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Central Minnesota Economic and Business Conditions Report - Fourth Quarter 2014

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Economic and Business Conditions Report
Fourth Quarter 2014

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Central Minnesota business conditions should remain strong through the first several months of 2015 according to predictions of the Central Minnesota Leading Economic Indicators Index. While three components of the index declined over the last three months of 2014, a strong reading on residential building permits helped propel the index to a 7.90 point gain in the last quarter of 2014. The index was 41 percent higher than one year earlier. A rise in national durable goods orders also contributed favorably to the outlook, while recent weakness in a general measure of state business conditions and a rise in jobless claims had a negative effect on the LEI.

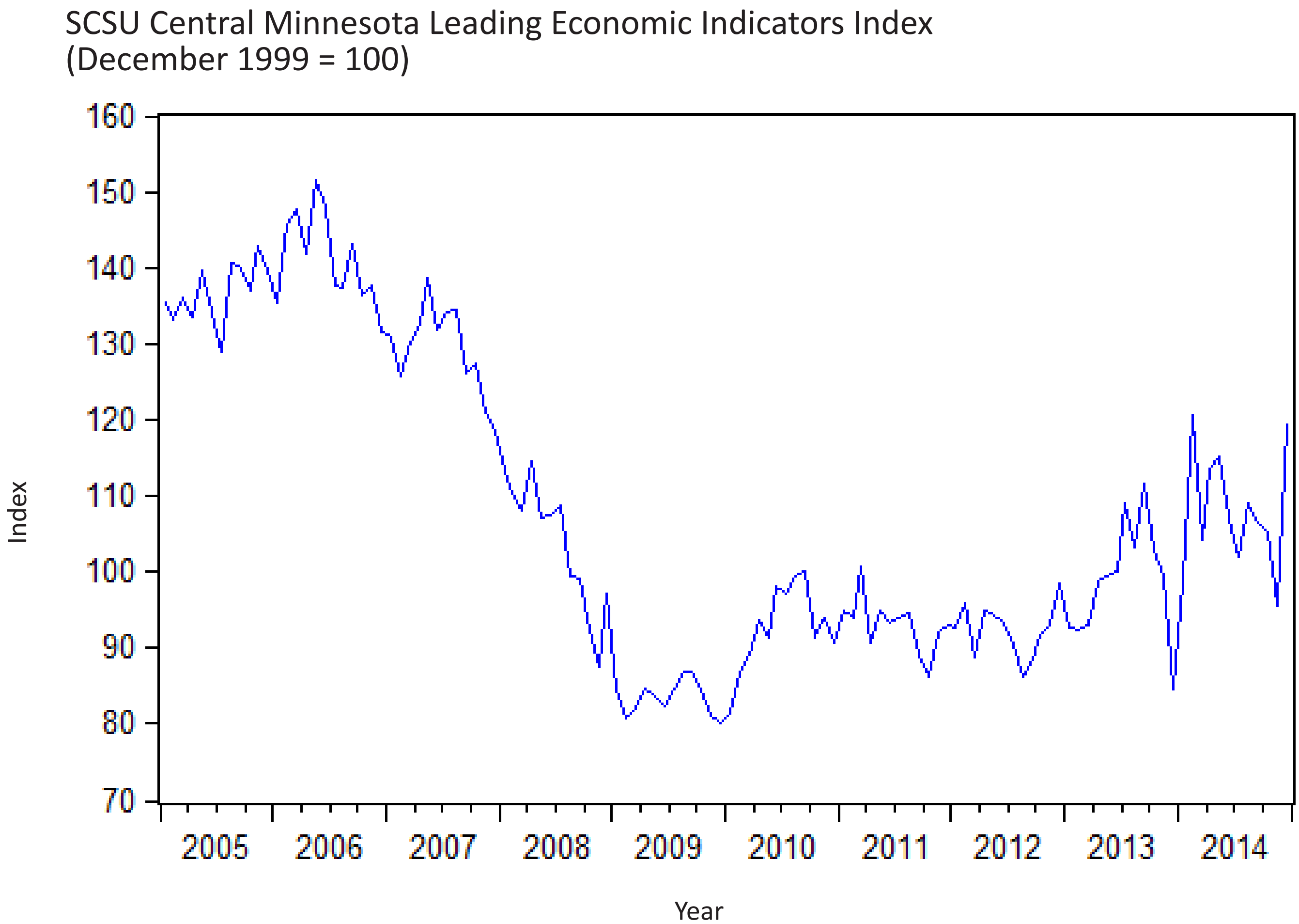
There were 1,192 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the fourth quarter of 2014 — representing a 0.6 percent decline from one year earlier. There were 154 new regional business incorporations in the fourth quarter, a 17.6 percent increase from year earlier levels. Fourth quarter new limited liability company (LLC) filings in Central Minnesota increased by 3.6 percent—rising to 688. New assumed names totaled 306 in the fourth quarter —a reduction of 12.8 percent from the third quarter of 2013. There were 44 new filings for Central Minnesota non-profits in the fourth quarter—9 fewer filings than one year earlier.

Central Minnesota employment was 1.6 percent higher in December 2014 than it was one year earlier. Compared to one year earlier, 5,871 more residents of Central Minnesota had jobs at the end of 2014. The regional unemployment rate was 4.2 percent in December 2014, well below the 5.1 percent rate reported one year earlier. There were 526 fewer initial claims for unemployment insurance in January 2015 then one year earlier. The Central Minnesota labor force continued to grow in 2014 and average weekly wages were higher.

Data from the St. Cloud area showed strength in the largest market in the Central Minnesota planning area. Overall job growth was up 1.6 percent over the year ending December 2014 and the St. Cloud unemployment rate fell to 3.5 percent. St. Cloud area businesses remain concerned about worker shortages as a measure of expected future difficulty attracting qualified workers was 13 percent higher than one year earlier. St. Cloud area business filings increased, unemployment insurance claims fell, and median home sales prices rose in December 2014.

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 7.90 points higher in the fourth quarter and finished the year 41.37 percent above its level at the end of 2013. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility over the past year, but has trended upward from its low point in the Great Recession.



Components of SCSU Central Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2014	Contribution to LEI, 3rd quarter 2014
Minnesota Business Conditions Index	-1.82	-1.32
Central Minnesota initial claims for unemployment insurance	-1.78	0.98
Central Minnesota new filings of incorporation	-0.86	1.52
St. Cloud MSA residential building permits, December	11.72	0.12
National new orders for durable goods, real	0.64	0.18
TOTAL CHANGE	**7.90**	**1.48**

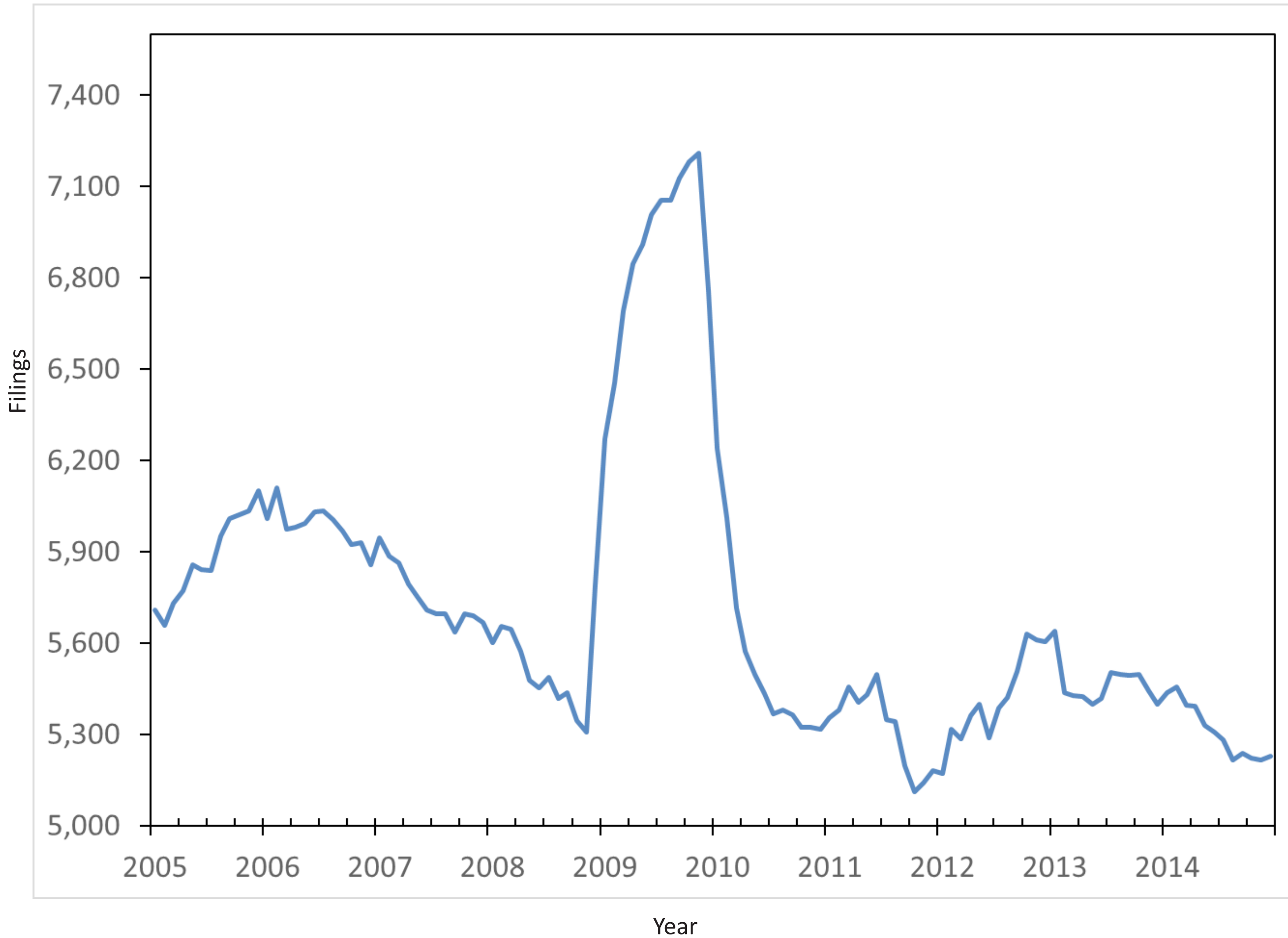
Three index components—Central Minnesota initial claims for unemployment insurance, the Minnesota Business Conditions index, and lagged new filings of incorporation—had a negative impact on the LEI in the fourth quarter. The other two components of the LEI favorably influenced the end of the year outlook. Central Minnesota is an exporter of consumer durables, so national durable goods orders are a proxy for regional economic performance. This indicator improved slightly in the fourth quarter. A large increase in St. Cloud MSA residential building permits had a major positive effect on the LEI.

SCSU Central Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index December	61.4	58.9	4.24%
Central Minnesota initial claims for unemployment insurance December	6,447	7,386	-12.71%
Central Minnesota new filings of incorporation Fourth Quarter	337	290	16.21%
St. Cloud MSA residential building permit valuation In Thousands, December	10	5	100.00%
National new orders for durable goods, billions of real 1984 dollars, December	213.3	206.3	3.39%
Central Minnesota Leading Economic Indicators Index December (December 1999 = 100)	119.6	84.6	41.37%

Central Minnesota Business Filings

The graphs in this section show 12-month moving totals for the various new business filings in Central Minnesota that are registered with the Office of the Minnesota Secretary of State. There were 1,192 new business filings in Central Minnesota in the fourth quarter. This represented a 0.6 percent decline from the same period one year earlier. The twelve month moving total has been fairly steady over the past several years. As can be seen in the accompanying graph, there was an abrupt increase in new business filings at the end of 2008. This resulted from a sharp increase in new LLC filings at that time. This outlier (resembling a shark fin) 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.

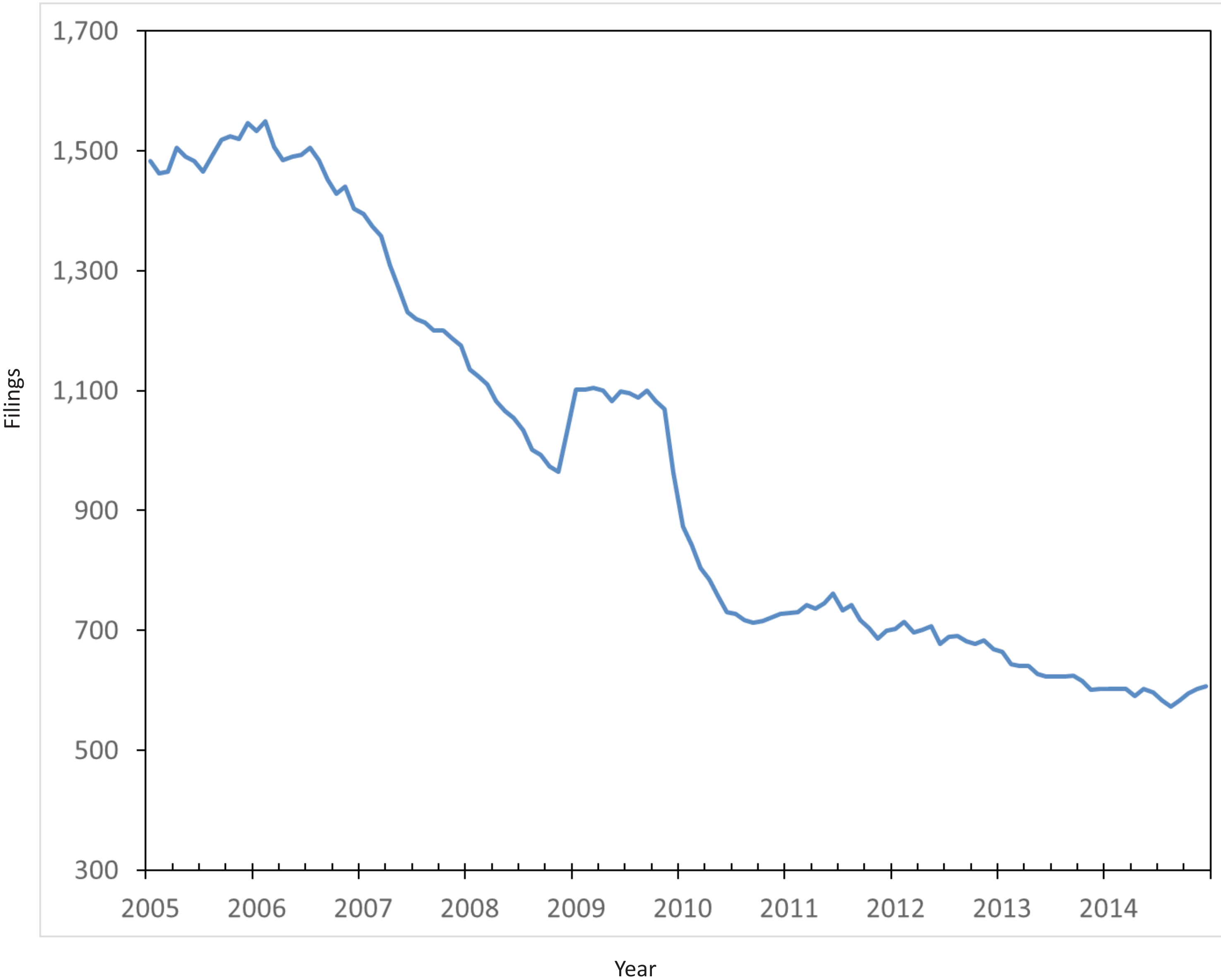
Total New Business Filings—Central Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Central Minnesota Total New Business Filings	1,199	1,450	1,370	1,217	1,192	-0.6%

New business incorporations have trended downward in Central Minnesota since 2005. However, quarterly figures of new business incorporations were 17.6 percent higher in the fourth quarter of 2014 than they were one year earlier.

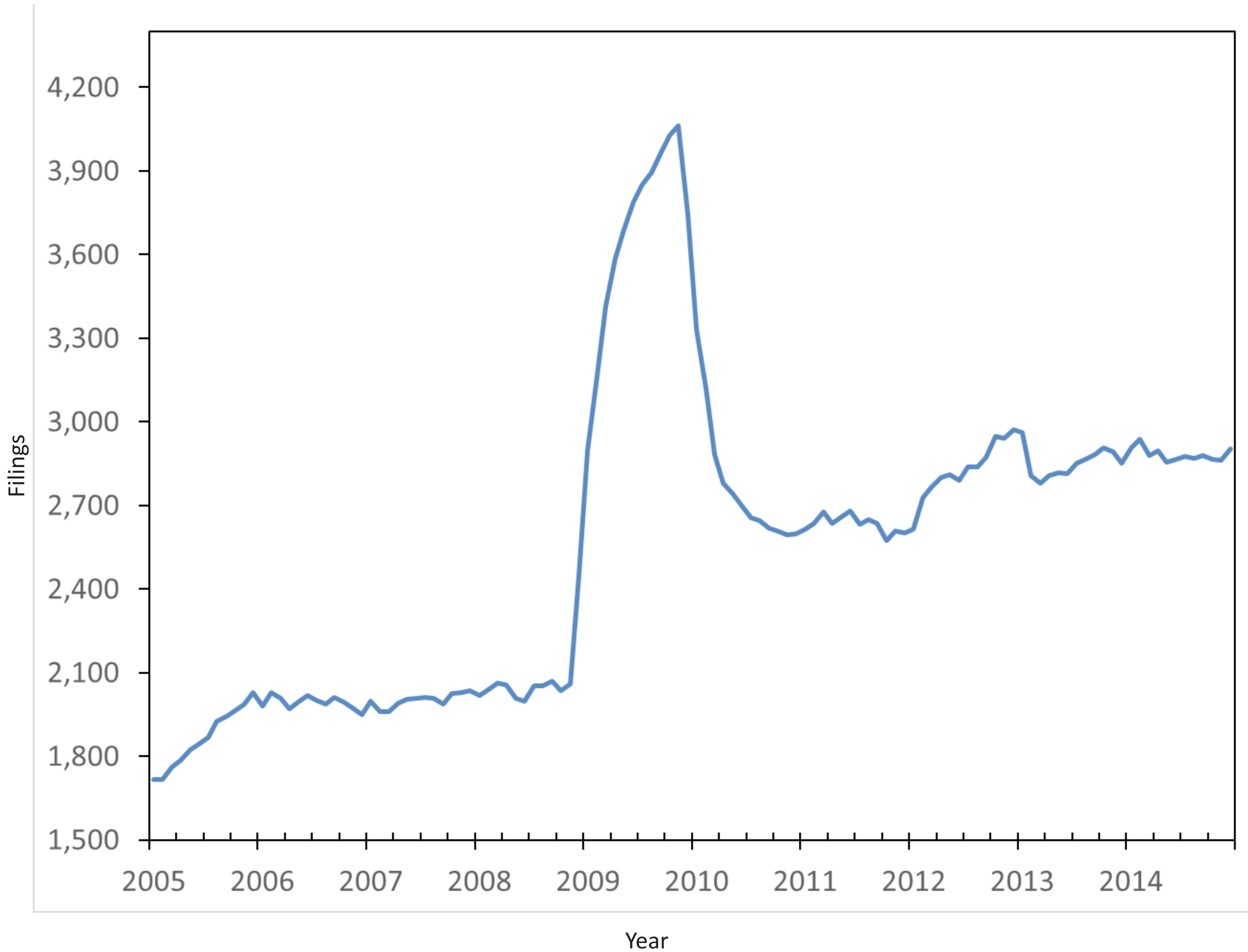
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Central Minnesota New Business Incorporations	131	177	151	125	154	17.6%

There has been a move away from the traditional incorporation form of business organization towards the LLC throughout Minnesota. While new business incorporations remain an important indicator of new business formation in Central Minnesota, LLCs are increasingly useful in evaluating regional economic performance. New LLCs in Central Minnesota are more than four times larger than newly formed business incorporations. The number of new LLCs expanded by 3.6 percent from year earlier levels in the fourth quarter of 2014.

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



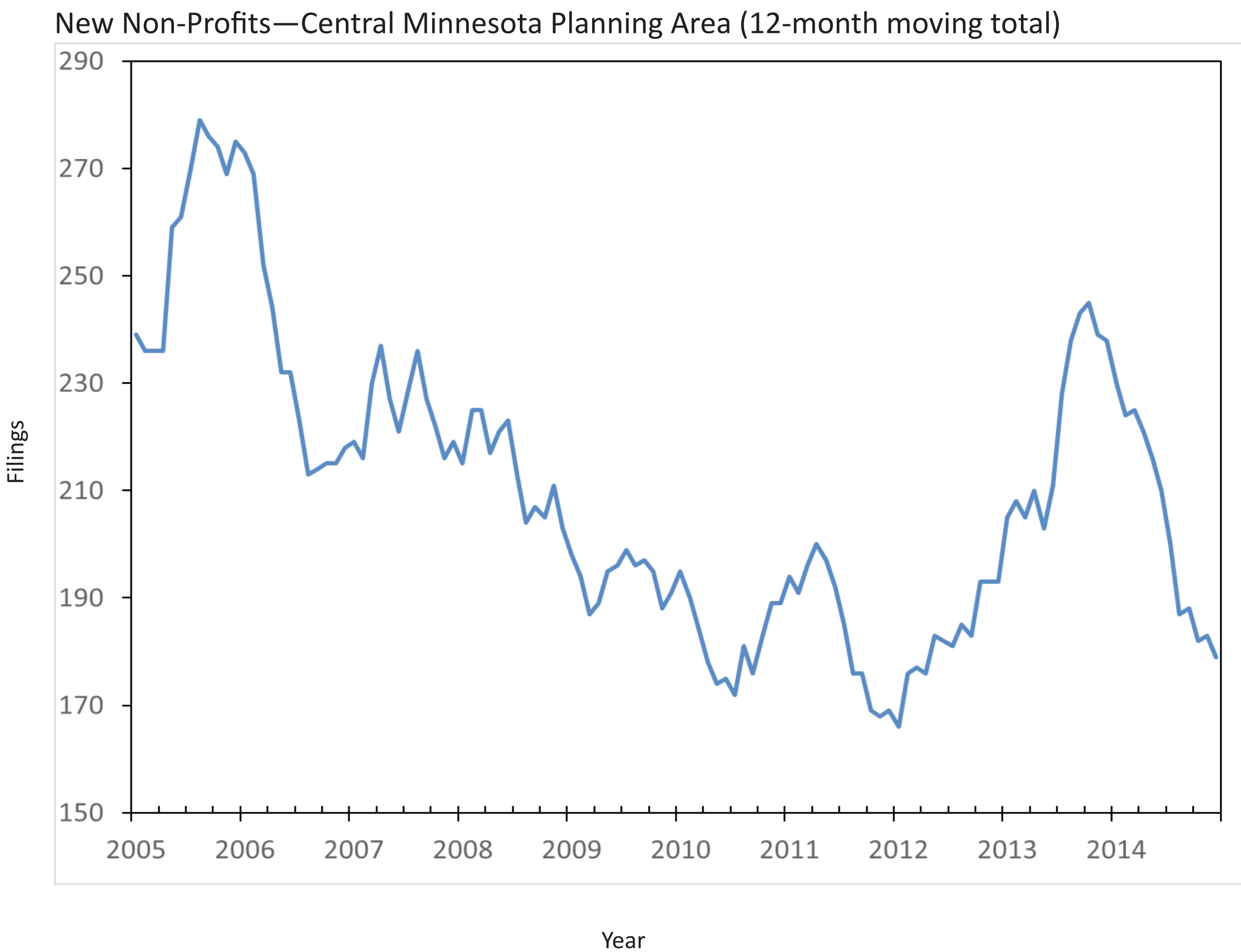
Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Central Minnesota New Limited Liability Companies	664	746	762	706	688	3.6%

Assumed names, which include sole proprietors or organizations that do not have limited liability, declined by 12.8 percent compared to fourth quarter 2013. 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	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Central Minnesota New Assumed Names	351	475	415	345	306	-12.8%

There were 44 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the fourth quarter of 2014 — nine fewer new non-profits than were recorded one year earlier. This represents a 17 percent decline in new non-profits compared to the fourth quarter of 2013.



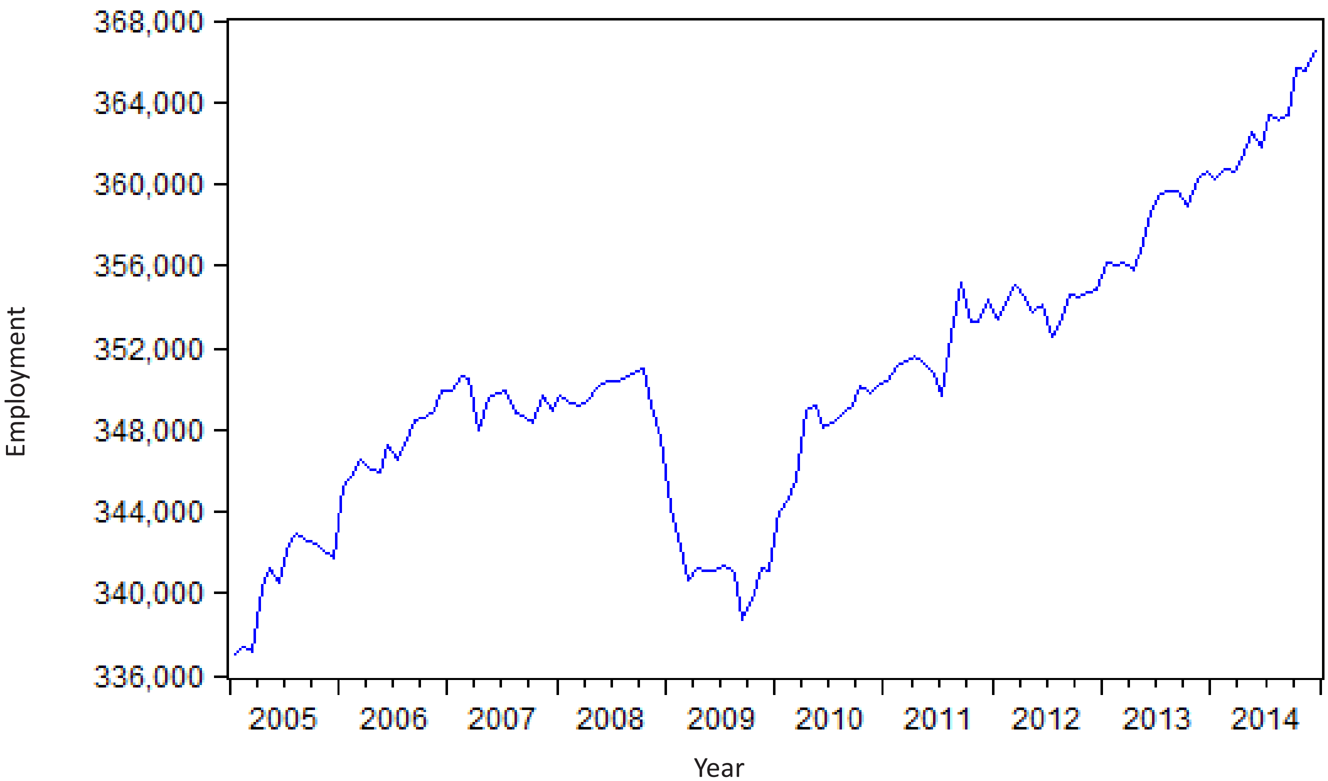
Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Central Minnesota New Non-Profits	53	52	42	41	44	-17%

Central Minnesota Labor Market Conditions

Central Minnesota employment grew 1.6 percent over the year ending December 2014. With the exception of the Great Recession of 2008–2009, Central Minnesota has demonstrated its ability to create jobs over the past decade at a rate better than many other areas of Greater Minnesota.

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.

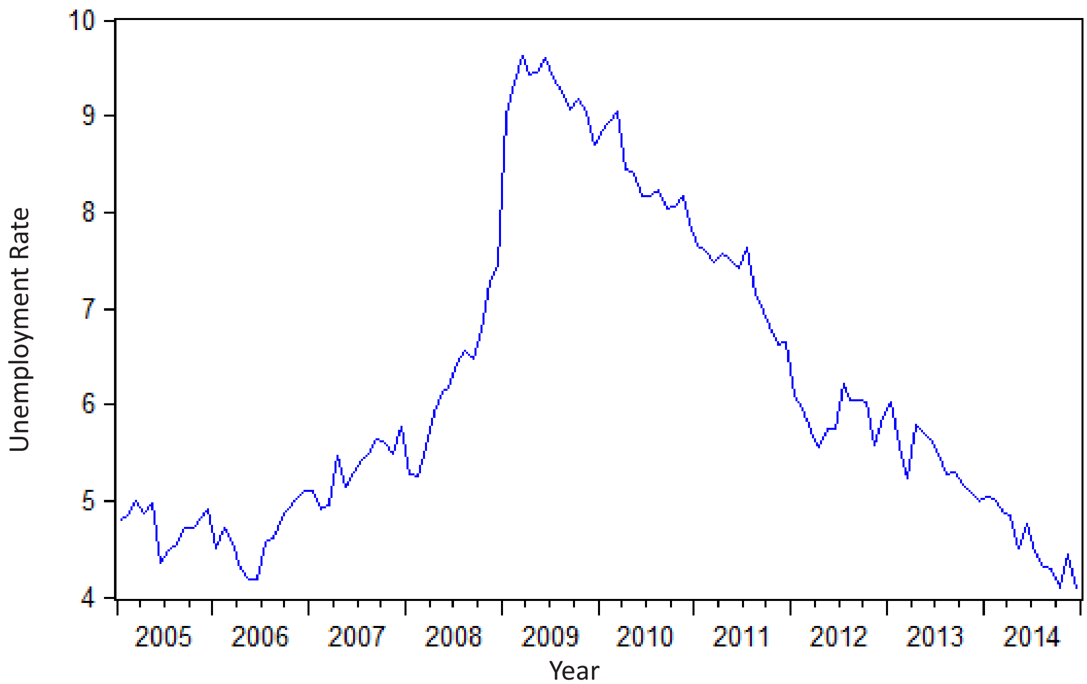
Employment—Central Minnesota Planning Area (12-month moving average)



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Employment (Not seasonally adjusted)	358,702	366,851	369,975	364,971	369,118	367,125	364,573

Central Minnesota's unemployment rate declined throughout 2014. The 4.2 percent unemployment rate at the end of December was considerably lower than the December 2013 reading (which was 5.1 percent).

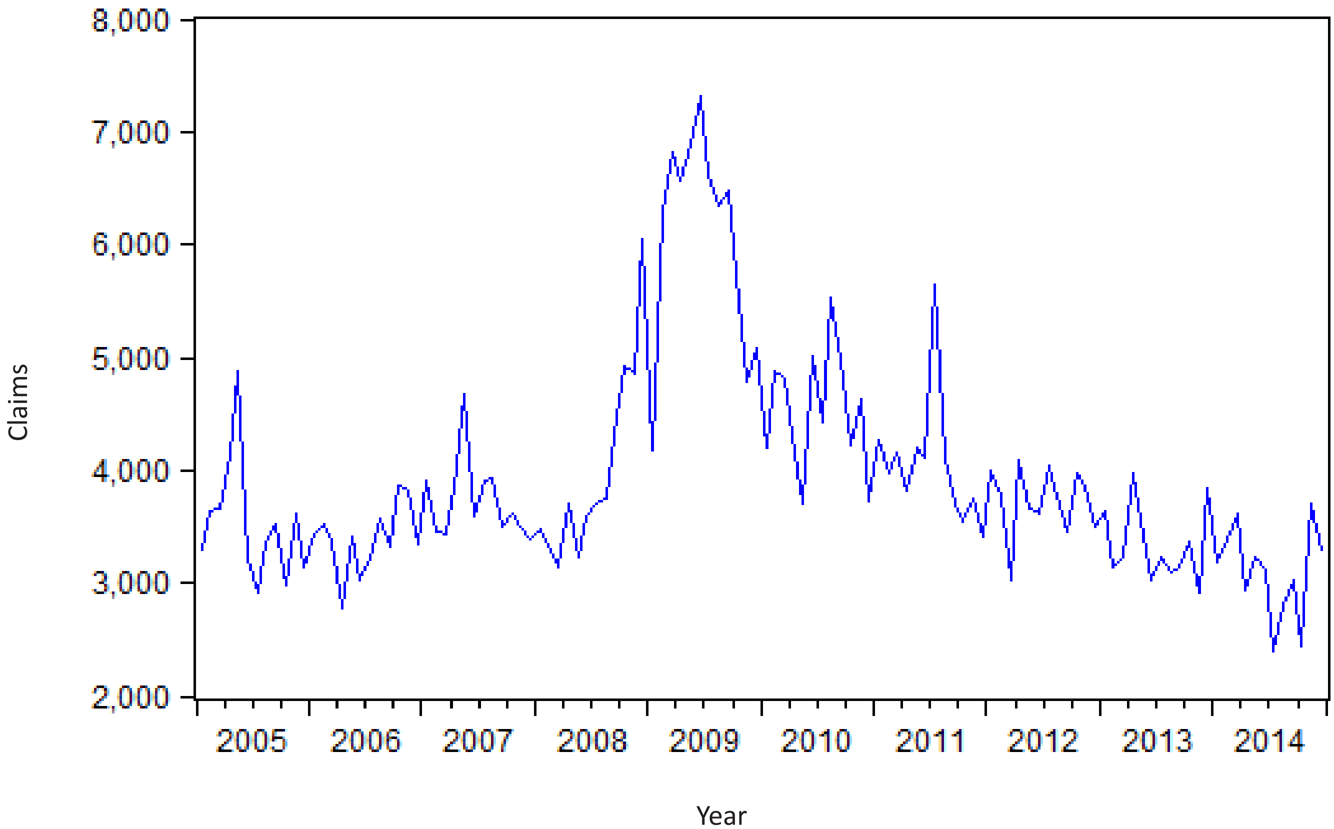
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Unemployment Rate (Not seasonally adjusted)	5.1%	4.1%	3.7%	3.5%	3.0%	3.6%	4.2%

Initial claims for unemployment insurance in the Central Minnesota planning area followed a normal seasonal pattern by increasing in November and December, but decreasing in January. At 3,786, the January 2015 level of regional jobless claims was 12.2 percent lower than one year earlier.

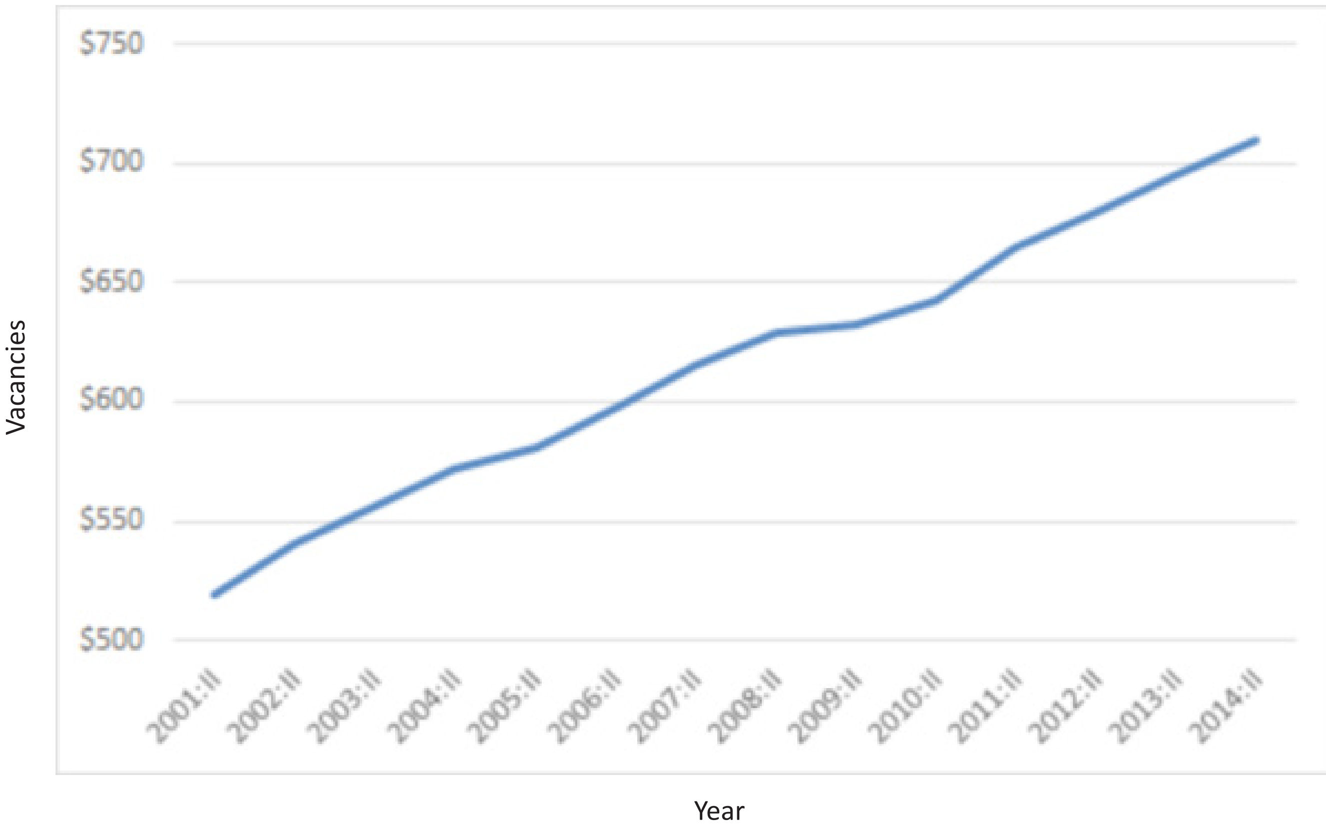
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Central Minnesota Planning Area



Month	January 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015
Initial claims (Not seasonally adjusted)	4,312	1,693	1,842	2,109	6,003	6,452	3,786

Average weekly wages in Central Minnesota increased in the most recent reporting period to $710. This represents a 2.2 percent increase from one year earlier. Central Minnesota has only the fourth highest average weekly wages out of Minnesota's six planning areas. Only Northwest and Southwest Minnesota have lower average wages.

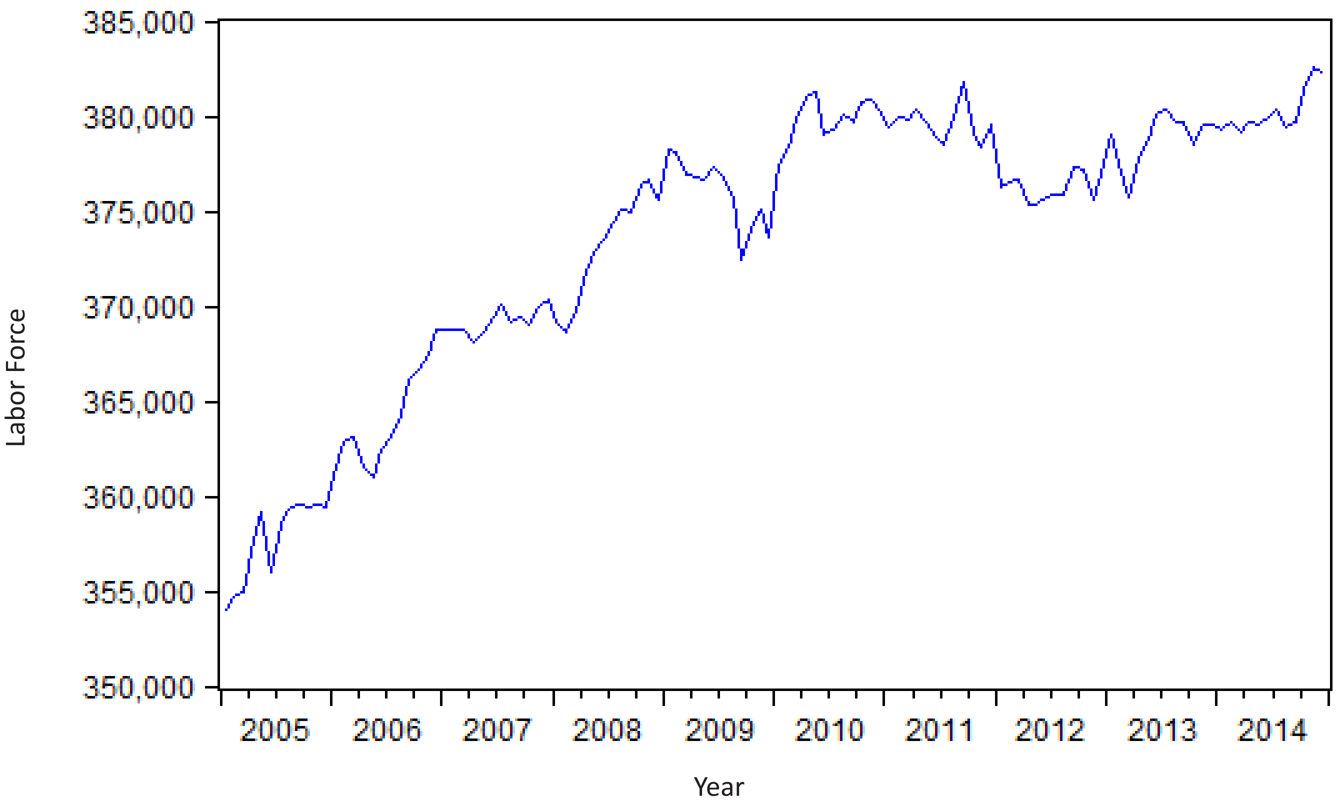
Average Weekly Wage—Central Minnesota Planning Area



Quarter	2009:II	2010:II	2011:II	2012:II	2013:II	2014:II
Average Weekly Wage	$632	$643	$665	$679	$695	$710

The labor force continues to grow in Central Minnesota. While the regional labor force only grew by 0.9 percent over the year ending December 2014, many other areas throughout the U.S. experienced a decline in their work force.

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



Year (December)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	371,469	377,100	375,997	376,449	377,109	380,351

Central Minnesota Economic Indicators

St. Cloud MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
LABOR MARKET					
Employment	December 2014 (m)	107,754	106,081	1.6% ↑	0.7%
Manufacturing Employment	December 2014 (m)	15,364	14,995	2.5% ↑	-0.9%
Average Weekly Work Hours--Private Sector	December 2014 (m)	31.6	32.2	-1.9% ↓	33.5 (since 2006)
Average Earnings Per Hour--Private Sector	December 2014 (m)	$22.86	$22.43	1.9% ↑	2.3% (since 2006)
Unemployment Rate	December 2014 (m)	3.5%	4.4%	NA ↓	5.0%
Labor Force	December 2014 (m)	109,867	108,732	1.0% ↑	0.5%
SCSU Future Employment Index	November 2014 (q)	38.3	38.4	-0.3% ↓	21.3 (since 2005)
SCSU Future Length of Workweek Index	November 2014 (q)	11.7	1.3	900.0% ↑	5.3 (since 2005)
SCSU Future Employee Compensation Index	November 2014 (q)	57.4	60.3	-4.8% ↓	41.3 (since 2005)
SCSU Future Worker Shortage Index	November 2014 (q)	30.9	27.4	12.8% ↑	14.5 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	January 2015 (m)	1,049	1,153	-9.0% ↓	NA
St. Cloud Times Help Wanted Linage	October 2014 (q)	2,161	2,285	-5.4% ↓	NA
BUSINESS FORMATION					
New Business Filings	Fourth Quarter 2014	356	329	8.2% ↑	327 (since 2000)
Assumed Names	Fourth Quarter 2014	95	86	10.5% ↑	109 (since 2000)
Business Incorporations	Fourth Quarter 2014	52	40	30.0% ↑	62 (since 2000)
Limited Liability Corporations	Fourth Quarter 2014	200	186	7.5% ↑	142 (since 2000)
Non-Profits	Fourth Quarter 2014	9	17	-47.1% ↓	15 (since 2000)

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

St. Cloud MSA Indicators, Cont'd.

	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)
BUSINESS ACTIVITY						
SCSU Future Business Activity Index	November 2014 (q)	50	58.9	-15.1%	↓	37.4 (since 2005)
SCSU Future Capital Expenditures Index	November 2014 (q)	30.9	24.6	25.6%	↑	21.1 (since 2005)
SCSU Future National Business Activity Index	November 2014 (q)	35.3	32.9	7.3%	↑	21.4 (since 2005)
St. Cloud Index of Leading Economic Indicators	October 2014 (q)	102.4	102.4	0.0%	↔	NA
St. Cloud Residential Building Permit Valuation	December 2014 (m)	4,670	2,382	96.1%	↑	4,591
PRICES						
St. Cloud Cost of Living Index	Third Quarter 2014	95.6	92.9	2.9%	↑	NA
St. Cloud Median Home Prices	January 2015 (m)	149,000	131,493	13.3%	↑	NA
SCSU Future Prices Received Index	November 2014 (q)	33.8	26	30.0%	↑	25.5 (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. Among other things, this survey indicates a tighter labor market in the St. Cloud area, as firms report more expected difficulty attracting qualified workers. The survey also indicates increased capital expenditures, a longer workweek, higher prices received, and improved national business activity are expected by mid-2015. Payroll employment grew 1.6 percent over the year ending December 2014 in St. Cloud and the MSA unemployment rate fell from 4.4 percent in December 2013 to 3.5 percent twelve months later. The St. Cloud labor force was 109,867, a one percent increase from one year earlier. Median housing prices in St. Cloud rose by 13.3 percent from December 2013 to December 2014 and the cost of living index increased, suggesting the area became relatively less affordable in the third quarter of the year. New business filings in the St. Cloud MSA were 8.2 percent higher than the fourth quarter of 2013. With the exception of non-profits, all categories of new business filings were higher than one year earlier.

State and National Indicators

MINNESOTA Indicators	Dec 2014	Sept 2014	Dec 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,831,400	2,819,200	2,795,800	0.4%	1.3%
Average weekly hours worked, private sector	33.9	34.1	34.0	-0.6%	-0.3%
Unemployment rate, seasonally adjusted	3.7%	3.7%	4.5%	NA	NA
Earnings per hour, private sector	$25.82	$25.75	$25.93	0.3%	-0.4%
Philadelphia Fed Coincident Indicator, MN	166.07	165.19	161.31	0.5%	3.0%
Philadelphia Fed Leading Indicator, MN	1.65	0.58	1.51	184.5%	9.3%
Minnesota Business Conditions Index	61.4	66.3	53.7	-7.4%	14.3%
Price of milk received by farmers (cwt)	$20.60	$26.70	$22.00	-22.8%	-6.4%
Enplanements, MSP airport, thousands	1,387.6	1,411.3	1,392.1	-1.7%	-0.3%

NATIONAL Indicators	Dec 2014	Sept 2014	Dec 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	140,592	139,619	137,476	0.7%	2.3%
Industrial production, index, SA	106.2	105.2	101.6	1%	4.5%
Real retail sales, SA	187,553	186,773	182,764	0.4%	2.6%
Real personal Income less transfers	11,435	11,266	11,008	1.5%	3.9%
Real personal consumption expenditures	11,145	11,035	10,827	1%	2.9%
Unemployment rate	5.6%	5.9%	6.7 %	NA	NA
New building permits, SA, thousands	1,060	1,039	1,022	2.0%	3.7%
Standard & Poor’s 500 stock price index	2,054.27	1,993.23	1,807.78	3.1%	13.6%
Oil, price per barrel in Cushing, OK	$59.29	$93.21	$97.63	-36.4%	-39.3%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. However, average weekly hours worked fell, as did earnings per hour in the private sector. All three broader indicators of state economic activity were higher at the end of 2014 than they were one year earlier. Minnesota farmers struggled with 6.4 percent lower milk prices at the end of 2014 than was received twelve months earlier. December 2014 enplanements at the Minneapolis-St. Paul airport were virtually unchanged from one year earlier.

The national economy continued to grow at a solid pace in the fourth quarter. Compared to year earlier levels, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment, and the unemployment rate all look strong. Oil prices declined by 39.3 percent over the year ending December 2014. While this precipitous decline in oil prices has created some dislocation in energy sensitive sectors of the national (and Midwest) economy, it has provided a “consumer dividend” to households who are enjoying higher discretionary income.

The 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.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Katie Kotschevar. Professor David Wall of the SCSU Geography Department provided GIS assistance.

Sources

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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, Manufacturing Employment, Unemployment Rate.

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.

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.