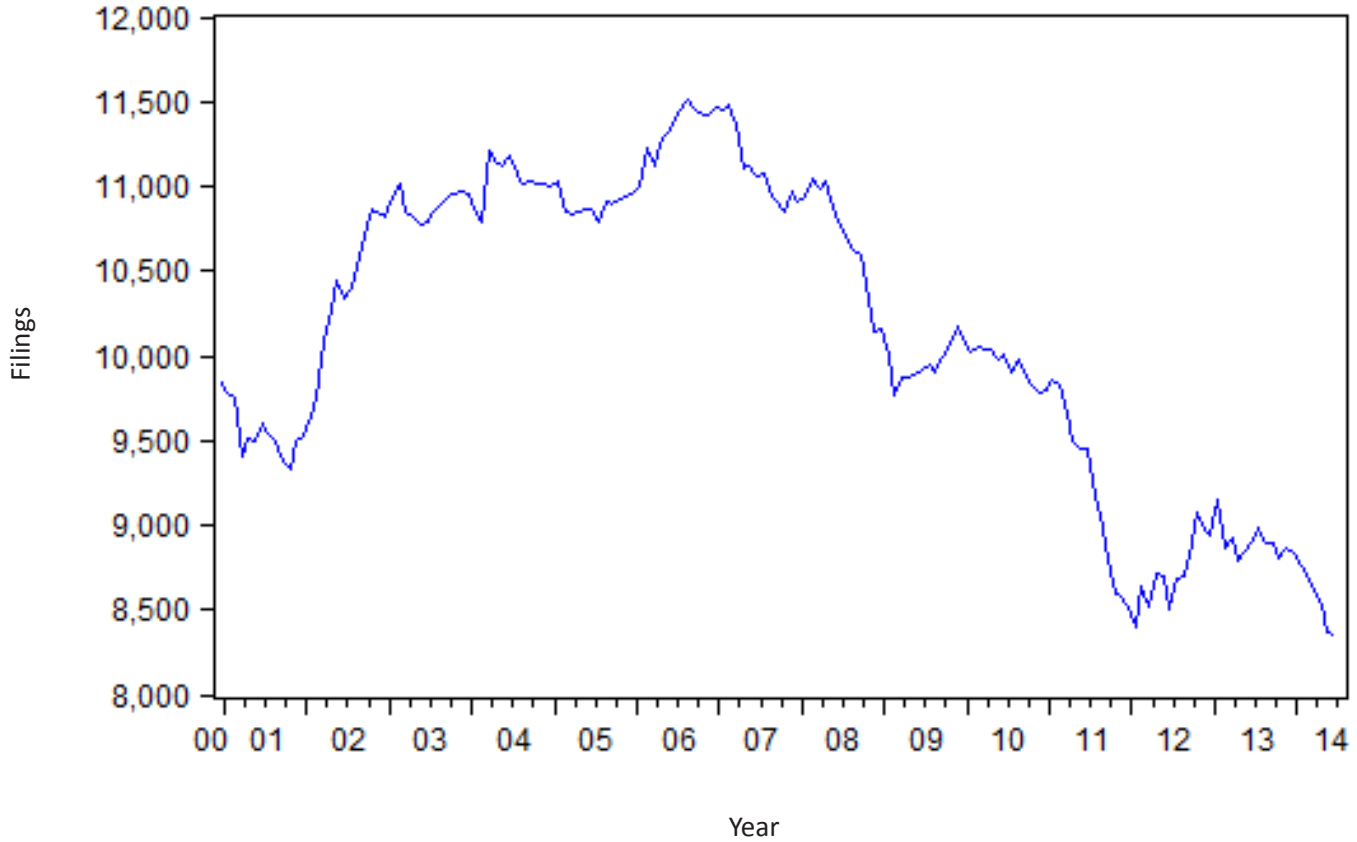
New Limited Liability Companies—Twin Cities Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Twin Cities New Limited Liability Companies	5,690	5,568	5,372	6,106	6,146	8.0%

Assumed names, which include sole proprietors or organizations that do not have limited liability, continued their slide by falling 11.1 percent in the second quarter relative to the same period in 2013. This series has not recovered from its peak levels of 2006-2007.

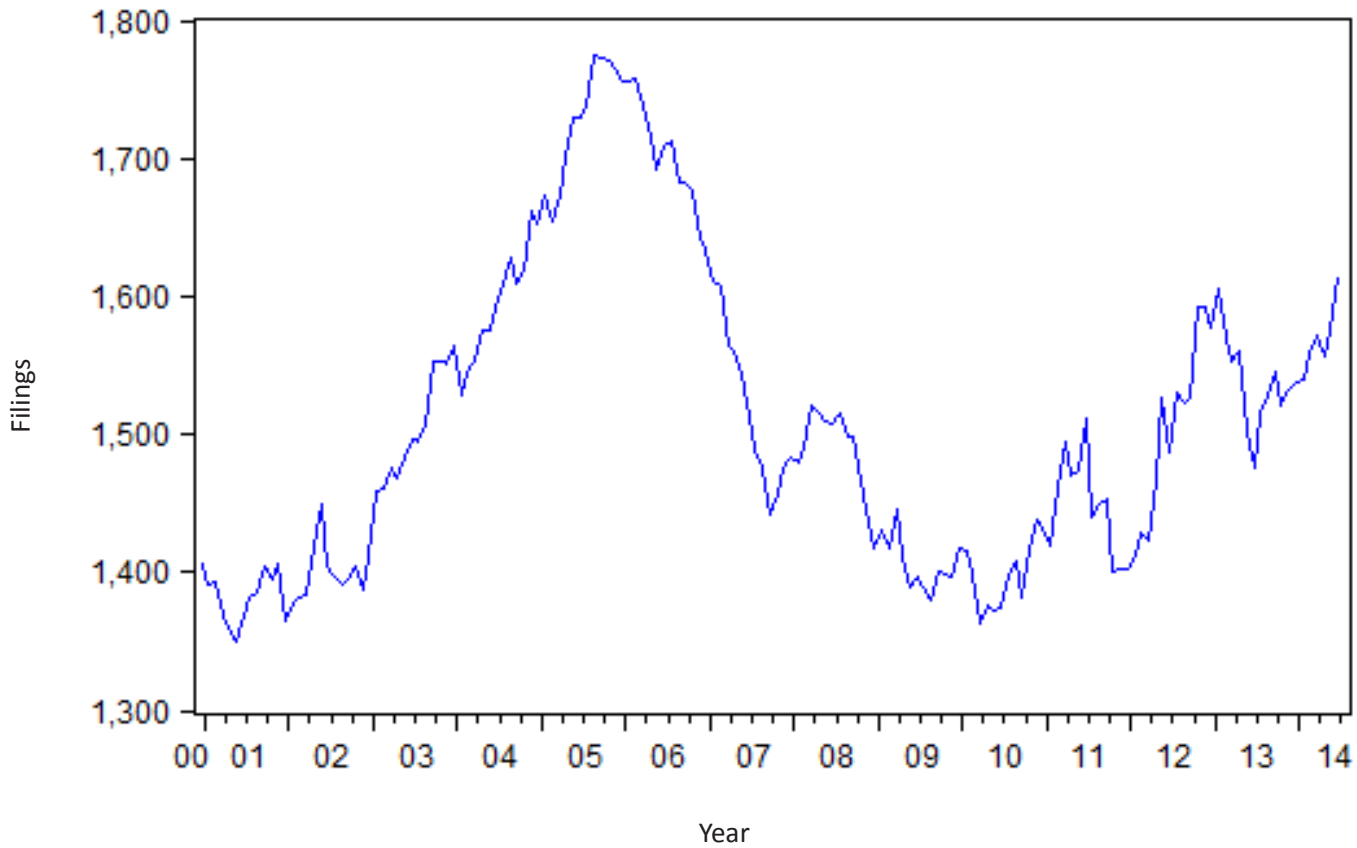
New Assumed Names—Twin Cities Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Twin Cities New Assumed Names	2,413	2,024	1,919	2,270	2,145	-11.1%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State has now increased to a level last seen in the mid-2000s. With 397 new non-profits registered in this year’s second quarter, this sector added 11.8 percent more firms than one year earlier.

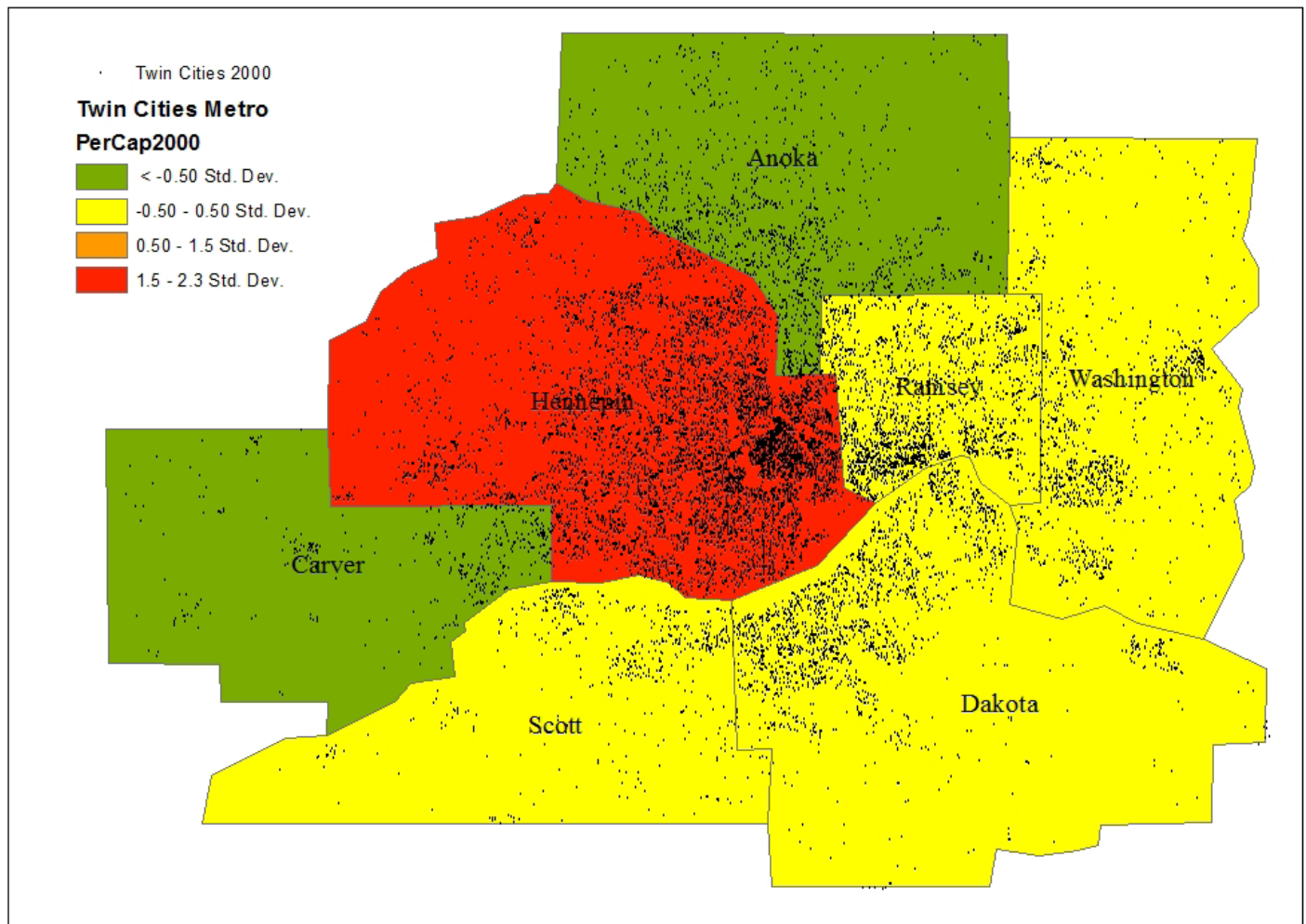
New Non-Profits—Twin Cities Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Twin Cities New Non-Profits	355	406	375	436	397	11.8%

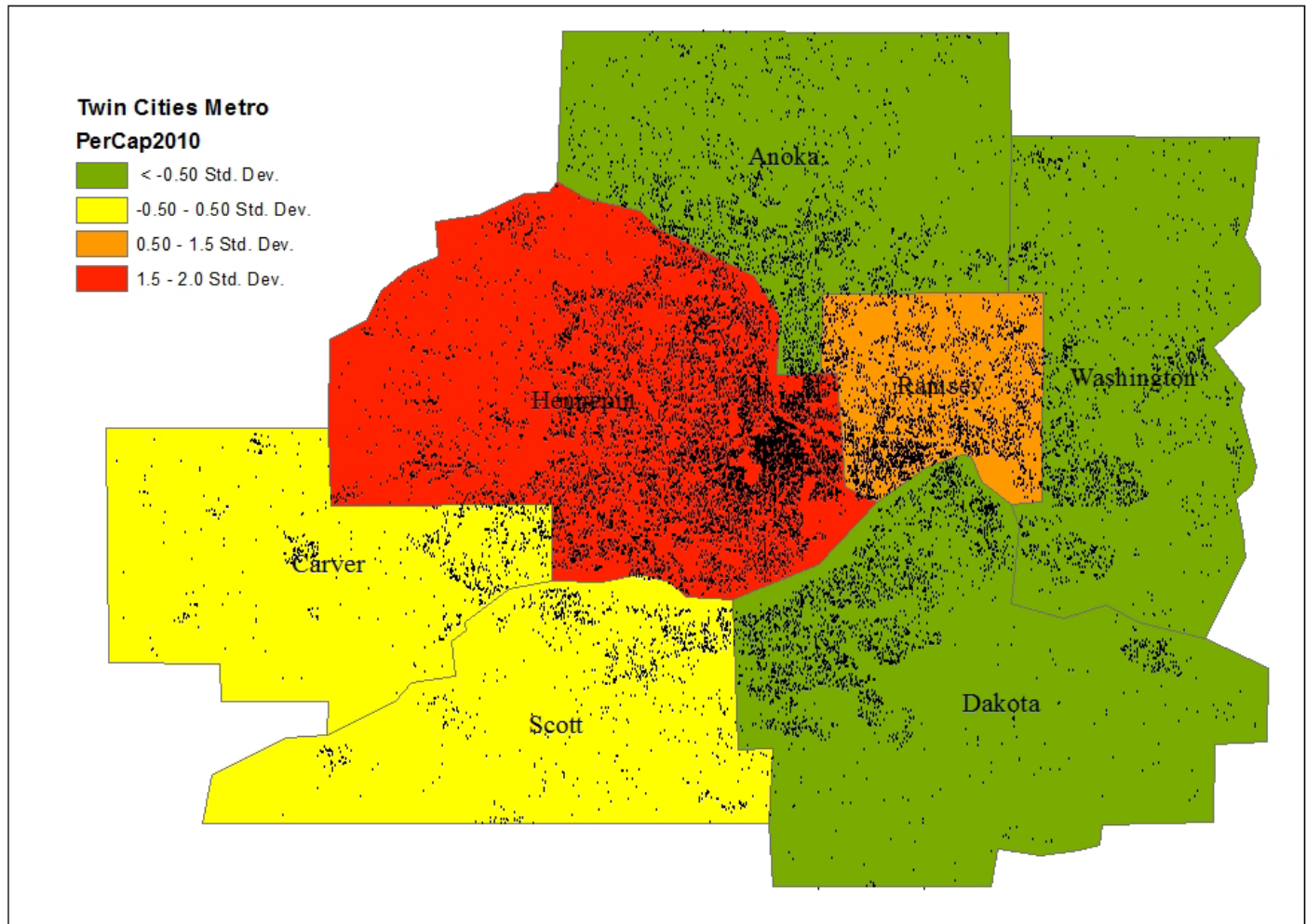
The maps below represent the seven-county Twin Cities planning area, consisting of the following counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington. Each dot within the first figure is a new business filing that was registered in the year 2000. The second figure plots new business formation ten years later, in 2010. These dates were chosen to represent when data were collected for the decennial census. Over this 10-year period, the population of the State of Minnesota increased by 7.8 percent. Five counties in the seven-county metropolitan area experienced population growth that was more rapid than the state as a whole over this period: Anoka, Carver, Dakota, Scott and Washington. Population grew at a lower rate than the state average in one county (Hennepin) and actually declined in Ramsey County.

Per Capita New Business Formation—Year 2000—Twin Cities Planning Region



Note: This map is different than those that appear in the reports for Minnesota’s other five planning areas. Given the volume of business activity in the Twin Cities, a map of all new business filings between 2000 and 2010 would overpopulate the metro area with dots, making the image appear to be one continuous area of new activity.

Per Capita New Business Formation—Year 2010—Twin Cities Planning Region



The coloration of the maps reflects deviations in new business formation per capita from the planning area average in the particular time period. For example, while Scott County (colored yellow) enjoyed substantial numbers of newly formed businesses in the year 2000, it also experienced significant population growth. Compared to the overall planning area, Scott County's new business formation per capita was just average (within +/- 0.5 standard deviation) in this period. As shown on the maps, Scott County remained average in terms of new business formation per capita in both 2000 and 2010. On the other hand, Dakota and Washington counties started the 2000s with average per capita new business formation, but ended the decade with below average performance on this measure. This occurred despite above average population growth in these two counties. Carver County transitioned from below average new business formation per capita at the beginning of the decade to average per capita new business formation in 2010. Anoka County was below average in new businesses formation per capita in both years. Hennepin County, despite below-average population growth, enjoyed exceptional new business formation per capita in both 2000 and 2010. Finally, Ramsey County had average per capita new business formation in 2000, but 10 years later it was enjoying above average performance on this measure.

In analyzing Greater Minnesota, one tends to observe a positive correlation between per capita new business formation and population growth. That is, those counties that tend to grow more rapidly also tend to create new businesses on a per capita basis that is above average for their planning area. This is particularly true for counties that border on the Twin Cities planning area. However, within the Twin Cities seven-county metro, the counties with the most rapid population growth experienced either average or below average per capita new business formation in 2000 and 2010. Those counties (Ramsey and Hennepin) that experienced the weakest population change between 2000 and 2010 are those that had the most gains in per capita new business formation relative to the rest of the planning area. Note that these counties experience a relatively large daily influx of people that live outside of the county that help support new business formation.

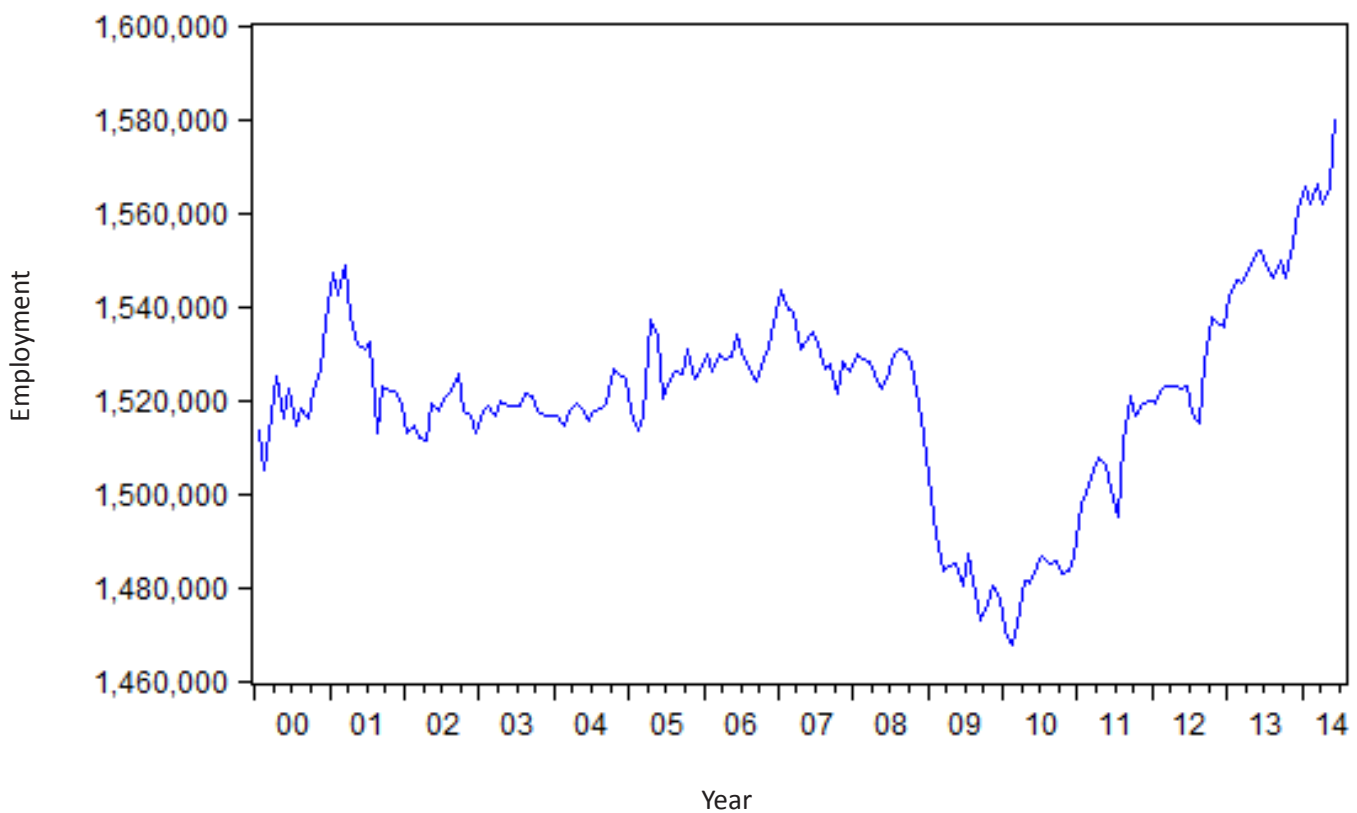
Of course, what really matters is "net" business formation—a measure that would not only include business openings, but also business closings. Perhaps those counties that enjoy the greatest gains in newly formed businesses also experience the most closings. Data limitations currently constrain efforts to estimate net new business formation.

Twin Cities Labor Market Conditions

Employment of Twin Cities residents grew 1.8 percent over the past year. After relative stagnation through 2007 and a decline during the Great Recession, the area has experienced steady employment growth since the start of 2010.

Note: Seasonally adjusted labor market data are typically not available to evaluate regional economic performance. While there are seasonally adjusted labor market data for the Twin Cities metro area, these data include parts of Wisconsin. These seasonally adjusted data therefore do not accurately capture the Twin Cities planning area (which is confined to seven counties). Some graphs of labor market indicators found in this section of the report are adjusted so as to remove seasonal patterns from the data. 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.

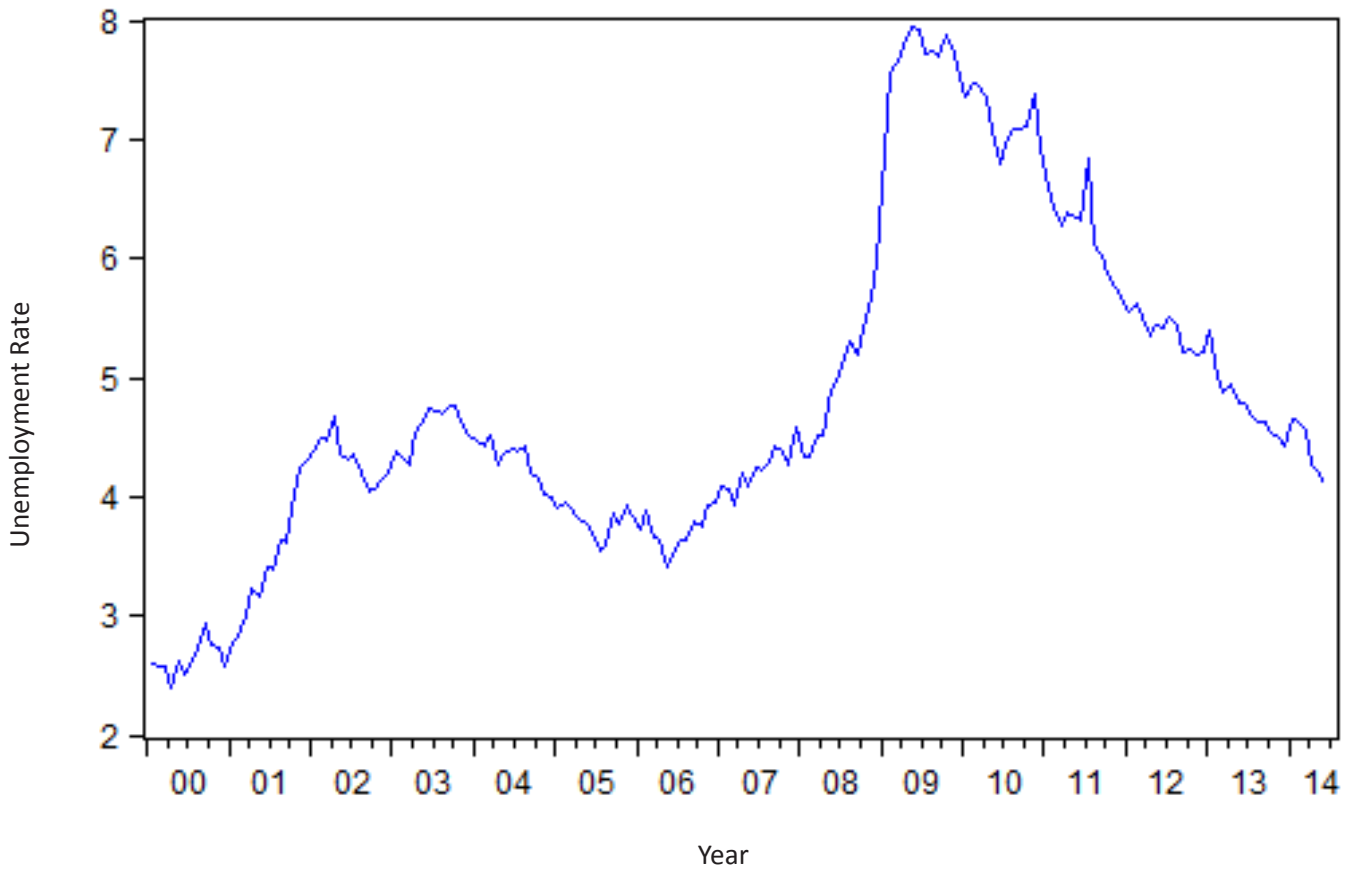
Employment—Twin Cities Planning Area (12-month moving average)



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Employment (Not seasonally adjusted)	1,555,094	1,544,479	1,549,064	1,556,328	1,566,203	1,574,918	1,583,596

The seasonally adjusted unemployment rate in the Twin Cities has declined continuously since the end of the Great Recession in 2009. The non-seasonally adjusted unemployment rate now stands at 4.5 percent, substantially lower than the 5.2 percent rate recorded one year ago.

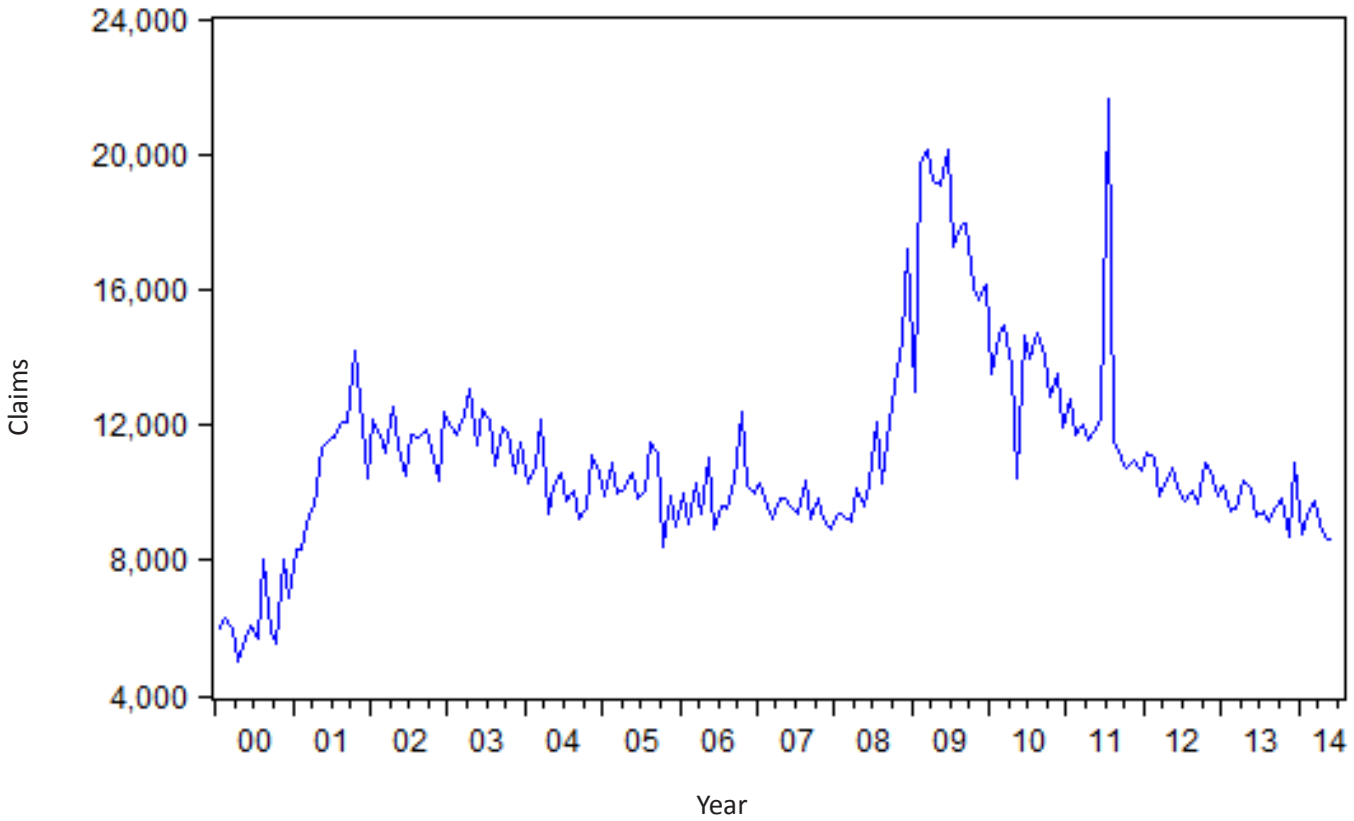
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Unemployment Rate (Not seasonally adjusted)	5.2%	4.9%	4.8%	4.7%	4.0%	4.0%	4.5%

New claims for unemployment insurance were notably lower than year ago levels in June 2014. The graph of the seasonally adjusted series suggests claims are now at levels last seen in 2005.

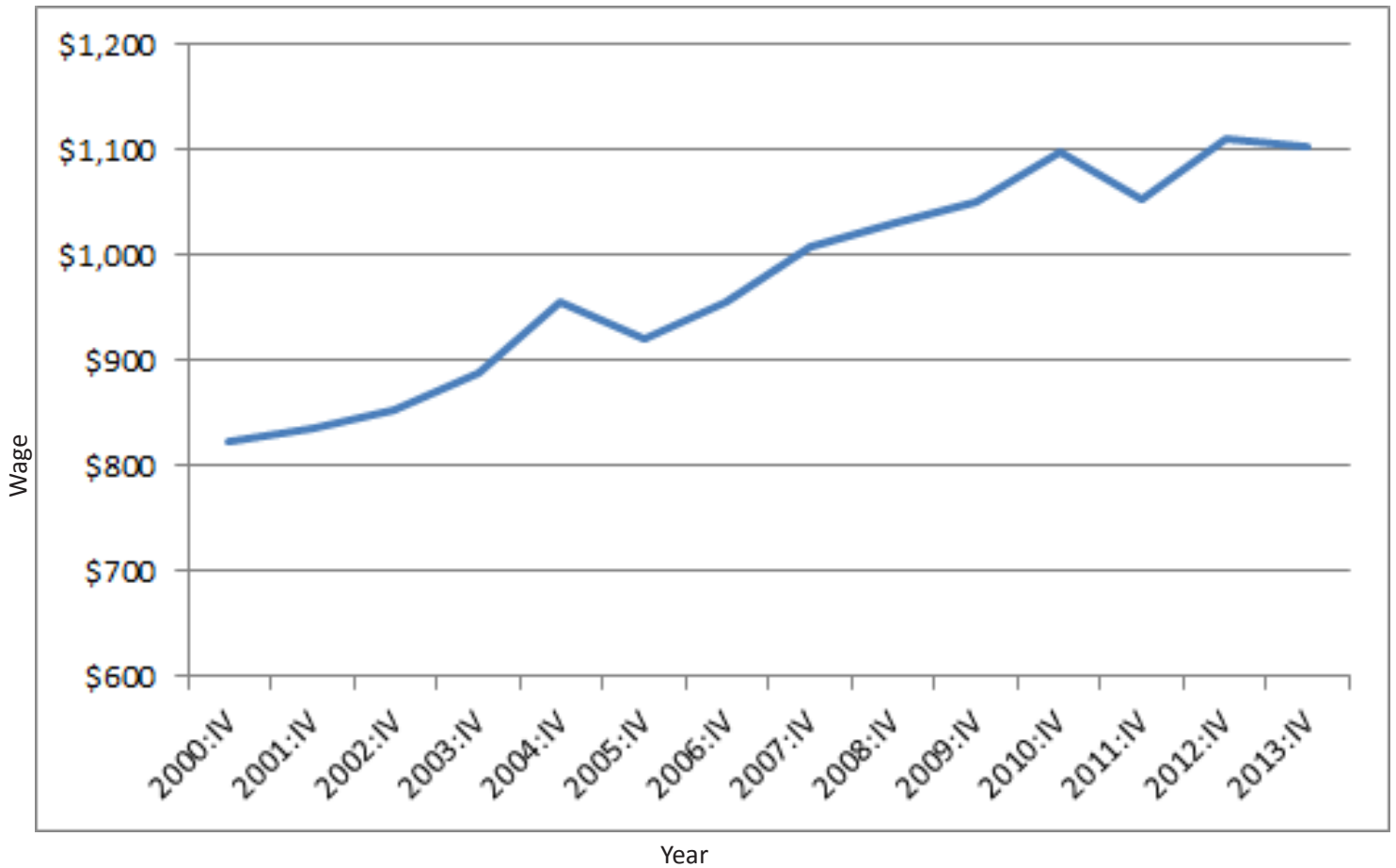
Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Twin Cities Planning Area



Period	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Initial claims (Not seasonally adjusted)	8,827	11,577	8,821	9,271	8,127	7,799	8,107

The year-over-year average weekly wage in the Twin Cities planning area decreased slightly from fourth quarter 2012 to 2013 (this is the most recently available data). Despite this, at \$1,103, the average weekly wage in the metro is far higher than in any other planning area of Minnesota. For example, the average weekly wage in the Southeast Minnesota planning area is second highest, at \$887. At \$699, the average weekly wage in Northwest Minnesota is the lowest of the state’s six planning areas.

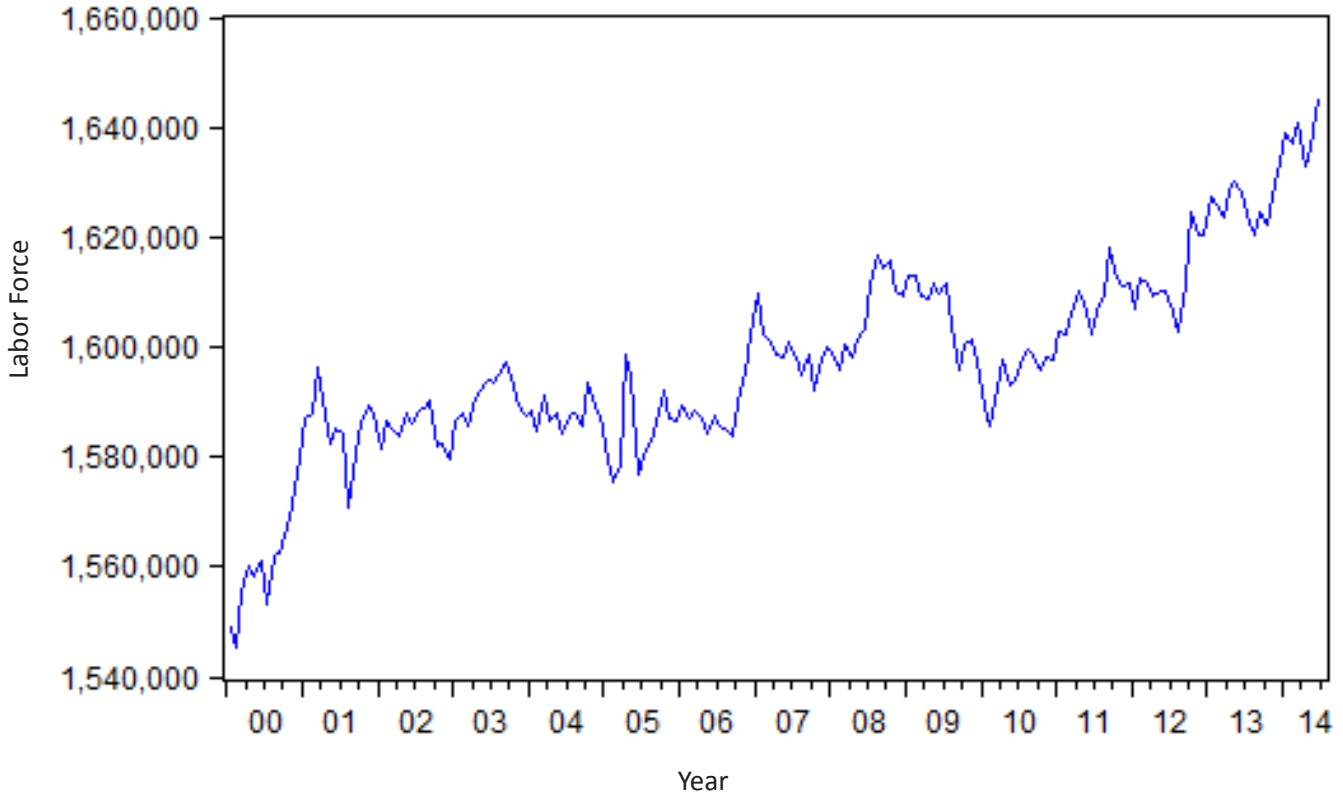
Average Weekly Wage—Twin Cities Planning Area



Quarter	2008: 4th	2009: 4th	2010: 4th	2011: 4th	2012: 4th	2013: 4th
Average Weekly Wage	\$1,031	\$1,052	\$1,098	\$1,054	\$1,112	\$1,103

The size of the Twin Cities labor force continues to rise. Over the last twelve months, the labor force in the Twin Cities metropolitan area expanded by 1.1 percent to 1,657,577.

Labor Force—Twin Cities Planning Area (12 month moving average)



Year (June)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	1,600,018	1,603,055	1,612,442	1,620,814	1,639,791	1,657,577

Twin Cities MSA Indicators	Period covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (Since 1999 unless noted)
Employment	June 2014 (m)	1,850,653	1,818,367	1.8% ↑	0.5%
Manufacturing Employment	June 2014 (m)	191,170	184,213	3.8% ↑	-1.5%
Average Weekly Work Hours Private Sector	June 2014 (m)	34.8	34.8	0.0% ↔	34 (since 2008)
Average Earnings Per Hour Private Sector	June 2014 (m)	\$26.71	\$27.10	-1.4% ↓	1.0% (since 2008)
Average Weekly Work Hours Manufacturing (Production Workers)	June 2014 (m)	42.6	40.6	4.9% ↑	40.5 (since 2001)
Average Earnings Per Hour Manufacturing (Production Workers)	June 2014 (m)	\$20.58	\$20.42	0.8% ↑	2.1% (since 2001)
Unemployment Rate	June 2014 (m)	4.5%	5.2%	NA	4.9%
Labor Force	June 2014 (m)	1,900,021	1,879,985	1.1% ↑	0.6%
MSP Residential Building Permit Valuation	June 2014 (m)	288,458	210,905	36.8% ↑	261,432
Minneapolis Cost of Living Index	1st Quarter 2014	108.2	108.6	-0.4% ↓	NA
St. Paul Cost of Living Index	1st Quarter 2014	108.3	107.9	0.4% ↑	NA

(m) represents a monthly series

The Minneapolis-St. Paul Metropolitan Statistical Area (an MSA is a grouping of counties and municipalities identified by the Census as having economic and demographic forces in common) includes 11 Minnesota counties: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright. This MSA also includes the Wisconsin counties of Pierce and St. Croix. It is thus much larger than the seven-county Twin Cities planning area.

Still, activity outside of the area influences economic behavior within it, and vice versa. The larger Minneapolis-St. Paul MSA experienced favorable labor market conditions in the last 12 months. Overall employment increased 1.8 percent in the Twin Cities MSA and manufacturing employment surged by 3.8 percent over the same period. Private sector weekly hours were flat and average hourly earnings declined. In the manufacturing sector, however, both average work hours and hourly earnings rose. Cost of living measures for both Minneapolis and St. Paul in the first quarter of 2014 were little changed compared to the same period in 2013. The Twin Cities MSA is approximately 8 percent more expensive to live in than in the average city in the United States. The value of residential building permits increased by 36.8 percent relative to the same period one year ago.

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 Metropolitan Area 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 Twin Cities Planning Area consists of seven counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington.

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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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.

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