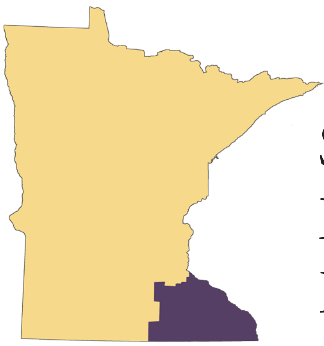
6-2015

Southeast Minnesota Economic and Business Conditions Report - Fourth Quarter 2014

King Banaian
St. Cloud State University, kbanaian@stcloudstate.edu

Richard A. MacDonald
St. Cloud State University, macdonald@stcloudstate.edu



Southeast 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

TABLE OF CONTENTS

Executive Summary

Southeast Minnesota business conditions are expected to improve over the first several months of 2015 according to a variety of economic indicators. Driven by improvements in consumer sentiment and an increase in Rochester area residential building permits, the Southeast Minnesota Index of Leading Economic Indicators (LEI) increased by 3.49 points in the fourth quarter of 2014. The LEI is now 7.3 percent above its December 2013 value. A decline in new filings for business incorporation and limited liability company (LLC) combined with increased initial jobless claims earlier in 2014 were negative factors in the December 2014 LEI. A fall in the Minnesota Business Conditions index also unfavorably impacted the Southeast Minnesota economic outlook.

There were 754 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the fourth quarter of 2014 — representing a 3.3 percent decline from one year earlier. There were 89 new regional business incorporations in the fourth quarter, an 18.7 percent increase from the fourth quarter of 2013. New limited liability company filings in Southeast Minnesota fell by 8 percent from the prior year. Regional new LLC filings totaled 414 in the fourth quarter of 2014. New assumed name filings increased by 1.9 percent to 211 and there were 40 new filings for Southeast Minnesota non-profit in the fourth quarter—a 16.7 percent decline from the same quarter in 2013.

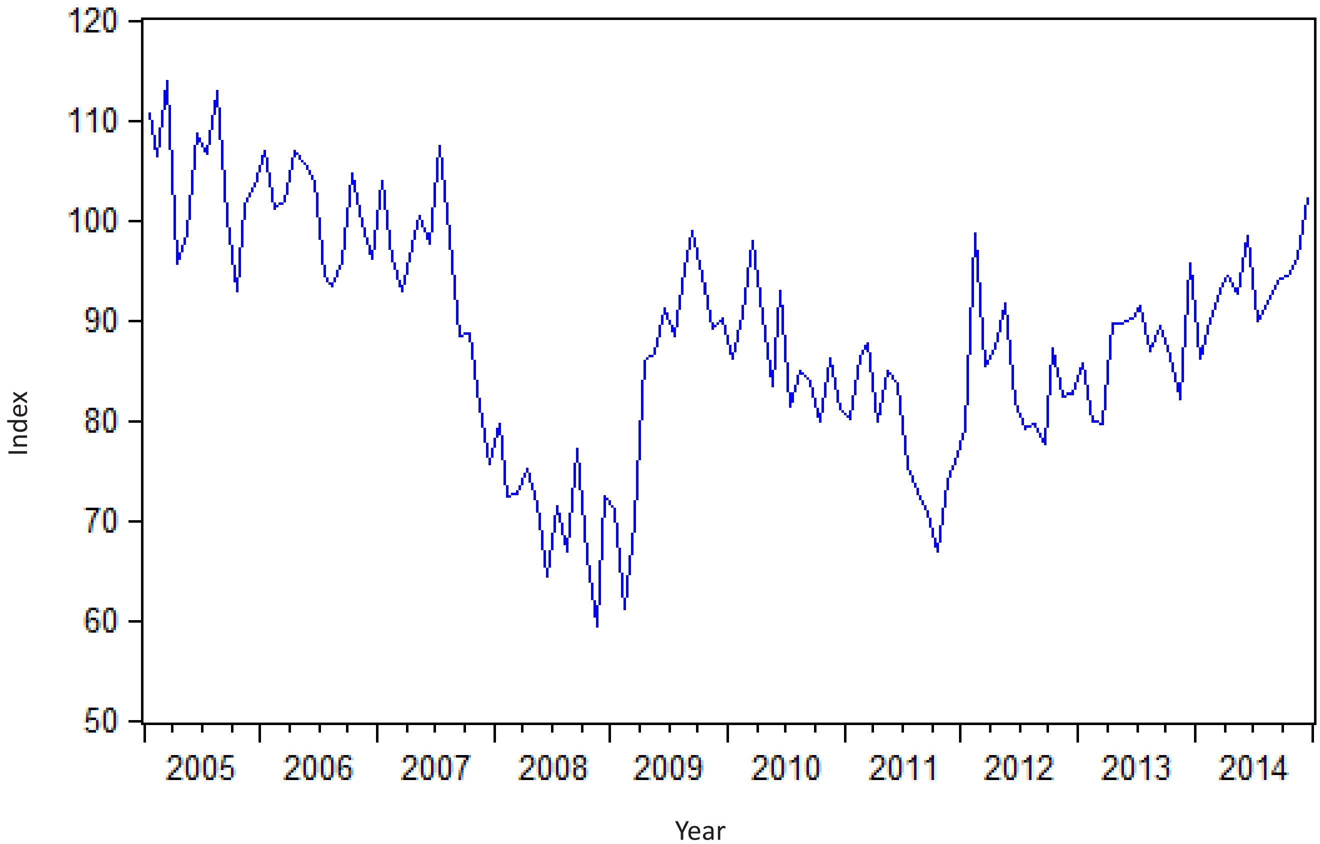
Employment of Southeast Minnesota residents increased by 1 percent over the year ending December 2014. Compared to December 2013, 2,756 more residents of Southeast Minnesota now have jobs. The regional unemployment rate was 3.2 percent in December, an improvement from 4 percent in the year earlier period. Initial claims for unemployment insurance in January 2015 were 244 lower (an 11.2 percent decline) than one year earlier. The Southeast Minnesota labor force increased slightly over the year ending December 2014 and average weekly wages rose by 1.3 percent to $857 in the most recent reporting period.

Data from the Rochester area—the largest market in Southeast Minnesota—were fairly strong, with recent weakness in average hourly earnings and slightly lower new business filings being offset by a number of improved economic indicators. These favorable indicators include increased employment (including increases in the key manufacturing and education/health sectors), a longer average workweek, a reduced unemployment rate, lower jobless claims, an increased labor force, and a rise in the value of residential building permits.

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. The LEI was 3.49 points higher in the fourth quarter of 2014, and is now 7.3 percent above its level one year ago.

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



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2014	Contribution to LEI, 3rd quarter 2014
Minnesota Business Conditions Index	-2.77	-2.01
Southeast Minnesota initial claims for unemployment insurance	-3.82	1.57
Southeast Minnesota new filings of incorporation and LLCs	-0.73	-0.99
Rochester MSA residential building permits	2.25	-1.44
Consumer Sentiment, University of Michigan	8.56	-4.53
TOTAL CHANGE	**3.49**	**-7.4**

Only two 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. A rise in Rochester area residential building permits also had a positive impact on the LEI. A rise in initial jobless claims earlier in the year and reduced new business filings were two of the negative components of the fourth quarter LEI. A reduction in the Minnesota Business Conditions Index (constructed from a survey conducted by Creighton University), which is used as a general measure of state business conditions, also served as a drag on the index.

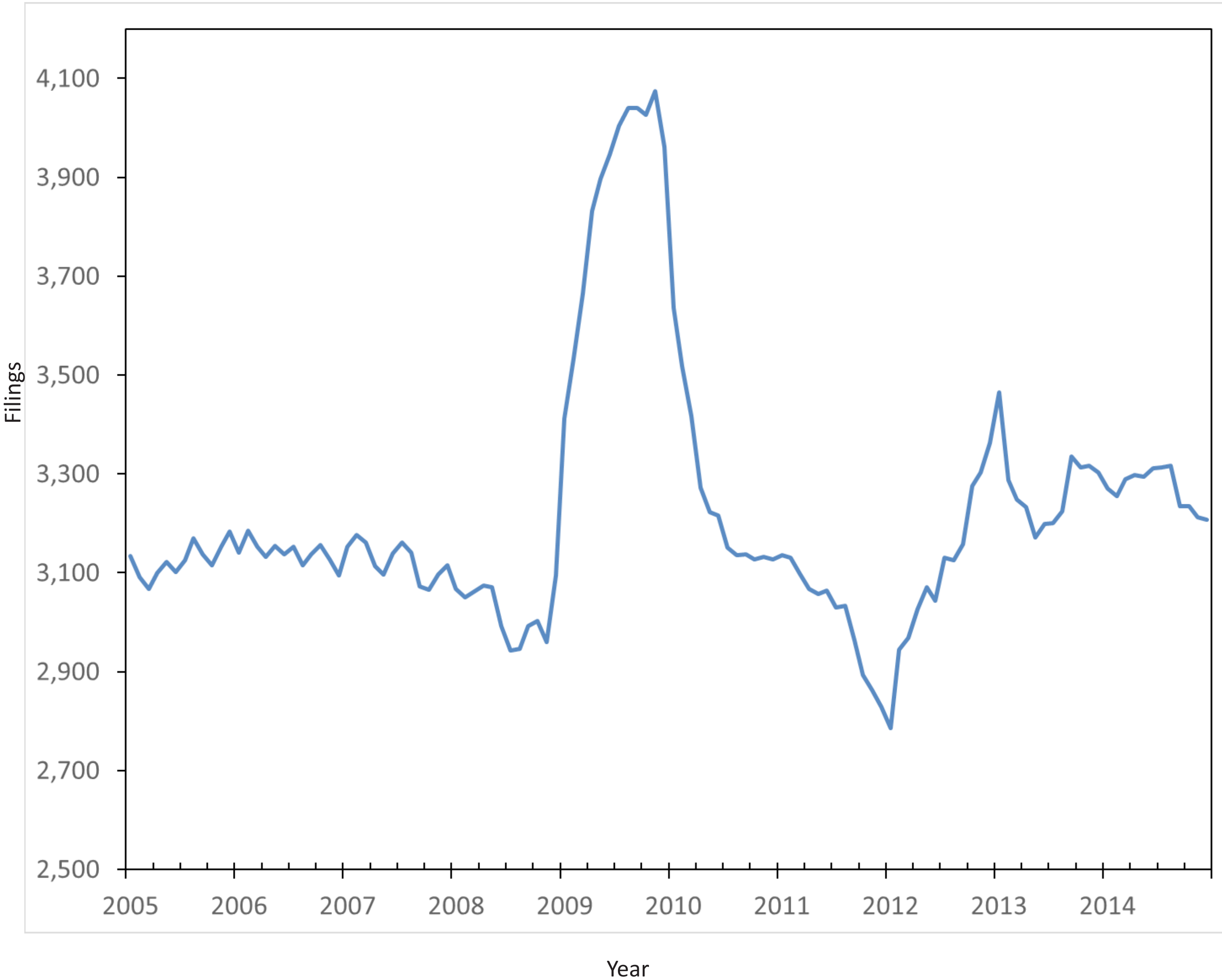
SCSU Southeast Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index December	61.4	58.9	4.2%
Southeast Minnesota initial claims for unemployment insurance December	3,203	3,466	-7.6%
Southeast Minnesota new filings of incorporation and LLCs Fourth Quarter	503	525	-4.2%
Rochester MSA single-family building permits December	37	31	19.4%
Consumer Sentiment, University of Michigan December	93.6	82.5	13.5%
Southeast Minnesota Leading Economic Indicators Index December (December 1999 = 100)	102.3	95.3	7.3%

Southeast Minnesota Business Filings

Other than a large increase in new business filings in mid-2008, the moving total of Southeast Minnesota new business filings has remained fairly flat over the last decade. As can be seen in the accompanying table, there was a small decline (filings fell by 3.3 percent) in regional new business filings in the fourth quarter of 2014 compared to the same period in 2013. 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.

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.

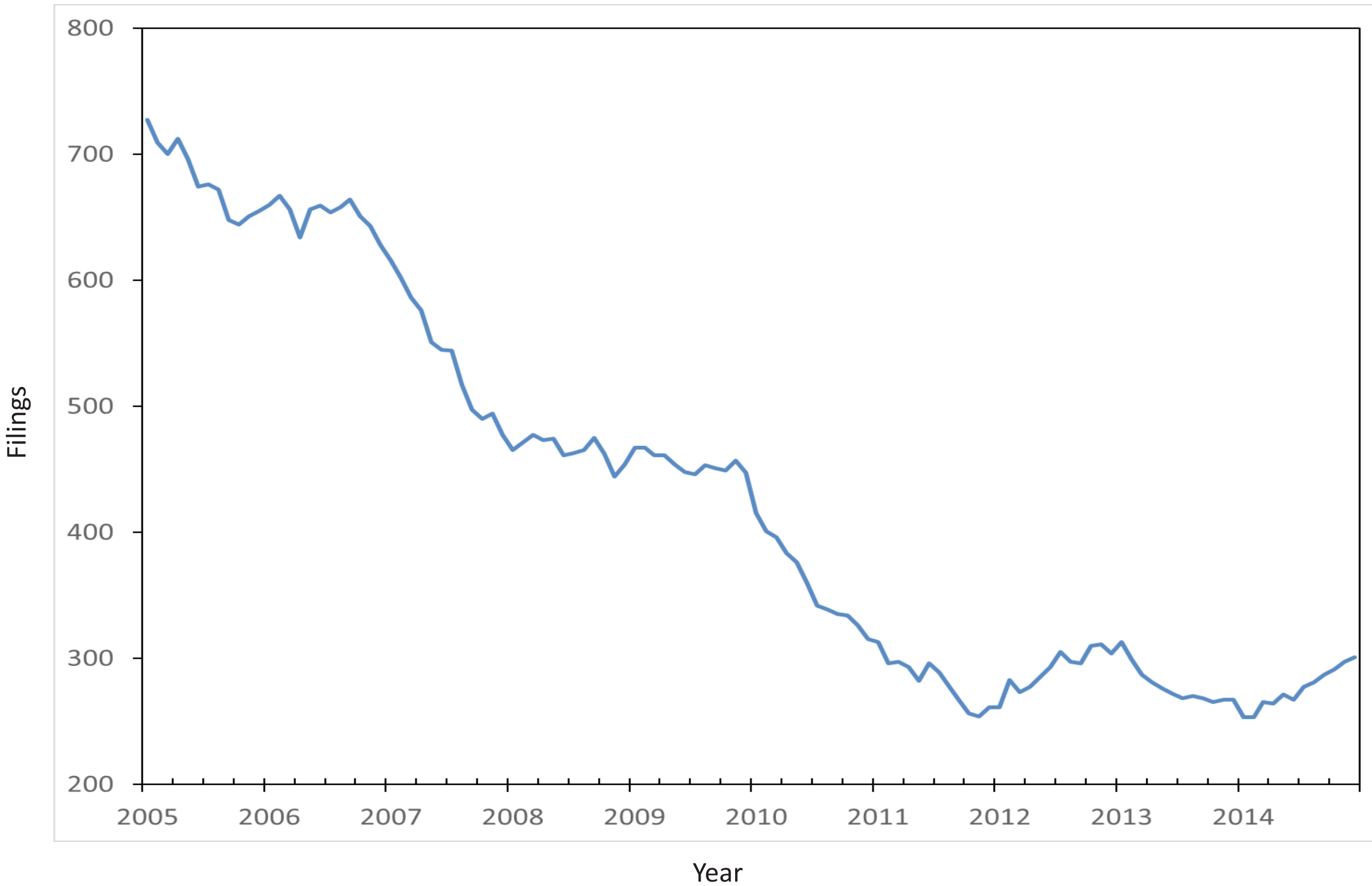
Total New Business Filings—Southeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Southeast Minnesota Total New Business Filings	780	847	842	765	754	-3.3%

New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but they appear to have leveled off over the past three years. In the fourth quarter of 2014, this series increased by 18.7 percent from one year earlier.

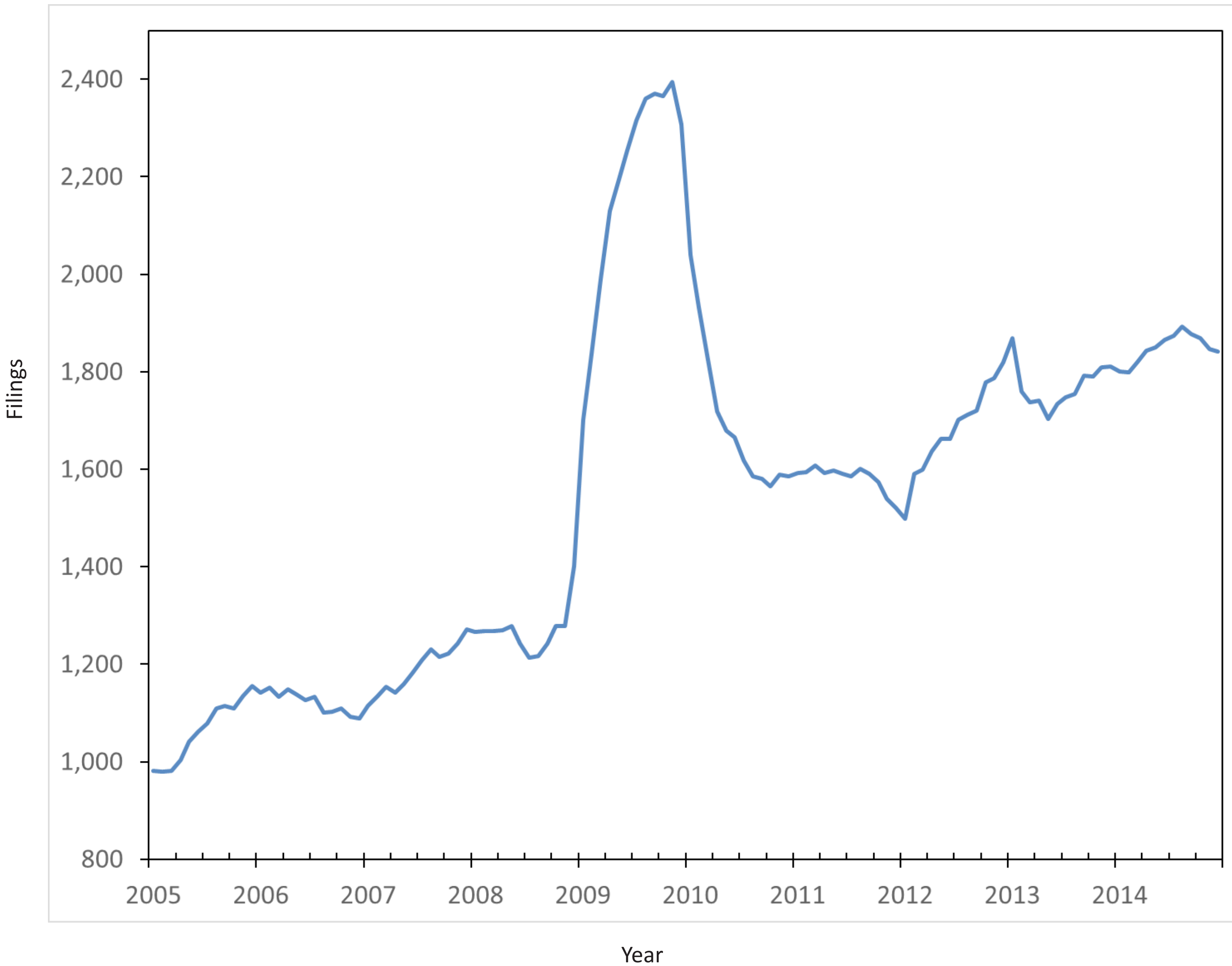
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Southeast Minnesota New Business Incorporations	75	63	75	74	89	18.7%

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 2005. Fourth quarter new LLC filings fell 8 percent over their year earlier level.

New Limited Liability Companies—Southeast 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
Southeast Minnesota New Limited Liability Companies	450	473	513	442	414	-8.0%

Assumed names, which include sole proprietors or organizations that do not have limited liability, were slightly higher in the fourth quarter than they were one year earlier. As can be seen in the accompanying graph, this series has been very volatile since the beginning of 2012.

New Assumed Names—Southeast 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
Southeast Minnesota New Assumed Names	207	273	213	212	211	1.9%

After bottoming out in 2010, the number of new Southeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State increased to levels seen just before the Great Recession. The number of newly formed non-profits totaled 40 in the recent quarter (a 16.7 percent reduction from the fourth quarter of 2013).

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

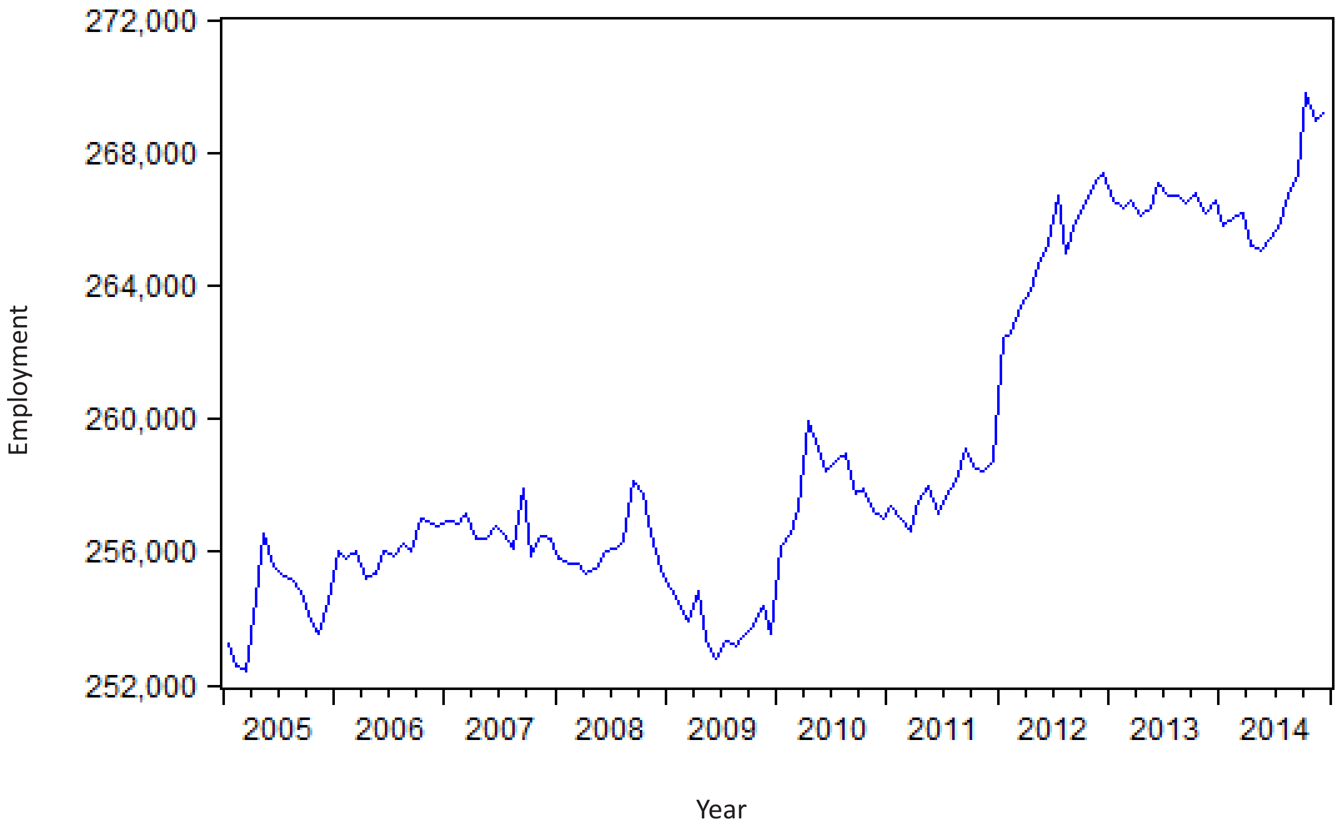
Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Southeast Minnesota New Non-Profits	48	38	41	37	40	-16.7%

Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area grew 1.0 percent over the year ending in December 2014. As shown in the accompanying graph, the 12-month moving average of total employment has increased considerably since the end of the Great Recession.

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.

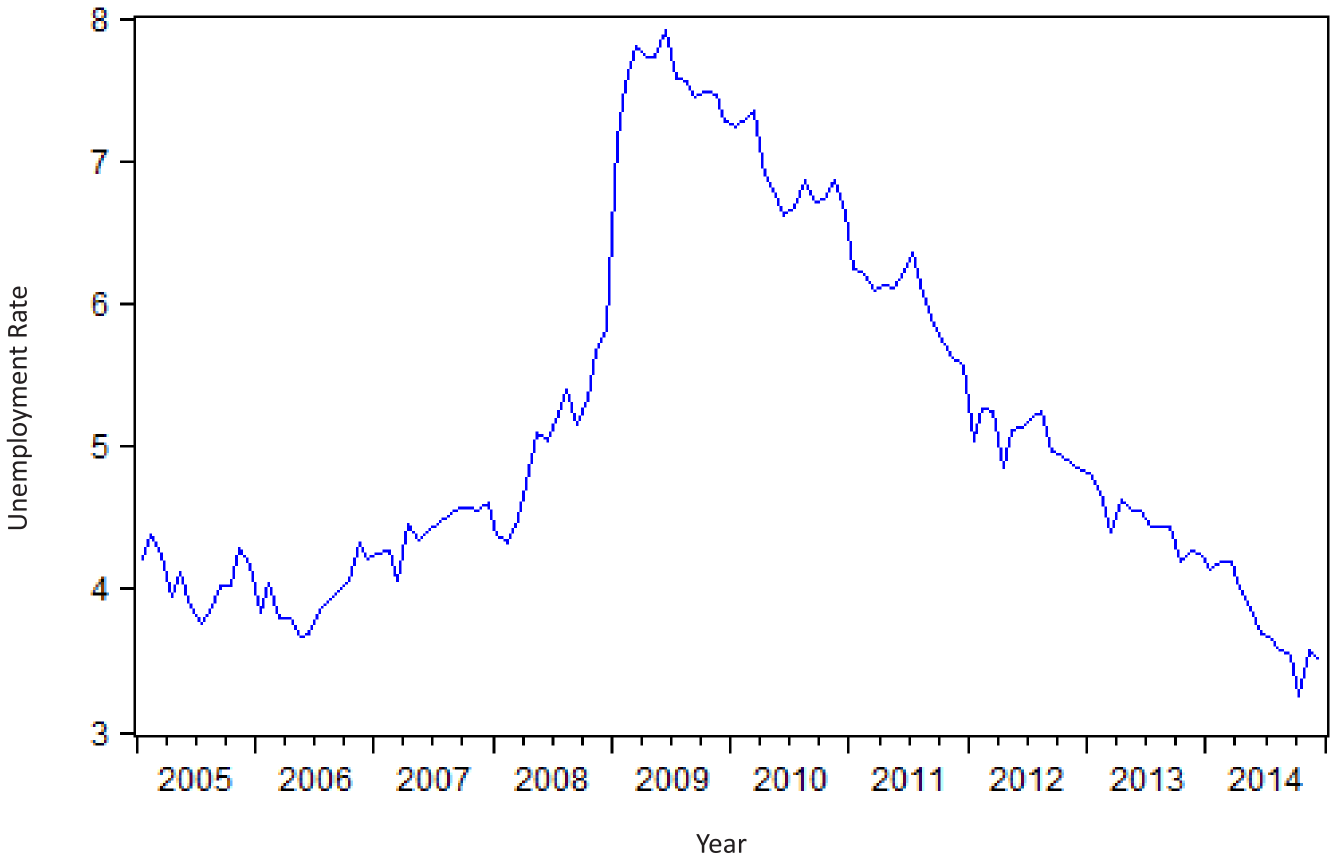
Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Employment (Not seasonally adjusted)	265,710	269,583	270,092	267,855	270,731	269,835	268,466

The seasonally adjusted unemployment rate in Southeast Minnesota continued to decline in the fourth quarter of 2014. The seasonally adjusted 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 3.2 percent, considerably lower than the 4.0 percent rate observed one year ago.

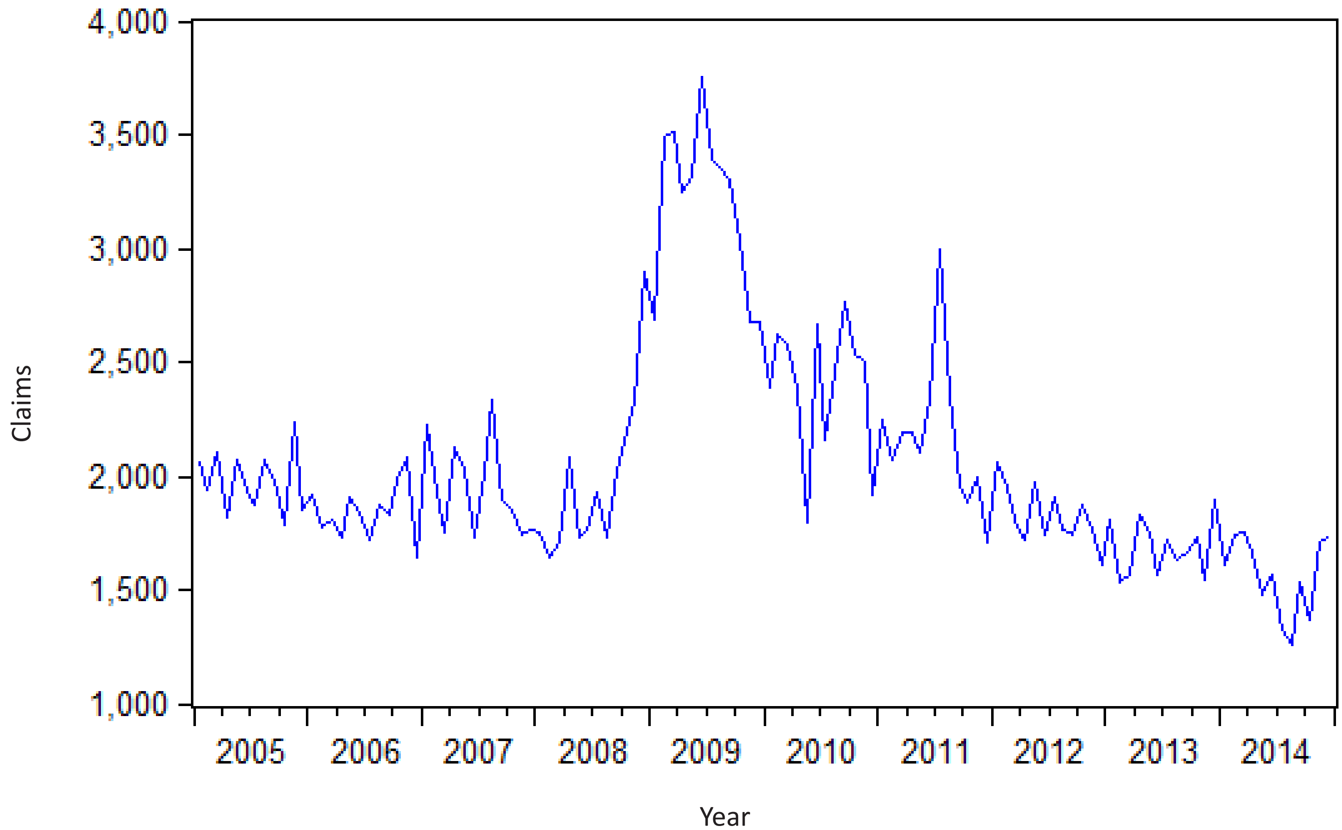
Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Unemployment Rate (Not seasonally adjusted)	4.0%	3.7%	3.3%	3.1%	2.7%	2.8%	3.2%

New claims for January 2015 unemployment insurance were 244 lower than one year earlier. This represents an 11.2 percent annual decline. On a seasonally adjusted basis, these claims appear to have leveled out in 2014 after continually falling since the middle months of 2009

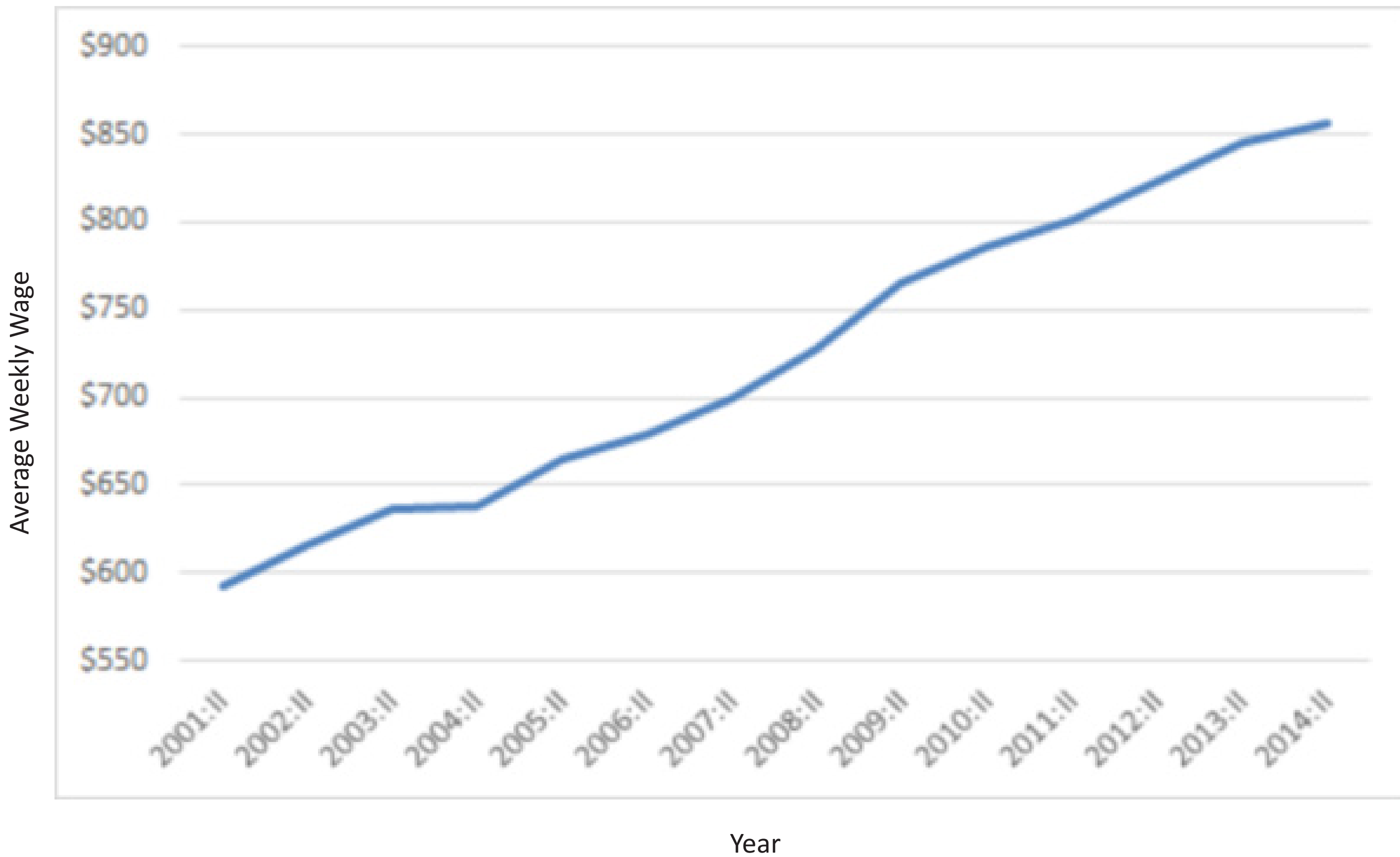
Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Southeast Minnesota Planning Area



Month	January 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015
Initial claims (Not seasonally adjusted)	2,183	817	995	1,174	2,418	3,203	1,939

Average weekly wages in Southeast Minnesota increased to $857 in the most recent reporting period (a 1.3 percent increase over the previous year). Southeast Minnesota workers enjoy the second highest (trailing only the Twin Cities) average weekly earnings of Minnesota's six planning areas.

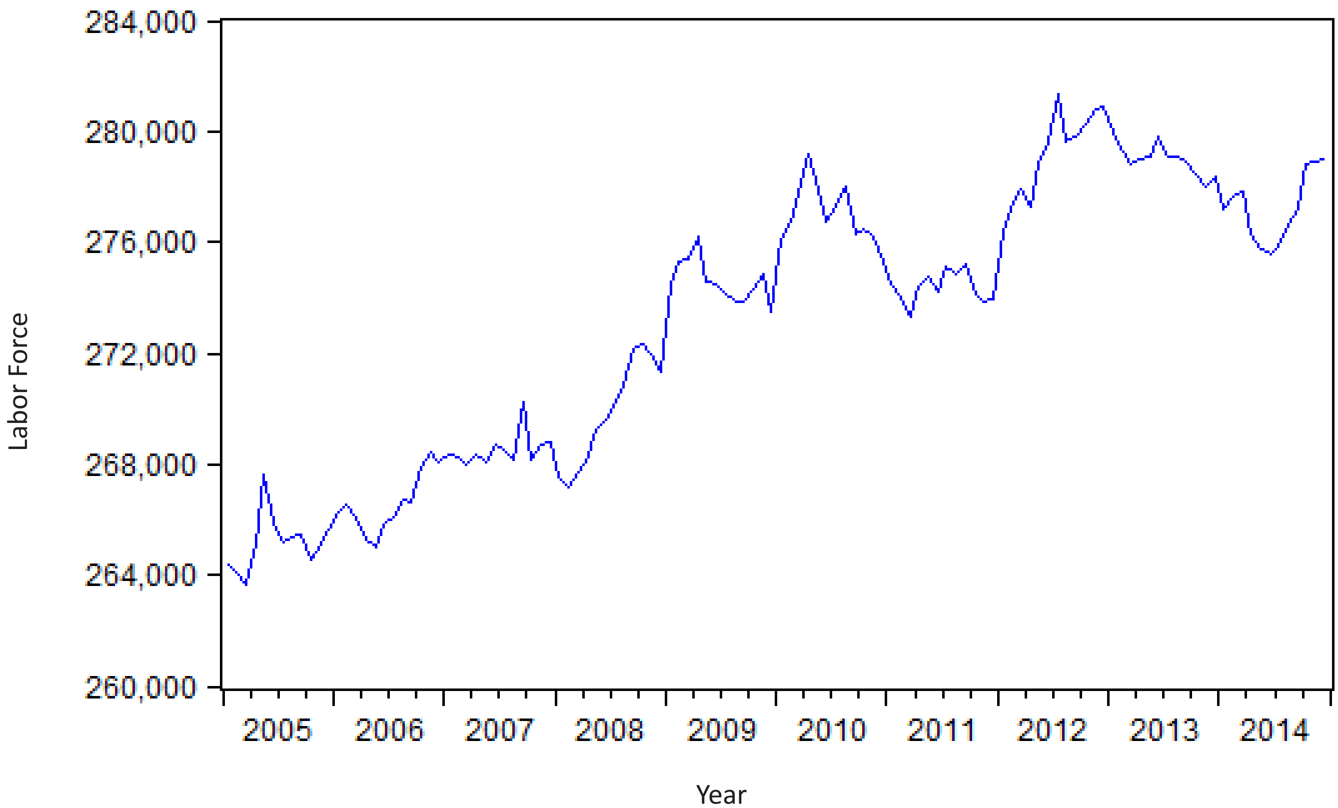
Average Weekly Wage—Southeast Minnesota Planning Area



Quarter	2009:II	2010:II	2011:II	2012:II	2013:II	2014:II
Average Weekly Wage	$766	$786	$802	$823	$846	$857

The Southeast Minnesota labor force increased by 0.3 percent over the year ending December 2014. Since December 2010, the labor force in the Southeast Minnesota planning area has risen by 3,266 people—a 1.2 percent increase.

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



Year (December)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	271,009	273,769	274,091	278,871	276,301	277,035

Southeast Minnesota Economic Indicators

Rochester MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)	
Labor Market							
Employment	December 2014 (m)	115,374	114,664	0.6%	↑	0.7%	
Manufacturing Employment	December 2014 (m)	10,819	10,711	1.0%	↑	-3.1%	
Educational and Health Employment	December 2014 (m)	45,604	45,257	0.8%	↑	2.6%	
Average Weekly Work Hours Private Sector	December 2014 (m)	35.1	34.6	1.4%	↑	33	(since 2006)
Average Earnings Per Hour Private Sector	December 2014 (m)	$33.52	$34.22	-2.0%	↓	2.3%	(since 2006)
Unemployment Rate	December 2014 (m)	3.1%	3.7%	NA	↓	4.0%	
Labor Force	December 2014 (m)	116,698	115,978	0.6%	↑	0.6%	
Initial Jobless Claims	January 2015 (m)	737	833	-11.5%	↓	NA	
Business Formation							
Total New Business Filings	Fourth Quarter 2014	358	360	-0.6%	↓	303	(since 2000)
New Business Incorporations	Fourth Quarter 2014	41	31	32.3%	↑	49	(since 2000)
New Limited Liability Companies	Fourth Quarter 2014	212	218	-2.8%	↓	140	(since 2000)
New Assumed Names	Fourth Quarter 2014	84	89	-5.6%	↓	97	(since 2000)
New Non-profits	Fourth Quarter 2014	21	22	-4.5%	↓	17	(since 2000)
Rochester Residential Building Permit Valuation	December 2014 (m)	17,598	6,908	154.7%	↑	11,920	

(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). Year-over-year overall employment in the Rochester area increased by 0.6 percent and employment in this key sector increased by 0.8 percent. Note that this is still well below the 2.6 percent long-term annualized growth of employment in the education/health sector. Manufacturing employment increased by 1 percent over the year ending December 2014. Average weekly hours rose by 1.4 percent, but average hourly earnings contracted. Nevertheless, a falling unemployment rate, reduced initial jobless claims, and a rising labor force suggest the Southeast Minnesota labor market remains strong. Rochester area new business filings declined slightly from year earlier levels in the fourth quarter of 2014. Finally, Rochester saw a significant year-over-year increase in the valuation of residential building permits in December 2014.

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 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.

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.

Sources

Council for Community and Economic Research: Cost of Living Index.

Creighton University Heider College of Business: Minnesota Business Conditions Index, Rural MainStreet Index.

Federal Reserve Bank of Philadelphia: Minnesota Coincident Indicator Index, Minnesota Leading Indicators Index.

Federal Reserve Board of Governors: Industrial Production.

Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.

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 Work Hours, Employment, Initial Claims for Unemployment Insurance, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.

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.

Thomson Reuters and University of Michigan, Index of Consumer Sentiment

U.S. Bankruptcy Courts

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.