

10-2014

Southwest Minnesota Economic and Business Conditions Report, Second Quarter 2014


Richard A. MacDonald

St. Cloud State University, macdonald@stcloudstate.edu

King Banaian

St. Cloud State University, kbanaian@stcloudstate.edu

Follow this and additional works at: https://repository.stcloudstate.edu/qebcr_sw_mn

 Part of the [Business Commons](#), [Growth and Development Commons](#), and the [Regional Economics Commons](#)

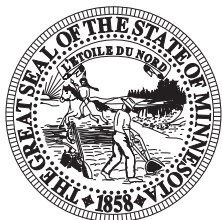
Recommended Citation

MacDonald, Richard A. and Banaian, King, "Southwest Minnesota Economic and Business Conditions Report, Second Quarter 2014" (2014). *Southwest Minnesota Economic and Business Conditions Report*. 2.
https://repository.stcloudstate.edu/qebcr_sw_mn/2

This Research Study is brought to you for free and open access by the Minnesota Regional Economic and Business Conditions Report at theRepository at St. Cloud State. It has been accepted for inclusion in Southwest Minnesota Economic and Business Conditions Report by an authorized administrator of theRepository at St. Cloud State. For more information, please contact rswexelbaum@stcloudstate.edu.



Southwest Minnesota
Economic and Business Conditions Report
Second Quarter 2014



OFFICE OF THE MINNESOTA
SECRETARY OF STATE



SCHOOL OF PUBLIC AFFAIRS
RESEARCH INSTITUTE
ST. CLOUD STATE UNIVERSITY.

TABLE OF CONTENTS

Executive Summary	1
Southwest Minnesota Leading Economic Indicators Index	2
Southwest Minnesota Business Filings.....	4
Southwest Minnesota Labor Market Conditions.....	11
Economic Indicators	16
Sources	18

Executive Summary

Southwest Minnesota business conditions are expected to slow over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI).

Despite improvements in the general outlook for rural economies, an increase in new regional business formation and rising Mankato area residential building permits, the LEI is little changed from its strong reading in this year's first quarter. Holding back the regional economic outlook is a recent rise in initial jobless claims in the Southwest Minnesota planning area. The SCSU Southwest Minnesota Index of Leading Economic Indicators increased by 0.42 points in the second quarter of 2014 and is now only 0.8 percent higher than one year ago.

There were 594 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the second quarter of 2014 — representing 2.6 percent fewer new filings than one year ago. There were 53 new regional business incorporations in the second quarter, a 14.5 percent decrease over a year ago. Over the past 12 months, new LLC filings in Southwest Minnesota increased by 12.5 percent — rising to 360 in the second quarter of 2014. New assumed names totaled 153 in this year's second quarter — a 21.1 percent reduction from second quarter 2013. There were 28 new filings for Southwest Minnesota nonprofits in the first quarter — a 700 percent increase from one year ago.

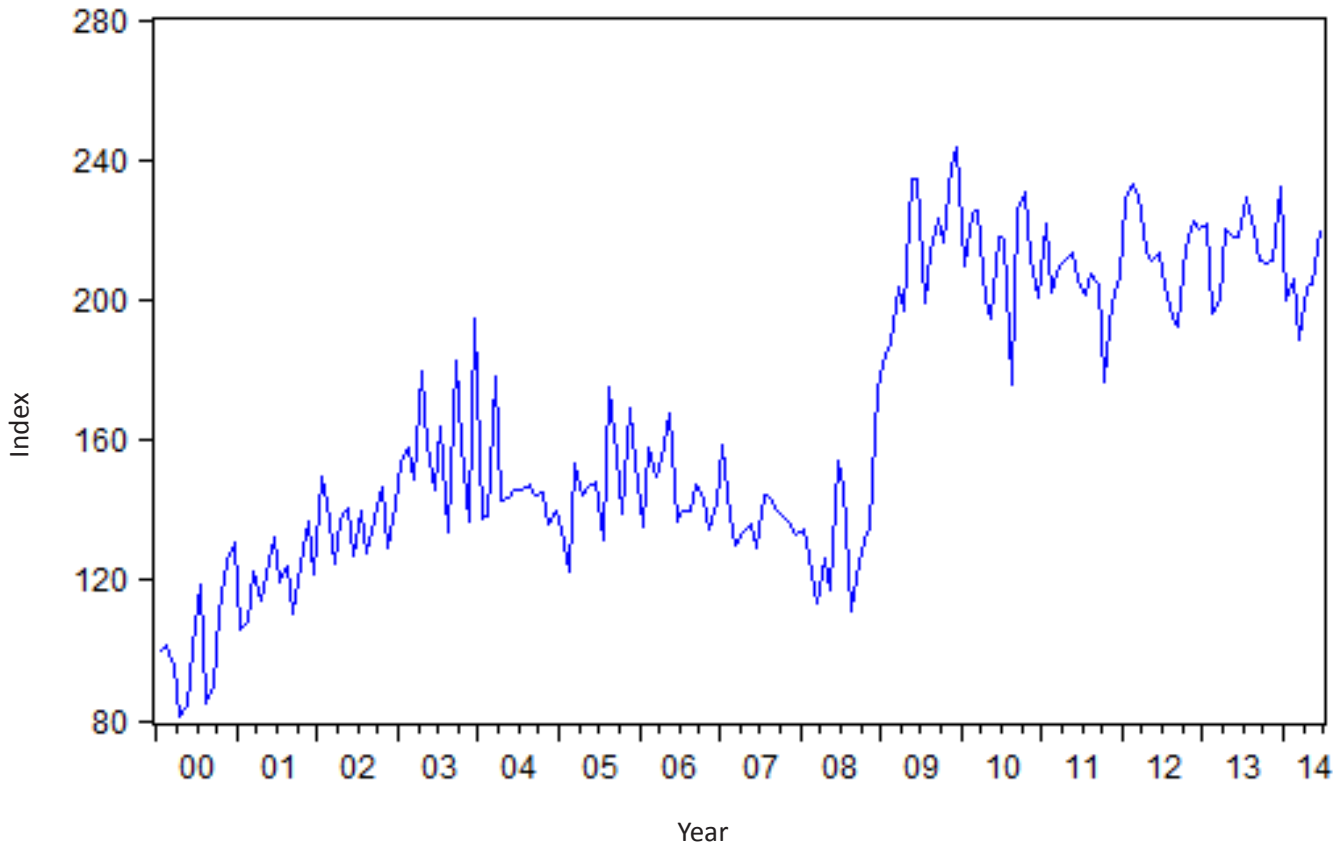
Employment of Southwest Minnesota residents increased by 0.2 percent over the year ending June 2014. Only 337 more Southwestern Minnesotans have jobs than one year ago. The regional unemployment rate was 4.3 percent in June, an improvement on its 4.7 percent reading in June 2013. Initial claims for unemployment insurance increased by 113 from year-ago levels — a 7.4 percent increase. Average weekly wages rose by 3.4 percent in 2013, the last period for which this information is available. The Southwest Minnesota labor force fell over the recent year.

Compared to the rest of the region, economic performance in the Mankato/North Mankato area — the largest market in Southwest Minnesota — was particularly strong in the second quarter. With above average employment growth, a declining unemployment rate, an acceleration in the value of residential building permits, a rising labor force and rising average hourly earnings, the Mankato/North Mankato Metropolitan Statistical Area provided a needed 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. After experiencing a healthy increase of 7.61 points last quarter, the LEI was nearly unchanged in the second quarter of 2014. For the year as a whole, the index has increased by 0.8 percent, suggesting a cautionary outlook for the Southwest Minnesota regional economy in the coming months.

The SCSU Southwest Minnesota Leading Economic Indicators Index



Components of SCSU Southwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2014	Contribution to LEI, 1st quarter 2014
Rural Mainstreet Index	2.64	-3.71
Southwest Minnesota initial claims for unemployment insurance	-7.41	14.28
Southwest Minnesota new filings of incorporation and LLCs	0.68	1.02
Mankato MSA single-family building permits	4.51	-3.98
TOTAL CHANGE	0.42	7.61

The Southwest Minnesota LEI has four components, three of which contributed favorably to the current economic outlook. A rise in new business incorporations and LLCs in Southwest Minnesota contributed to improvements in this quarter's index as did an increase in Mankato/North Mankato Metropolitan Statistical Area (MSA) residential building permits. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns with average population of 1,300 in 10 Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. After a weak first quarter, this index rebounded in the most recent quarter and helped lift the overall LEI. The one factor that dampened the regional outlook was initial claims for unemployment insurance in the planning region. As noted later in this report, these claims have been rising in recent months and are now higher than they were one year ago.

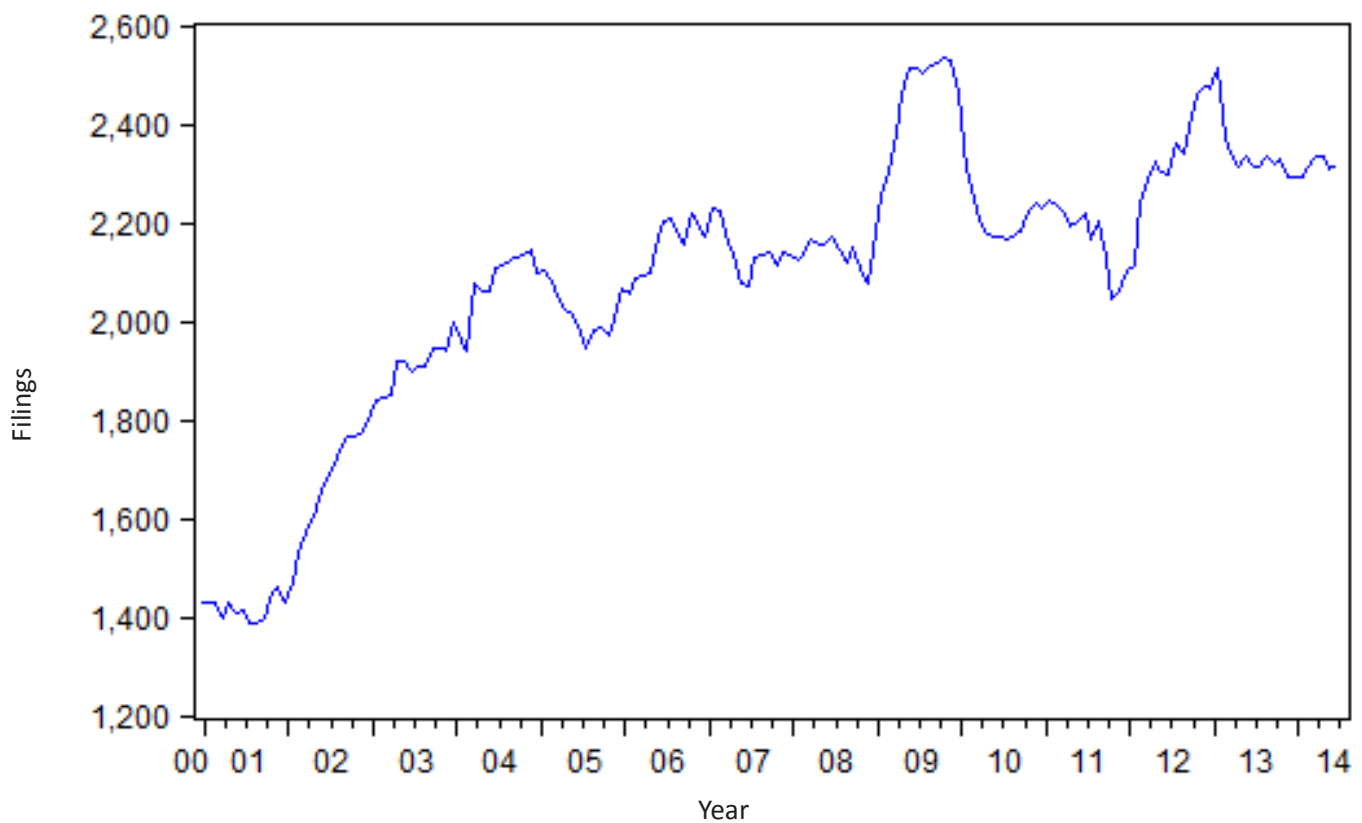
**SCSU Southwest Minnesota
Leading Economic Indicators Index**

	2014	2013	Percentage change
Rural Mainstreet Index, Creighton University June	54.3	60.5	-10.2%
Southwest Minnesota initial claims for unemployment insurance June	1,633	1,520	7.4%
Southwest Minnesota new filings of incorporation and LLCs Second Quarter	413	382	8.1%
Mankato MSA single-family building permits June	25	28	-10.7%
Southwest Minnesota Leading Economic Indicators Index June (December 1999 = 100)	219.9	218.2	0.8%

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 fell by 2.6 percent from year earlier levels in the second quarter of this year. Of the six Minnesota planning areas, only the central and southwest regions experienced declining new business formation compared to the previous year. Graphically, the pattern of new business filings seems to have flattened out in Southwest Minnesota in recent quarters. This is largely a result of using a 12-month moving total of new business filings to plot the data. Note that 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	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southwest Minnesota Total New Business Filings	610	504	559	660	594	-2.6%

New business incorporations trended downward in Southwest Minnesota from 2005 to 2011, but they appear to have leveled off in 2011-12. Incorporations have declined over the past two years. This is highlighted by a 14.5 percent decline in new business incorporations from year earlier levels in this year’s second quarter. This was the largest decline in any of the state’s planning areas.

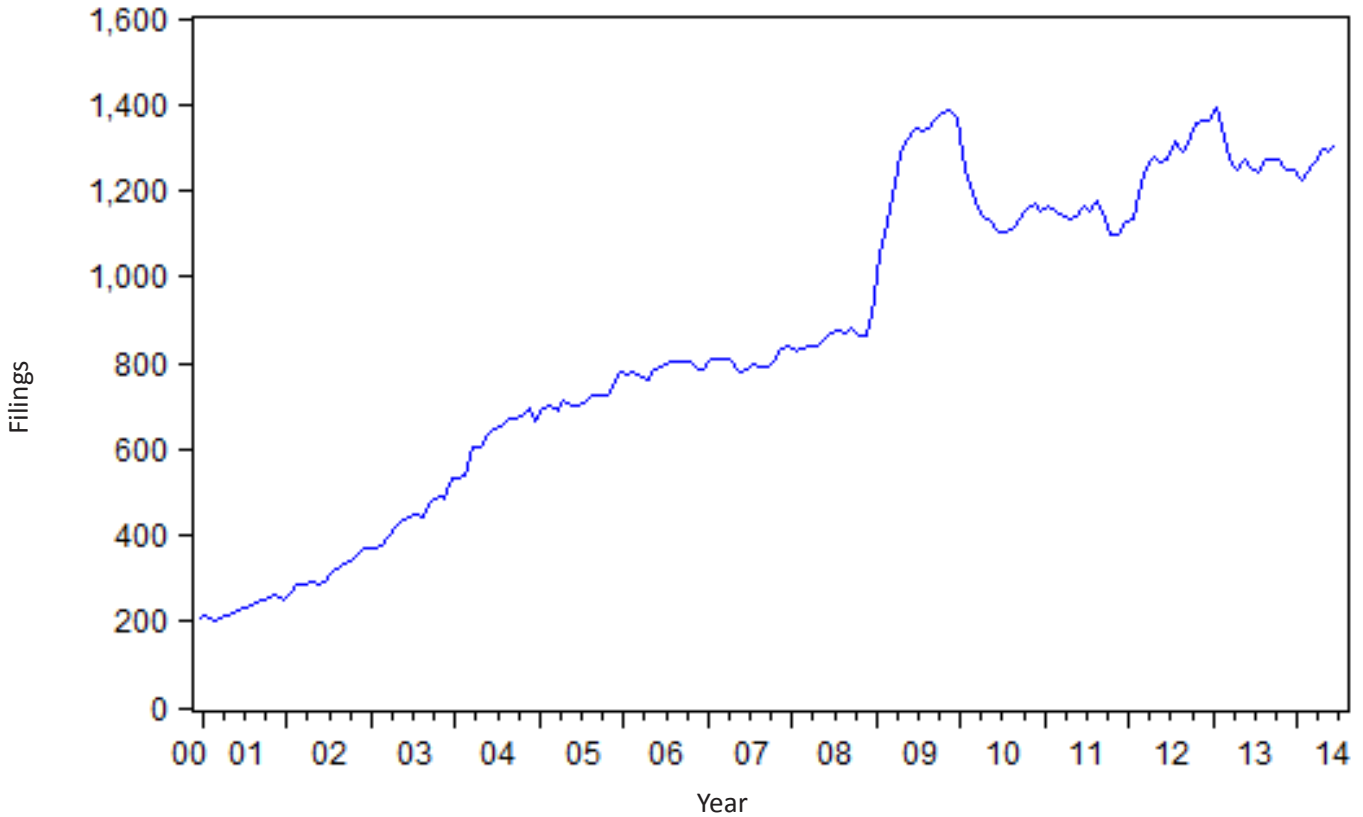
New Incorporations—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southwest Minnesota New Business Incorporations	62	48	60	59	53	-14.5%

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 limited liability company (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 since 2000. This trend continued with a strong 12.5 percent increase from year earlier levels in the most recent quarter. No other region in Minnesota experienced this magnitude of increase in new LLCs.

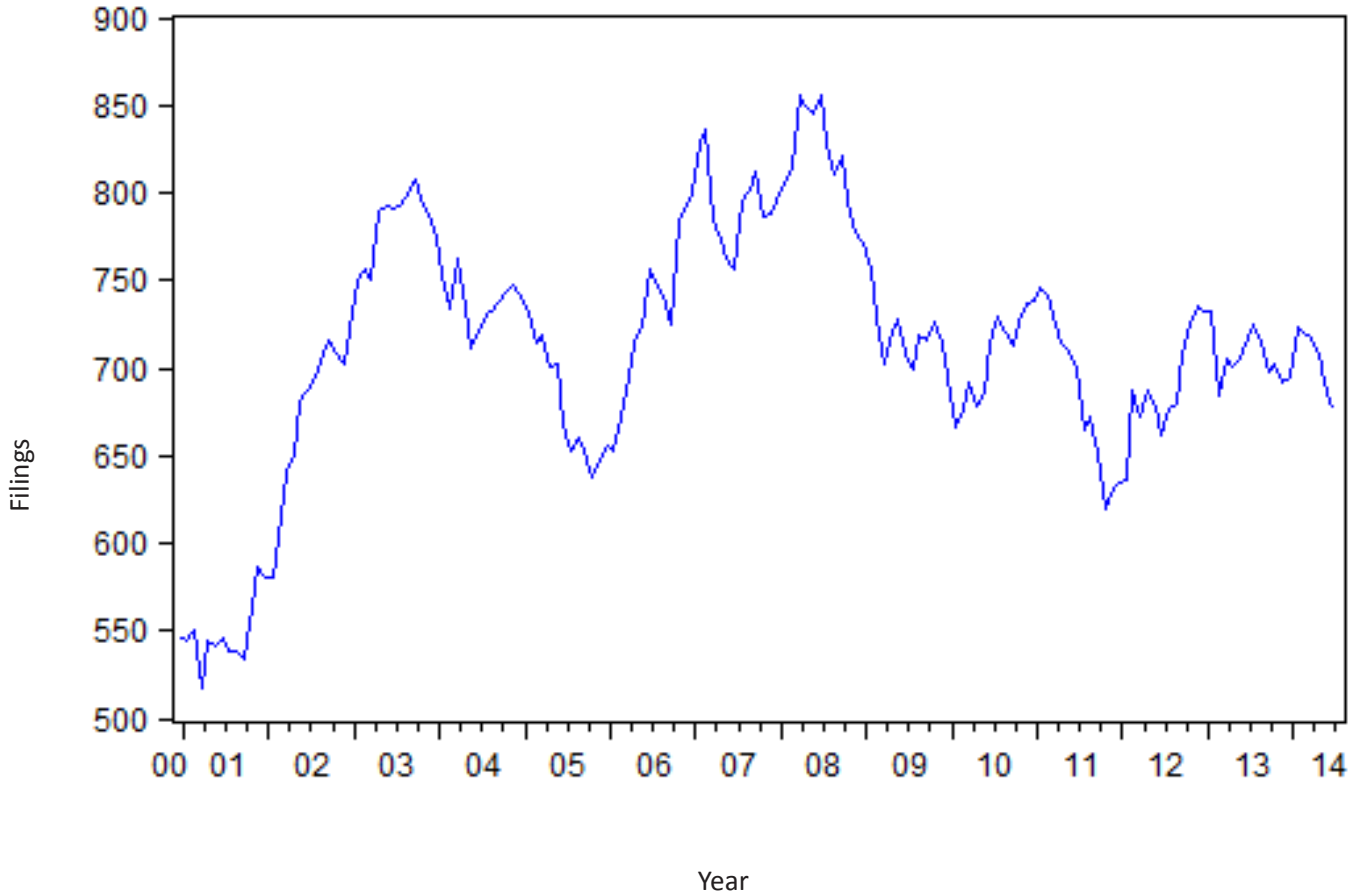
**New Limited Liability Companies—Southwest Minnesota Planning Area
(12-month moving total)**



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	320	284	310	352	360	12.5%

Second quarter assumed names decreased by 22.1 percent compared to the same period in 2013. While this was the largest decrease in this category in any of the state’s planning areas, it should be noted that four of the six planning areas reported a decline in new assumed names over the past 12 months.

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



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southwest Minnesota New Assumed Names	194	147	164	213	153	-21.1%

Southwest Minnesota experienced a huge jump in the number of new nonprofits registered with the Office of the Minnesota Secretary of State in the second quarter of 2014. With 28 newly registered nonprofits, this series increased by 700 percent from one year ago.

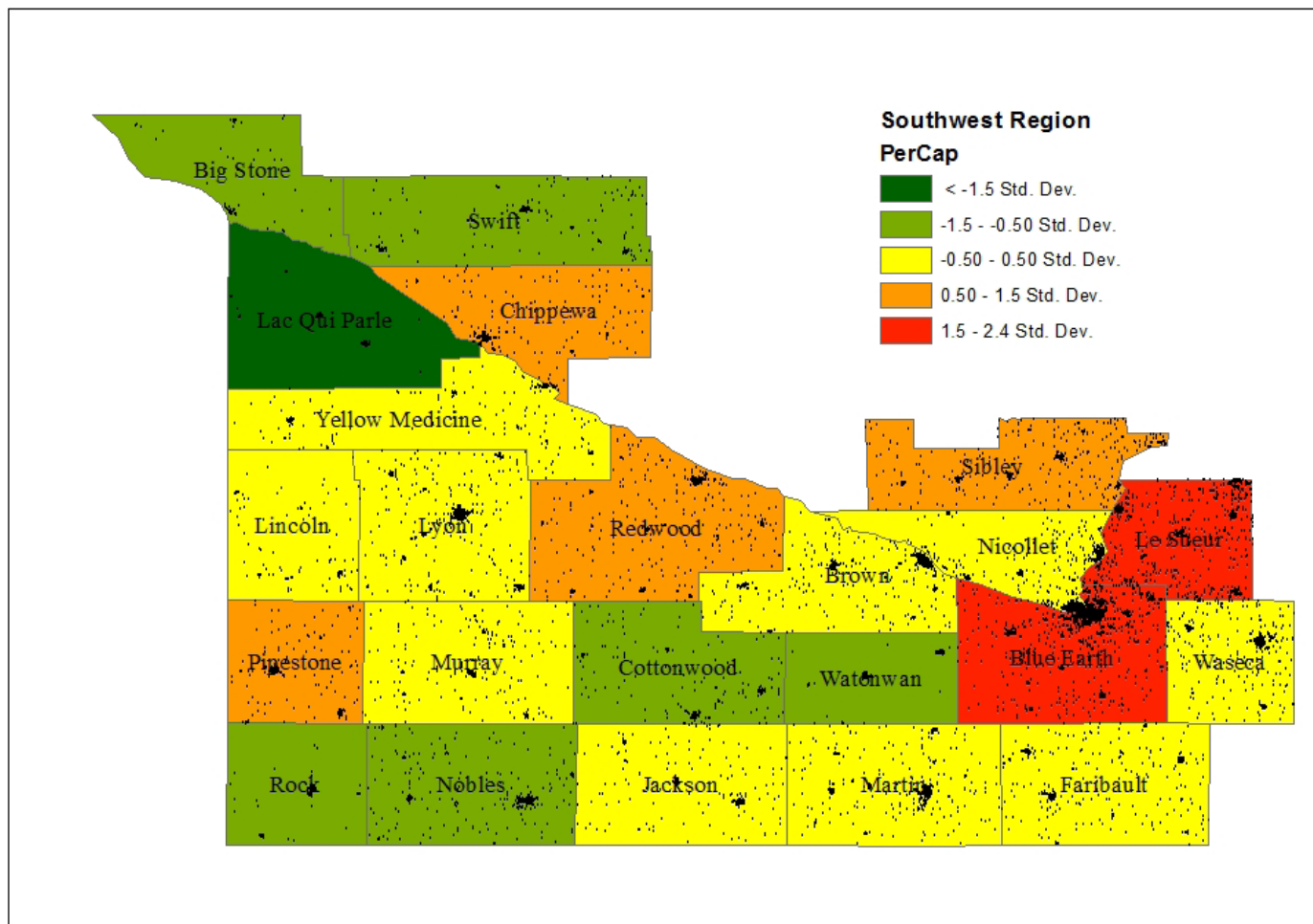
New Nonprofits—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Southwest Minnesota New Nonprofits	4	10	5	7	28	700%

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 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. Three counties in the Southwest Minnesota planning area (Blue Earth, Le Sueur, Nicollet) experienced population growth that was more rapid than the state as a whole over this period. Population grew at a lower rate than the state average in two other counties (Lyon, Nobles). The other 18 counties experienced declining populations from 2000 to 2010: Big Stone, Brown, Chippewa, Cottonwood, Faribault, Jackson, Lac qui Parle, Lincoln, Martin, Murray, Pipestone, Redwood, Rock, Sibley, Swift, Waseca, Watonwan and Yellow Medicine.

**Per Capita New Business Formation Between 2000 and 2010—
Southwest 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 Nicollet County (colored yellow) enjoyed substantial numbers of newly formed businesses over the decade of the 2000s, it also experienced significant population growth. Compared to the overall planning area, Nicollet 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 are several other Southwest Minnesota counties (those colored yellow) that experienced average per capita business formation in the 2000s.

Note that seven counties (six colored light green and one colored dark green) in the planning region all experienced relative declines in per capita business formation. Lac qui Parle County had a particularly large decline in relative per capita new business formation. Note that all of these counties except Nobles saw their population decline between 2000 and 2010.

Several counties (colored orange and red) had relative gains in per capita business formation. Blue Earth and Le Sueur counties (colored red) stand out as particularly high growth per capita business formation areas. Chippewa, Redwood, Sibley and Pipestone counties also enjoyed a relative improvement in per capita business formation in the first decade of the twenty-first century. With the exception of Pipestone County, these orange/red outliers tend to be clustered in the interior of the planning region and not on the state's border.

For Greater Minnesota as a whole (and to some extent, for the Southwest 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. This not true of the seven counties in the Twin Cities metropolitan 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.

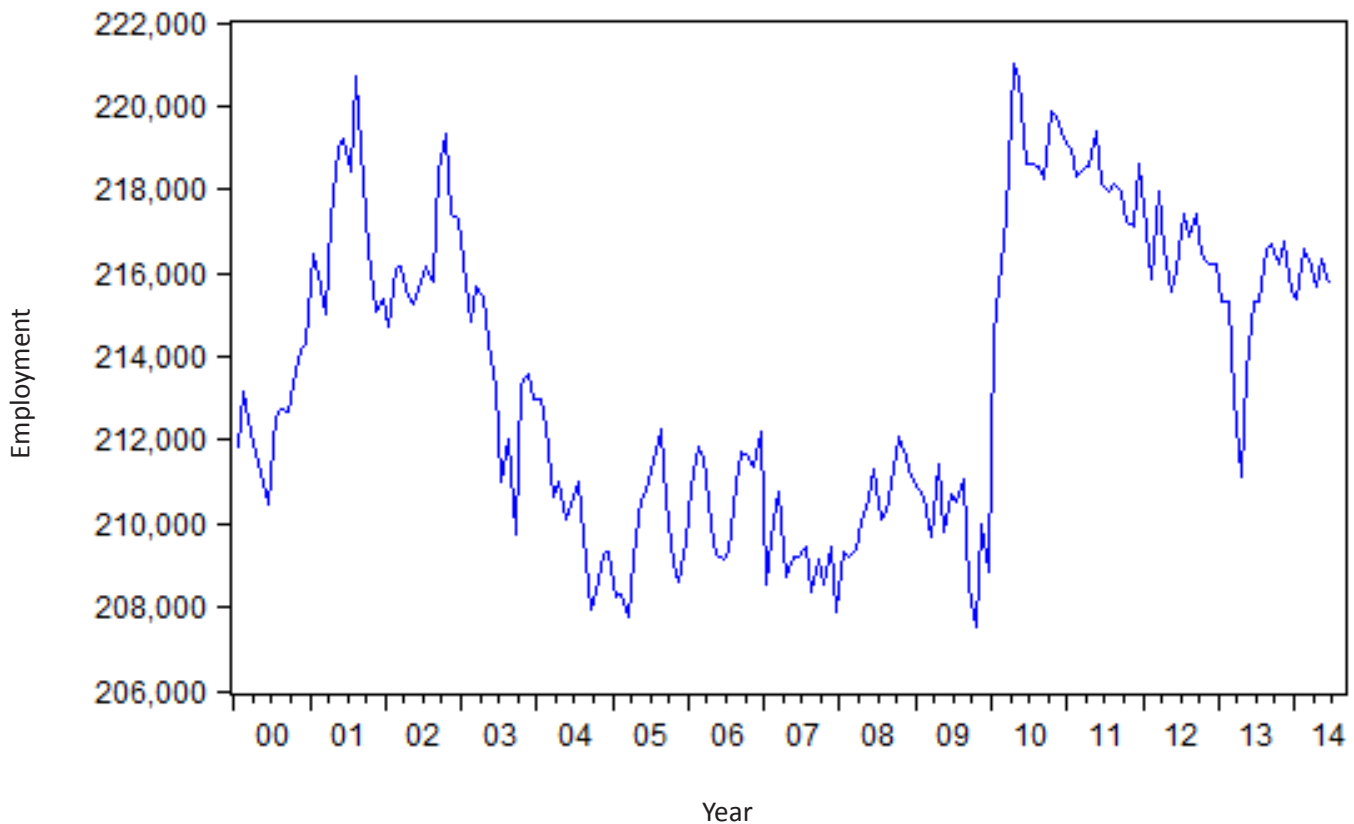
As noted in last quarter's report, one striking pattern of new business formation that emerges from this GIS mapping tool is the importance of roadways. In areas throughout Minnesota, business formation tends to cluster around major roadways. This is evident in observing the pattern of dots in Southwest Minnesota that are clustered around State Highway 212, U.S. Highways 12, 14 and 169, and Interstate 90.

Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 0.2 percent over the past year. As noted in last quarter’s report, compared to other planning areas in Minnesota, the 12-month moving employment average has not changed much from 13 years ago in the southwestern part of the state. Indeed, using non-seasonally adjusted data, Southwest Minnesota planning area employment in June 2014 (see accompanying table) was 5,069 lower than in June 2001, when employment in this region totaled 223,104.

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.

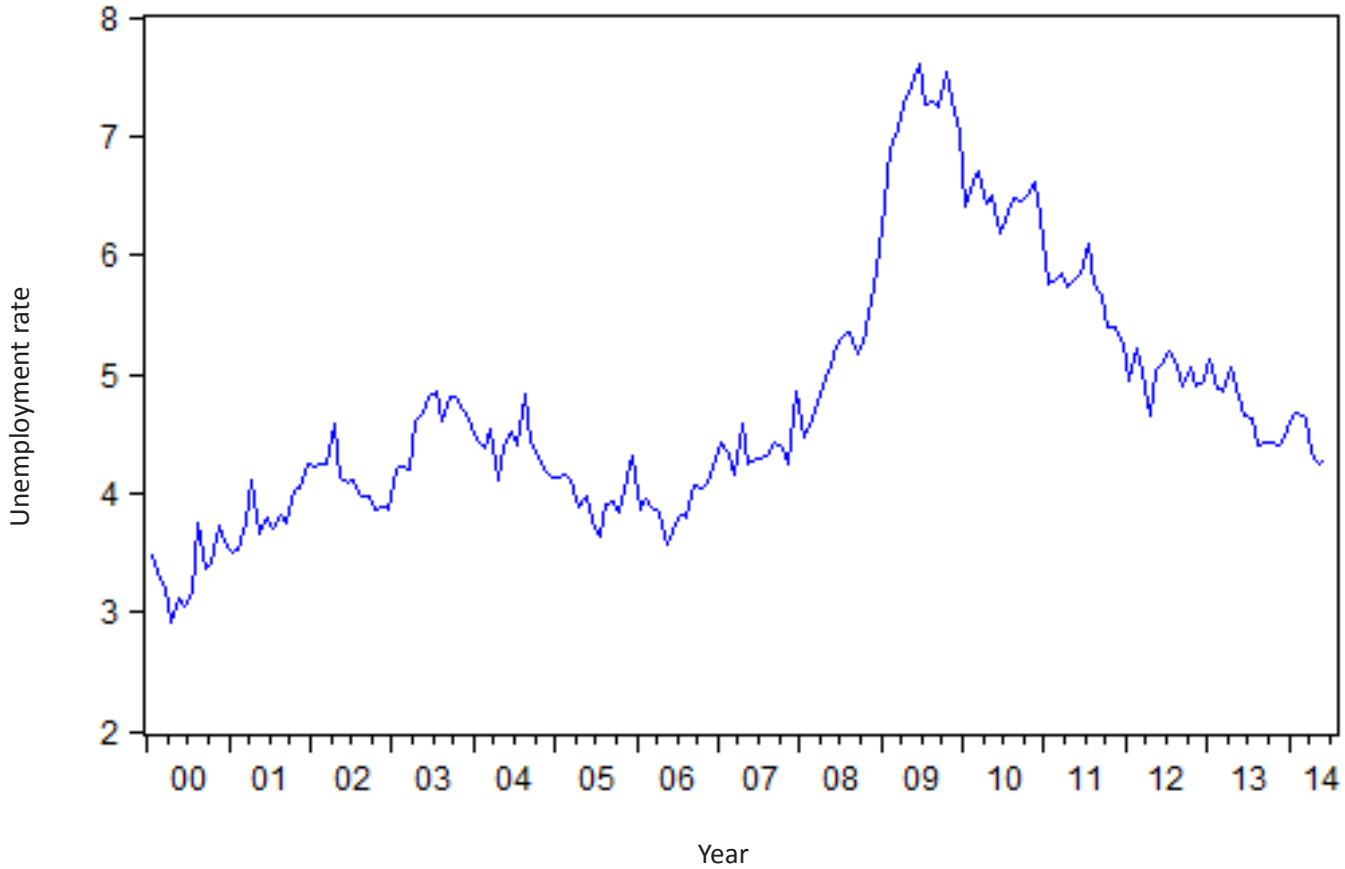
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Employment (Not seasonally adjusted)	217,698	211,315	211,873	213,773	215,499	217,342	218,035

Seasonally adjusted unemployment in Southwest Minnesota continued to decline from its late 2009 peak through the second quarter of 2014. The non-seasonally adjusted unemployment rate now stands at 4.3 percent — an improvement on the 4.7 percent rate recorded in June 2013.

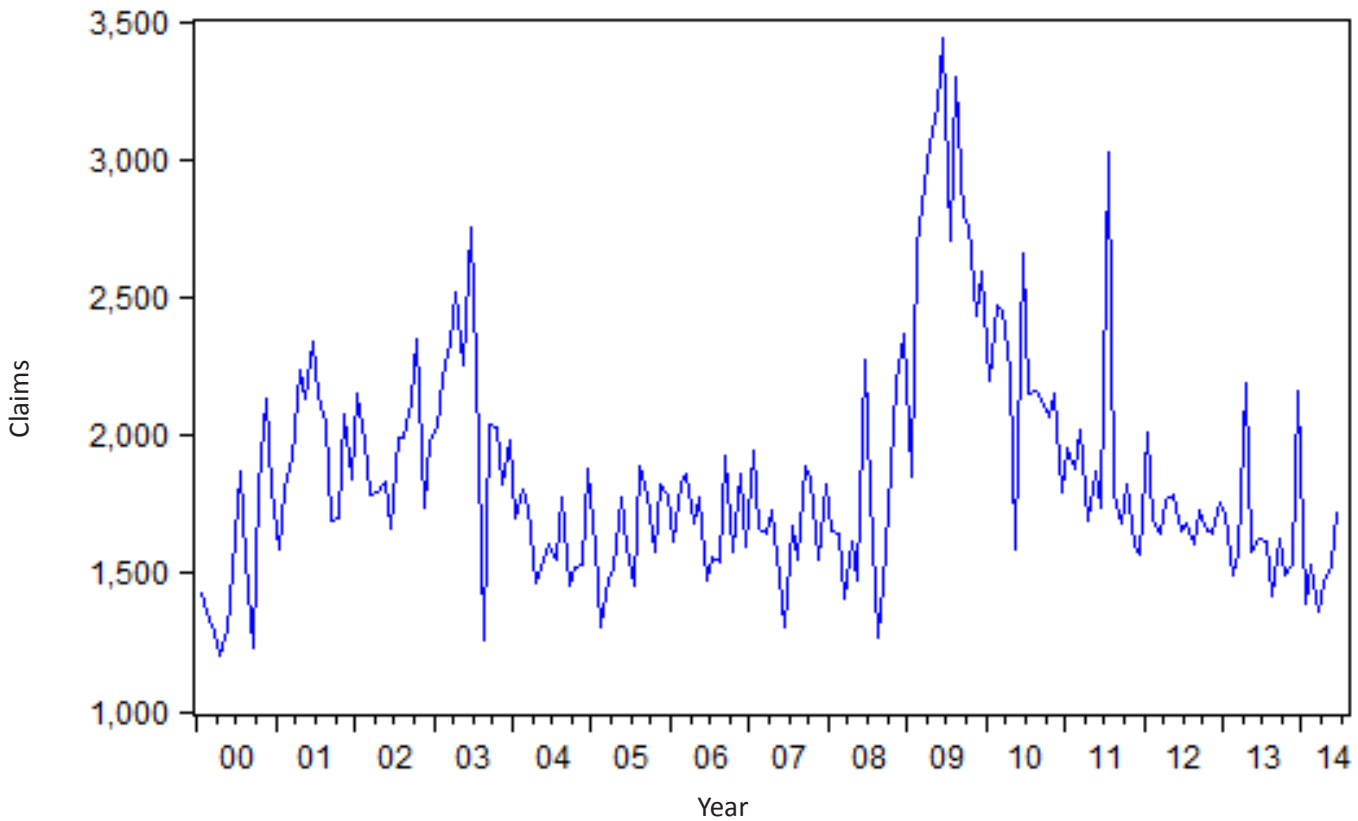
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Unemployment Rate (Not seasonally adjusted)	4.7%	5.7%	5.6%	5.4%	4.3%	3.8%	4.3%

As noted earlier, new claims for unemployment insurance in June 2014 were above levels from one year ago. There were 1,633 initial claims for unemployment benefits in June 2014, 113 more than one year ago — a 7.4 percent increase. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. Only recently has this series begun to rise from its low level in the beginning of the year.

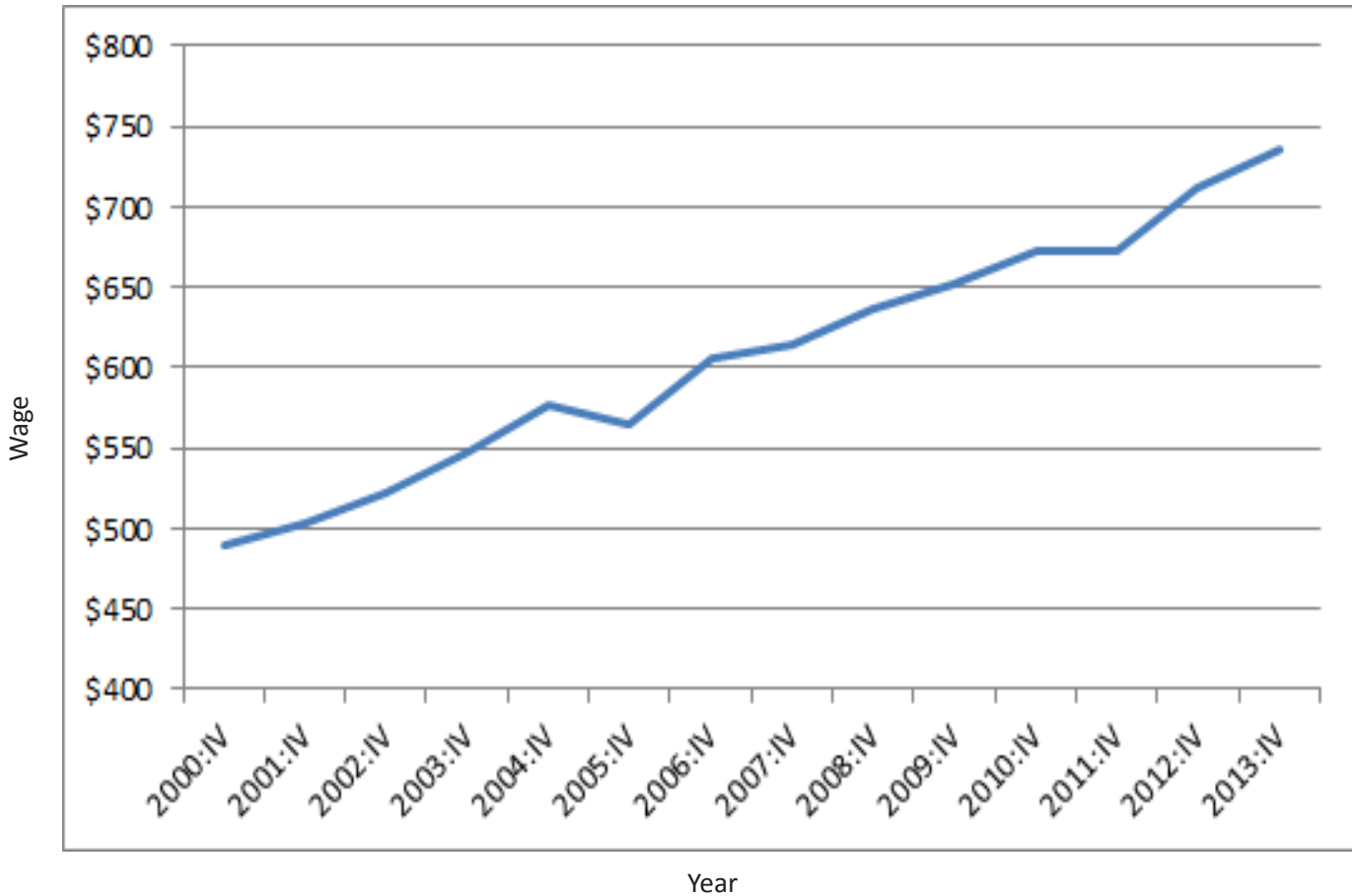
Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Southwest Minnesota Planning Area



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Initial claims (Not seasonally adjusted)	1,520	1,986	1,310	1,185	995	1,256	1,633

The average weekly wage in Southwest Minnesota in the fourth quarter of 2013 (the most recently available data) was 3.4 percent higher than it was one year earlier. At \$735, the average weekly wage in Southwest Minnesota is the second lowest of Minnesota’s six planning areas (only Northwest Minnesota has a lower average weekly wage).

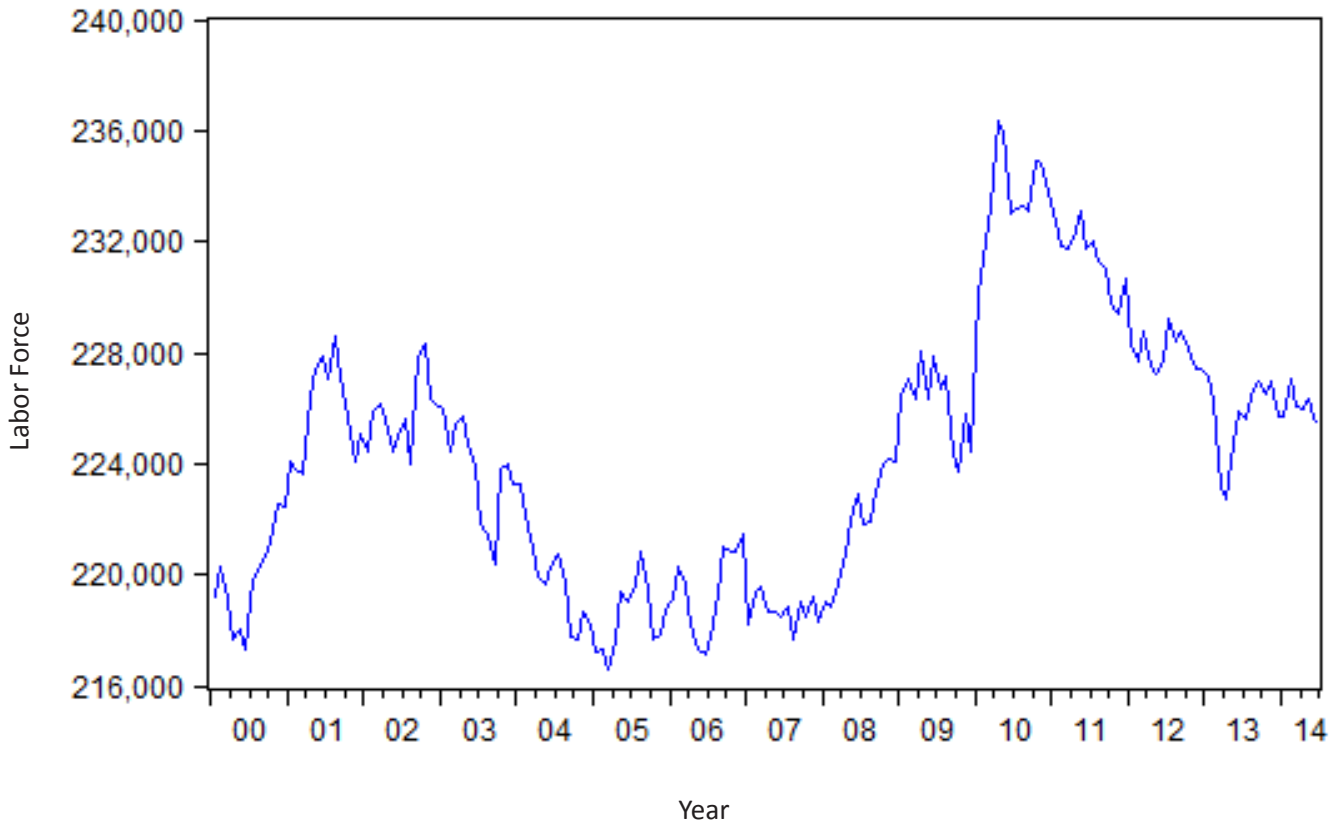
Average Weekly Wage—Southwest Minnesota Planning Area



Quarter	2008: 4th	2009: 4th	2010: 4th	2011: 4th	2012: 4th	2013: 4th
Average Weekly Wage	\$637	\$652	\$673	\$672	\$711	\$735

Using a 12-month moving average to remove some of the seasonal patterns in labor force activity, the Southwest Minnesota labor force appears to have leveled out over the last several quarters. However, as seen in the accompanying graph, the size of the regional labor force is little changed from 2001. As was noted in last quarter’s report, the large influx of workers between 2008 and 2010 is unlike other regions and may be an aberration that has subsided in recent years. Compared to June 2010, the Southwest Minnesota planning region’s labor force is lower by 9,032 — this slide in the labor force may constrain the area’s potential growth.

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



Year (June)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	232,023	236,969	235,100	230,582	228,485	227,937

Mankato / North Mankato MSA Indicators

Labor Market	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2014 (m)	55,493	54,625	1.6% ↑	1.0%
Goods-Producing Employment	June 2014 (m)	10,289	9,987	3.0% ↑	-0.6%
Average Weekly Work Hours--Private Sector	June 2014 (m)	31.8	33.8	-5.9% ↓	33.8 (since 2008)
Average Earnings Per Hour--Private Sector	June 2014 (m)	\$22.26	\$21.25	4.8% ↑	0.2% (since 2008)
Unemployment Rate	June 2014 (m)	3.9%	4.4%	NA	4.2%
Labor Force	June 2014 (m)	59,133	58,648	0.8% ↑	0.6%
Initial Jobless Claims	July 2014 (m)	182	331	-45.0% ↓	NA
Business Formation					
Total New Business Filings	Second Quarter 2014	165	162	1.9% ↑	148
New Business Incorporations	Second Quarter 2014	18	16	12.5% ↑	26
New Limited Liability Companies	Second Quarter 2014	96	95	1.1% ↑	57
New Assumed Names	Second Quarter 2014	46	45	2.2% ↑	50
New Nonprofits	Second Quarter 2014	5	6	-16.7% ↓	9
Mankato / North Mankato Residential Building Permit Valuation	June 2014 (m)	6,069	5,785	4.9% ↑	4,449 (since 2009)
Mankato / North Mankato Cost of Living Index	First Quarter 2014	94.9	93.9	1.1% ↑	NA

(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. As the accompanying table shows, Mankato was the bright spot in regional economic performance in the second quarter of 2014. Mankato experienced annualized employment growth of 1.6 percent over the year ending August 2014, and employment in its goods-producing sector grew at a 3 percent rate over this same period. The value of residential building permits increased, the unemployment rate fell, average hourly earnings rose, initial jobless claims fell, and the labor force expanded. There does appear to be some cost of living pressures that are being felt in Mankato, but the area still is very affordable compared to other U.S. metropolitan areas. Mankato does not appear to be experiencing the challenges that are being faced in the rest of the Southwest Minnesota planning area.

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 & Poor's 500 stock price index	1,947.09	1,863.52	1,618.77	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 its beginning.

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 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.

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.

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, Labor Force, Goods-producing Employment, Unemployment Rate, Average Weekly Wage.

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

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

U.S. Bureau of Census: 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.

U.S. Energy Information Administration: Oil Prices.