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Central Minnesota Economic and Business Conditions Report: First Quarter 2014

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Central Minnesota
Economic and Business Conditions Report
First Quarter 2014

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
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Executive Summary

Central Minnesota business conditions are expected to improve over the next several months according to the predictions of the St. Cloud State University (SCSU) Central Minnesota Index of Leading Economic Indicators. The leading economic indicator index (LEI) improved in the 2014 first quarter as strong growth in new residential building permits in the St. Cloud Metropolitan Statistical Area (MSA), along with gains in a general measure of state business conditions helped drive the LEI higher. The SCSU Central Minnesota Index of Leading Economic Indicators is now 7.9 percent higher than one year ago.

There were 1,450 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the first quarter of 2014 — representing a 0.3 percent decline from one year ago. There were 177 new regional business incorporations in the first quarter, a 0.6 percent increase over year-ago levels. Over the past 12 months, new limited liability company (LLC) filings in Central Minnesota increased by 3.6 percent—rising to 746 in the first quarter of 2014. New assumed names totalled 475 in this year's first quarter—a reduction of 3.7 percent from the first quarter of 2013. There were 52 new filings for Central Minnesota non-profits in the first quarter—13 fewer filings than one year ago.

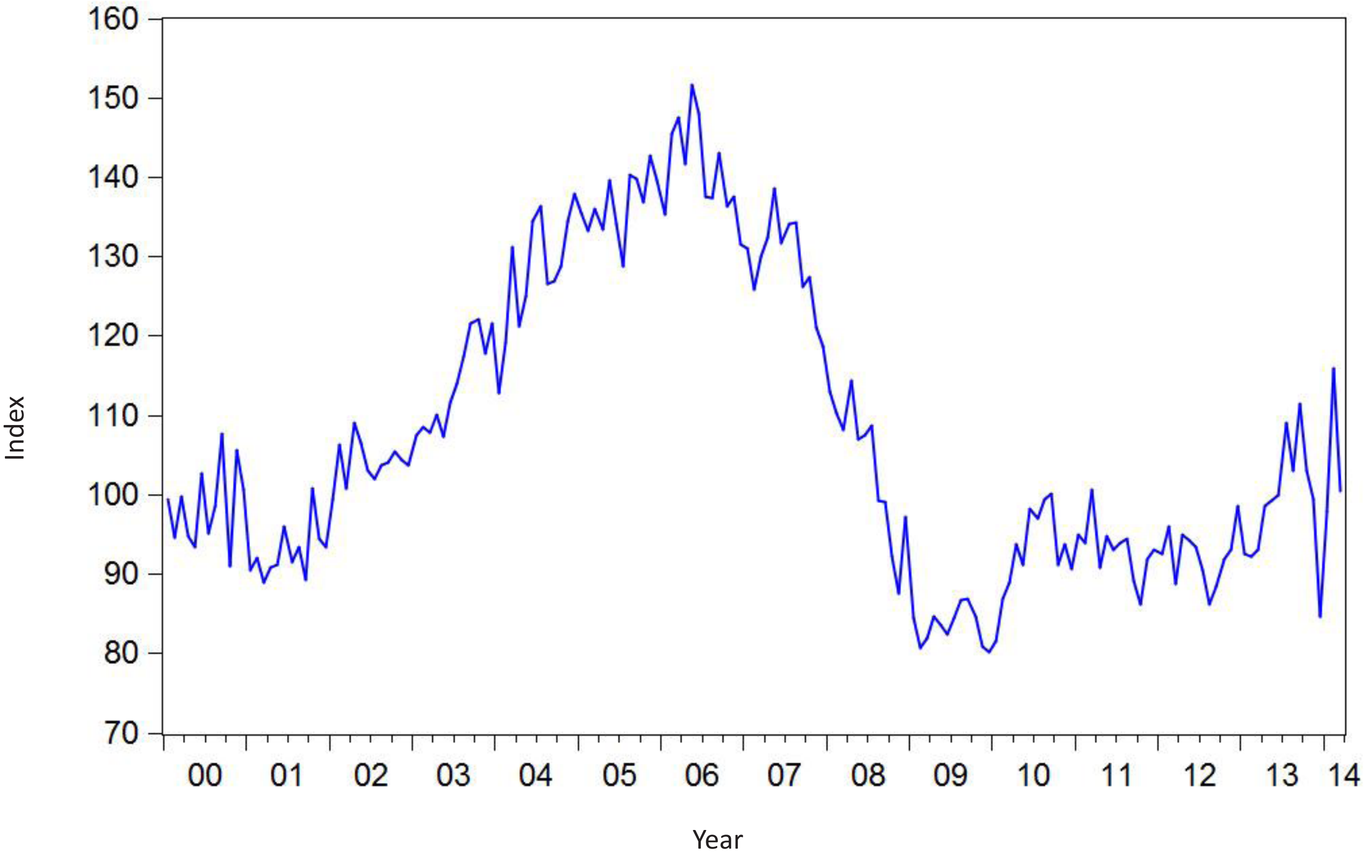
Central Minnesota employment grew at a 1.8 percent seasonally adjusted annual rate over the 2014 first quarter. Nearly 7,000 more residents of Central Minnesota are now employed than one year ago. The seasonally-adjusted regional unemployment rate finished at 5.4 percent, its lowest rate since February 2008. Initial claims for unemployment insurance increased slightly from one year ago, although job vacancies continue to rise in Central Minnesota.

Data from the St. Cloud area showed strength in the largest market in the Central Minnesota planning area. Overall job growth was up 2.2 percent over the year ending March 2014. Surveyed businesses reported expectations of higher business activity, higher wages to be paid to workers, and more difficulty finding qualified workers. Sixty-five percent expect higher business activity over the next six months.

Central Minnesota Leading Economic Indicators Index

The SCSU Central 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 higher in this year's first quarter, and is now 7.9 percent above its level one year ago. Since 2001, the LEI has shown two distinct dips, each of which was associated with regional recession. The recession of 2001–2002 was noticeably milder than the Great Recession of 2008–2009. One indicator—Central Minnesota initial claims for unemployment insurance — turned negative in the first quarter. These jobless claims increased to 3,446 in March 2014, up 11.4 percent from the 3,093 claims one year earlier.

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



Components of SCSU Central Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2014	Contribution to LEI, annual 2013
Minnesota Business Conditions Index	+2.01	+0.69
Central Minnesota initial claims for unemployment insurance	-2.44	+3.09
Central Minnesota new filings of incorporation and LLCs	+0.25	-1.36
St. Cloud MSA residential building permits	+2.23	+0.03
National new orders for durable goods, real	+0.48	+0.41
TOTAL CHANGE	+2.53	+2.86

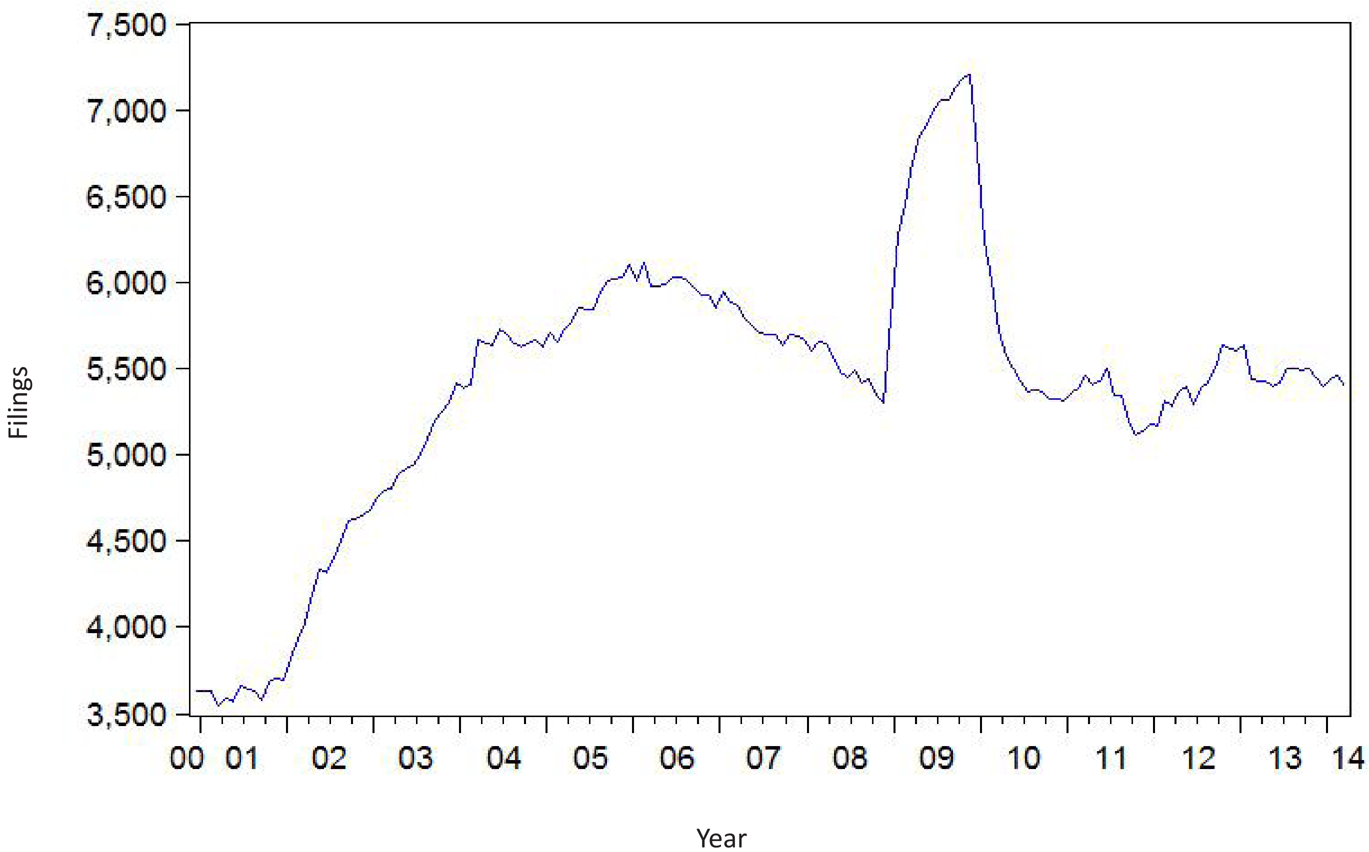
Central Minnesota is an exporter of consumer durables, so national durable goods orders are a proxy for regional economic performance — this indicator improved modestly in the 2014 first quarter. Residential building permits in St. Cloud —Central Minnesota's largest city — also drove the index higher in March. New filings for business incorporation in Central Minnesota picked up slightly in the 2014 first quarter, and the Minnesota Business Conditions Index (constructed by Creighton University) also helped lift the LEI in March 2014.

SCSU Central Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index March	64.1	55.2	16.1%
Central Minnesota initial claims for unemployment insurance March	3,446	3,093	11.4%
Central Minnesota new filings of incorporation and LLCs First Quarter	177	176	0.6%
St. Cloud MSA residential building permit valuation In Thousands, March	4,955	3,801	30.4%
National new orders for durable goods, billions of real 1984 dollars, March	207.4	191.5	8.3%
Central Minnesota Leading Economic Indicators Index March (December 1999 = 100)	100.5	93.1	7.9%

Central Minnesota Business Filings

The graphs in this section show the 12-month moving total for the various new business filings in Central Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings have been fairly steady since the middle of 2008 when an abrupt increase in new LLC filings drove activity sharply higher. This outlier (resembling a shark fin in the graph below) is 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.

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



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Central Minnesota Total New Business Filings	1454	1458	1287	1199	1450	-0.3%

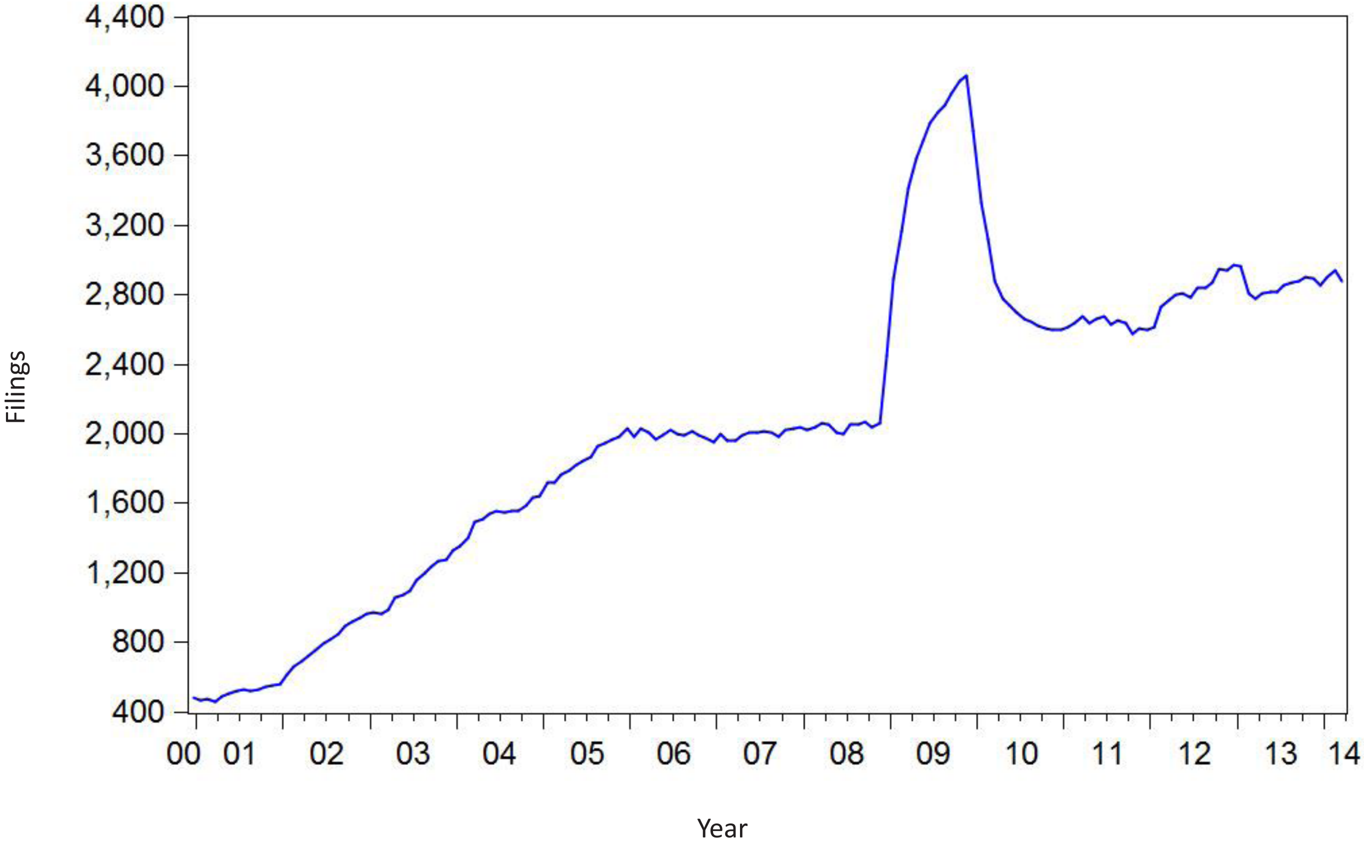
New business incorporations have trended downward in Central Minnesota since 2005. Quarterly figures of new business incorporations were steady over the past 12 months — changing from 176 in the first quarter of 2013 to 177 one year later.

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

Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Central Minnesota New Business Incorporations	176	158	137	131	177	0.6%

There has been a move in Central Minnesota 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 Central Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Central Minnesota. While the moving total reflecting the growth of this form of business organization has slowed in recent quarters, the emergence of the LLC is apparent in analyzing the regional data.

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



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Central Minnesota New Limited Liability Companies	720	776	692	664	746	3.6%

Assumed names, which include sole proprietors or organizations that do not have limited liability, declined by 3.7 percent compared to last year's first quarter. After dipping almost 20 percent during the Great Recession, these filings have not fully recovered but remain fairly stable over the last three years.

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

Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Central Minnesota New Assumed Names	493	467	395	351	475	-3.7%

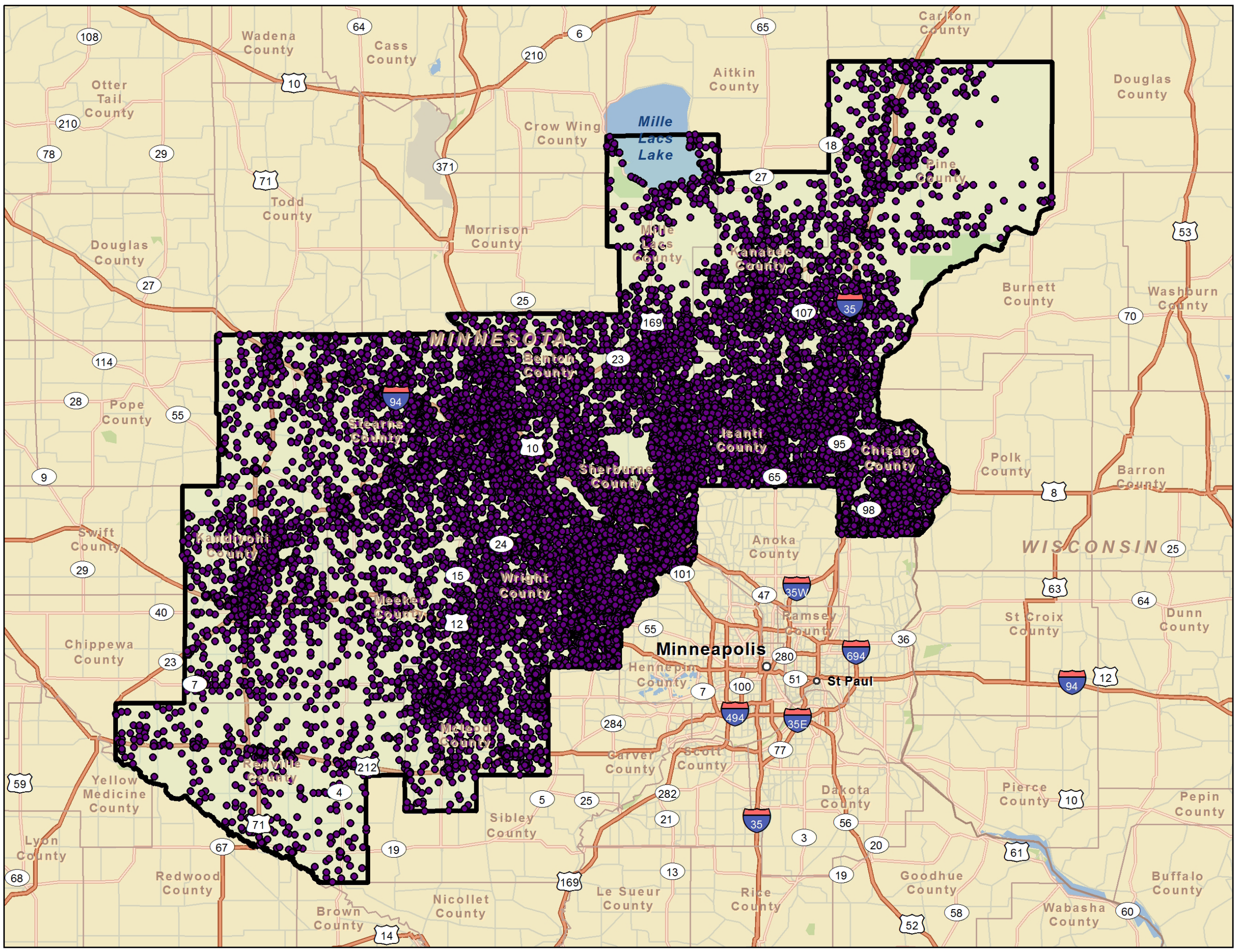
There were 52 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the first quarter of 2014 — 13 fewer new non-profits than were recorded one year ago. However, 2013 was a strong year for new non-profits in Central Minnesota — the number recorded in 2013 was the highest for any year since 2005.

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

Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Central Minnesota New Non-Profits	65	57	63	53	52	-20%

Geographic Distribution of All New Central Minnesota Business Filings since 2000

The highlighted area in the map below is the 13 county Central Minnesota planning area, consisting of the following counties: Benton, Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, Stearns, and Wright. Each dot within the area is a new business filing that occurred between January 2000 and March 2014. Within this area there were: 16,327 new business incorporations; 27,898 assumed names; 28,947 LLCs; and 2,984 non-profits. Some of these entities may no longer exist due to bankruptcies, mergers and other forms of business closings.



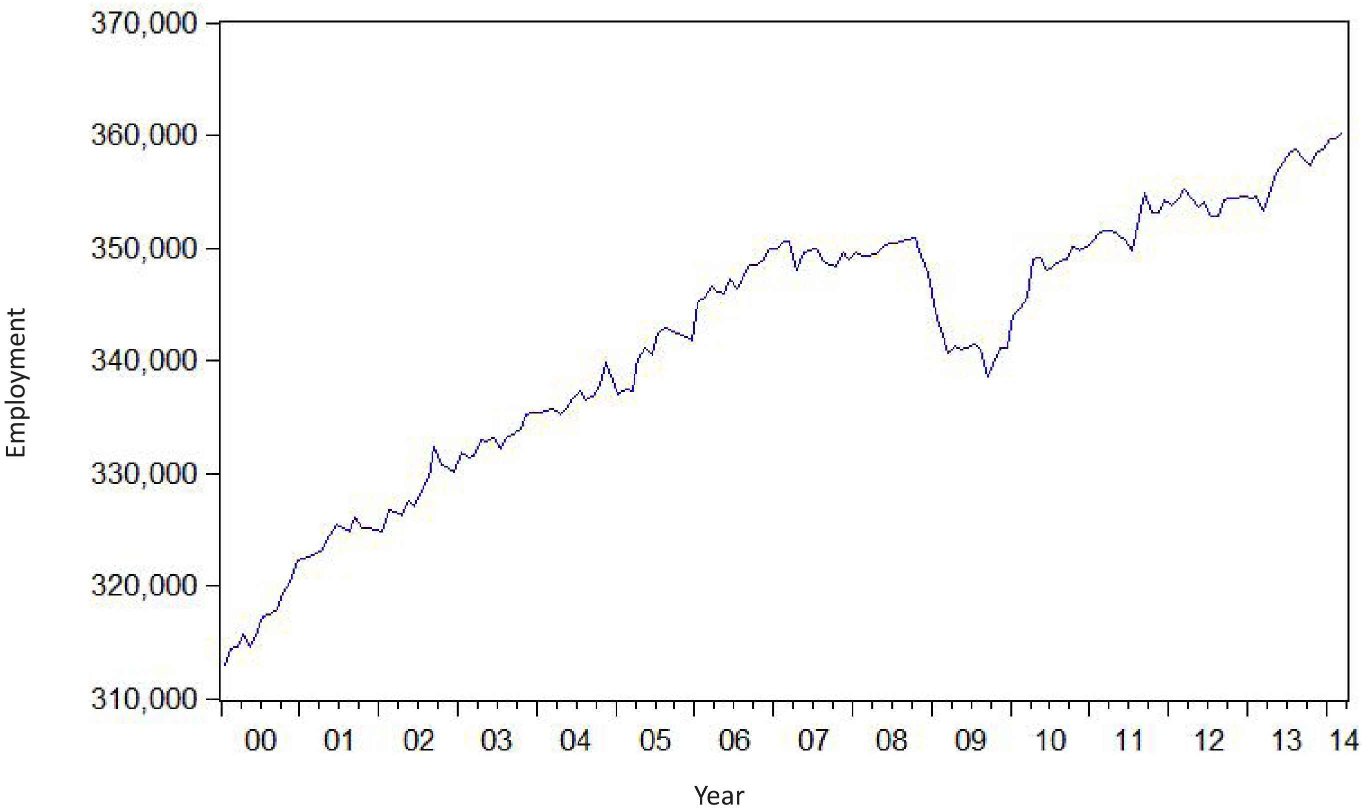
Several interesting patterns emerge when viewing this visual pattern. First, a large share of business activity is concentrated near where the Central Minnesota planning area meets the Twin Cities planning area. This is particularly true for Wright, Sherburne, and Chisago counties, but is less so for McLeod County. The density of business formation north of the Twin Cities appears to be clustered around major roadways (I-94, I-35, Highway 10, Highway 55). There is also a large cluster of business activity in the St. Cloud area (eastern Stearns, western Benton, and northern Sherburne counties.) One of Central Minnesota's most important roadways is Highway 23. Following this road through the Central Minnesota planning area, several areas of economic activity stand out: Willmar, St. Cloud, and the Foley/Milaca/Mora corridor. Not shown is the extent to which the pattern of dots has evolved over the 2000-2014 time series. Strong economic activity through 2006 shows up in increased new business filings in Central Minnesota. Weaker activity is found during the recession period of 2007–2009. This relative weakness persists into the recovery period of 2010 – 2014.

Central Minnesota Labor Market Conditions

Central Minnesota employment grew 2 percent over the past year. With the exception of the Great Recession of 2008–2009, Central Minnesota has repeatedly demonstrated its ability to create jobs over the past 14 years.

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.

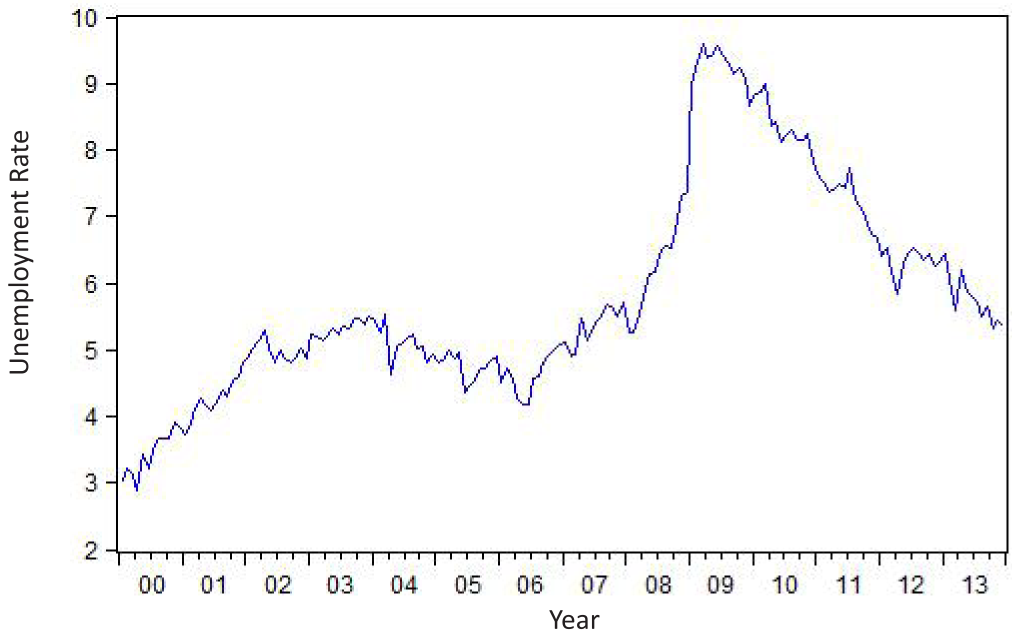
Employment—Central Minnesota Planning Area (12-month moving average)



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Employment (Not seasonally adjusted)	349,978	360,486	360,080	357,189	353,630	354,603	356,729

Seasonally adjusted unemployment in Central Minnesota continued to decline gradually since the last half of 2013. At 5.4 percent, the seasonally adjusted rate now stands at levels last seen in February 2008.

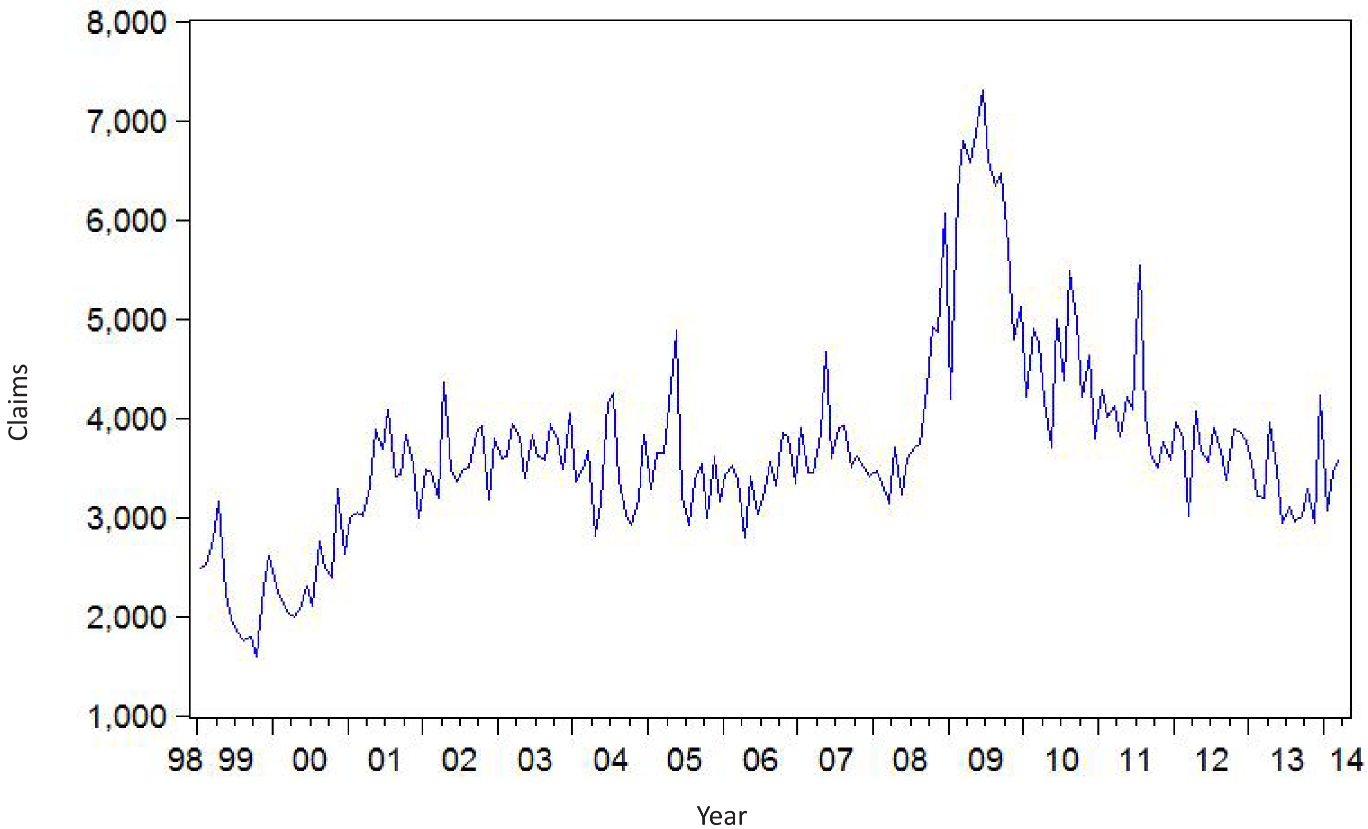
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Unemployment Rate (Not seasonally adjusted)	7.1%	4.2%	4.6	5.5%	7.0%	6.9%	6.8%

While diminished from their level of December 2013, initial claims for unemployment insurance in the Central Minnesota planning area in the first quarter of 2014 were elevated from levels of last summer, and were slightly up year over year.

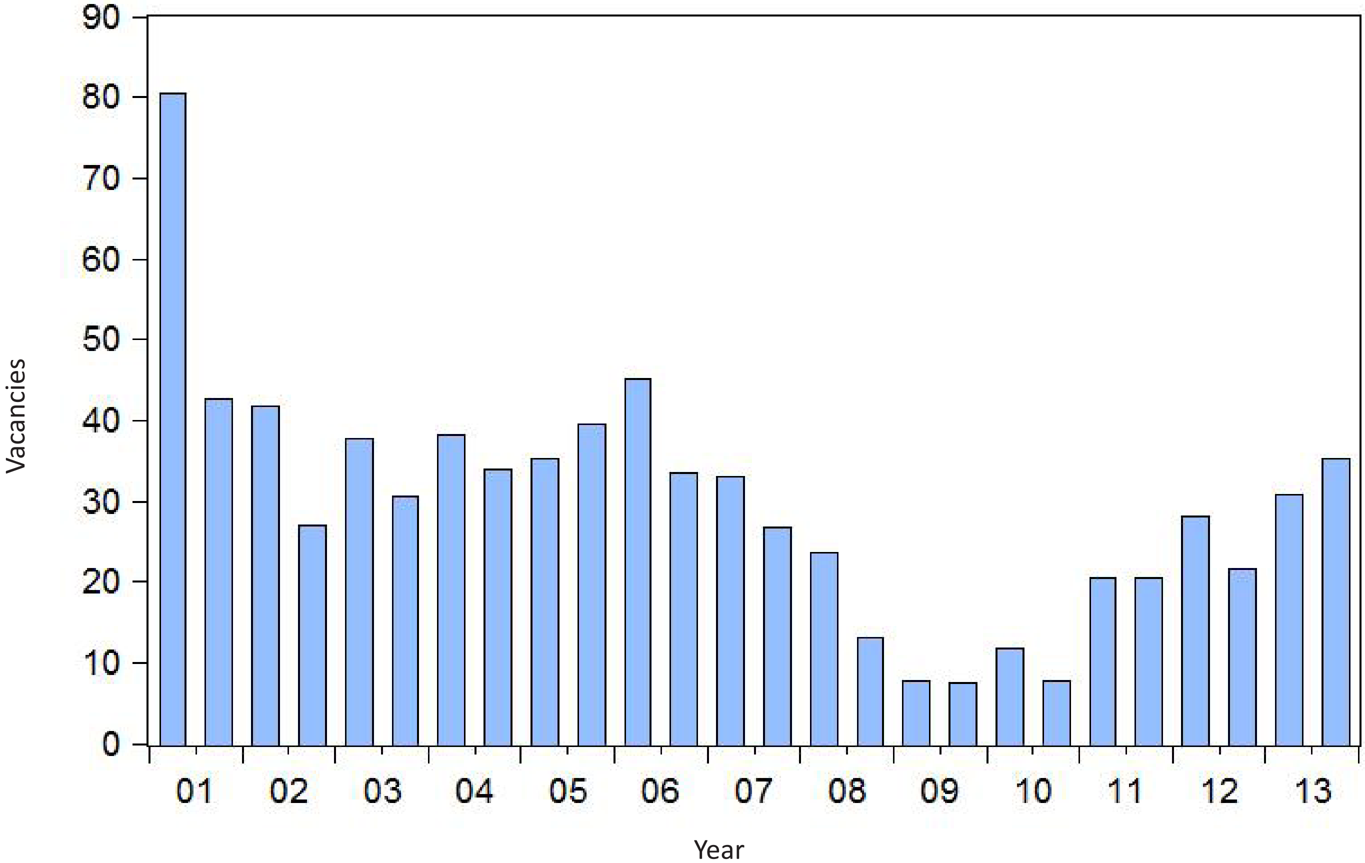
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Central Minnesota Planning Area



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Initial claims (Not seasonally adjusted)	3,093	2,898	4,736	7,386	4,312	3,043	3,446

The level of job vacancies continues to recover slowly since the Great Recession of 2008–2009. There is now approximately one vacant job for every three persons unemployed in Central Minnesota, a level last reached in 2007.

Job Vacancies per 100 unemployed—Central Minnesota Planning Area



Quarter	2011: 2nd	2011: 4th	2012: 2nd	2012: 4th	2013: 2nd	2013: 4th
Vacancies /100 unemployed	21.27	23.93	29.89	25.06	33.02	39.90

There has been a pick-up in the size of the Central Minnesota labor force over the last 12 months, though mainly flat over the longer term. In many other parts of the United States and of Minnesota, the labor force has been in decline over the longer term. Only in the Twin Cities has labor force growth been positive in Minnesota.

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

Year	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	379,268	382,192	379,944	379,017	376,547	382,840

Central Minnesota Economic Indicators

St. Cloud MSA Indicators

Labor Market	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2014 (m)	103,681	101,438	2.2% ↑	0.9%
Manufacturing Employment	March 2014 (m)	14,672	14,893	-1.5% ↓	-0.9%
Average Weekly Work Hours--Private Sector	March 2014 (m)	32.0	31.7	0.9% ↑	33.2 (since 2008--missing 2010, 2011))
Average Earnings Per Hour--Private Sector	March 2014 (m)	$22.95	$22.65	1.3% ↑	2.8% (since 2008)
Unemployment Rate	March 2014 (m)	6.8%	7.1%	NA ↓	7.0%
SCSU Future Employment Index	February 2014(q)	36.5	46.6	-21.7% ↓	31.4 (since 2005)
SCSU Future Length of Workweek Index	February 2014(q)	23	29.4	-21.8% ↓	19.7 (since 2005)
SCSU Future Employee Compensation Index	February 2014(q)	48.6	46.7	4.3% ↑	38.5 (since 2005)
SCSU Future Worker Shortage Index	February 2014(q)	21.6	21.3	1.4% ↑	14.6 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	January 2014(q)	1534.3	1632	-6.0% ↓	1678.7
St. Cloud Times Help Wanted Linage	January 2014(q)	1,493	2,084	-28.3% ↓	3504.7
Business Formation					
New Business Filings	First Quarter 2014	363	381	-4.7% ↓	361 (since 2000)
Assumed Names	First Quarter 2014	140	126	11.1% ↑	127 (since 2000)
Business Incorporations	First Quarter 2014	35	43	-18.6% ↓	75 (since 2000)
Limited Liability Corporations	First Quarter 2014	179	198	-9.6% ↓	146 (since 2000)
Non-Profits	First Quarter 2014	9	14	-35.7% ↓	13 (since 2000)

St. Cloud MSA Indicators, Cont'd.

Business Activity	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
SCSU Future Business Activity Index	February 2014(q)	56.8	68	-16.5% ↓	54.2 (since 2005)
SCSU Future Capital Expenditures Index	February 2014(q)	35.2	29.3	20.1% ↑	28 (since 2005)
SCSU Future National Business Activity Index	February 2014(q)	39.1	38.7	1.0% ↑	26.6 (since 2005)
St. Cloud Index of Leading Economic Indicators	January 2014 (m)	102.3	101.3	1.1% ↑	100.1 (since 2002)
St. Cloud Residential Building Permit Valuation	March 2014(m)	4955	3801	30.4% ↑	7237
Prices					
St. Cloud Cost of Living Index	December 2013(q)	94.6	96.2	-1.7% ↓	98.5 (since 2003)
St. Cloud Median Home Prices	March 2014(m)	140,100	127,350	10.0% ↑	NA
SCSU Future Prices Received Index	February 2014(q)	13.5	17.4	-22.4% ↓	20.8 (since 2005)

(m) represents a monthly series; (q) represents a quarterly series

Central Minnesota contains the St. Cloud MSA, where a survey of business leaders is done quarterly by St. Cloud State University. This survey indicates strong growth over the past several months, with 65 percent of surveyed business leaders expecting a pickup in economic activity by August 2014. Businesses are finding it easier to mark up prices, although a local measure of cost of living in St. Cloud decreased, indicating a divergence from the national average.

State and National Indicators

MINNESOTA Indicators	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,813,900	2,811,700	2,770,000	0.1%	1.6%
Average weekly hours worked, private sector	34.0	34.0	33.4	0.0%	1.8%
Unemployment rate, seasonally adjusted	4.8%	4.7%	5.2%	NA	NA
Earnings per hour, private sector	$25.86	$25.94	$25.55	-0.3%	1.2%
Philadelphia Fed Coincident Indicator, MN	160.98	159.85	156.40	0.7%	2.9%
Philadelphia Fed Leading Indicator, MN	1.21	1.9	1.27	-36.3%	-4.7%
Minnesota Business Conditions Index	64.1	58.9	55.2	8.8%	6.7%
Price of milk received by farmers (cwt)	$26.40	$22.10	$19.50	19.5%	35.4%
Enplanements, MSP airport, thousands	1,568.8	1,392.1	1,510.1	12.7%	3.9%

NATIONAL Indicators	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	137928	137395	135682	0.4%	1.7%
Industrial production, index, SA	103.2	101.5	99.5	1.7%	3.7%
Real retail sales, SA	184140	182779	180159	0.7%	2.2%
Real personal Income less transfers	11,063	10,987	10,830	0.7%	2.2%
Real personal consumption expenditures	10979	10844	10674	1.2%	2.9%
Unemployment rate	6.7%	6.7%	7.5%	NA	NA
New building permits, thousands	990	991	890	-0.1%	11.2%
Standard and Poor's 500 stock price index	1872.34	1848.36	1569.19	1.3%	19.3%
Oil, price per barrel in Cushing,OK	$100.80	$97.63	$92.94	3.2%	8.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Earnings per hour in the private sector rose 1.2 percent over the past year. Broader indicators suggest strength in the state economy. Farmers are receiving higher prices for milk, an important indicator in many areas of Minnesota.

Despite a recent report of tepid output growth in the first quarter, the national economy continues its expansion. Despite a de facto tax hike that resulted from the elimination of the partial payroll tax holiday at the beginning of 2013, consumption rose 2.9 percent over the last 12 months, and building permits rose. The stock market surged in 2013, which may have helped consumer sentiment. Oil prices, on the other hand, rose over the past year, taking some discretionary income out of consumers' hands.

The Central 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 Central Minnesota Planning Area consists of 13 counties: Benton; Chisago; Isanti; Kanabec; Kandiyohi; McLeod; Meeker; Mille Lacs; Pine; Renville; Sherburne; Stearns; and Wright.

Reports on second quarter 2014 business and economic conditions in each of the six planning areas will be available in August 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 and Jie Zu. Our thanks to Professor David Wall and Ian Wolfe of the SCSU Geography Department for GIS assistance.

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

SCSU School of Public Affairs Research Institute: SCSU Central Minnesota Index of Leading Economic Indicators, SCSU Future Business Activity Index, SCSU Future Capital Expenditures Index, SCSU Future Employee Compensation Index, SCSU Future Employment Index, SCSU Future Length of Workweek Index, SCSU Future National Business Activity Index, SCSU Future Prices Received Index, SCSU Future Worker Shortage Index, St. Cloud Index of Leading Economic Indicators.

St. Cloud Area Association of REALTORS: Median Home Prices.

St. Cloud Times: St. Cloud Times Help Wanted Linage.

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: 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.