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Northeast Minnesota Economic and Business Conditions Report

Minnesota Regional Economic and Business Conditions Report

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Northeast Minnesota Economic and Business Conditions Report - Fourth Quarter 2014

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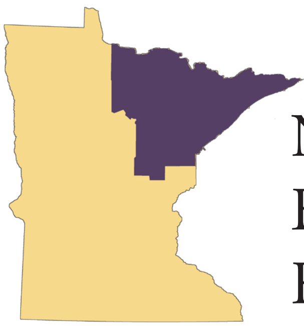

Northeast Minnesota
Economic and Business Conditions Report
Fourth Quarter 2014

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Business conditions in Northeast Minnesota are expected to slow over the next several months according to a variety of economic indicators. The Northeast Minnesota Index of Leading Economic Indicators (LEI) fell by 1.47 points in the fourth quarter, although the level of the LEI is considerably above its 2013 value. An improvement in initial jobless claims and higher Duluth/Superior residential building permits contributed favorably to the LEI. Recent weakness in the Institute of Supply Management's Purchasing Managers Index for manufacturing, slower new business incorporations earlier in 2014, and a deterioration in a general measure of state business conditions were negative components of the fourth quarter LEI.

There were 478 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the fourth quarter of 2014 — representing a 2.4 percent improvement from one year earlier. There were 69 new regional business incorporations in the fourth quarter, a 64.3 percent increase from the same quarter in 2013. Quarter four new limited liability company (LLC) filings in Northeast Minnesota jumped to 259—a 7.9 percent increase from one year earlier. New assumed names totaled 128 in the fourth quarter—an 18.5 percent decrease from the fourth quarter of 2013. There were 22 new filings for Northeast Minnesota non-profits in the 2014 fourth quarter—six fewer than one year earlier.

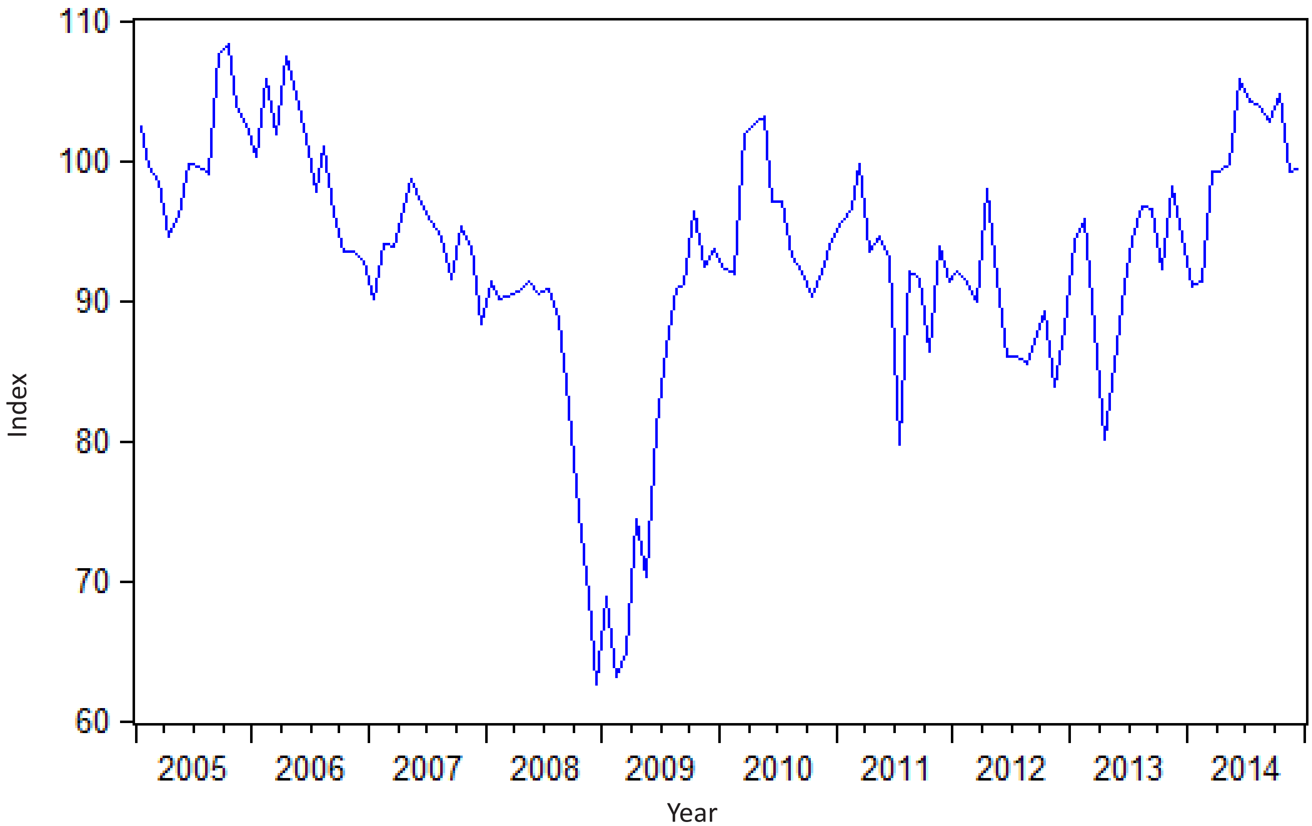
Northeast Minnesota employment was 0.4 percent higher than year earlier levels in December. The regional unemployment rate fell to 4.7 percent as the Northeast Minnesota labor force experienced a 1.1 percent annual decline. The regional labor force is now 3,830 lower than in December 2010. January 2015 initial claims for unemployment insurance were considerably lower than in January 2014 and average weekly wages were basically unchanged from 2013.

Data from the Duluth/Superior Metropolitan Statistical Area (MSA) were mixed. Northeast Minnesota's largest market experienced a 0.6 percent annual increase in overall employment in 2014, but the key sectors of manufacturing and education/health shed jobs. While average hourly earnings expanded, the length of the workweek dropped. The Duluth area unemployment rate dropped from 5.7 percent in December 2013 to 4.3 percent one year later, but this was accompanied by a 0.9 percent decline in the area labor force. The value of residential building permits rose by 31.2 percent from December 2013 to December 2014, but area building permits are still well below their long term average.

Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI finished 1.47 points lower in this year's fourth quarter, but remains 5.1 percent above its level one year ago. Since 2005, the LEI has shown a great deal of variability, but is little changed from its level ten years ago. As can be seen in the accompanying figure, the LEI experienced a substantial decline during the Great Recession, but has now returned to where it was at the beginning of 2005.

The SCSU Northeast Minnesota Leading Economic Indicators Index



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2014	Contribution to LEI, 3rd quarter 2014
Minnesota Business Conditions Index	-1.60	-1.16
Northeast Minnesota initial claims for unemployment insurance	0.89	-0.36
Northeast Minnesota new filings of incorporation	-0.50	0.96
Duluth-Superior MSA residential building permits	0.64	-3.7
Institute of Supply Management Purchasing Managers Index for manufacturing	-0.90	0.90
TOTAL CHANGE	**-1.47**	**-3.36**

Three of the five components of the LEI (see accompanying table) decreased in the fourth quarter of 2014. Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's Purchasing Managers Index for manufacturing is used as a proxy for demand for production in the region. This indicator declined in the fourth quarter. Recent weakness in the Minnesota Business Conditions Index (an indicator of general statewide business conditions) and lower new filings for business incorporation earlier in the year also pushed the LEI lower. Lower initial jobless claims and a rise in Duluth/Superior residential building permits had a positive impact on the LEI.

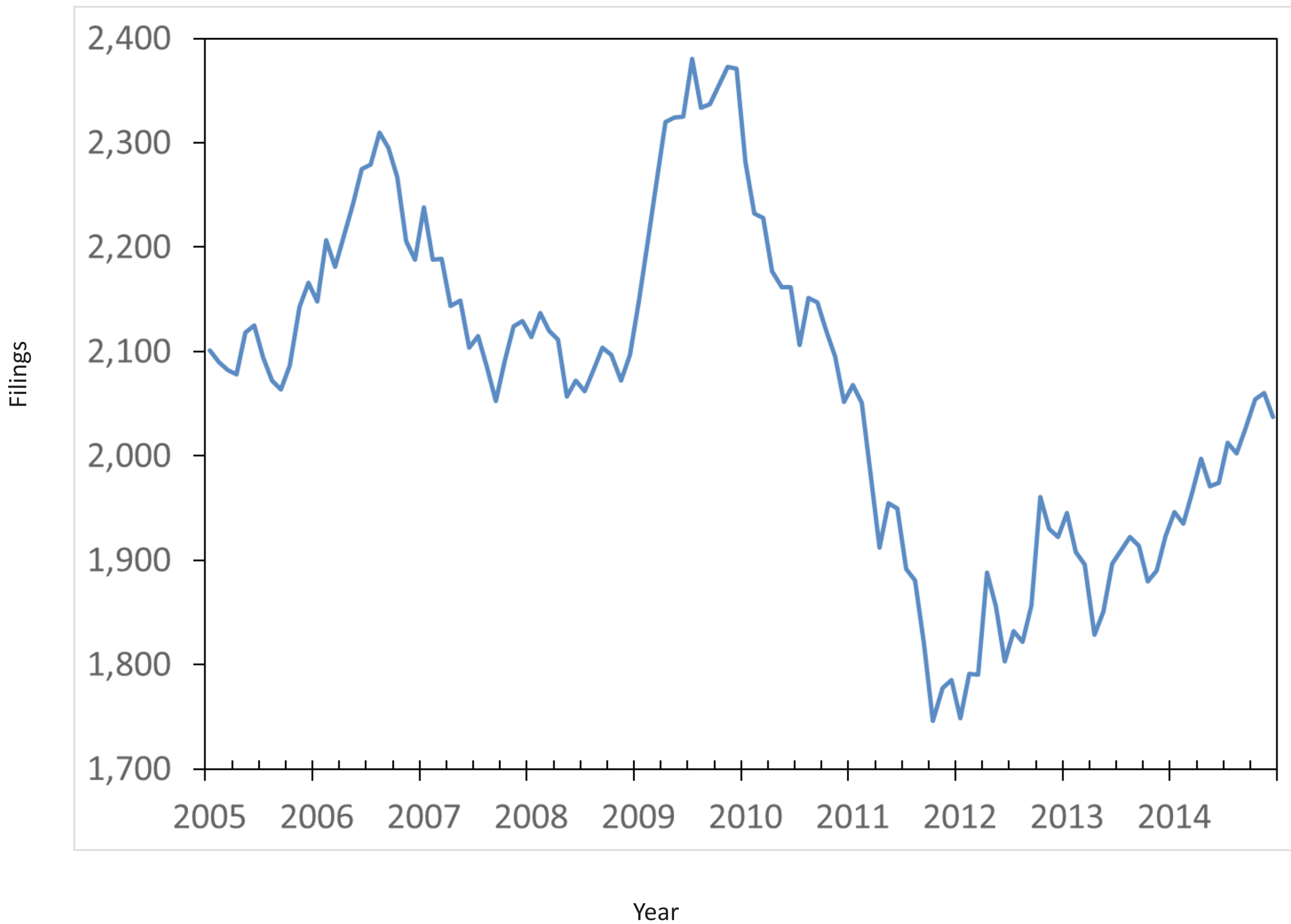
SCSU Northeast Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index December	61.4	58.9	4.2%
Northeast Minnesota initial claims for unemployment insurance December	2,337	2,796	-16.4%
Northeast Minnesota new filings of incorporation Fourth Quarter	39	47	-17.0%
Duluth-Superior MSA single-family building permits December	10	8	25.0%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, December	55.1	56.5	-2.5%
Northeast Minnesota Leading Economic Indicators Index December (December 1999 = 100)	99.4	94.6	5.1%

Northeast Minnesota Business Filings

Total new business filings increased by 2.4 percent in the fourth quarter of 2014 compared to the same period one year earlier. This series has slowly trended upward since 2011. After a precipitous drop in the pace of new business formation during the Great Recession, new business filings in Northeast Minnesota are starting to return to the pace observed ten years ago.

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

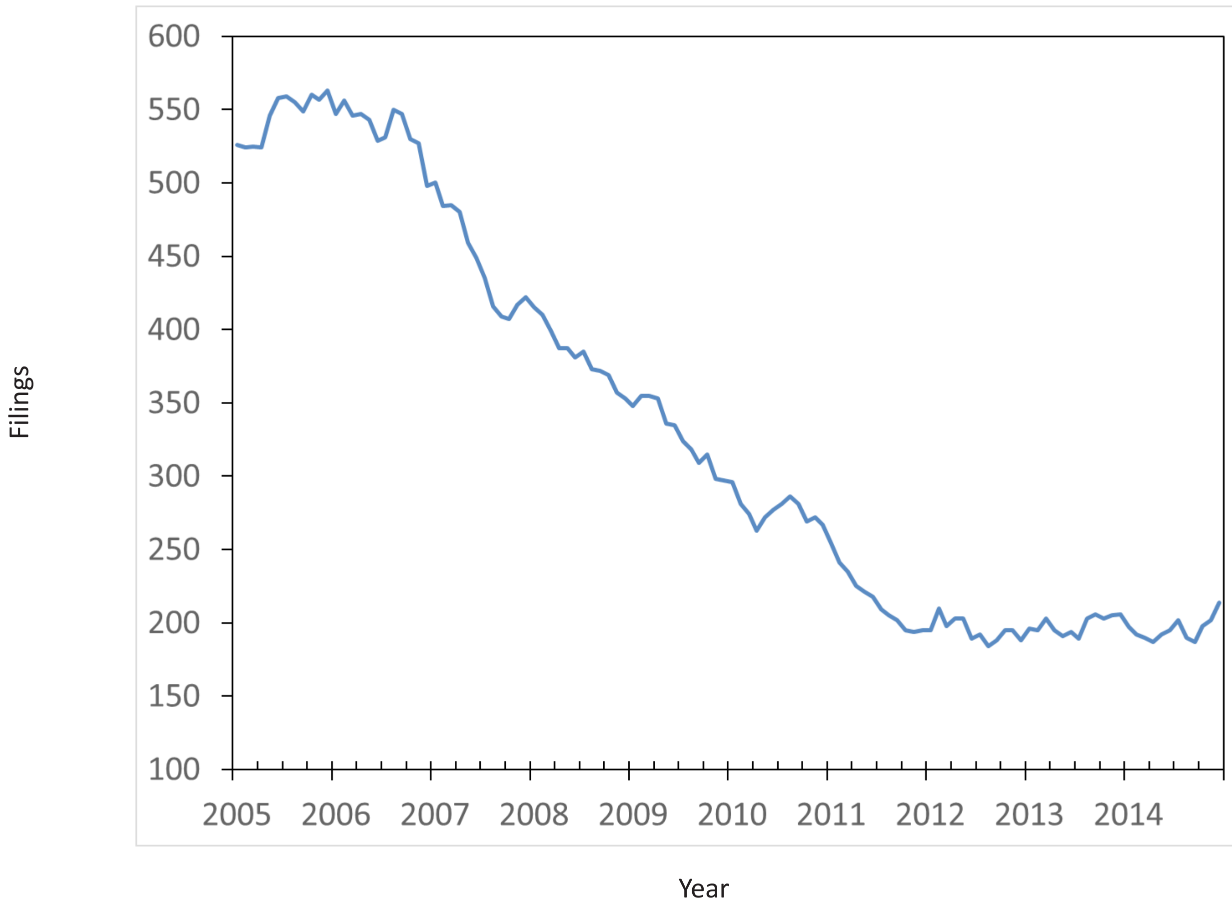
Total New Business Filings—Northeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northeast Minnesota Total New Business Filings	467	539	548	472	478	2.4%

After a 17 percent annualized decrease in new business incorporations in the third quarter, this series recovered in the final quarter of 2014. There were 69 new business incorporations in the Northeast Minnesota planning area in the recent quarter—a 64.3 percent increase from year earlier levels.

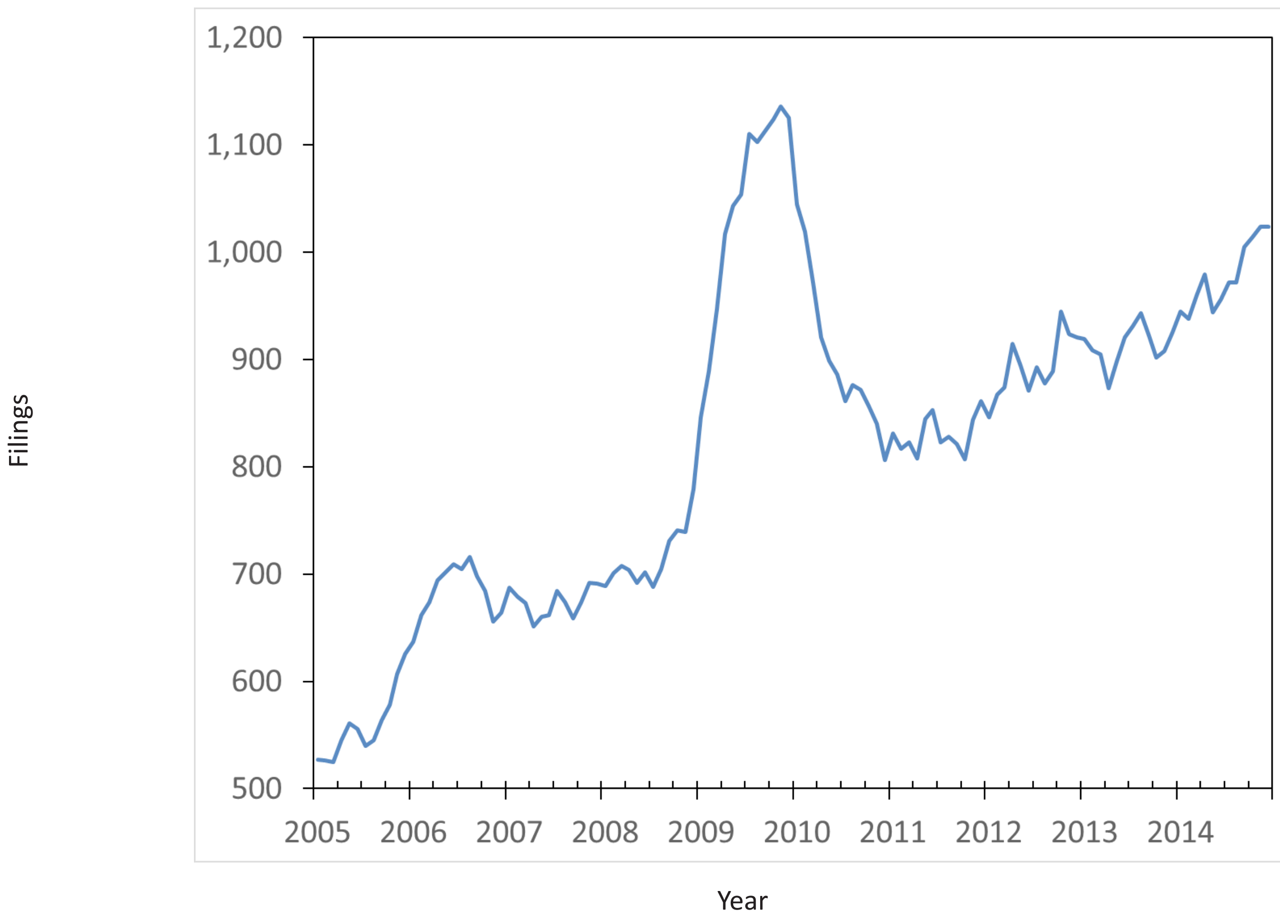
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northeast Minnesota New Business Incorporations	42	54	52	39	69	64.3%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. This trend continued in the fourth quarter with a 7.9 percent increase from its level one year earlier. For the second straight quarter, the growth of new LLC formation was larger in Northeast Minnesota than in any of the state's other five planning areas. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

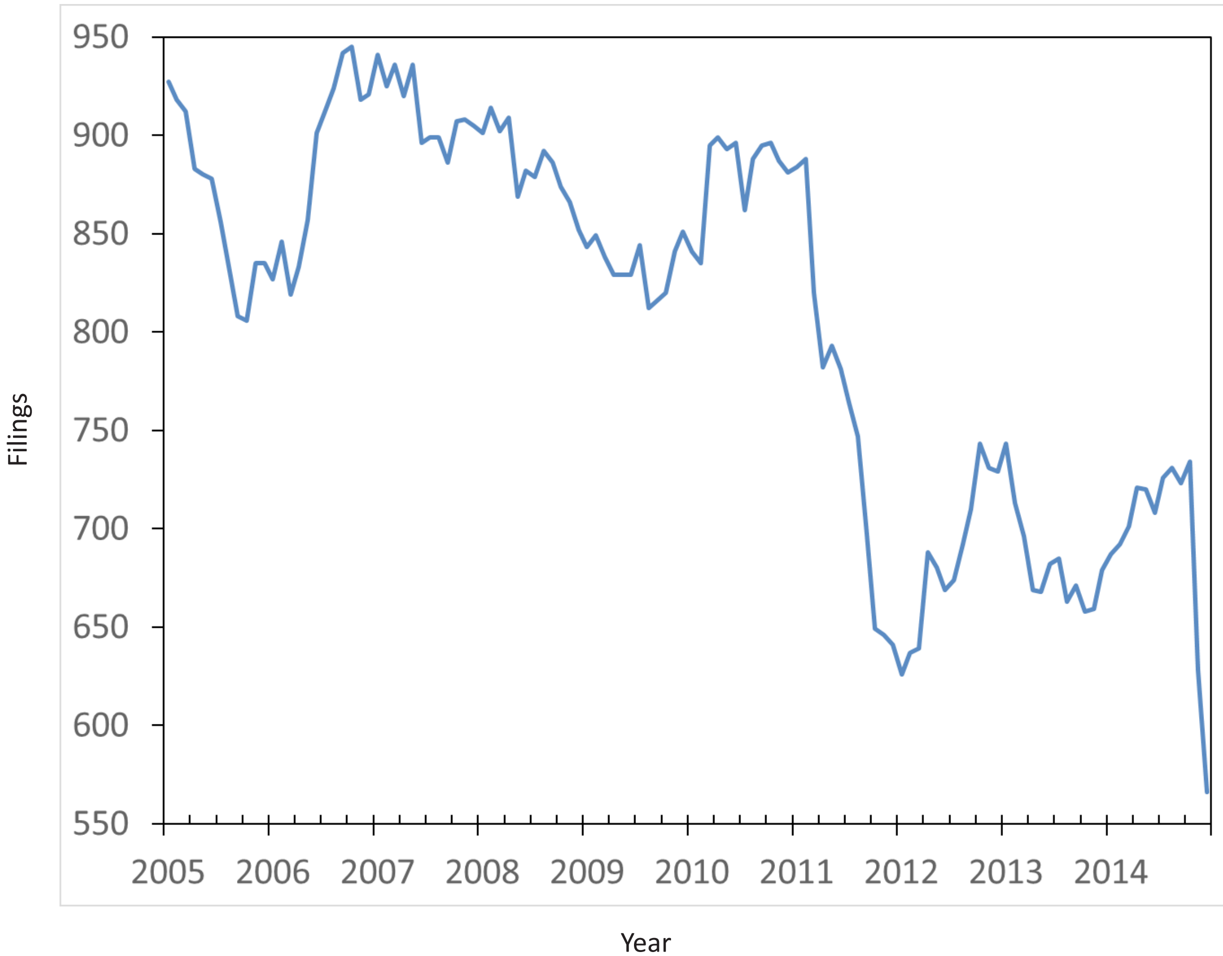
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	240	266	255	244	259	7.9%

Assumed names declined by 18.5 percent from year earlier levels in the fourth quarter of 2014. This was the largest percentage decline in this type of filing in any of Minnesota's six planning areas. As can be seen in the accompanying graph, Northeast Minnesota has seen some rather precipitous declines in this series in recent years.

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



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northeast Minnesota New Assumed Names	157	192	210	164	128	-18.5%

There were 22 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the fourth quarter of 2014, six fewer than were recorded one year ago.

New Non-Profits—Northeast Minnesota Planning Area (12-month moving total)

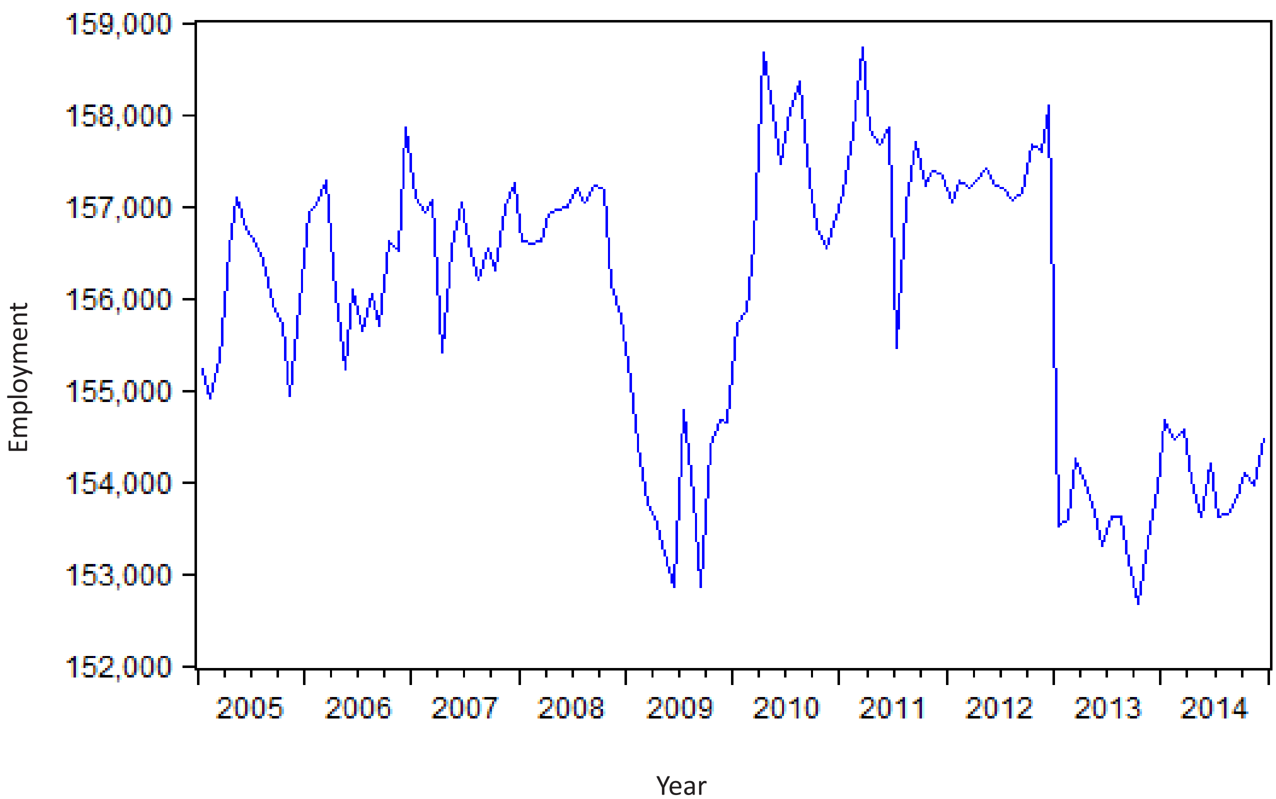
Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northeast Minnesota New Non-Profits	28	27	31	25	22	-21.4%

Northeast Minnesota Labor Market Conditions

December 2014 employment in the Northeast Minnesota planning area was 0.4 percent higher than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment is approximately the same as it was at the beginning of 2010, but is still below levels seen in the mid-2000s.

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.

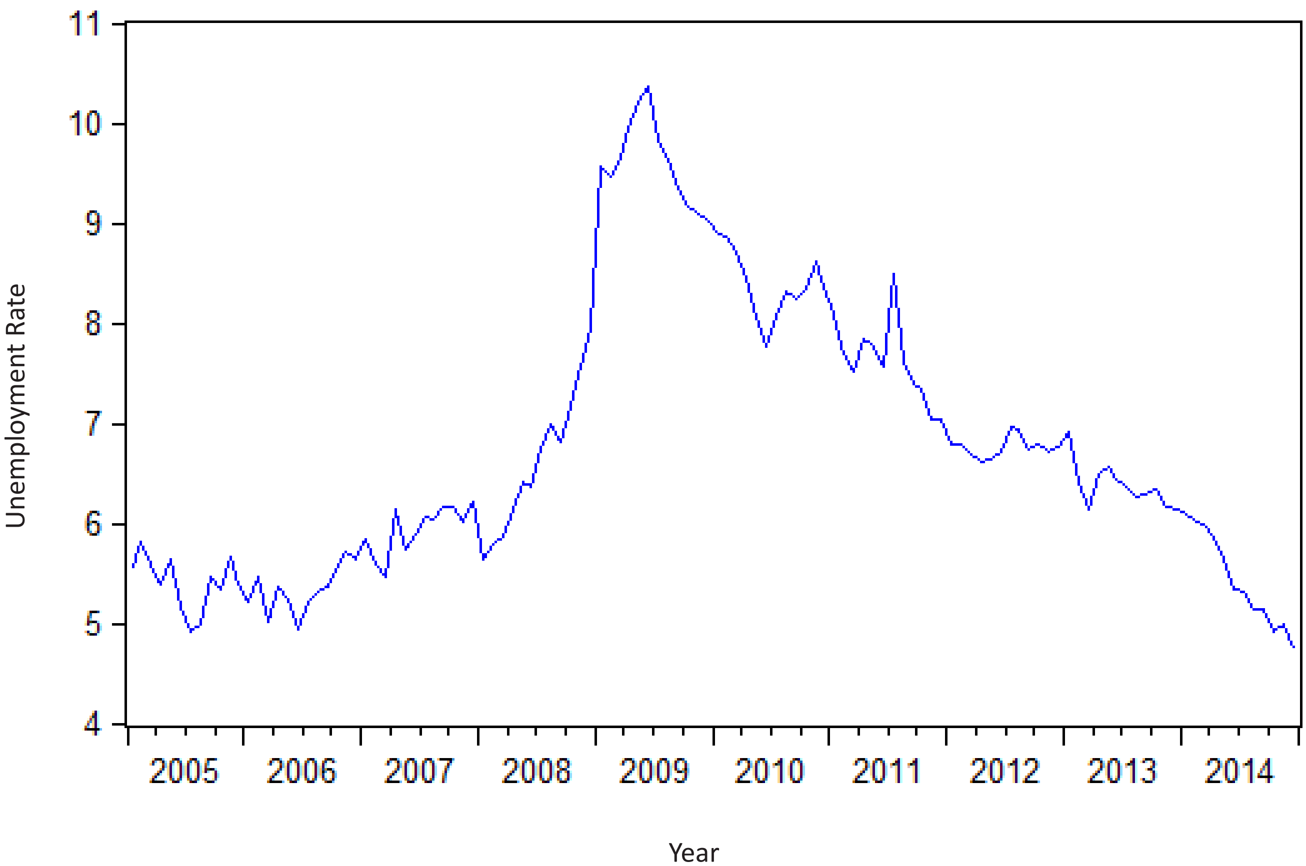
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Employment (Not seasonally adjusted)	152,504	156,243	155,536	155,687	155,908	154,318	153,120

Seasonally adjusted unemployment in Northeast Minnesota continued to decline in the fourth quarter of 2014. At 4.7 percent, the non-seasonally adjusted rate is considerably lower than its level from one year ago.

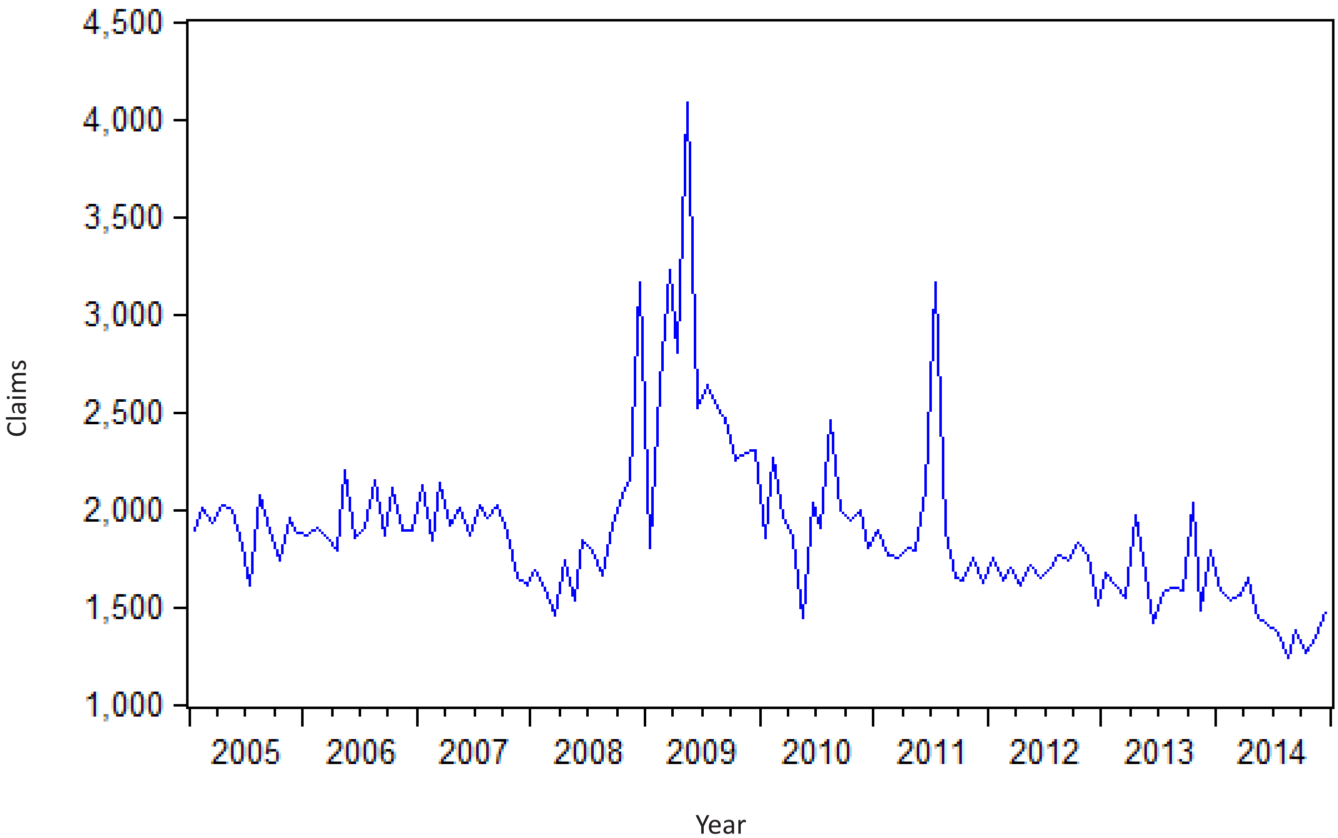
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Unemployment Rate (Not seasonally adjusted)	6.1%	5.2%	4.6%	4.3%	3.8%	4.4%	4.7%

On a seasonally adjusted basis, initial jobless claims in the Northeast region are the lowest they have been over the last decade. As indicated in the table below, January 2015 non-seasonally adjusted claims were considerably lower than one year earlier.

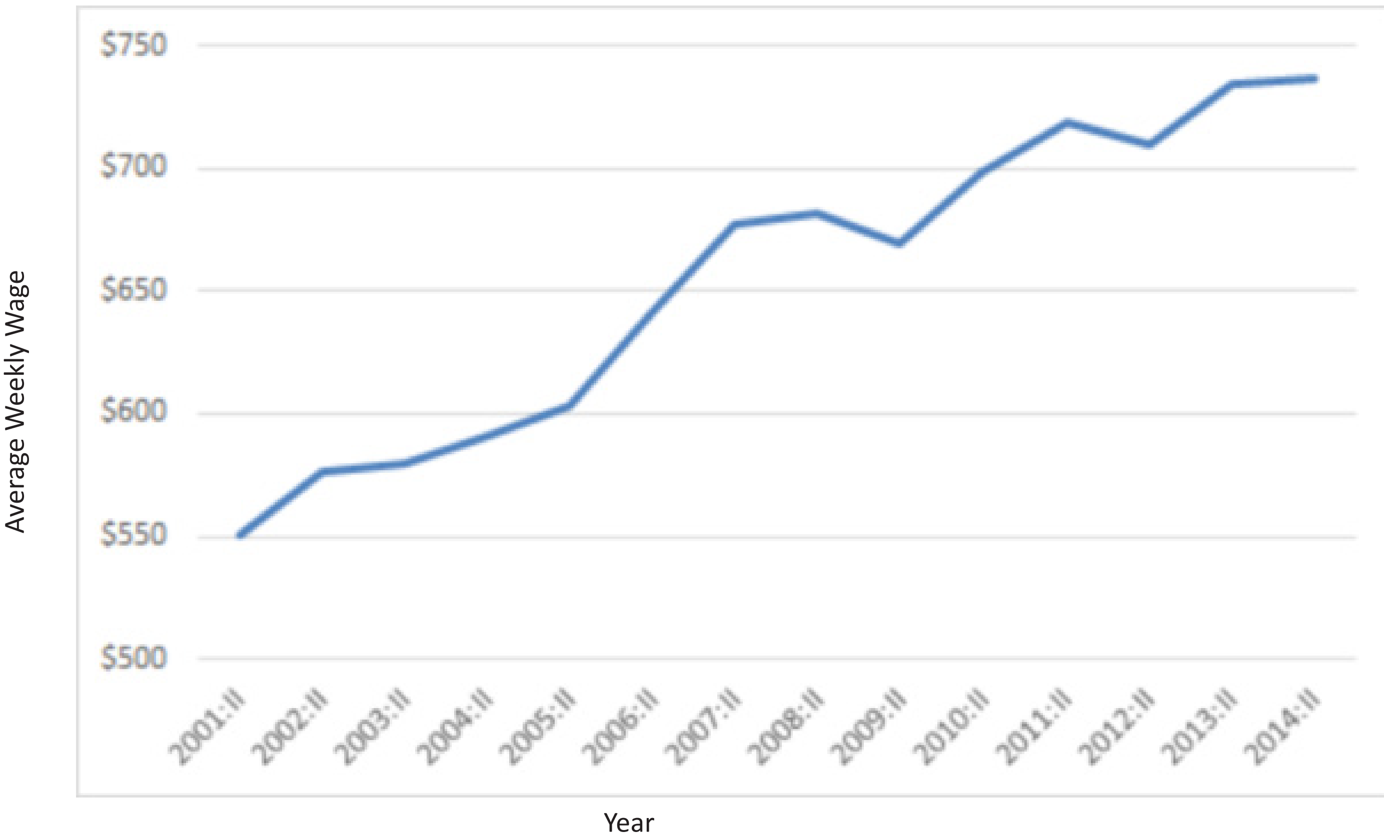
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Month	January 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015
Initial claims (Not seasonally adjusted)	1,935	788	1,009	1,219	2,072	2,337	1,547

Average weekly wages were flat in the most recent reporting period. With an average weekly wage of $737, the Northeast planning area has the third highest average weekly wage (trailing the Twin Cities and Southeast) in Minnesota's six planning areas.

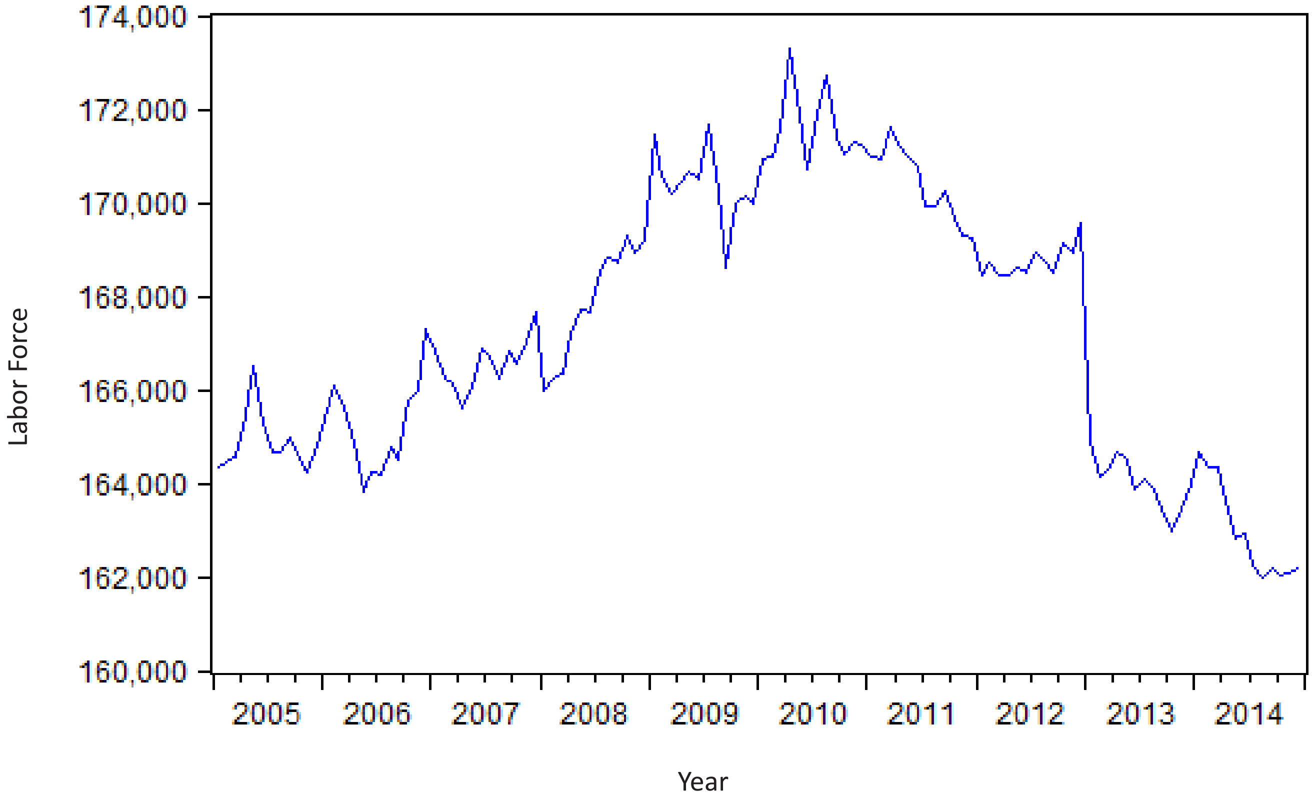
Average Weekly Wage—Northeast Minnesota Planning Area



Quarter	2009:II	2010:II	2011:II	2012:II	2013:II	2014:II
Average Weekly Wage	$669	$699	$719	$710	$734	$737

The Northeast labor force continues to decline. The labor force fell by 1.1 percent over the year ending December 2014 and is now 3,830 lower than in December 2010. No other Minnesota planning area is experiencing this kind of reduction in its work force.

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



Year (December)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	167,335	164,731	162,445	164,150	162,685	160,901

Northeast Minnesota Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)	
Employment	December 2014 (m)	135,096	134,224	0.6%	↑	0.1%	
Manufacturing Employment	December 2014 (m)	7,128	7,193	-0.9%	↓	-2.4%	
Educational and Health Sector Employment	December 2014 (m)	31,580	31,659	-0.2%	↓	2.7%	
Average Weekly Work Hours-Private Sector	December 2014 (m)	32.3	32.9	-1.8%	↓	32.2	(since 2006)
Average Earnings Per Hour-Private Sector	December 2014 (m)	$24.96	$23.25	7.4%	↑	2.8%	(since 2006)
Unemployment Rate	December 2014 (m)	4.3%	5.7%	NA	↓	5.8%	
Labor Force	December 2014 (m)	141,216	142,475	-0.9%	↓	-0.1%	
Duluth-Superior Residential Building Permit Valuation	December 2014 (m)	2,811	2,142	31.2%	↑	3,676	

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where there was mixed economic evidence at the end of 2014. Overall employment increased and the unemployment rate decreased, but there was a decline in employment in its key educational and health (where more than 30,000 people are employed) and manufacturing sectors. While average hourly earnings grew at a healthy pace, there was a decline in the length of the workweek and the labor force contracted. One positive sign was a 31.2 percent increase in the value of residential building permits in Northeast Minnesota's largest market.

State and National Indicators

MINNESOTA Indicators	Dec 2014	Sept 2014	Dec 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,831,400	2,819,200	2,795,800	0.4%	1.3%
Average weekly hours worked, private sector	33.9	34.1	34.0	-0.6%	-0.3%
Unemployment rate, seasonally adjusted	3.7%	3.7%	4.5%	NA	NA
Earnings per hour, private sector	$25.82	$25.75	$25.93	0.3%	-0.4%
Philadelphia Fed Coincident Indicator, MN	166.07	165.19	161.31	0.5%	3.0%
Philadelphia Fed Leading Indicator, MN	1.65	0.58	1.51	184.5%	9.3%
Minnesota Business Conditions Index	61.4	66.3	53.7	-7.4%	14.3%
Price of milk received by farmers (cwt)	$20.60	$26.70	$22.00	-22.8%	-6.4%
Enplanements, MSP airport, thousands	1,387.6	1,411.3	1,392.1	-1.7%	-0.3%

NATIONAL Indicators	Dec 2014	Sept 2014	Dec 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	140,592	139,619	137,476	0.7%	2.3%
Industrial production, index, SA	106.2	105.2	101.6	1%	4.5%
Real retail sales, SA	187,553	186,773	182,764	0.4%	2.6%
Real personal Income less transfers	11,435	11,266	11,008	1.5%	3.9%
Real personal consumption expenditures	11,145	11,035	10,827	1%	2.9%
Unemployment rate	5.6%	5.9%	6.7 %	NA	NA
New building permits, SA, thousands	1,060	1,039	1,022	2.0%	3.7%
Standard & Poor’s 500 stock price index	2,054.27	1,993.23	1,807.78	3.1%	13.6%
Oil, price per barrel in Cushing, OK	$59.29	$93.21	$97.63	-36.4%	-39.3%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. However, average weekly hours worked fell, as did earnings per hour in the private sector. All three broader indicators of state economic activity were higher at the end of 2014 than they were one year earlier. Minnesota farmers struggled with 6.4 percent lower milk prices at the end of 2014 than was received twelve months earlier. December 2014 enplanements at the Minneapolis-St. Paul airport were virtually unchanged from one year earlier.

The national economy continued to grow at a solid pace in the fourth 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 declined by 39.3 percent over the year ending December 2014. While this precipitous decline in oil prices has created some dislocation in energy sensitive sectors of the national (and Midwest) economy, it has provided a “consumer dividend” to households who are enjoying higher discretionary income.

The Northeast 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 Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Katie Kotschevar. Professor David Wall of the SCSU Geography Department provided GIS assistance.

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

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

U.S. Bureau of Census: Durable Goods Orders, Housing Permits, 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, Real Wages and Salaries.

U.S. Energy Information Administration: Oil Prices.