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Central Minnesota Economic and Business Conditions Report, Second Quarter 2014

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Central Minnesota
Economic and Business Conditions Report
Second Quarter 2014

Office of the Minnesota
Secretary of State

School of Public Affairs
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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 second quarter as improvements in durable goods orders, additional new business incorporations, and strength in a general measure of state business conditions helped drive the LEI higher. The SCSU Central Minnesota Index of Leading Economic Indicators is now 7.95 percent higher than one year ago.

There were 1,370 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the second quarter of 2014 — representing a 6.0 percent decline from one year ago. There were 151 new regional business incorporations in the first second quarter, a 4.4 percent reduction from year ago levels. Over the past 12 months, new limited liability company (LLC) filings in Central Minnesota decreased by 1.8 percent—declining to 762 in the second quarter of 2014. New assumed names totalled 385 in this year's second quarter—a reduction of 11.1 percent from the second quarter of 2013. There were 42 new filings for Central Minnesota non-profits in the second quarter—15 fewer filings than one year ago.

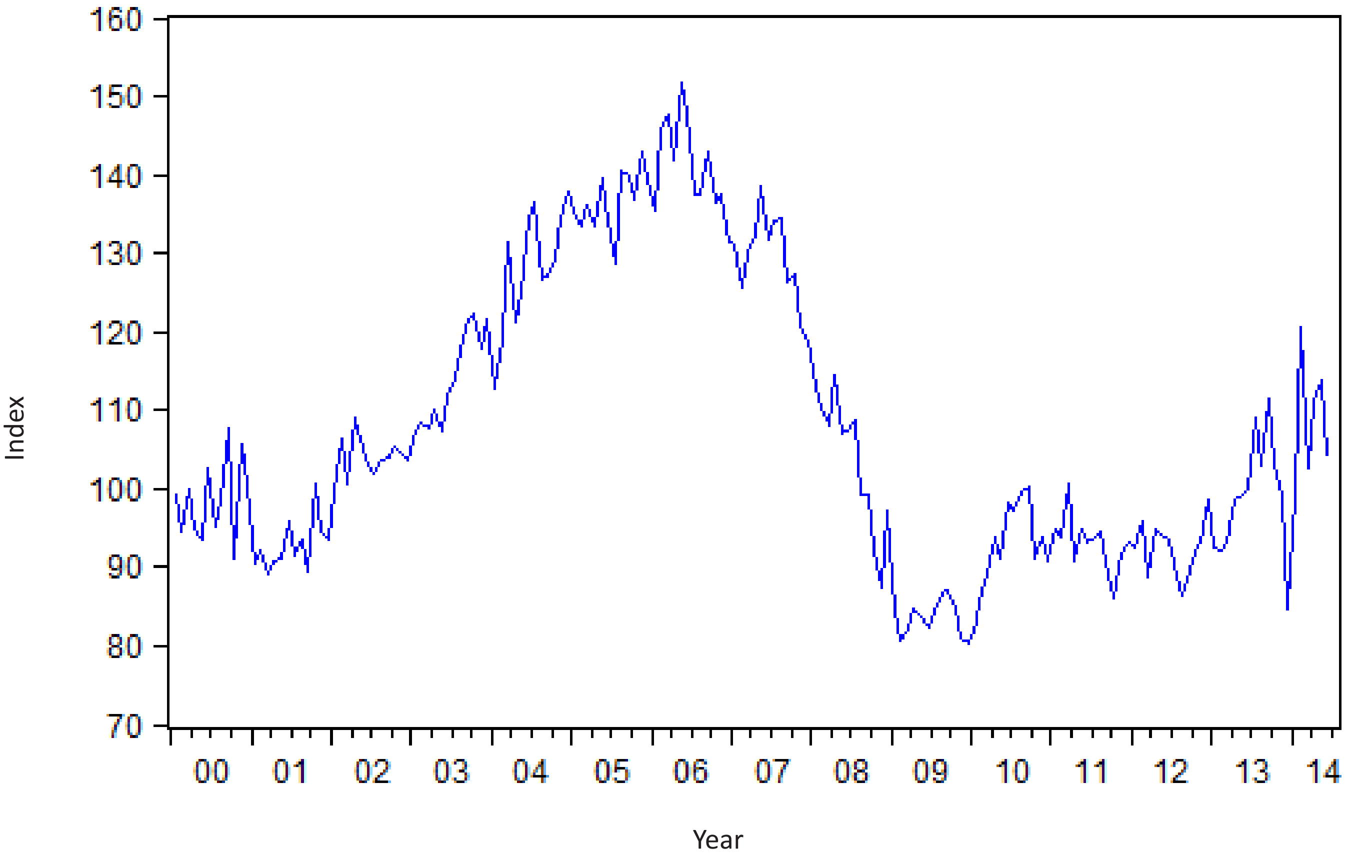
Central Minnesota employment was 1.7 percent higher in June 2014 than it was one year earlier. Compared to one year ago, 6,134 more residents of Central Minnesota now have jobs. The regional unemployment rate was 4.7 percent in June 2014, well below the 5.5 percent rate reported one year ago. Initial claims for unemployment insurance have steadily declined since March and are little changed from their level in June 2013. The Central Minnesota labor force continues to grow and average weekly wages in the planning area were little changed from the year earlier period.

Data from the St. Cloud area showed strength in the largest market in the Central Minnesota planning area. Overall job growth was up 2.8 percent over the year ending June 2014 and the St. Cloud unemployment rate fell to 4.5 percent. St. Cloud area businesses reported worker shortages as 37 percent of surveyed firms expect increased difficulty attracting qualified workers 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 1.48 points higher in this year's second quarter, and is now 7.95 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.

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, 2nd quarter 2014	Contribution to LEI, 1st quarter 2014
Minnesota Business Conditions Index	1.40	2.01
Central Minnesota initial claims for unemployment insurance	-2.21	-2.44
Central Minnesota new filings of incorporation and LLCs	2.40	0.25
St. Cloud MSA residential building permits	-0.71	2.23
National new orders for durable goods, real	0.59	0.48
TOTAL CHANGE	**1.48**	**2.53**

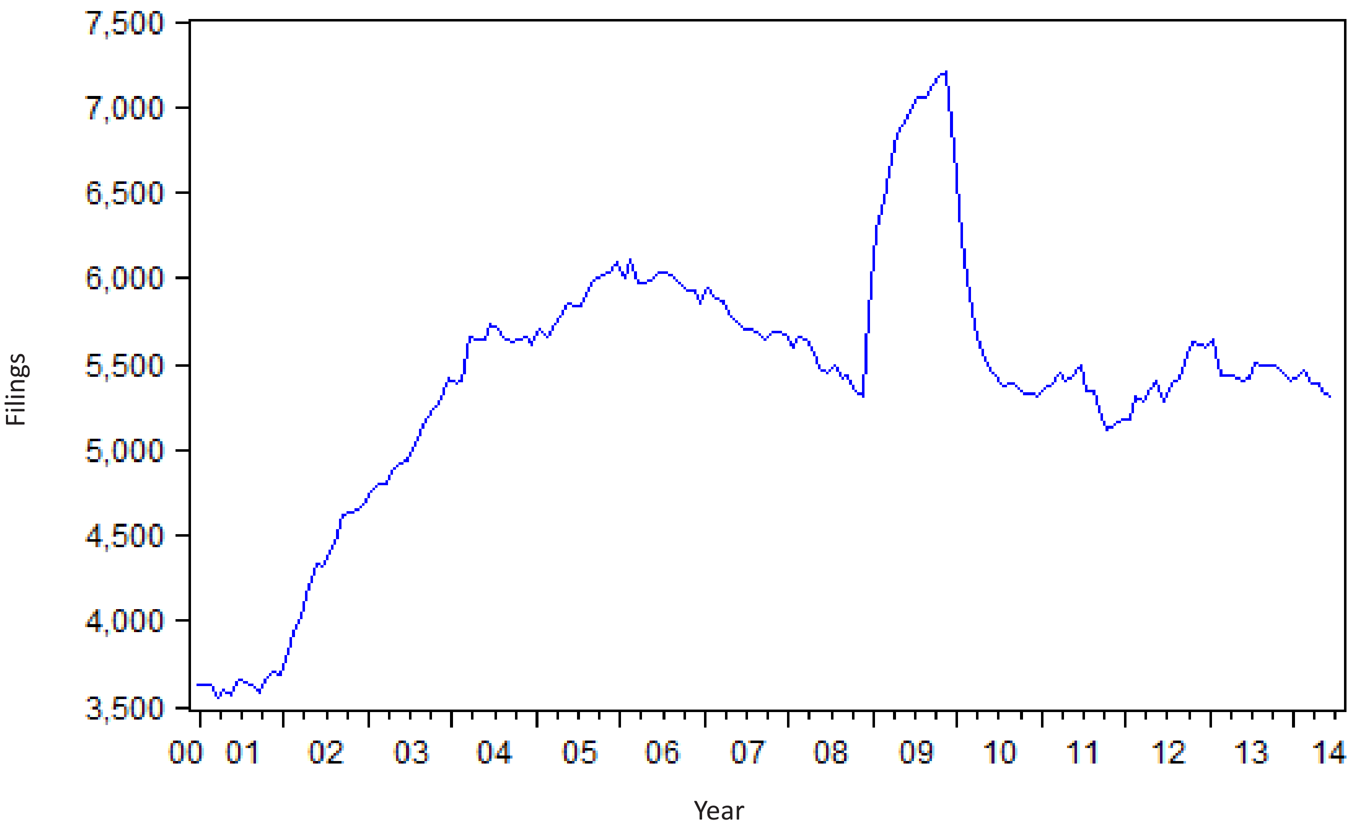
Two index components—Central Minnesota initial claims for unemployment insurance and St. Cloud Metropolitan Statistical Area (MSA) residential building permits—had a negative impact on the LEI in the second quarter. The three other components of the LEI favorably influenced the second quarter outlook. 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 second quarter. New filings for business incorporation in Central Minnesota also helped lift the LEI in the second quarter. Finally, the Minnesota Business Conditions Index (constructed by Creighton University)—a general indicator of overall business conditions in the State of Minnesota—also helped lift the LEI in June.

SCSU Central Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index June	70.1	56.2	24.73%
Central Minnesota initial claims for unemployment insurance June	2,336	3,093	-24.47%
Central Minnesota new filings of incorporation Second Quarter	151	158	-4.43%
St. Cloud MSA residential building permit valuation In Thousands, June	5,616	7,928	-29.16%
National new orders for durable goods, billions of real 1984 dollars, June	209.9	218.6	-3.98%
Central Minnesota Leading Economic Indicators Index June (December 1999 = 100)	100.5	93.1	7.95%

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. With a 6 percent decline in new business filings in this year's second quarter, Central Minnesota had the weakest performance of all of the state's six planning areas in this measure of business formation. Nevertheless, Central Minnesota total business filings have been fairly steady for the past several years. As can be seen in the accompanying graph, there was an abrupt increase in new business filings in mid-2008. This resulted from a sharp increase in new LLC filings at that time. 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.

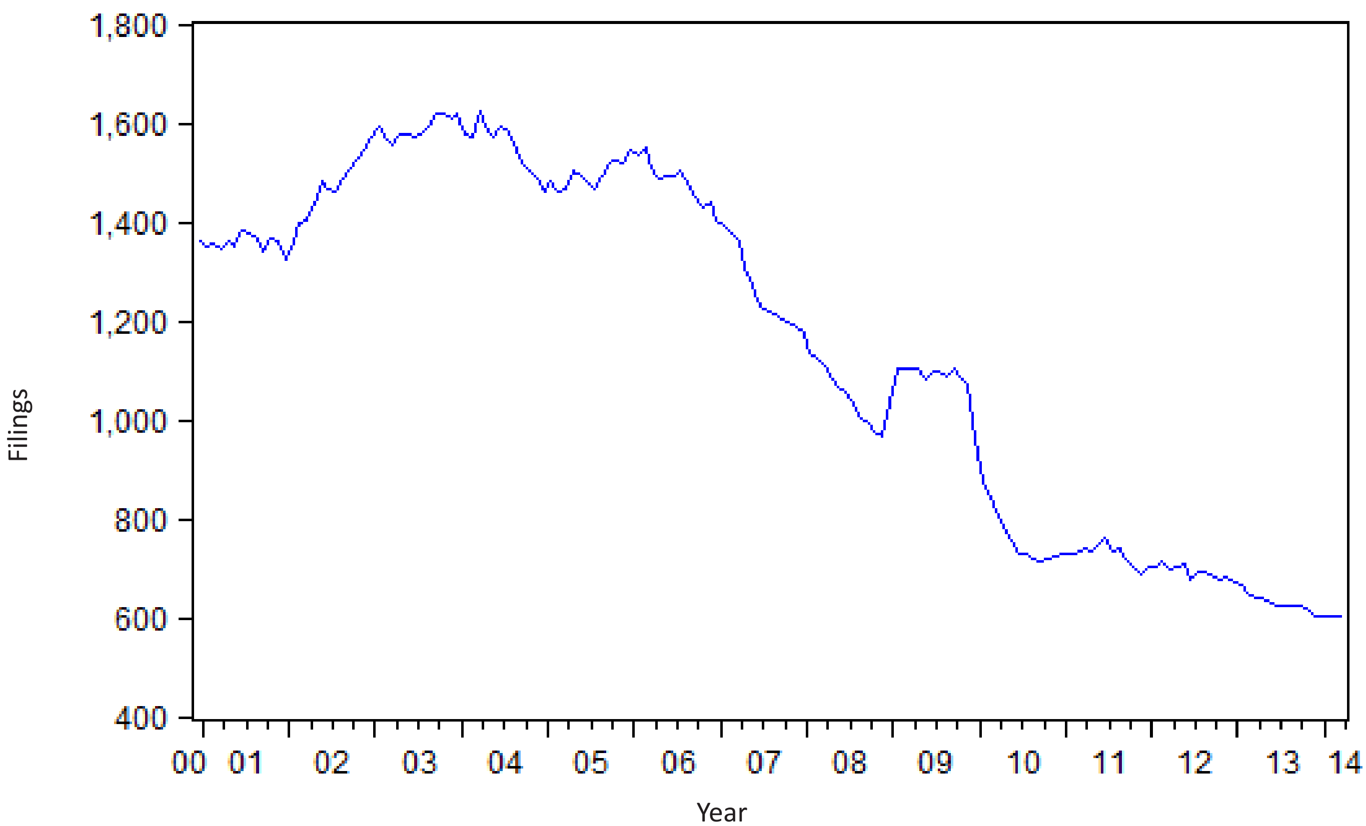
Total New Business Filings—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter II: Percent change from prior year
Central Minnesota Total New Business Filings	1,458	1,287	1,199	1,450	1,370	-6.0%

New business incorporations have trended downward in Central Minnesota since 2005. Quarterly figures of new business incorporations decreased 4.4 percent over the past 12 months—changing from 158 in the second quarter of 2013 to 151 one year later.

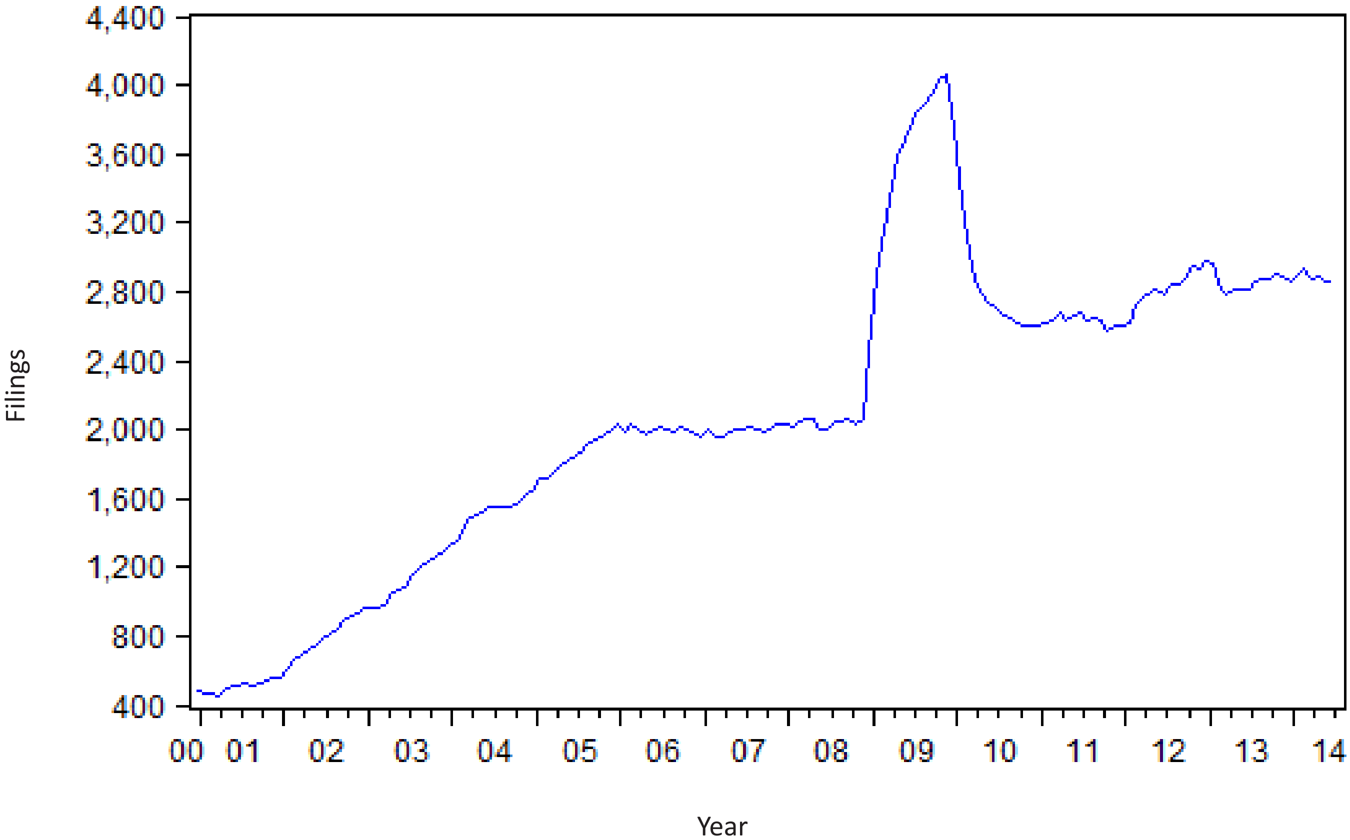
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter II: Percent change from prior year
Central Minnesota New Business Incorporations	158	137	131	177	151	-4.4%

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.

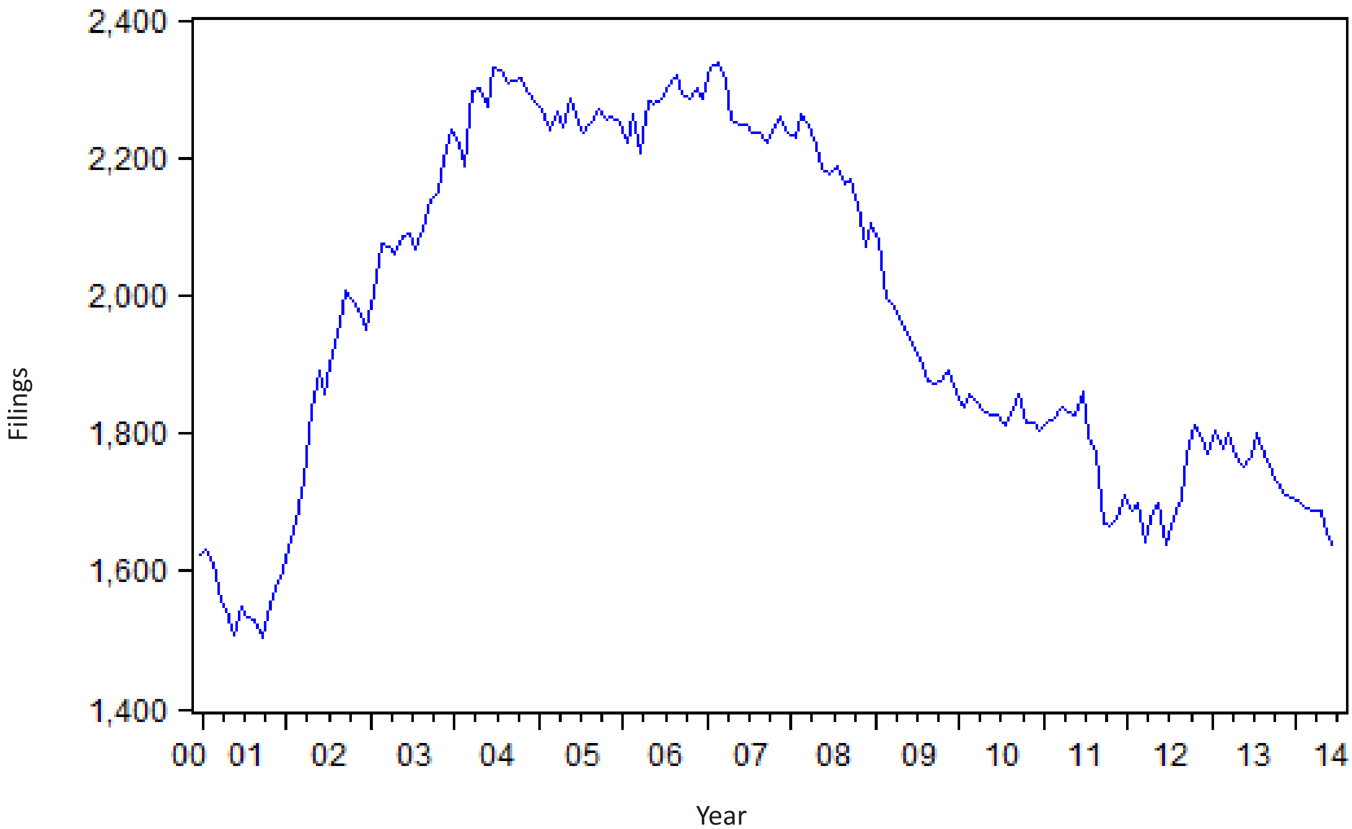
New Limited Liability Companies—Central Minnesota Planning Area
(12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter II: Percent change from prior year
Central Minnesota New Limited Liability Companies	776	692	664	746	762	-1.8%

Assumed names, which include sole proprietors or organizations that do not have limited liability, declined by 11.1 percent compared to last year's second quarter. With the exception of a brief steady period in 2011-12, this series has been trending downward since the beginning of the Great Recession.

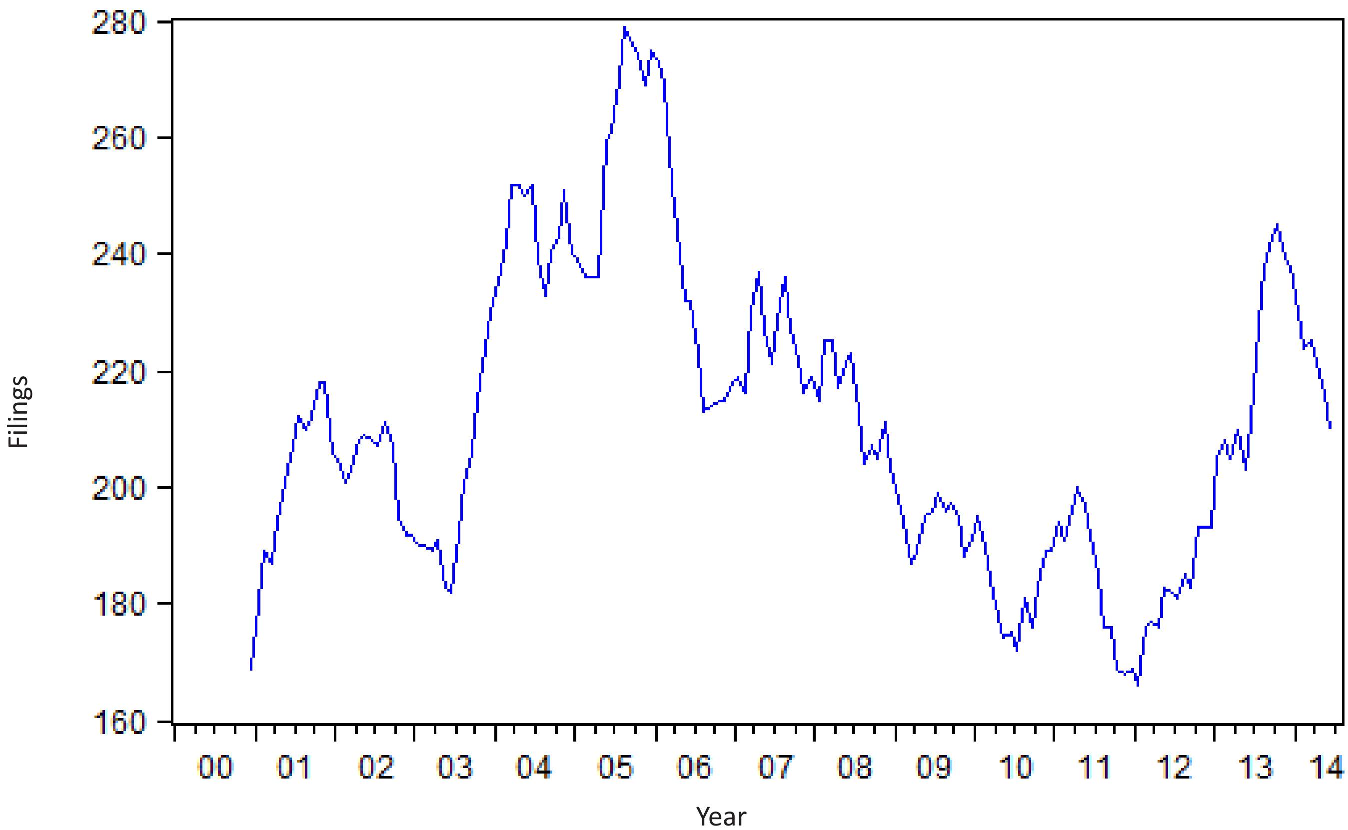
New Assumed Names—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter II: Percent change from prior year
Central Minnesota New Assumed Names	467	395	351	475	415	-11.1%

There were 42 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the second quarter of 2014 — 15 fewer new non-profits than were recorded one year ago. However, as was noted in last quarter's report — 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.

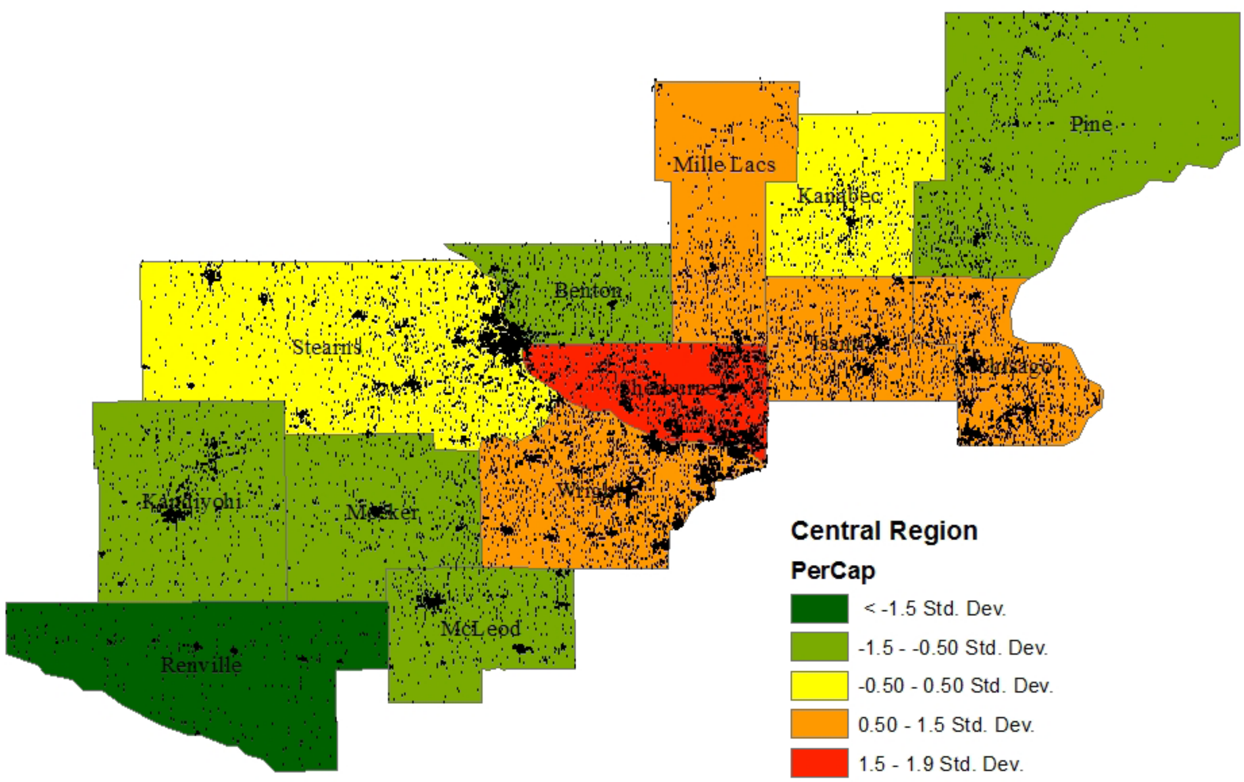
New Non-Profits—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter II: Percent change from prior year
Central Minnesota New Non-Profits	57	63	53	52	42	-26.3%

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 was registered between April 2000 and April 2010. These dates were chosen to represent when data collection began for the decennial census in each of these years. Over this period, the population of the State of Minnesota increased by 7.8 percent. Some of the state's fastest growing counties are in the Central Minnesota region. Nine counties in the Central Minnesota planning area experienced population growth that was more rapid than the state as a whole over this period: Benton, Chisago, Isanti, Kanabec, Mille Lacs, Pine, Sherburne, Stearns and Wright. Population grew at a lower rate than the state average in three other counties (Kandiyohi, McLeod, Meeker) and one county (Renville) experienced declining population from 2000 to 2010.

Per Capita New Business Formation Between 2000 and 2010 —
Central Minnesota Planning Region



The coloration of the map reflects deviations in new business formation per capita from the planning area average over the 10-year period ending in 2010. For example, while Stearns County (colored yellow) enjoyed a substantial number of newly formed businesses over the decade of the 2000s, it also experienced significant population growth. Compared to the overall planning area, Stearns County's new business formation per capita was just average (within +/- 0.5 standard deviation) over this period. As shown on the accompanying map, there is one other Central Minnesota county (Kanabec) that experienced average per capita business formation in the 2000s. Note that five counties (colored light green) in the planning region experienced relative declines in per capita business formation that were below average, and Renville county (colored dark green) was well below average. Of the six counties that had below average per capita business formation, only two (Benton and Pine) had population increases that exceeded the state average. Several counties (colored orange and red) had relative gains in per capita business formation. Sherburne County (colored red) stands out as a particularly high growth per capita business formation area. Wright, Isanti, Mille Lacs and Chisago counties also enjoyed a relative improvement in per capita business formation in the first decade of the 21st century. With the exception of Mille Lacs County, these high rates of per capita business formation tend to be clustered around the Twin Cities.

For the Central Minnesota planning region, there appears to be a correlation between population growth and new business formation per capita. Those counties that experienced the most rapid population growth from 2000 to 2010 also appear to have experienced the greatest gains in per capita new business formation. As noted above, this is particularly true of counties bordering the Twin Cities planning area. 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.

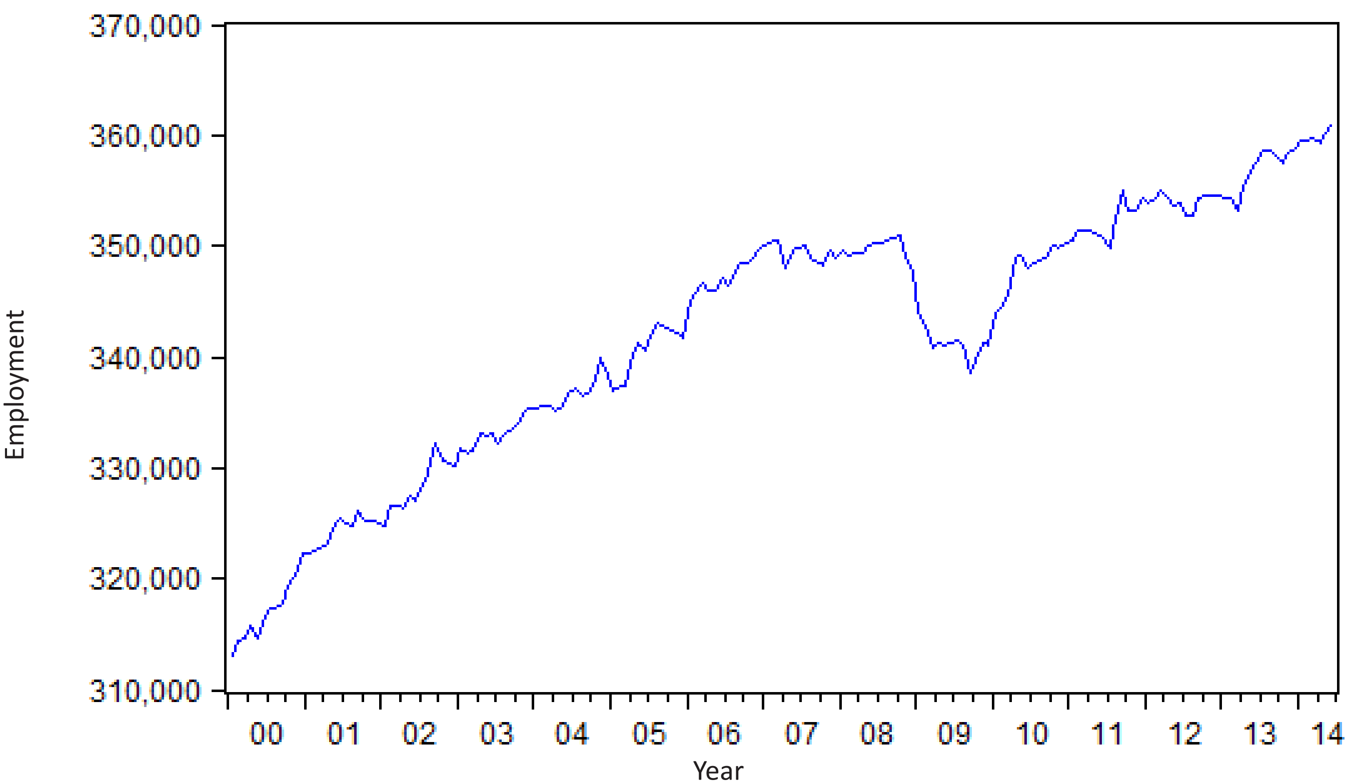
As noted in last quarter's report, one striking pattern of new business formation that emerges from this GIS mapping tool is the importance of roadways. In areas throughout Minnesota, business formation tends to cluster around major roadways. This is evident in observing the pattern of dots in Central Minnesota that are clustered around State Highway 23, U.S. Highways 10, 12, 169 and 212 and Interstate Highways 35 and 94.

Central Minnesota Labor Market Conditions

Central Minnesota employment grew 1.7 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, sopareseach@stcloudstate.edu.

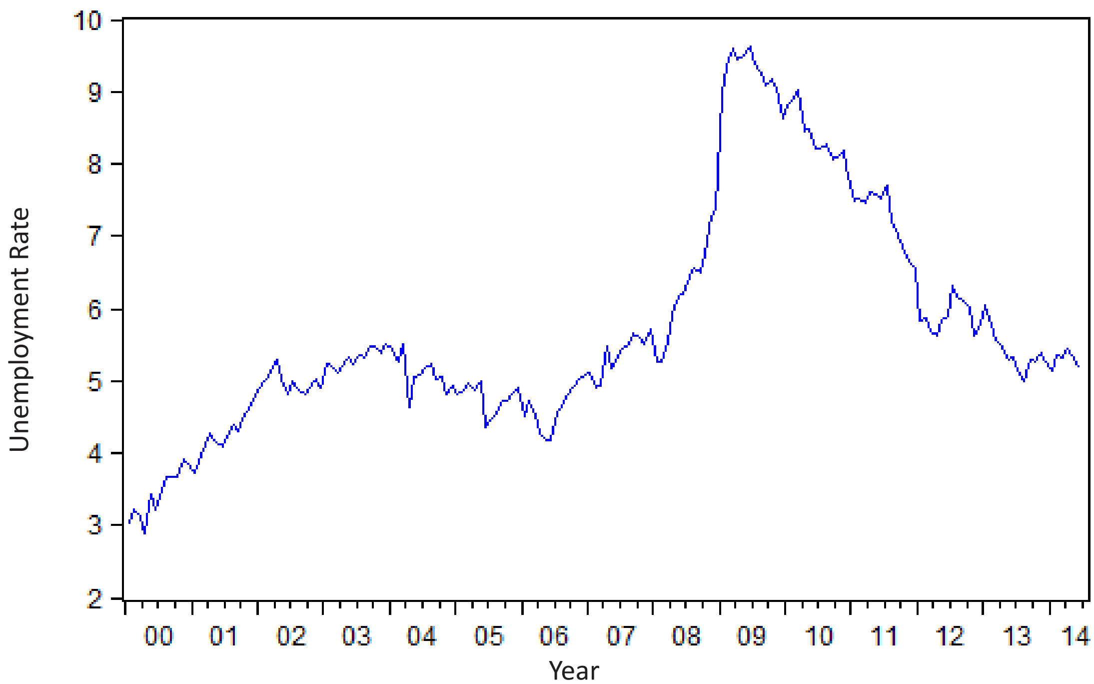
Employment—Central Minnesota Planning Area (12-month moving average)



Month	June 2013	January 2014	February 2013	March 2013	April 2014	May 2014	June 2014
Employment (Not seasonally adjusted)	356,935	353,630	354,603	356,529	359,350	362,172	363,069

Seasonally adjusted unemployment rates in Central Minnesota have leveled off over the last three quarters. Over this same period, the regional labor force has expanded (see graph at the end of this section), which might help explain why unemployment rates have stabilized on a seasonally adjusted basis. The non-seasonally adjusted Central Minnesota unemployment rate was 4.7 percent in June — well below its 5.5 reading one year earlier.

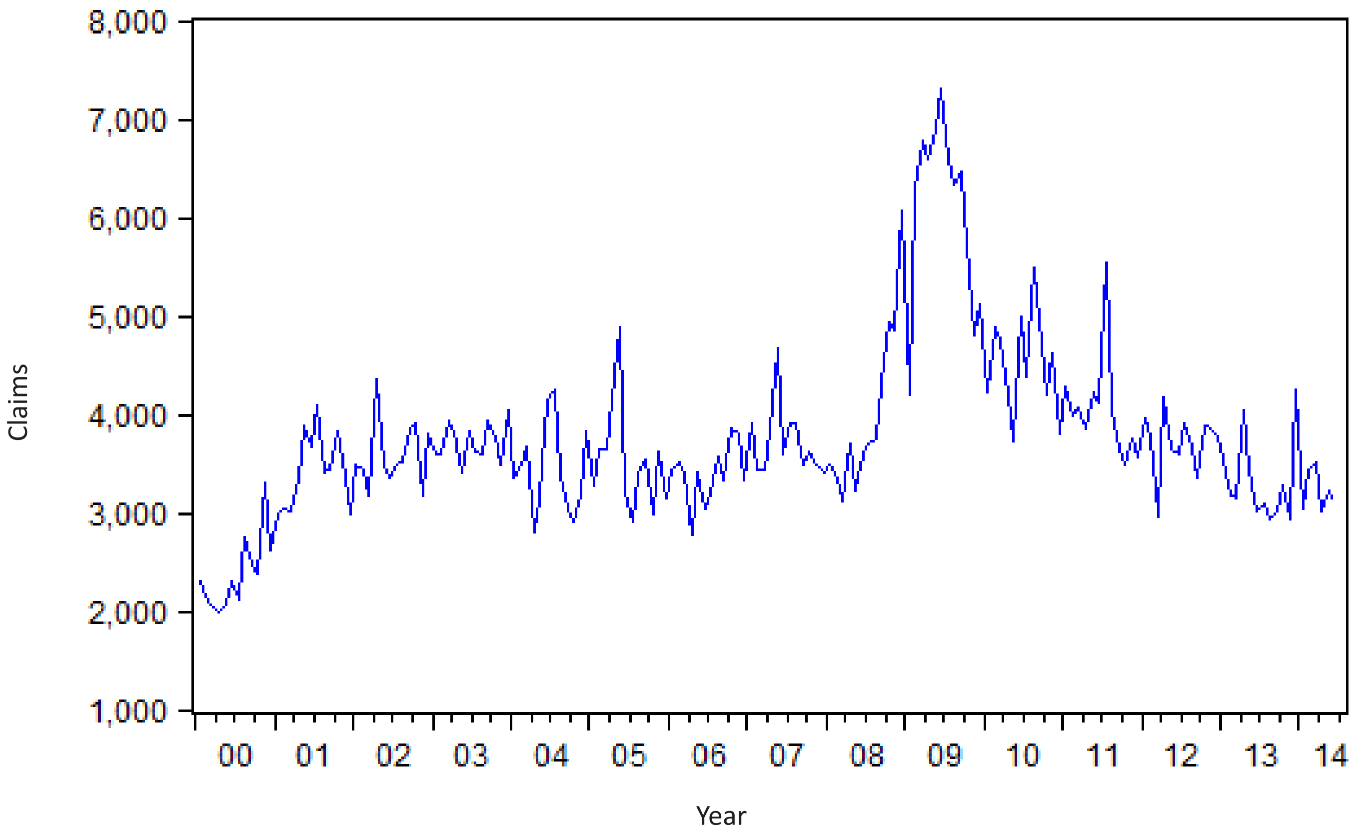
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	June 2013	January 2014	February 2013	March 2013	April 2014	May 2014	June 2014
Unemployment Rate (Not seasonally adjusted)	5.5%	7.0%	6.9%	6.8%	5.5%	4.5%	4.7%

Initial claims for unemployment insurance in the Central Minnesota planning area have steadily declined since March, although June 2014 claims were slightly higher than the same month in 2013.

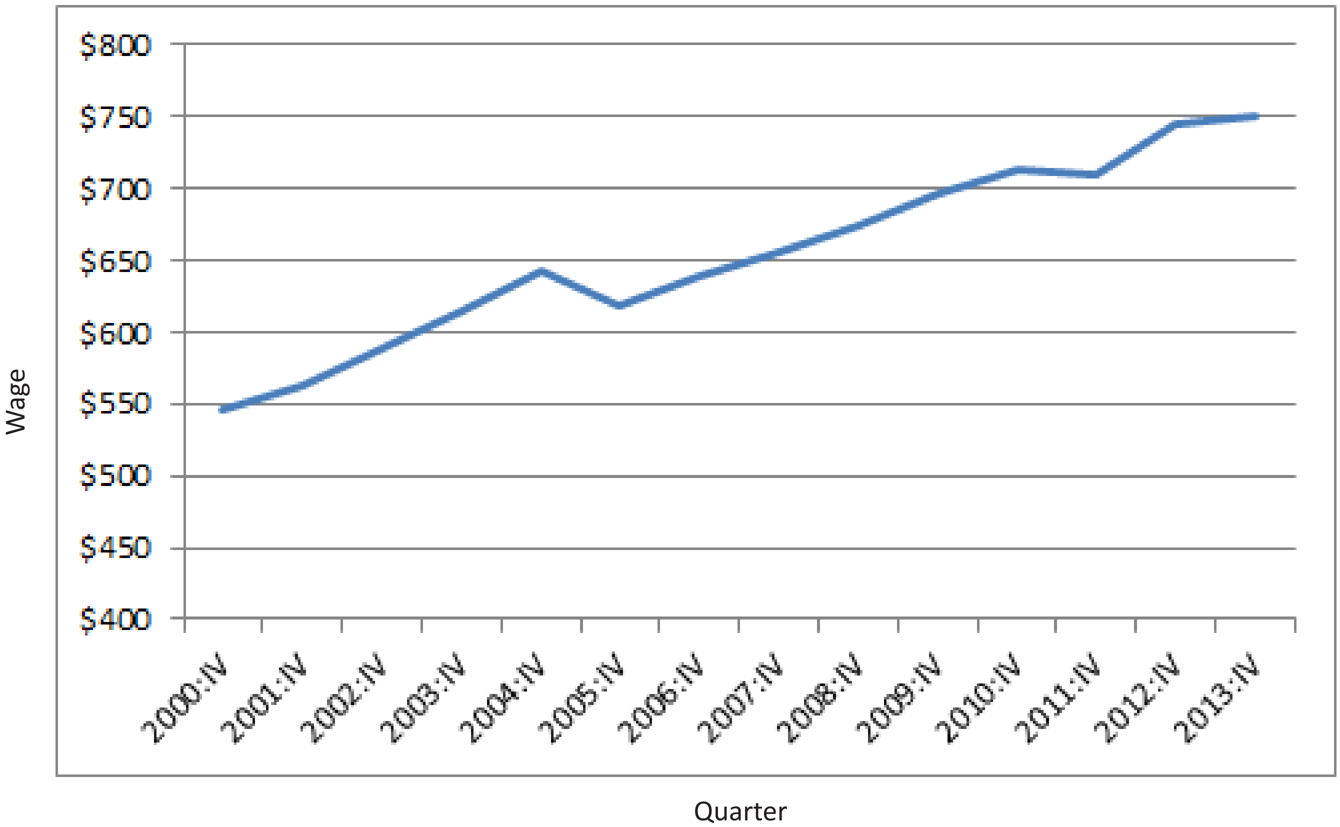
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Central Minnesota Planning Area



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Initial claims (Not seasonally adjusted)	2,308	4,312	3,043	3,446	2,600	2,506	2,336

The average weekly wage in Central Minnesota in the fourth quarter of 2013 (the most recently available data) was only 0.8 percent higher than it was one year earlier. At $750, the average weekly wage in Central Minnesota is much lower than the $1,103 average weekly wage in the Twin Cities.

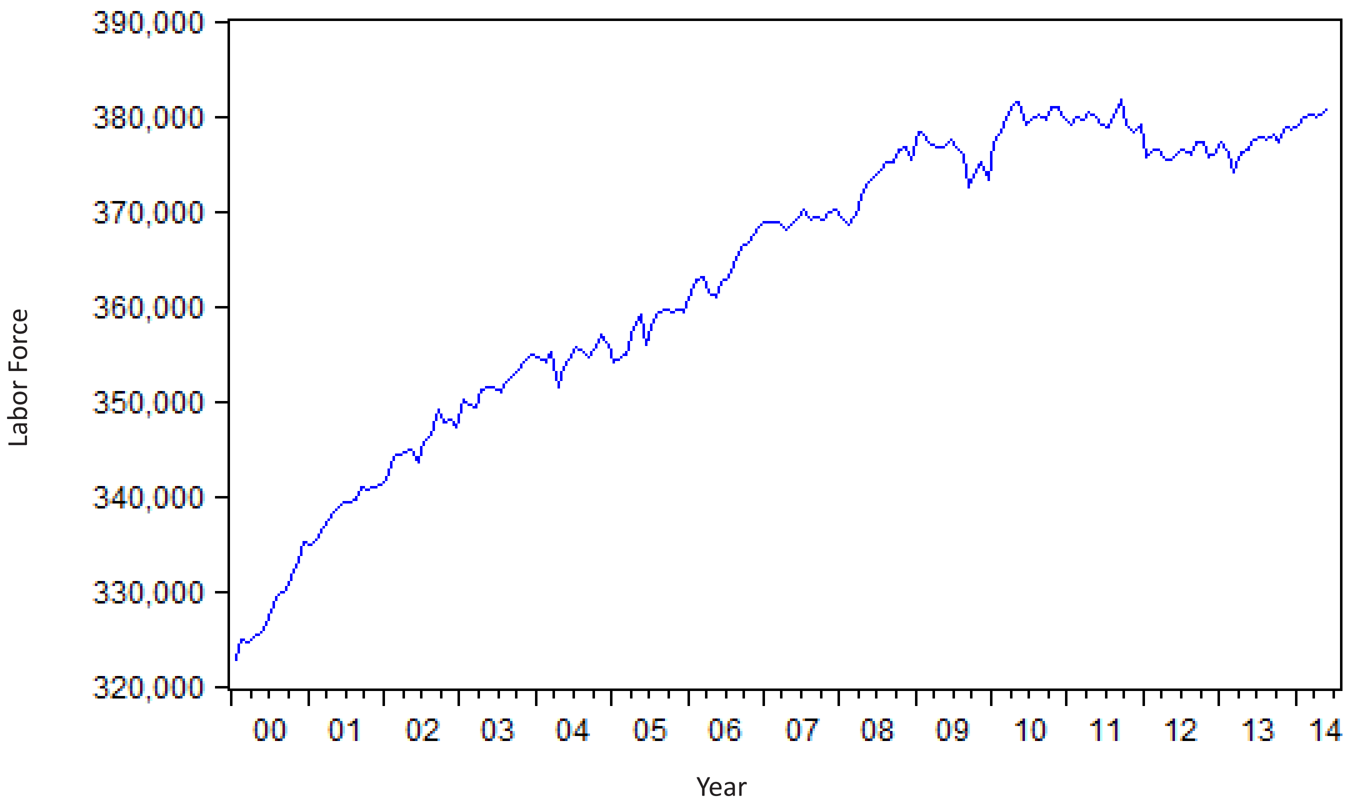
Average Weekly Wage—Central Minnesota Planning Area



Quarter	2008: 4th	2009: 4th	2010: 4th	2011: 4th	2012: 4th	2013: 4th
Average Weekly Wage	$674	$696	$713	$710	$744	$750

Continuing a trend reported last quarter, there has been a pick-up in the size of the Central Minnesota labor force over the last two years. Since 2010, only the Central Minnesota and Twin Cities planning areas have experienced increases in their labor force. The labor force has declined in each of the state's other four planning areas.

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



Year (June)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	377,826	379,380	379,071	376,264	377,712	381,076

Central Minnesota Economic Indicators

St. Cloud MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless otherwise noted)
LABOR MARKET					
Employment	June 2014 (m)	105,701	102,797	2.8% ↑	0.9%
Manufacturing Employment	June 2014 (m)	15,352	15,292	0.4% ↑	-0.8%
Average Weekly Work Hours--Private Sector	June 2014 (m)	32.7	33.8	-3.3% ↓	33.8 (since 2008 — missing 2010, 2011)
Average Earnings Per Hour--Private Sector	June 2014 (m)	$22.30	$23.35	-4.5% ↓	2.5% (since 2008)
Unemployment Rate	June 2014 (m)	4.5%	5.5%	NA	5.0%
Labor Force	June 2014 (m)	108933	107183	1.6% ↑	0.6%
SCSU Future Employment Index	May 2014 (q)	38.7	38.4	0.8% ↑	25.4 (since 2005)
SCSU Future Length of Workweek Index	May 2014 (q)	12.9	20.5	-37.1% ↓	9.6 (since 2005)
SCSU Future Employee Compensation Index	May 2014 (q)	43.5	52.1	-16.5% ↓	37.2 (since 2005)
SCSU Future Worker Shortage Index	May 2014 (q)	37.1	27.4	35.4% ↑	17.6 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	July 2014 (m)	512	765	-33.1% ↓	NA
St. Cloud Times Help Wanted Linage	April 2014 (q)	1,891	2,001	-5.5% ↓	NA
BUSINESS FORMATION					
New Business Filings	Second Quarter 2014	362	384	-5.7% ↓	365 (since 2000)
Assumed Names	Second Quarter 2014	107	130	-17.7% ↓	131 (since 2000)
Business Incorporations	Second Quarter 2014	37	31	19.4% ↑	68 (since 2000)
Limited Liability Corporations	Second Quarter 2014	205	207	-1.0% ↓	149 (since 2000)
Non-Profits	Second Quarter 2014	13	16	-18.8% ↓	13 (since 2000)

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

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	May 2014 (q)	56.5	59	-4.2% ↓	44.6 (since 2005)
SCSU Future Capital Expenditures Index	May 2014(q)	21	32.9	-36.2% ↓	21.7 (since 2005)
SCSU Future National Business Activity Index	May 2014 (q)	30.7	39.7	-22.7% ↓	24.4 (since 2005)
St. Cloud Index of Leading Economic Indicators	April 2014 (q)	102.5	101.2	1.3% ↑	NA
St. Cloud Residential Building Permit Valuation	June 2014 (m)	7061	8693	-18.8% ↓	9753
Prices					
St. Cloud Cost of Living Index	First Quarter 2014	95.7	95	0.7% ↑	NA
St. Cloud Median Home Prices	June 2014 (m)	155,000	145,408	6.6% ↑	NA
SCSU Future Prices Received Index	May 2014 (q)	16.2	19.2	-15.6% ↓	21.1 (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 conducted quarterly by St. Cloud State University. Among other things, this survey reports firms' increased difficulty attracting qualified workers in the St. Cloud area. Employment grew 2.8 percent over the year ending June 2014 in St. Cloud and the MSA unemployment rate fell from 5.5 percent to 4.5 percent over the same period. The St. Cloud labor force is now 108,933, an increase of 1.6 percent over the past 12 months (and well above its long-term average). Housing prices in St. Cloud increased over the last 12 months and the cost of living index increased, suggesting the area became relatively less affordable in the first quarter of the year. Despite this, St. Cloud still compares favorably to other metropolitan areas in its cost of living.

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 and Poor's 500 stock price index	1947.09	1863.52	1618.77	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 the beginning.

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 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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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.

U.S. Bureau of Census: Durable Goods Orders, Residential Building Permits, Retail Sales.

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U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income.

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