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Southwest Minnesota Economic and Business Conditions Report: First Quarter 2014

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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

Southwest Minnesota business conditions are expected to improve over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators. With a significant reduction in initial jobless claims and continued increases in new business incorporations and limited liability companies (LLC), the Southwest Minnesota economy appears headed for a strong growth trajectory through the summer months. The SCSU Southwest Minnesota Index of Leading Economic Indicators is now 1.8 percent higher than one year ago.

There were 660 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the first quarter of 2014 — representing a 6.8 percent increase from one year ago. There were 59 new regional business incorporations in the first quarter, a 7.8 percent decrease over a year ago. Over the past 12 months, new LLC filings in Southwest Minnesota increased by 5.1 percent — rising to 352 in the first quarter of 2014. New assumed names totaled 213 in this year's first quarter — a 12.1 percent jump from first quarter 2013. There were seven new filings for Southwest Minnesota non-profits in the first quarter—the same number as one year ago.

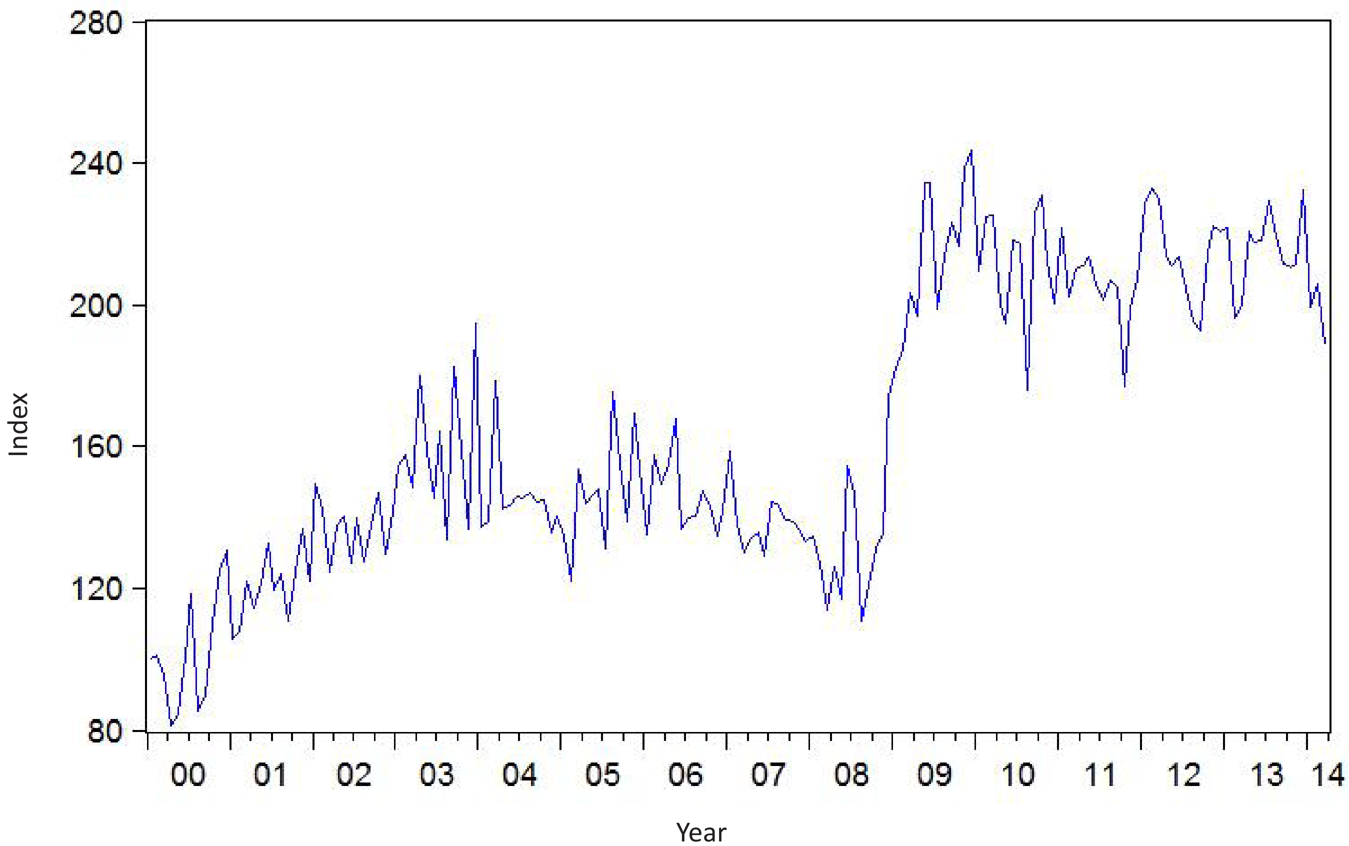
Employment of Southwest Minnesota residents increased by 1.5 percent over the year ending March 2014. More than three thousand more Southwestern Minnesotans are now employed than one year ago. The regional unemployment rate was 5.4 percent in March, an improvement on its 5.6 percent reading one year ago. Initial claims for unemployment insurance decreased from year-ago levels and are the lowest they have been for several months. Significant job vacancies exist in Southwest Minnesota with more than one vacancy for every two people unemployed in this region of Minnesota.

Data from the Mankato/North Mankato area — the largest market in Southwest Minnesota — were very strong in the first quarter. With strong employment growth, increases in business filings in five separate categories, a declining unemployment rate, a decrease in the cost of living, and an acceleration of residential building permits, the Mankato/North Mankato Metropolitan Statistical Area (MSA) provided a strong lift to the Southwest Minnesota regional economy.

Southwest Minnesota Leading Economic Indicators Index

The SCSU Southwest 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 had a healthy increase of 7.61 points in the first quarter of 2014. For the year as a whole, the index increased by 1.8 percent.

The SCSU Southwest Minnesota Leading Economic Indicators Index



Components of SCSU Southwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2014	Contribution to LEI, annual 2013
Rural Mainstreet Index	-3.71	-2.52
Southwest Minnesota initial claims for unemployment insurance	14.28	6.3
Southwest Minnesota new filings of incorporation and LLCs	1.02	-1.45
Mankato MSA single family building permits	-3.98	3.01
TOTAL CHANGE	7.61	5.34

First quarter improvements in the index were paced by a considerable reduction in initial jobless claims in the Southwest Minnesota planning area. Increases in new business incorporations and LLCs in Southwest Minnesota also helped drive gains in the index. Slippage in the Rural Mainstreet Index (published by Creighton University) and in the Mankato/North Mankato MSA residential building permits placed downward pressure on the LEI.

Southwest Minnesota uses four factors in building the LEI. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns averaging 1,300 population in 10 Midwestern states. After a strong rural economy in 2011 and 2012, the rural communities of the Midwest have plateaued and moved back towards normal economic growth.

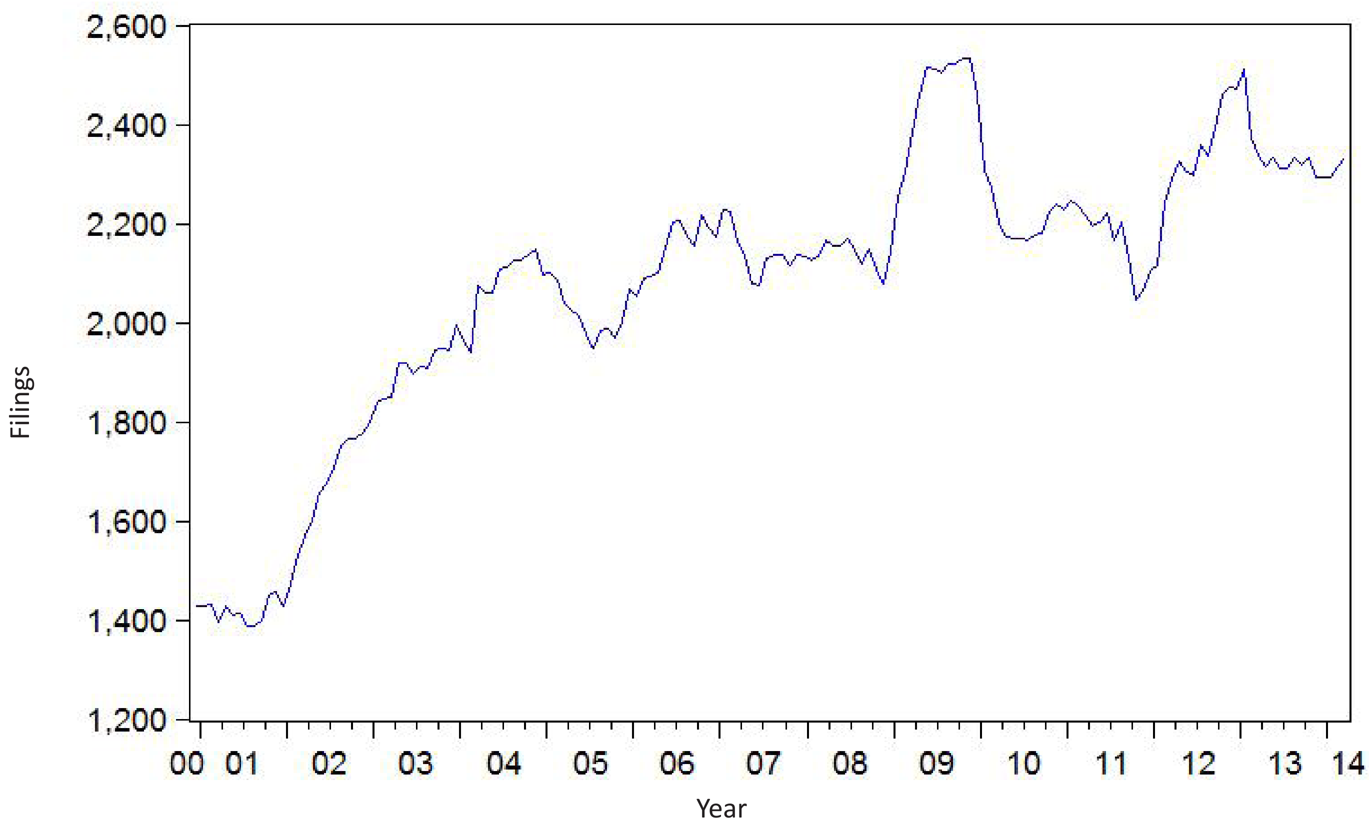
SCSU Southwest Minnesota Leading Economic Indicators Index

	2014	2013	Percentage change
Rural Mainstreet Index, Creighton University March	50.1	56.9	-12.0%
Southwest Minnesota initial claims for unemployment insurance March	1,185	1,388	-14.6%
Southwest Minnesota new filings of incorporation and LLCs First Quarter	411	399	3.0%
Mankato MSA single family building permits, March	14	18	-22.2%
Southwest Minnesota Leading Economic Indicators Index March (December 1999 = 100)	144.1	141.6	1.8%

Southwest Minnesota Business Filings

The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings have grown for nearly the entire period since 2000. The decline in new business filings during and immediately after the Great Recession observed in other Minnesota regions does not seem to show up in the Southwest Minnesota planning area. The abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier 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 (although less so in the southwest region).

Total New Business Filings—Southwest 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
Southwest Minnesota Total New Business Filings	618	610	504	559	660	6.8%

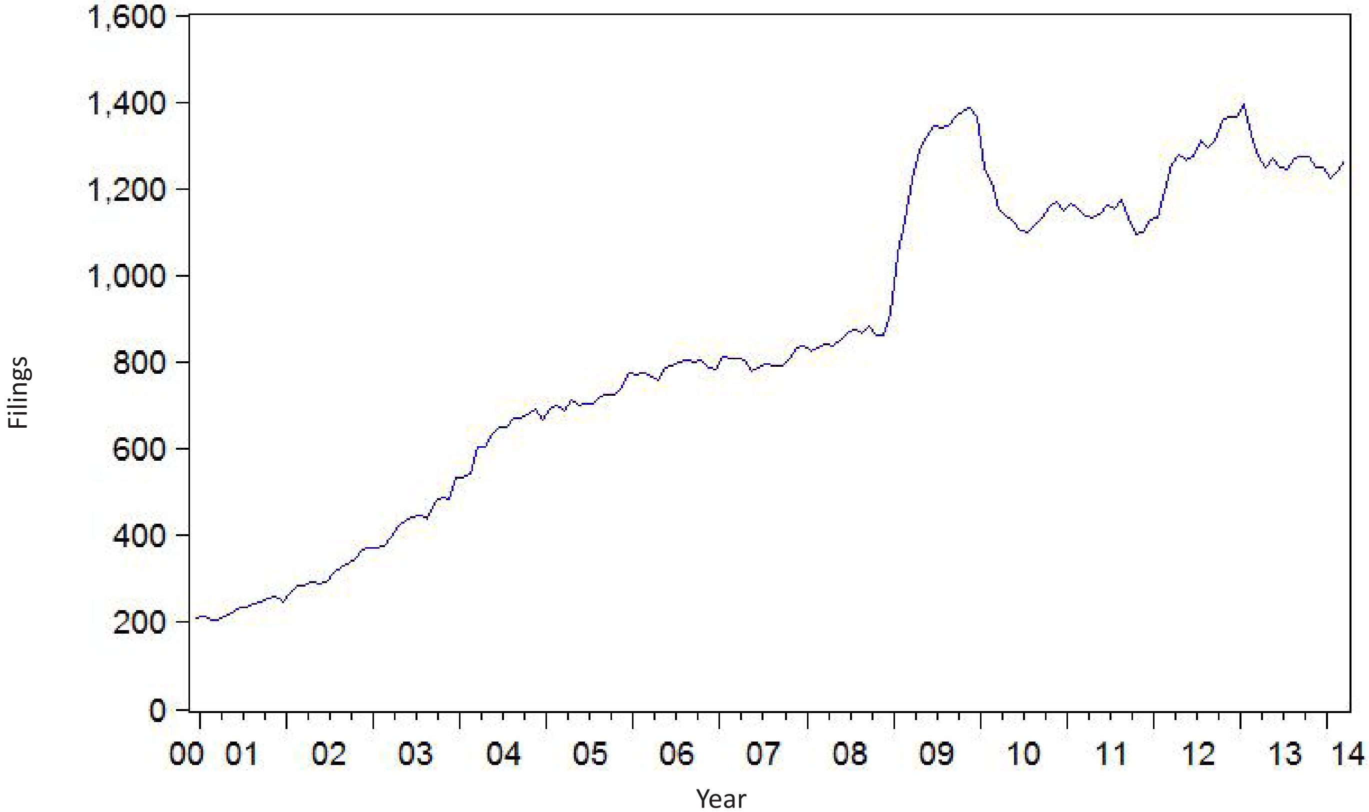
New business incorporations trended downward in Southwest Minnesota from 2005 to 2011, but they appear to have leveled off over the past three years. New business incorporations decreased by 7.8 percent from one year earlier in the first quarter of 2014.

New Incorporations—Southwest 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
Southwest Minnesota New Business Incorporations	64	62	48	60	59	-7.8%

There has been a move in Southwest Minnesota, as in the rest of the state, away from the traditional form of incorporation and towards the LLC. While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Southwest Minnesota. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2000.

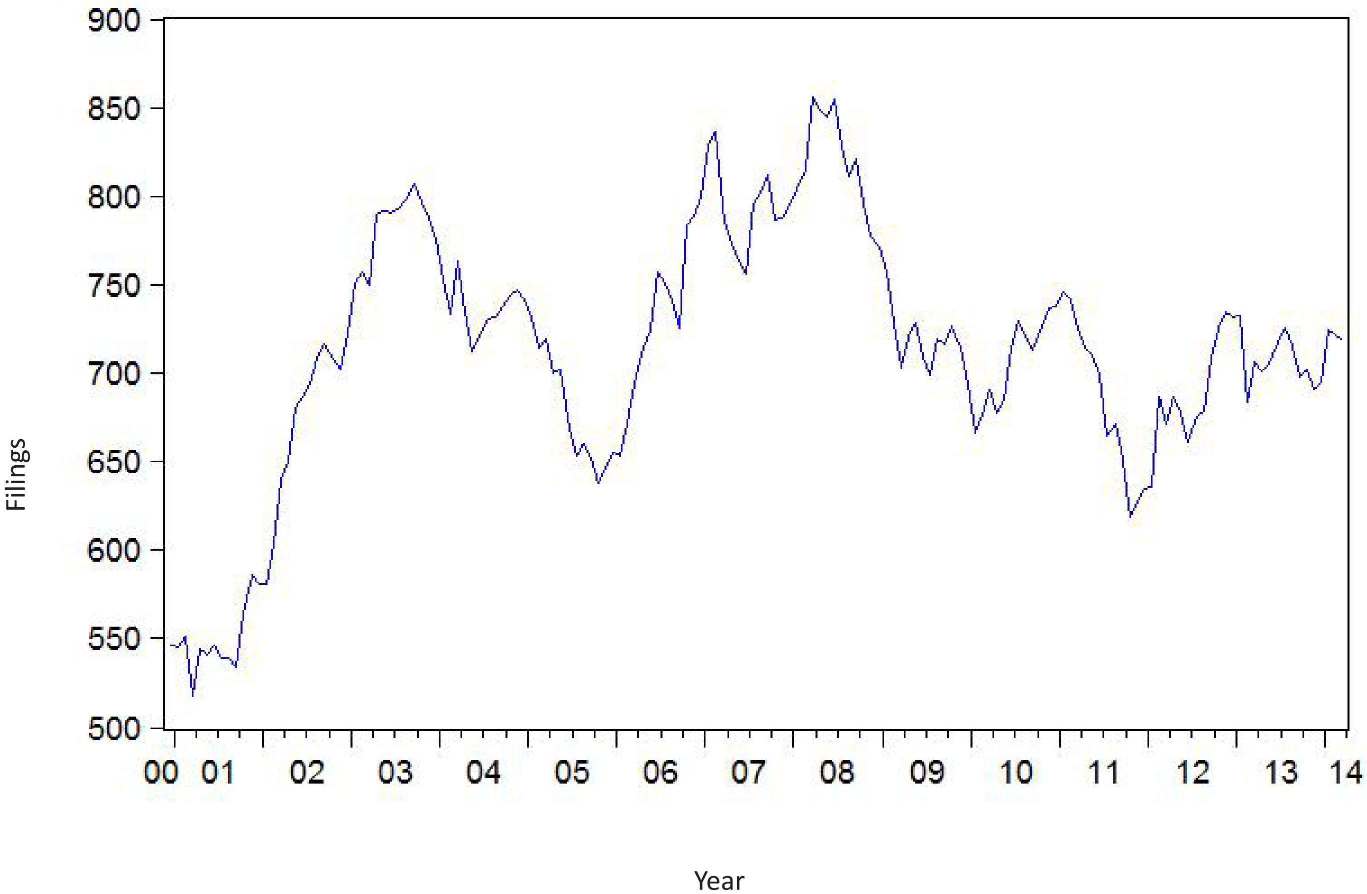
New Limited Liability Companies—Southwest Minnesota Planning Area
(12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	335	320	284	310	352	5.1%

Assumed names increased by 12.1 percent compared to the same period last year. This indicator has been expanding since the middle part of 2011.

New Assumed Names—Southwest 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
Southwest Minnesota New Assumed Names	190	194	147	164	213	12.1%

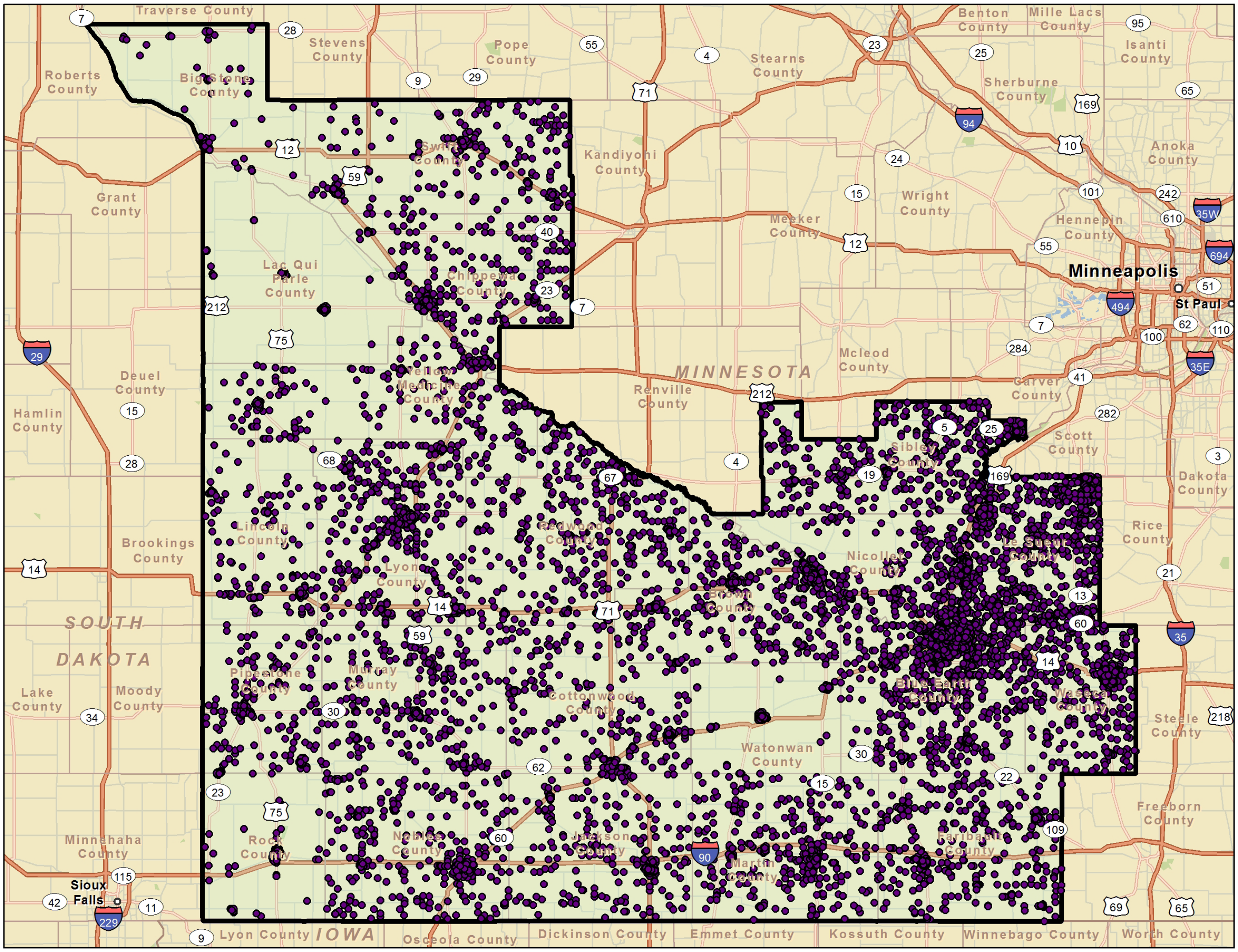
After an eight year decline, the number of new Southwest Minnesota non-profits registered with the Office of the Minnesota Secretary of State began to increase in mid-2010. While the absolute number of new non-profits in Southwest Minnesota is small (there were only seven filings in the first quarter of 2014), the increase in non-profits has continued for the last three years.

New Non-Profits—Southwest 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
Southwest Minnesota New Non-Profits	7	4	10	5	7	0%

The highlighted area in the map below is the 23-county Southwest Minnesota planning area, consisting of the following counties: Big Stone; Blue Earth; Brown; Chippewa; Cottonwood; Faribault; Jackson; Lac qui Parle; Le Sueur; Lincoln; Lyon; Martin; Murray; Nicollet; Nobles; Pipestone; Redwood; Rock; Sibley; Swift; Waseca; Watonwan; and Yellow Medicine. Each dot within the area is a new business filing registered between January 2000 and March 2014. Within this area were: 5,838 new business incorporations; 10,094 assumed names; 11,951 LLCs; and 387 non-profits. Some of these entities may no longer exist due to bankruptcies, mergers and other forms of business closings.

Geographic Distribution of All New Southwest Minnesota Business Filings since 2000



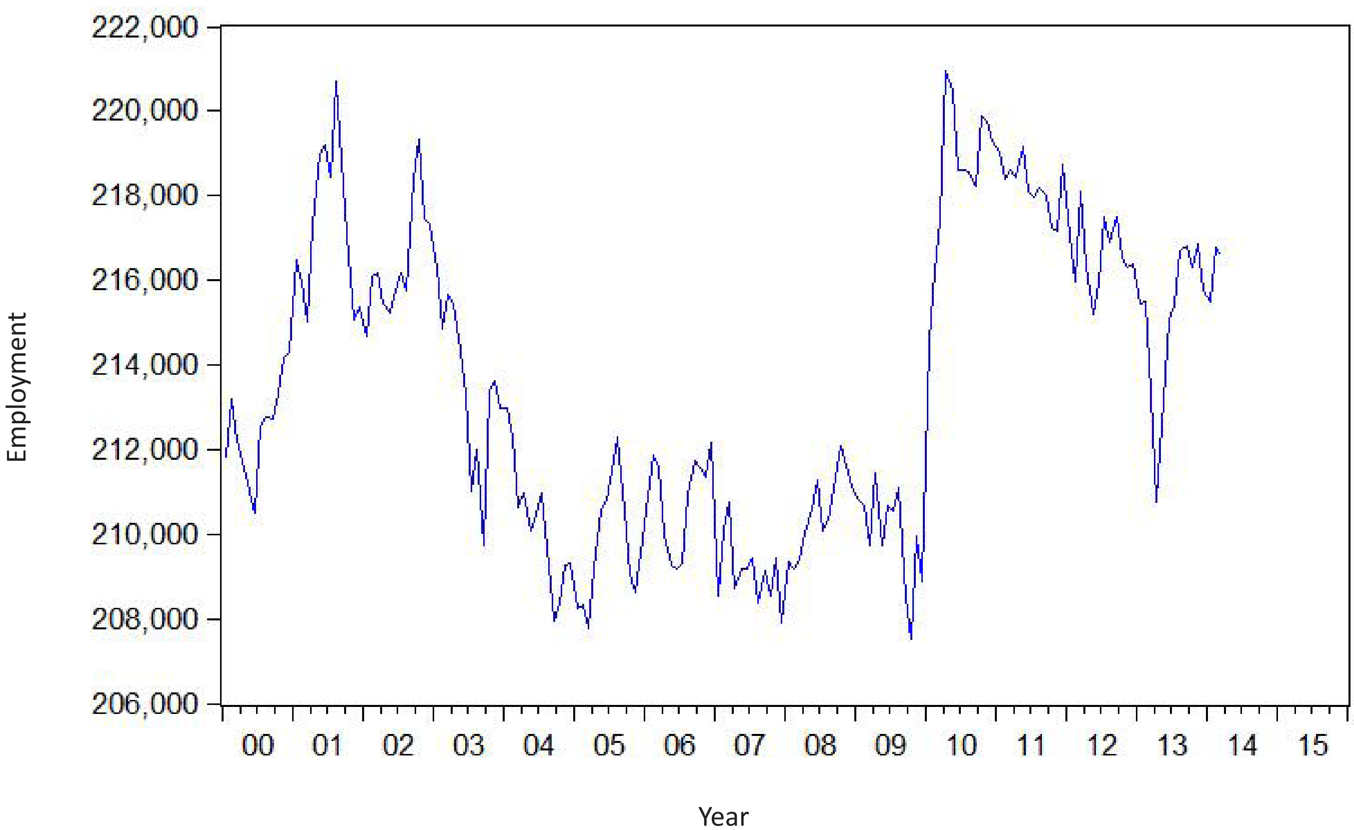
Much of the development of this area extends along the corridor formed by U.S. Highway 169 and state highways 60 and 13 as they extend southwest from the Twin Cities towards Mankato. Business formation drops off substantially west and north of Mankato Businesses also tend to form near interchanges with Interstate 90 along the southern edge of the state. The lack of development in the southwestern corner of the area, is noteworthy — this area has had declining employment and business establishments since 2000, according to data from the Minnesota Department of Employment and Economic Development.

Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 1.5 percent over the past year. Compared to other planning areas in Minnesota, the 12-month moving employment average has not changed much from 13 years ago. For example, whereas the 12-month moving average of Southwest Minnesota employment was approximately the same in the first quarter of 2014 as it was in 2001, Central Minnesota employment increased by more than 40,000 over this same period.

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.

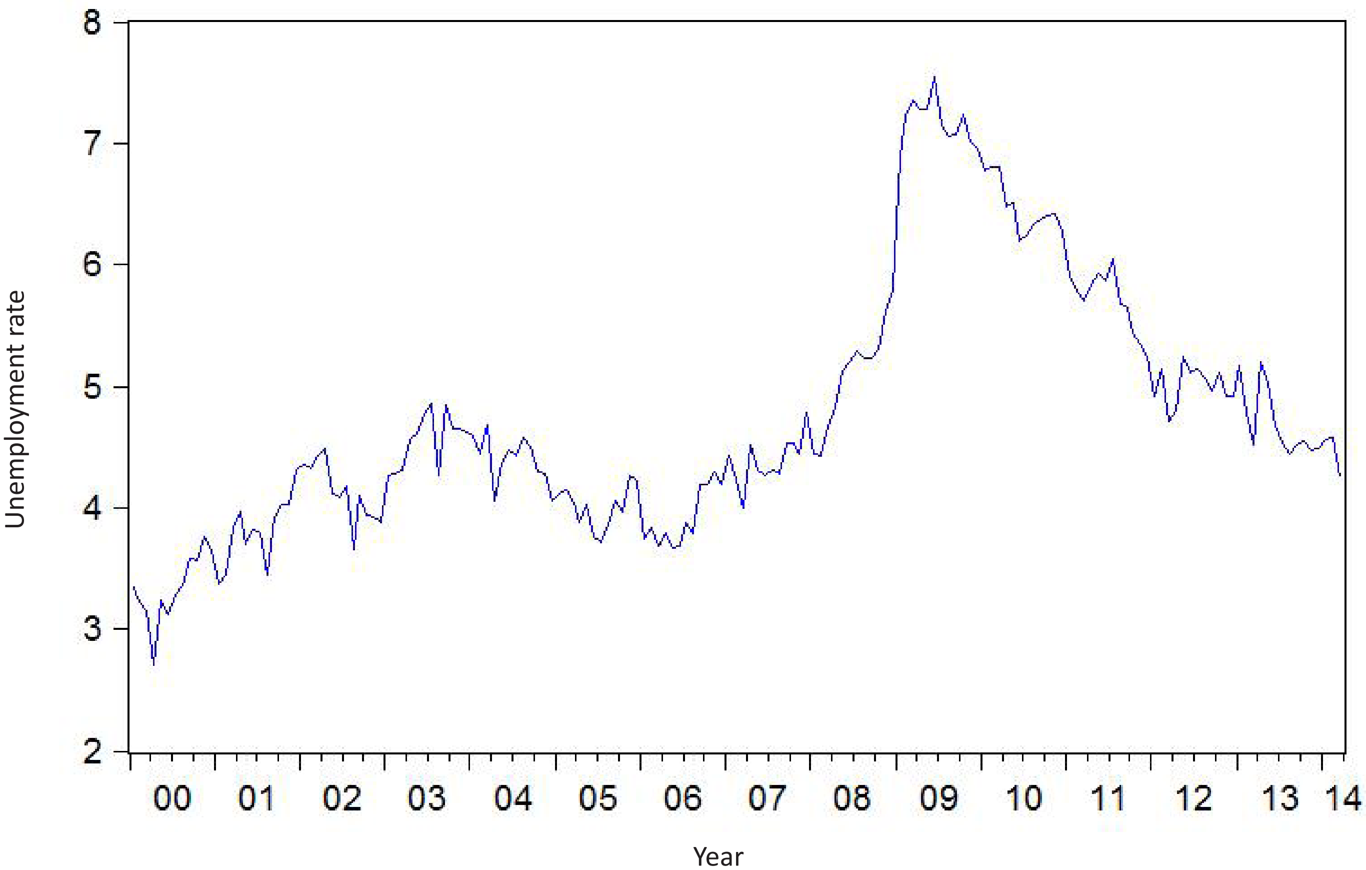
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Employment (Not seasonally adjusted)	210,575	218,767	217,692	215,817	211,315	211,873	213,721

Seasonally adjusted unemployment in Southwest Minnesota continued to decline from its late 2009 peak through the first quarter of 2014. The non-seasonally adjusted unemployment rate now stands at 5.4 percent — an improvement on the 5.6 percent rate recorded in March 2013.

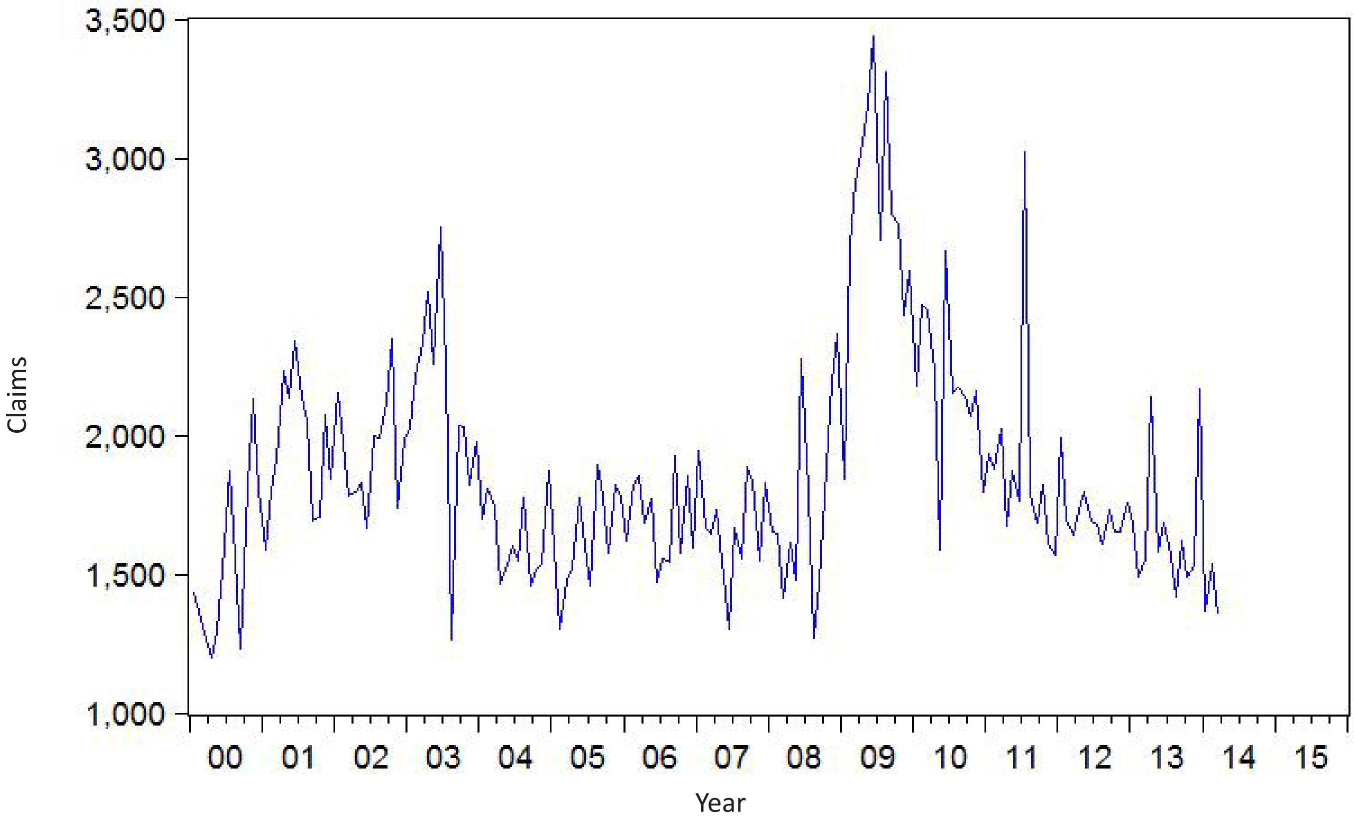
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Unemployment Rate (Not seasonally adjusted)	5.6%	3.8%	3.7%	4.3%	5.7%	5.6%	5.4%

New claims for unemployment insurance in March 2014 were well below levels from one year earlier. There were 1,185 initial claims for unemployment benefits in March 2014, 203 fewer than one year ago — a 14.6 percent decline. The size of the decline is notable and a key reason for optimism for future growth in the region.

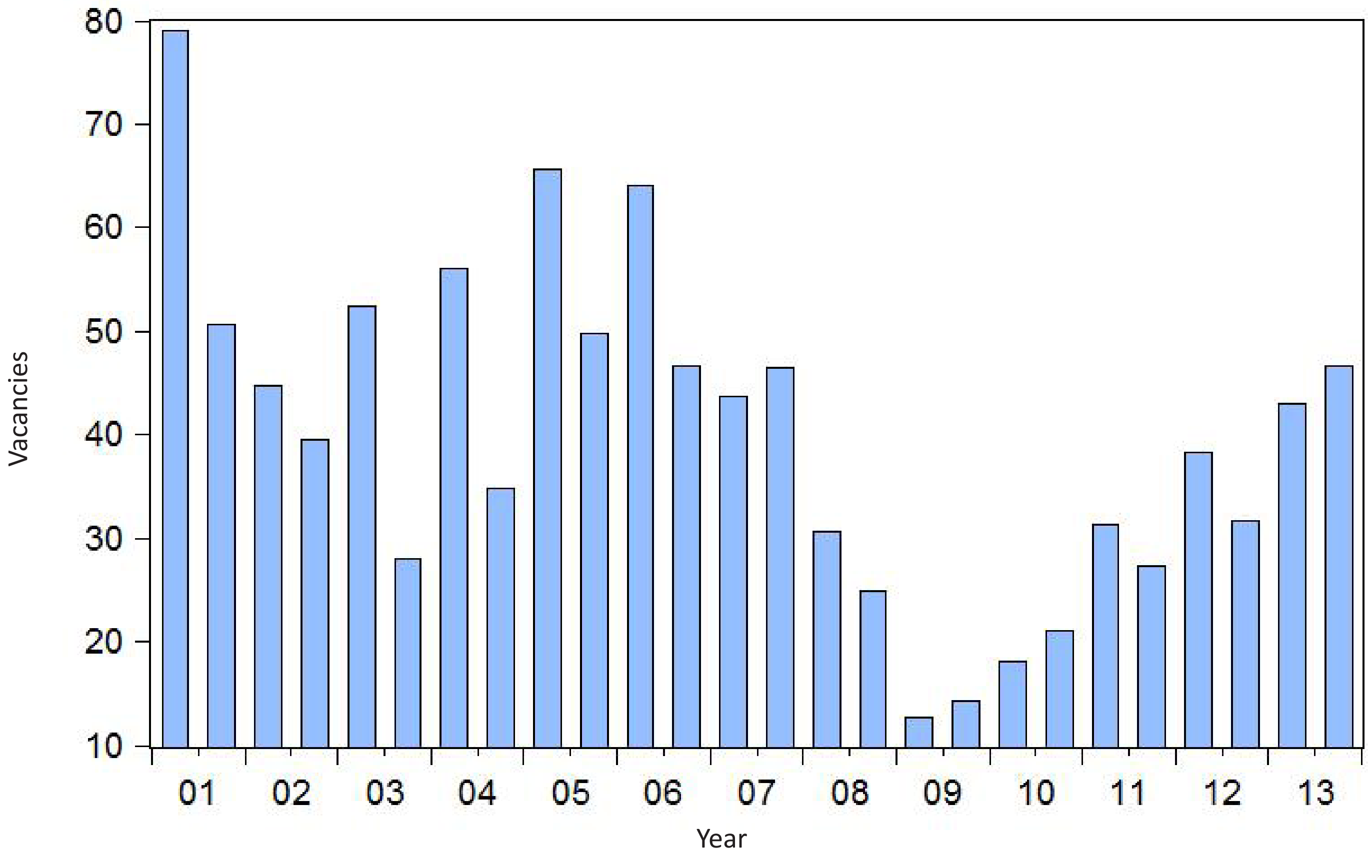
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Period	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Initial claims (Not seasonally adjusted)	1,388	1,413	2,192	4,296	1,986	1,310	1,185

Since the end of 2008, when there were very few job vacancies in the Southwest Minnesota planning area, the difficulty finding qualified workers has gradually increased. The ratio of job vacancies per 100 unemployed is now higher than 50, suggesting a tightening regional labor market. This ratio is now the highest it has been since 2006.

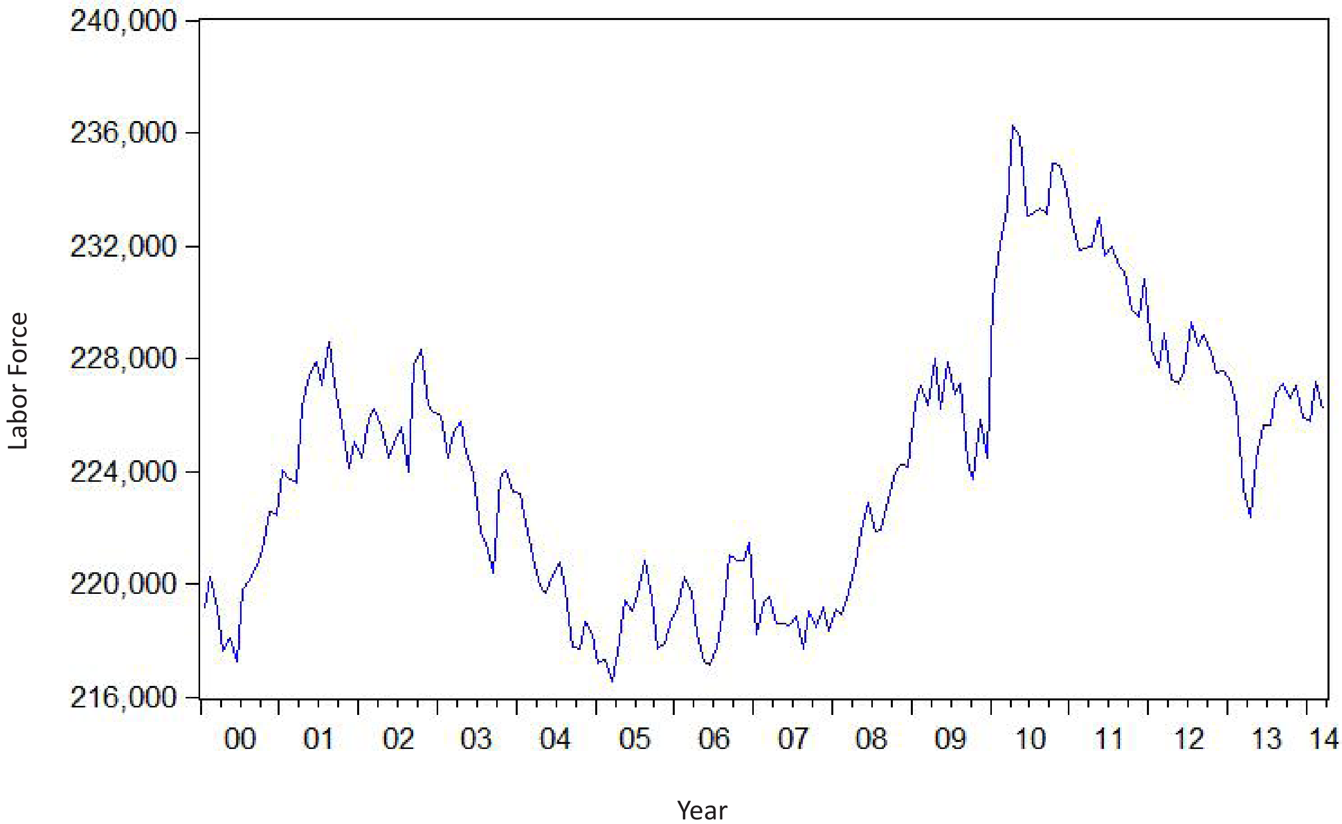
Job Vacancies per 100 Unemployed—Southwest Minnesota Planning Area



Quarter	2011: 2nd	2011: 4th	2012: 2nd	2012: 4th	2013: 2nd	2013: 4th
Vacancies /100 unemployed	32.39	32.2	39.84	36.33	44.92	53.66

Southwest Minnesota's labor force has rebounded in recent quarters after a precipitous decline that began in early 2010, but is largely unchanged from the early 2000s. The large influx of workers between 2008 and 2010 is unlike other regions and may be an aberration that has subsided in recent years. Still, a failure to arrest this slide in labor force growth will constrain the area's potential growth.

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



Year (March)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	226,564	233,469	231,996	228,798	223,135	225,824

Southwest Minnesota Economic Indicators

Mankato / North Mankato MSA Indicators

Labor Market	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)
Employment	March 2014 (m)	54,793	53,673	2.1%	↑	0.9%
Goods-Producing Employment	March 2014 (m)	9,642	9,364	3.0%	↑	-0.6%
Average Weekly Work Hours--Private Sector	March 2014 (m)	31.6	32.2	-1.9%	↓	32.9 (since 2008)
Average Earnings Per Hour--Private Sector	March 2014 (m)	$22.05	$21.65	1.8%	↑	-0.8% (since 2008)
Unemployment Rate	March 2014 (m)	4.2%	4.5%	NA	↓	4.5%
Labor Force	March 2014 (m)	59353	58158	2.1%	↑	0.7%
Initial Jobless Claims	March 2014 (m)	300	295	1.7%	↑	NA
Business Formation						
Total New Business Filings	1st Quarter 2014	200	162	23.5%	↑	157 (since 2000)
New Business Incorporations	4th Quarter 2014	16	14	14.3%	↑	28 (since 2000)
New Limited Liability Companies	1st Quarter 2014	112	89	25.8%	↑	68 (since 2000)
New Assumed Names	1st Quarter 2014	60	50	20.0%	↑	53 (since 2000)
New Non-Profits	1st Quarter 2014	12	9	33.3%	↑	7 (since 2000)
Mankato-North Mankato Residential Building Permit Valuation	March 2014(m)	4815	4404	9.3%	↑	3363 (since 2009)
Mankato-North Mankato Cost of Living Index	4th Quarter 2013	94.0	95.6	-1.7%	↓	94.3 (since 2009)

(m) represents a monthly series

Southwest Minnesota contains the Mankato/North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. Mankato experienced annualized employment growth of 2.1 percent over the year ending March 2014, and employment in its goods-producing sector grew at a 3 percent rate over this same period. All five business filings series increased over the year; the value of residential building permits increased; the unemployment rate fell, and its cost of living decreased. It was a strong year for Southwest Minnesota's largest metropolitan area.

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 Southwest 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 Southwest Minnesota Planning Area consists of 23 counties: Big Stone, Blue Earth, Brown, Chippewa, Cottonwood, Faribault, Jackson, Lac qui Parle, Le Sueur, Lincoln, Lyon, Martin, Murray, Nicollet, Nobles, Pipestone, Redwood, Rock, Sibley, Swift, Waseca, Watonwan, and Yellow Medicine.

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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Metropolitan Airports Commission: MSP Enplanements.

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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.

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.