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Twin Cities Area Economic and Business Conditions Report - Fourth Quarter 2014


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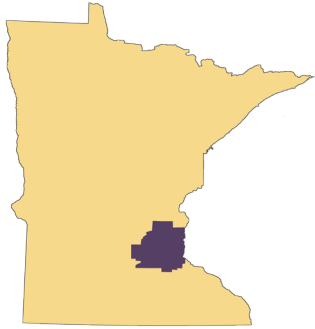
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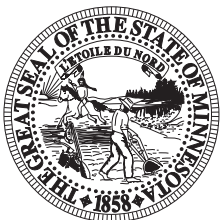
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Twin Cities Area
Economic and Business Conditions Report
Fourth Quarter 2014



OFFICE OF THE MINNESOTA
SECRETARY OF STATE



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

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Executive Summary

Twin Cities business conditions are expected to slow through the first several months of 2015 according to the predictions of the Twin Cities Index of Leading Economic Indicators (LEI). The Twin Cities LEI declined by 7.58 points in the fourth quarter of 2014, as weakness in two general measures of statewide business conditions dragged down the index. Slower growth in new business filings also contributed to a weaker outlook. Lifting the index were reduced initial jobless claims in the Twin Cities as well as increased residential building permits in the Minneapolis-St. Paul area. Despite weakness in the final quarter of 2014, the LEI finished 2014 above its 2013 level by 2.1 percent.

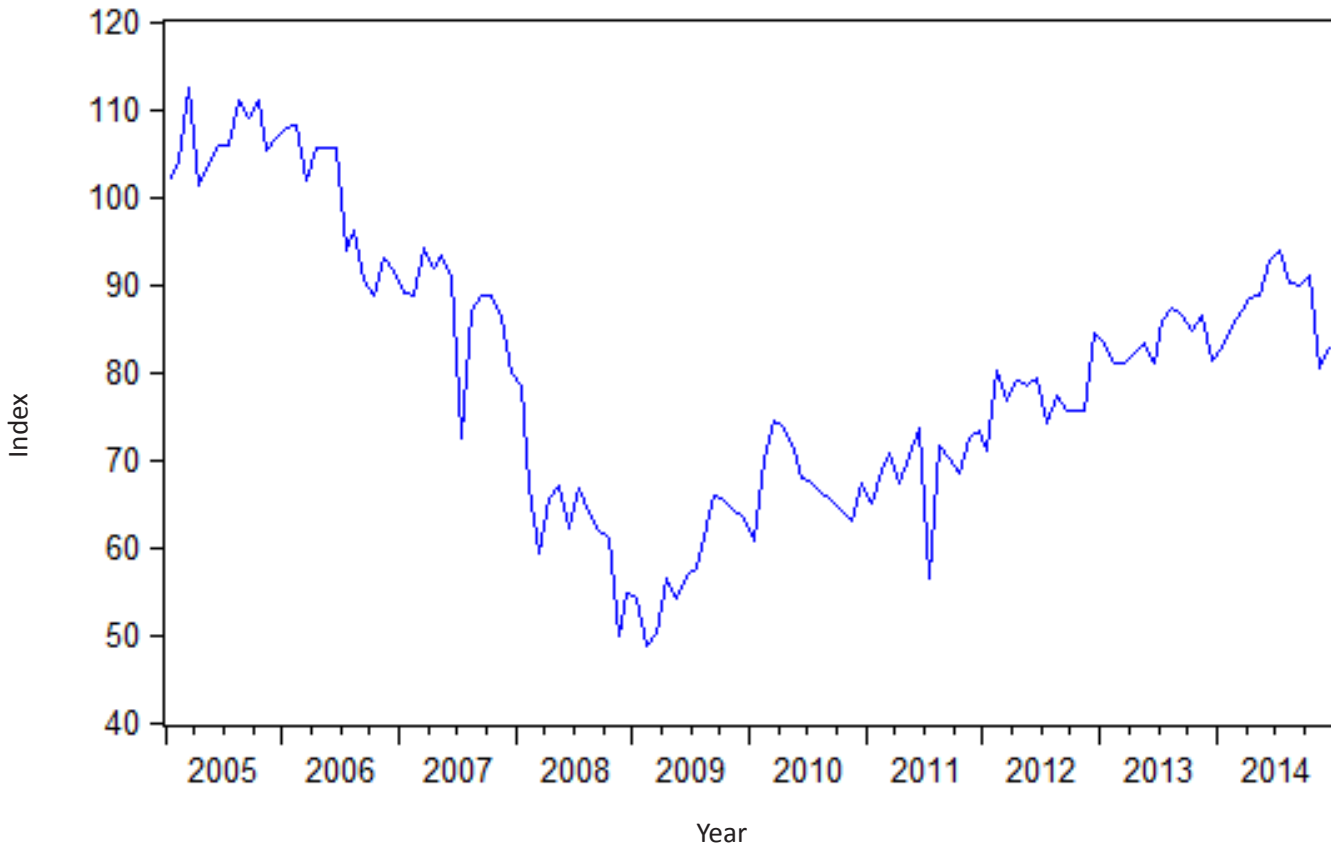
There were 9,127 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the fourth quarter of 2014—representing a 0.5 percent increase from one year earlier. There were 1,346 new regional business incorporations in the fourth quarter, a 4.8 percent decrease over year earlier levels. Compared to one year earlier, fourth quarter new limited liability company (LLC) filings in the seven-county metro area increased by 4.6 percent—rising to 5,619. New assumed names totaled 1,791 in the fourth quarter—a reduction of 6.7 percent from the fourth quarter of 2013. There were 371 new filings for non-profits in the Twin Cities in the fourth quarter of 2014, 1.1 percent fewer filings than one year earlier.

Twin Cities employment increased by 1 percent over the year ending December 2014. The regional unemployment rate was 3.1 percent in December, an improvement on its 4.0 percent reading one year earlier. Initial claims for unemployment insurance were below year earlier levels, falling by 12.9 percent to 10,089 in December. The average weekly wage in the Twin Cities increased 1.8 percent (to a level of \$1,061) in the most recent reporting period. The metro area labor force declined by 0.1 percent over the year ending December 2014.

Twin Cities Leading Economic Indicators Index

The SCSU Twin Cities Leading Economic Indicators (LEI) index is designed to predict performance of the metropolitan area economy with a four-to-six month lead time. After rising in the first two quarters of 2014, the LEI pulled back in the final two quarters, dropping by 7.58 points in the fourth quarter. However, the LEI still finished the year 2.1 percent higher than one year earlier.

SCSU Twin Cities Index of Leading Economic Indicators (December 1999 = 100)



Components of SCSU Twin Cities Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2014	Contribution to LEI, 3rd quarter 2014
Minnesota Business Conditions Index	-2.33	-1.69
Twin Cities initial claims for unemployment insurance	0.22	0.42
Twin Cities new filings of incorporation and LLCs	-0.49	-0.04
Mpls.-St. Paul MSA residential building permits	0.36	0.48
Philadelphia Fed Minnesota leading indicators	-5.34	-1.32
TOTAL CHANGE	-7.58	-2.15

The Twin Cities LEI has five components—two reflecting state business conditions and three for local conditions (the LEI is an index equal to 100 in December 1999). The Federal Reserve Bank of Philadelphia (which creates a leading economic indicator series for each of the 50 states) reported some volatility in Minnesota’s LEI during the first half of 2014, but reported some weakness in the fourth quarter. The Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—also had a negative effect on the fourth quarter LEI.

Two of the three local measures were positive in the fourth quarter. Lower initial jobless claims and increased residential building permits had a favorable influence on the LEI. A recent slowing in new Twin Cities filings for incorporation and LLC was a small drag on the leading index.

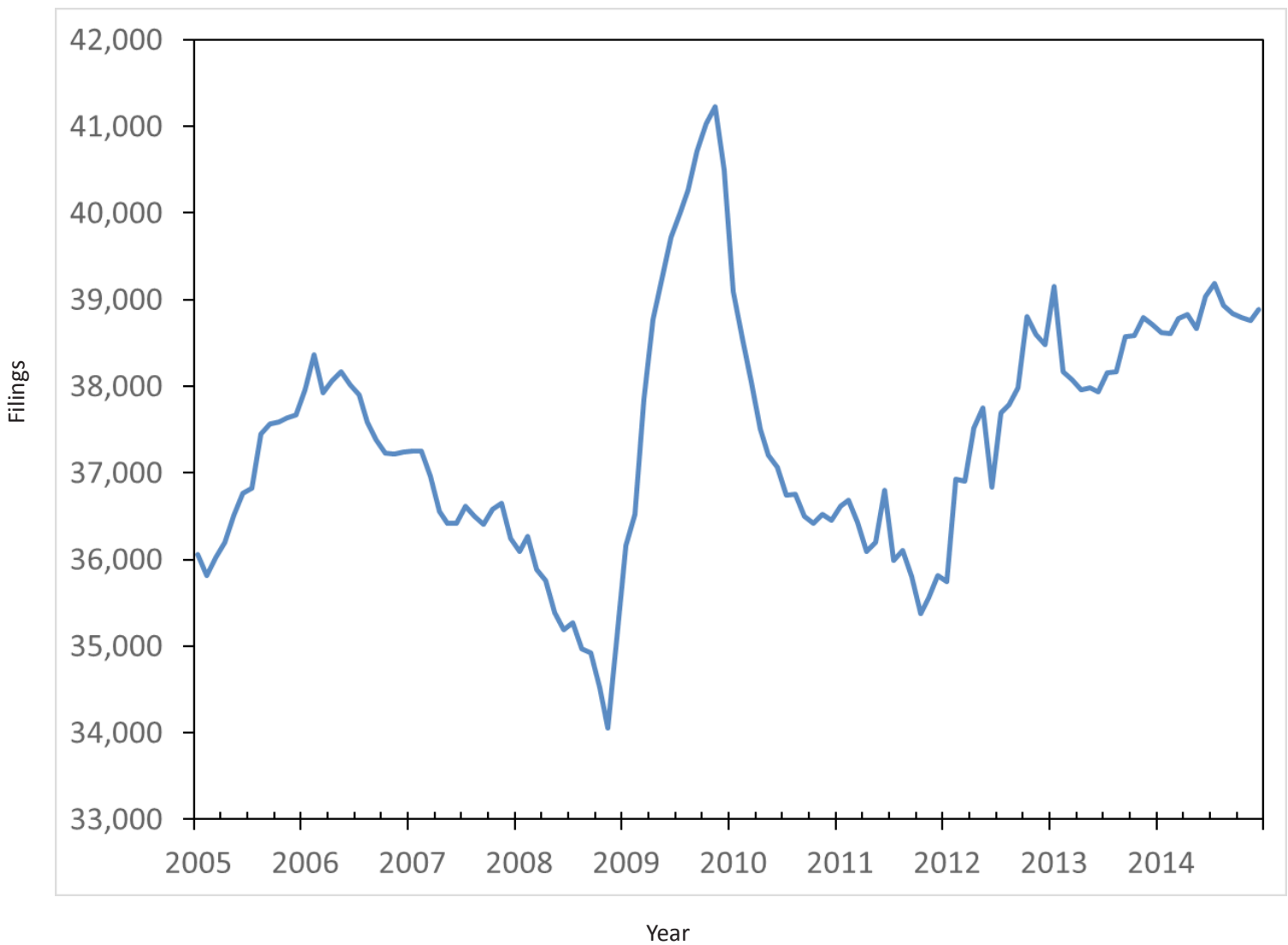
SCSU Twin Cities Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index December	61.4	58.9	4.2%
Twin Cities initial claims for unemployment insurance December	12,010	13,586	-11.6%
Twin Cities new filings of incorporation and LLCs Fourth Quarter	6,965	6,786	2.6%
Twin Cities MSA single-family building permits, December	513	489	4.9%
Index of Leading Economic Indicators Philadelphia Federal Reserve, December	0	1.55	NA
Twin Cities Leading Economic Indicators Index December (December 1999 = 100)	82.9	81.2	2.1%

Twin Cities Business Filings

Total new business filings have trended upward since the end of 2011. The abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier (resembling a shark fin) is related to considerably higher filings in the construction industry due to legal and regulatory issues, and appears to be a one-time only transitory event seen in the data in all regions of Minnesota. Total new business filings in the fourth quarter of 2014 increased by 0.5 percent from one year earlier.

Note: The graphs in this section show the 12-month moving total for the various new business filings in the Twin Cities that are registered with the Office of the Minnesota Secretary of State. This adjustment removes seasonal patterns in the data.

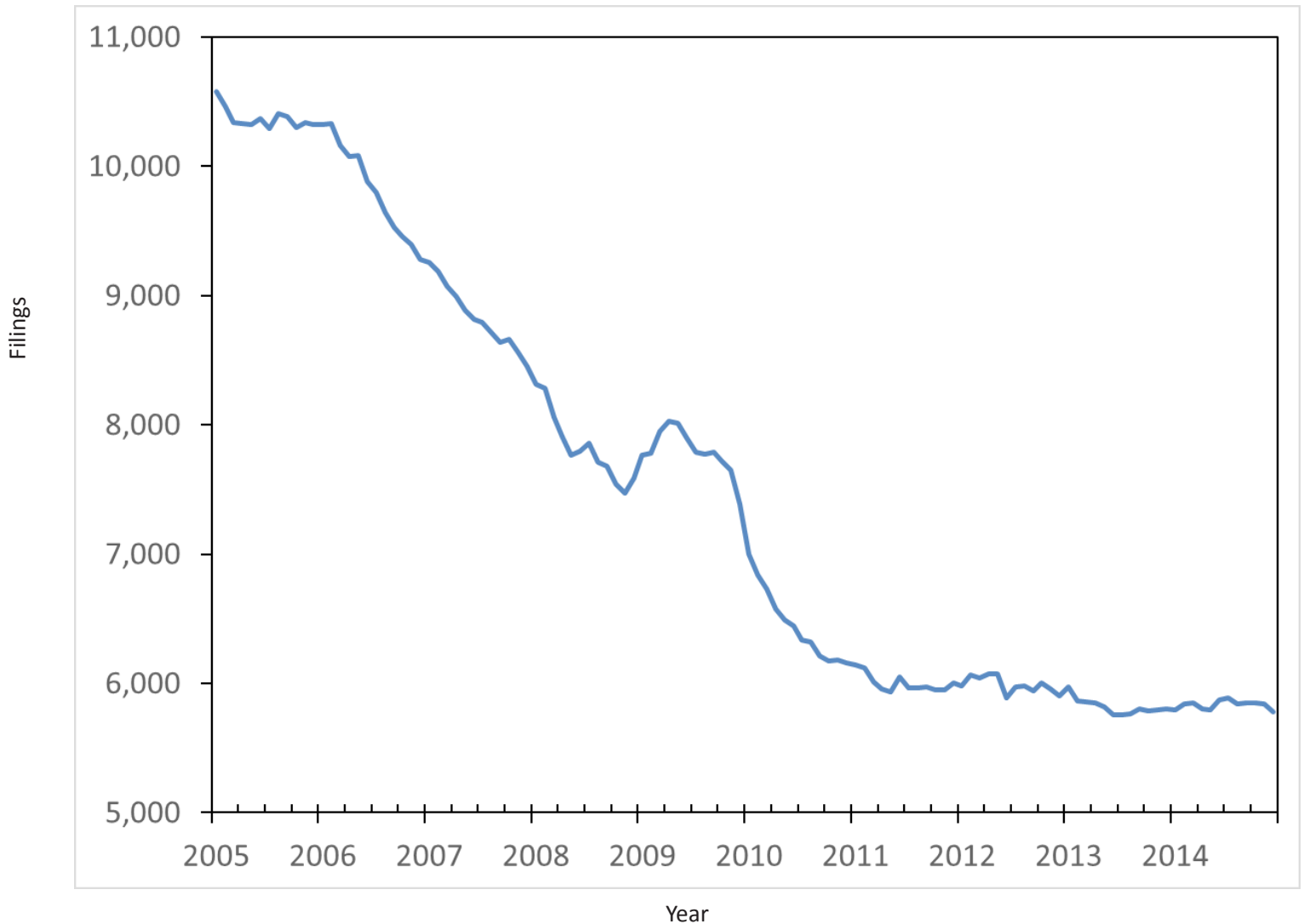
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Twin Cities Total New Business Filings	9,080	10,406	10,137	9,223	9,127	0.5%

With the exception of increased filings for a few quarters in 2008-09, new business incorporations trended downward in the Twin Cities from 2005 to 2011, and have been relatively flat since that time. Filings for new business incorporations decreased 4.8 percent from one year earlier in the fourth quarter of 2014.

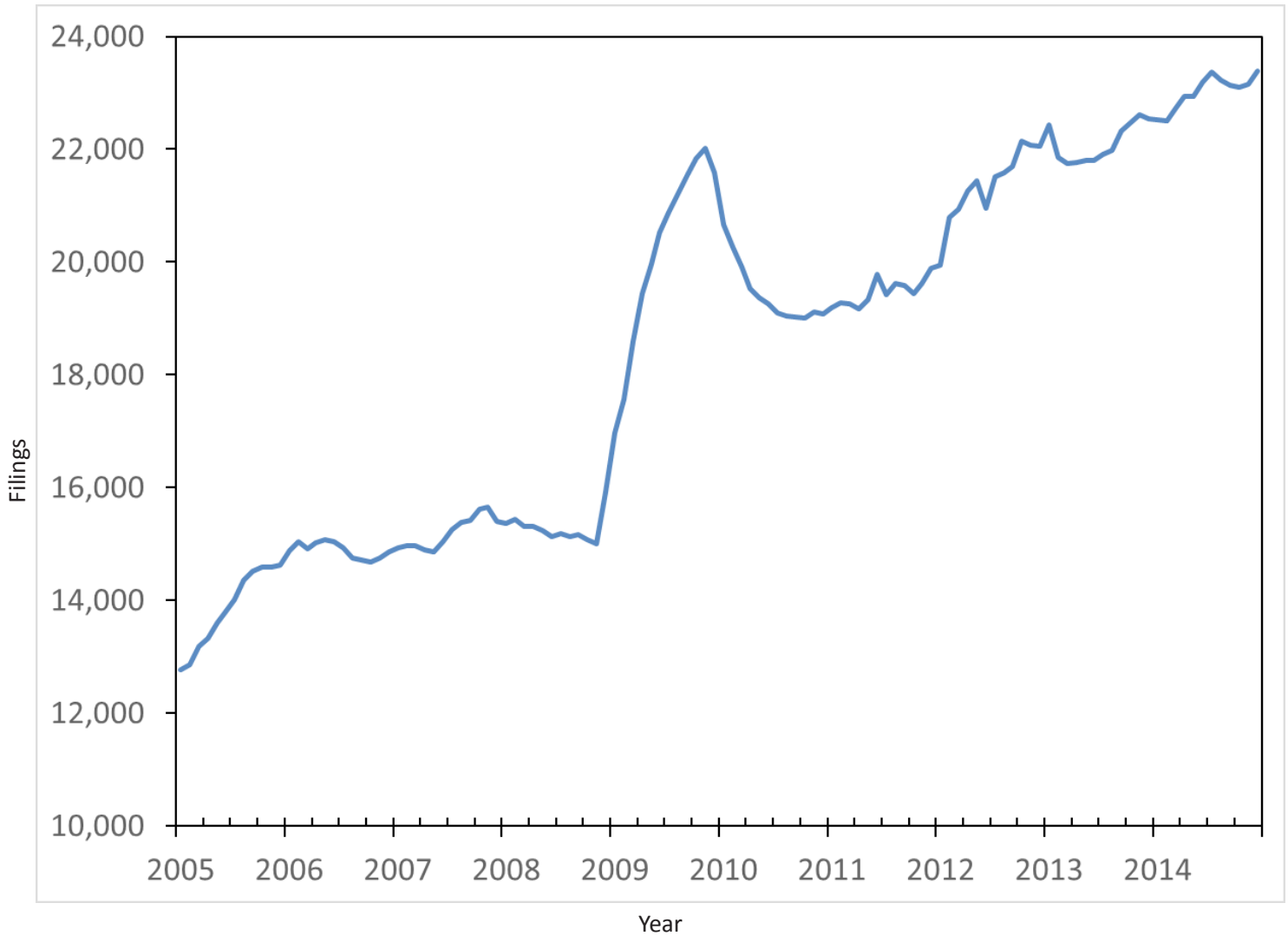
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Twin Cities New Business Incorporations	1,414	1,594	1,449	1,394	1,346	-4.8%

There has been a move in the Twin Cities (and the rest of the state) away from the traditional incorporation form of business organization toward LLCs. While new business incorporations remain an important indicator of new business formation in the Twin Cities, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in the Twin Cities which moderated somewhat in 2014. Still, new LLC formation has shown a fairly steady rate of growth since the beginning of 2011. At a level of 5,619, new filings for LLC in the fourth quarter of 2014 were 4.6 percent higher than one year earlier.

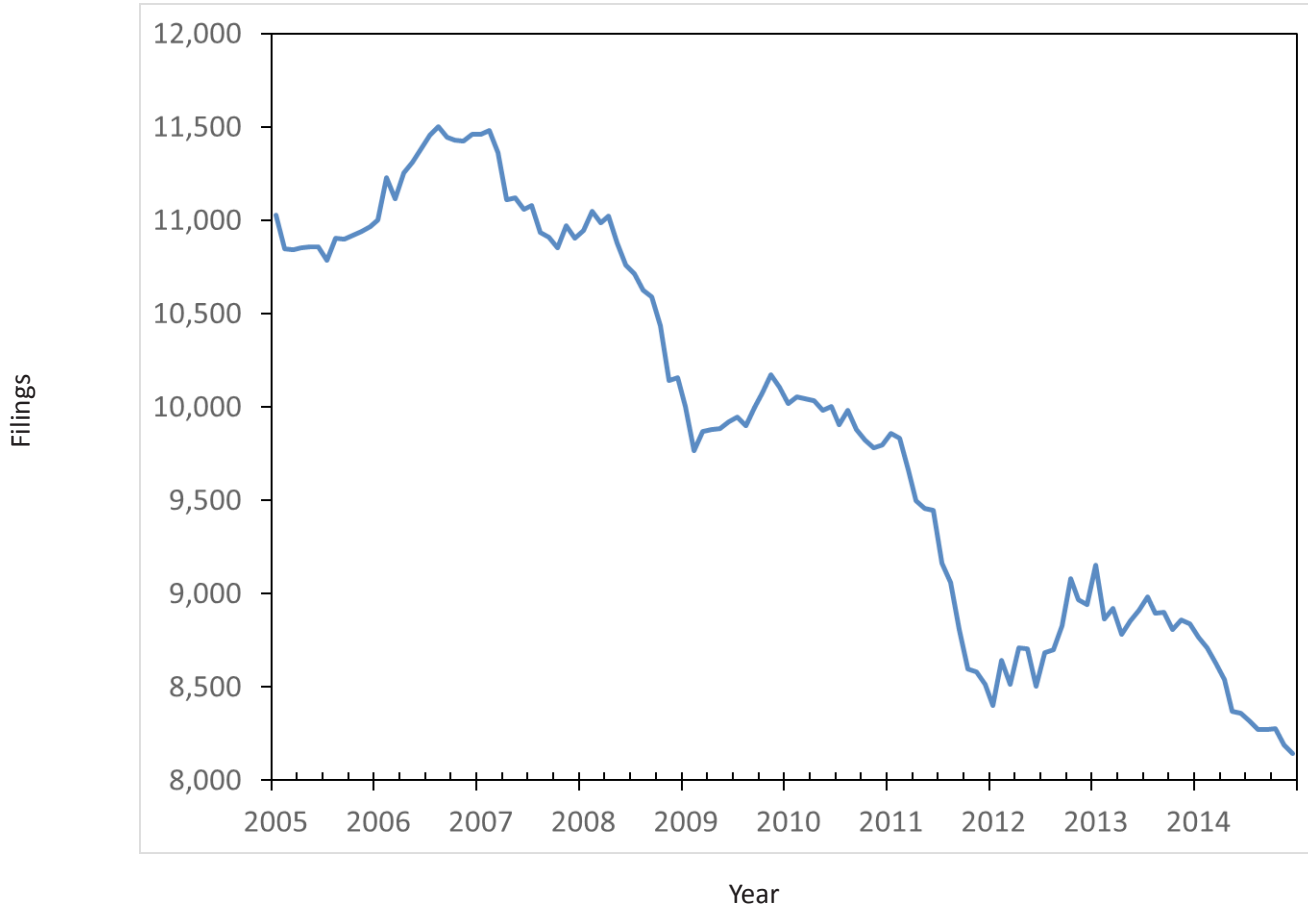
New Limited Liability Companies—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Twin Cities New Limited Liability Companies	5,372	6,106	6,146	5,517	5,619	4.6%

Assumed names, which include sole proprietors or organizations that do not have limited liability, continued their slide by falling 6.7 percent in the fourth quarter relative to the same period in 2013. This series has not recovered from its peak levels of 2006-2007.

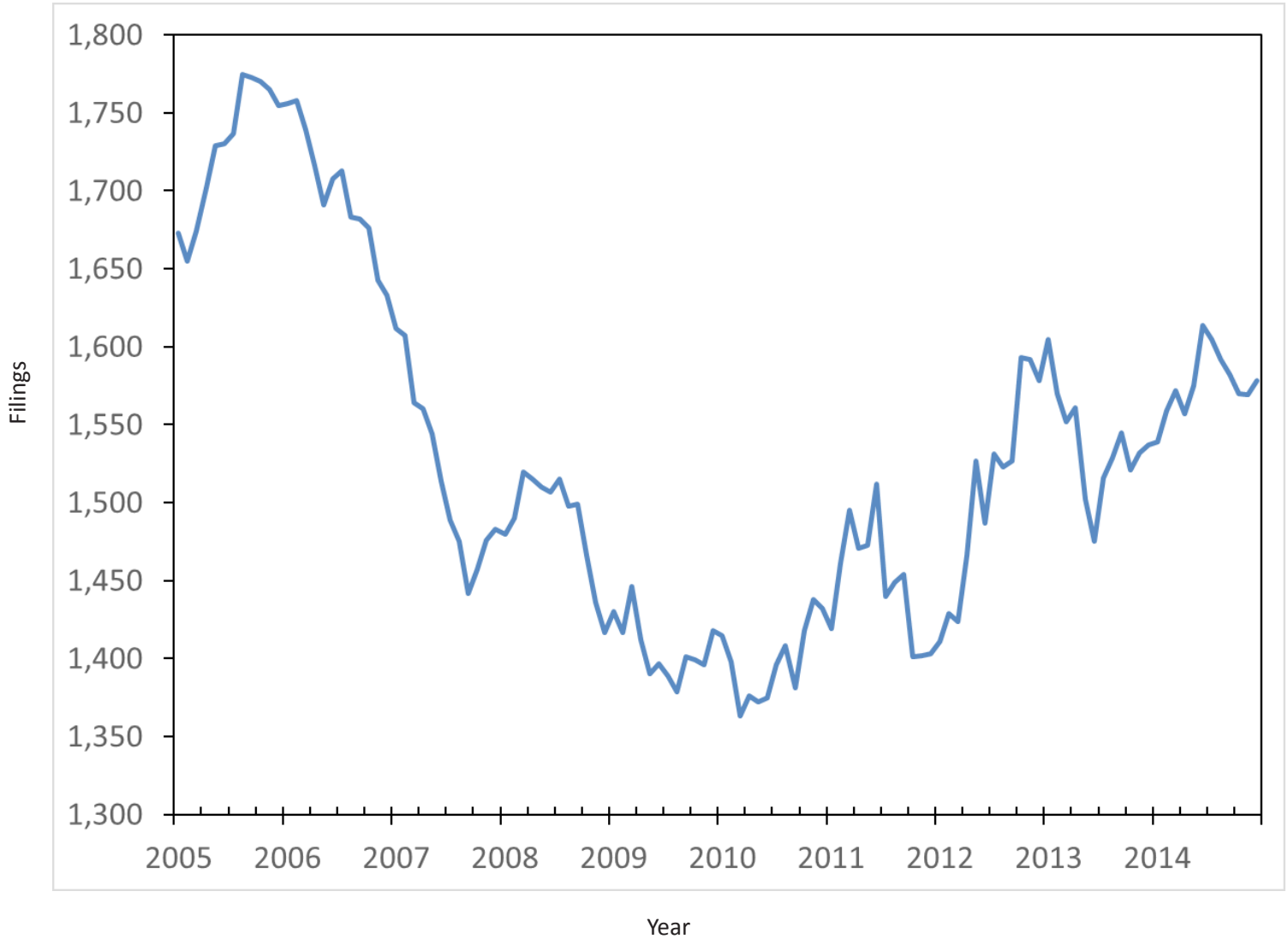
New Assumed Names—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Twin Cities New Assumed Names	1,919	2,270	2,145	1,938	1,791	-6.7%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State has steadily increased over the last few years. However, with 371 new non-profits registered in this year's fourth quarter, this sector added 1.1 percent fewer firms than one year earlier.

New Non-Profits—Twin Cities Planning Area (12-month moving total)



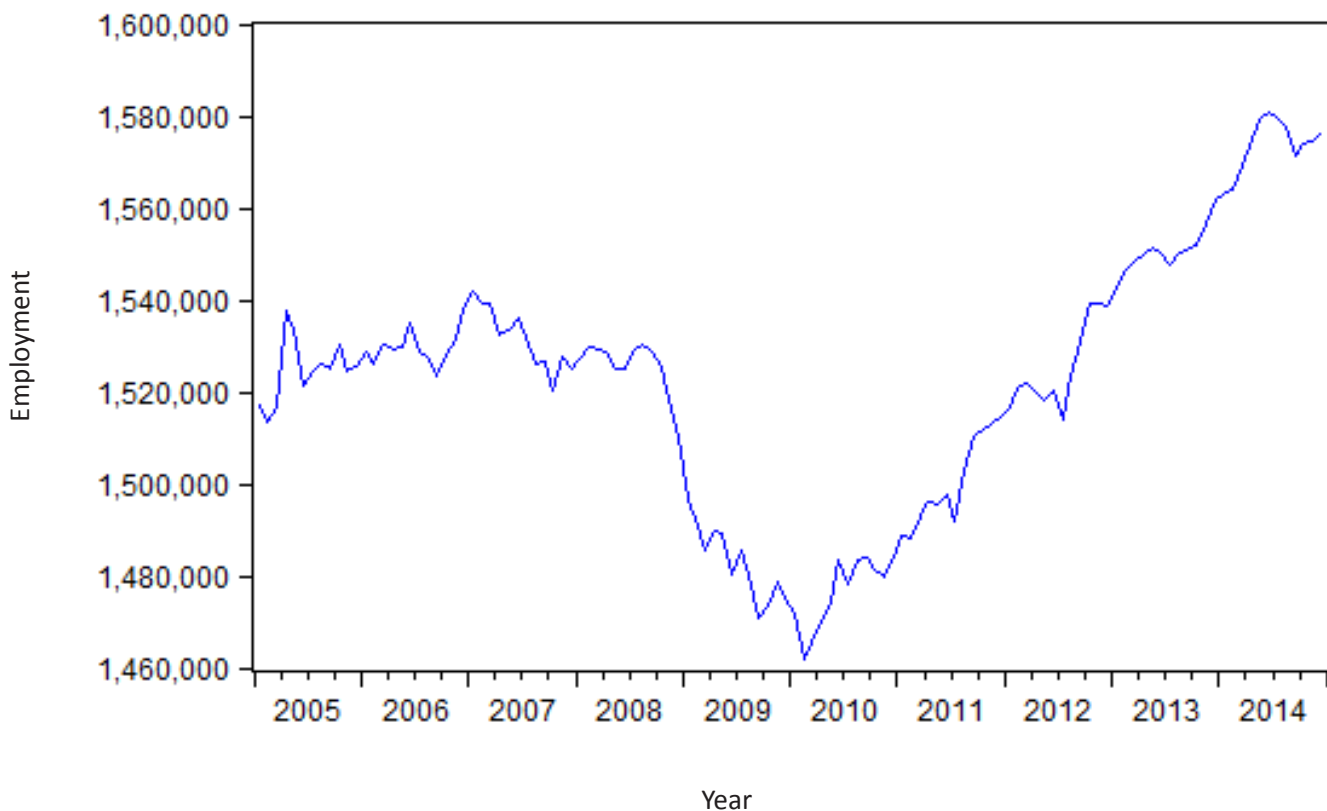
Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Twin Cities New Non-Profits	375	436	397	374	371	-1.1%

Twin Cities Labor Market Conditions

Employment of Twin Cities residents grew 1 percent over 2014. After relative stagnation through 2007 and a decline during the Great Recession, the area has experienced steady employment growth since the start of 2010.

Note: Seasonally adjusted labor market data are typically not available to evaluate regional economic performance. While there are seasonally adjusted labor market data for the Twin Cities metro area, these data include parts of Wisconsin. These seasonally adjusted data therefore do not accurately capture the Twin Cities planning area (which is confined to seven counties). Some graphs of labor market indicators found in this section of the report are adjusted so as to remove seasonal patterns from the data. 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.

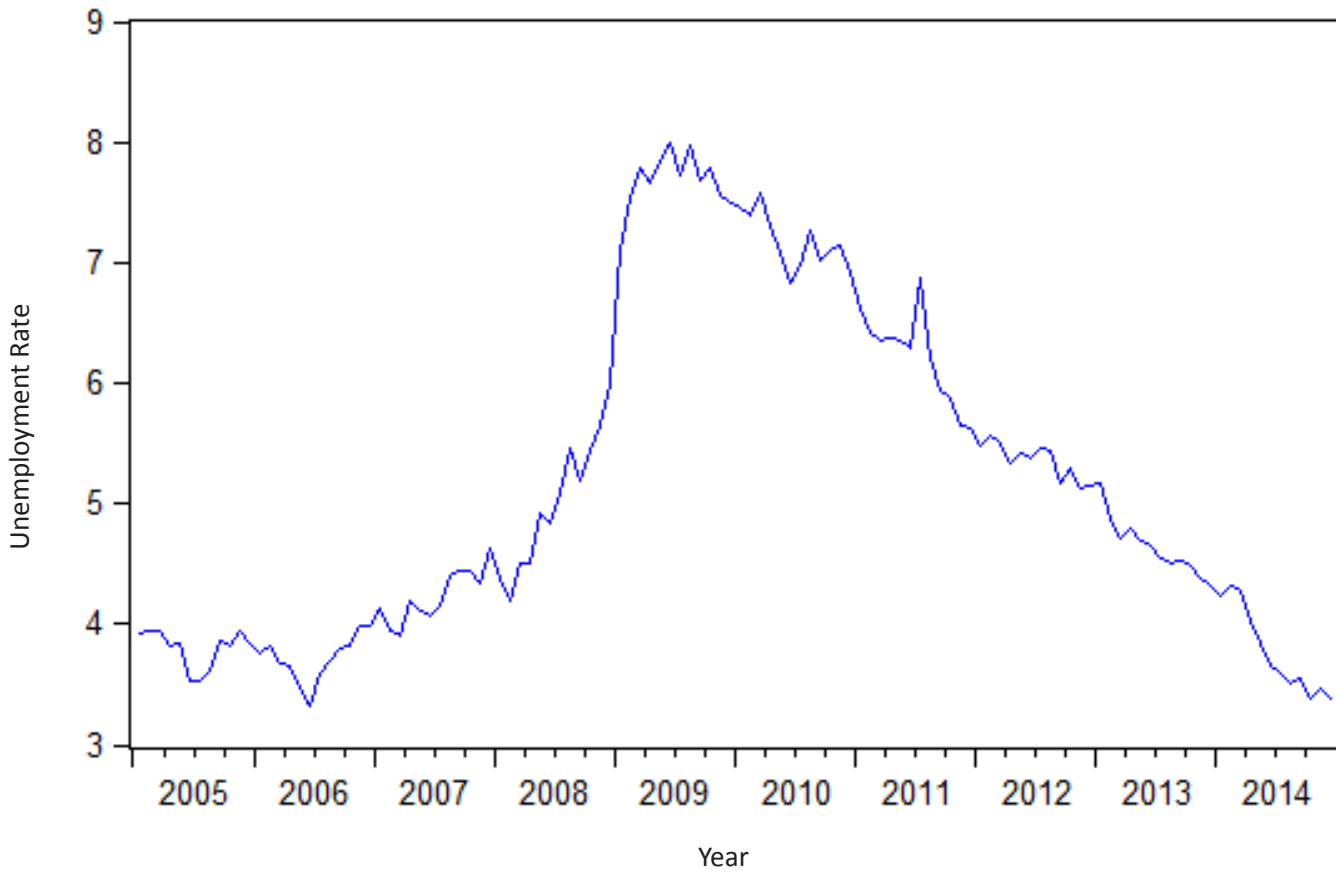
Employment—Twin Cities Planning Area (12-month moving average)



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Employment (Not seasonally adjusted)	1,558,515	1,594,144	1,583,666	1,577,906	1,583,998	1,585,753	1,573,345

The seasonally adjusted unemployment rate in the Twin Cities has declined continuously since the end of the Great Recession in 2009. The non-seasonally adjusted unemployment rate stood at 3.1 percent in December 2014, substantially lower than the 4 percent rate recorded one year earlier.

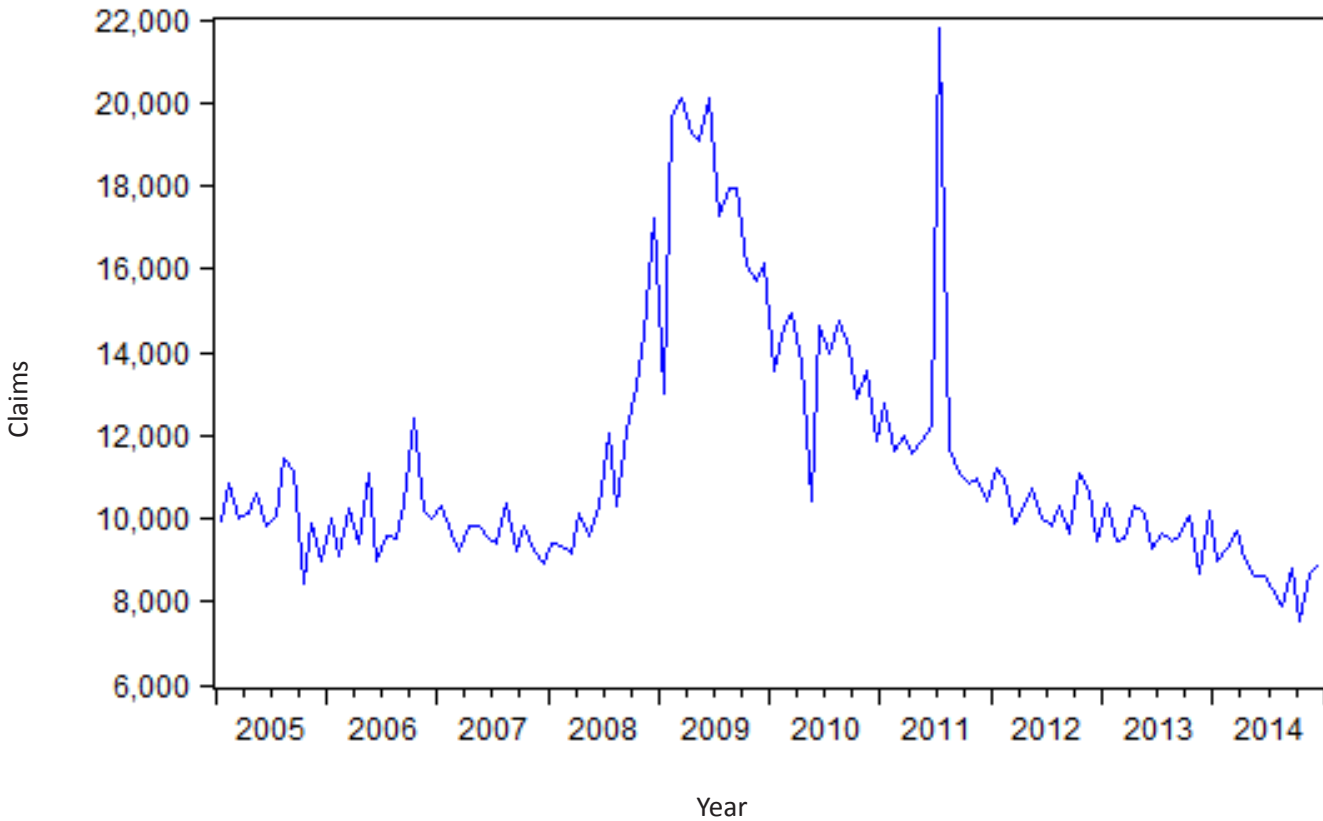
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Unemployment Rate (Not seasonally adjusted)	4.0%	3.9%	3.6%	3.4%	2.9%	2.9%	3.1%

New claims for unemployment insurance were lower than year earlier levels in January 2015. The graph of the seasonally adjusted series suggests claims are now at levels last seen in 2005.

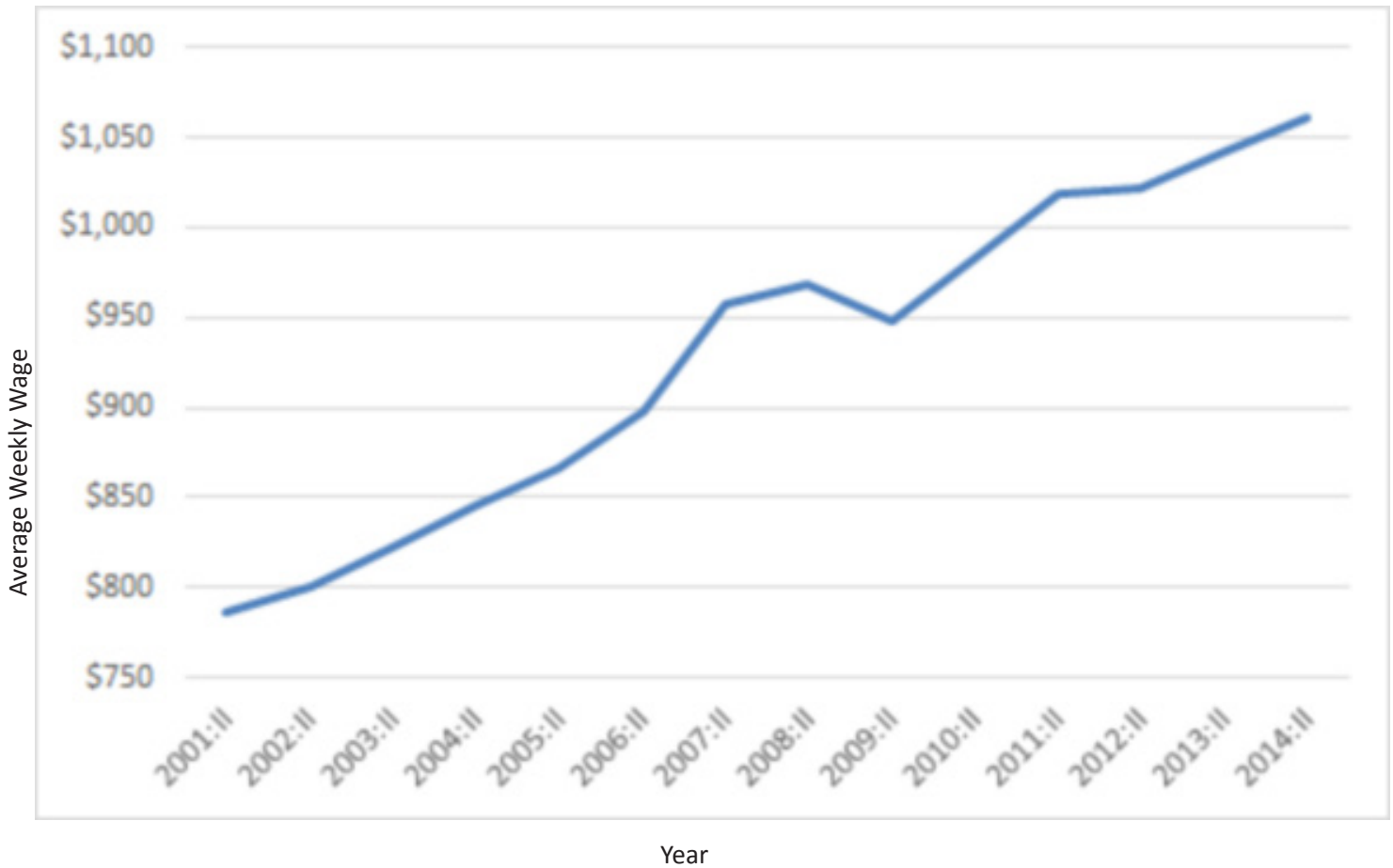
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Twin Cities Planning Area



Period	January 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015
Initial claims (Not seasonally adjusted)	11,577	6,277	6,975	7,212	10,724	12,010	10,089

Average weekly wages in the Twin Cities planning area increased to \$1,061 in the most recent reporting period—a 1.8 percent increase from the prior year. The average weekly wage in the Twin Cities is much higher than the average wage in the second highest paid planning area (the Southeast Minnesota planning area comes in second with an average weekly wage of \$857). The average weekly wage in the northwest planning area was the lowest in Minnesota at \$662—nearly \$400 below the average weekly wage in the Twin Cities.

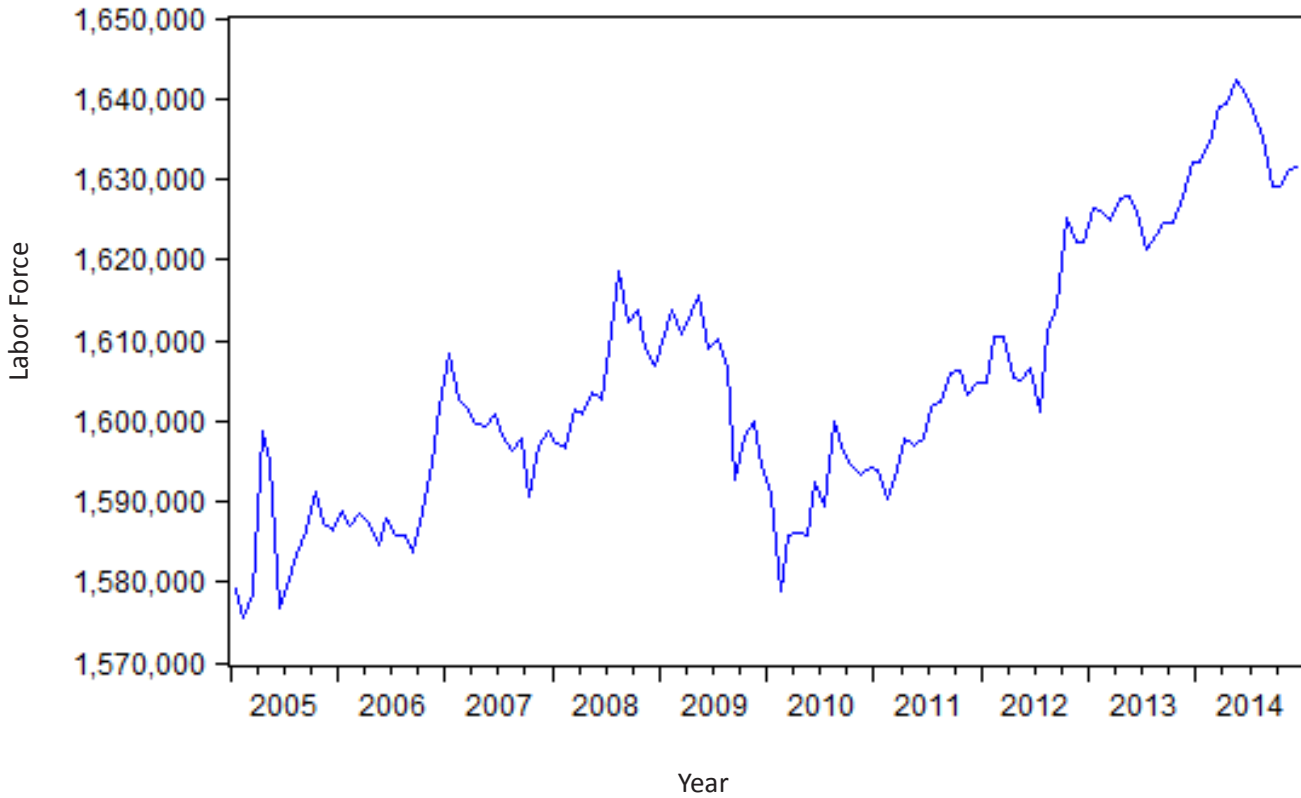
Average Weekly Wage—Twin Cities Planning Area



Quarter	2009:II	2010:II	2011:II	2012:II	2013:II	2014:II
Average Weekly Wage	\$948	\$983	\$1,018	\$1,022	\$1,042	\$1,061

The size of the Twin Cities labor force declined slightly over the year ending December 2014. The labor force in this region was 1, 626,455 at the end of 2014—0.1 percent lower than in December 2013.

Labor Force—Twin Cities Planning Area (12-month moving average)



Year (December)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	1,586,513	1,591,782	1,601,148	1,618,121	1,627,503	1,626,455

Economic Indicators

Twin Cities MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (since 1999 unless noted)
Employment	December 2014 (m)	1,913,421	1,888,809	1.3% ↑	0.4%
Manufacturing Employment	December 2014 (m)	192,987	187,781	2.7% ↑	-1.5%
Average Weekly Work Hours Private Sector	December 2014 (m)	34.3	34.5	-0.6% ↓	33.8 (since 2006)
Average Earnings Per Hour Private Sector	December 2014 (m)	\$26.62	\$26.92	-1.1% ↓	0.5% (since 2006)
Average Weekly Work Hours Manufacturing (Production Workers)	December 2014 (m)	41.6	41.1	1.2% ↑	40.7 (since 2005)
Average Earnings Per Hour Manufacturing (Production Workers)	December 2014 (m)	\$20.84	\$20.66	0.9% ↑	1.5% (since 2005)
Unemployment Rate	December 2014 (m)	3.2%	4.2%	NA ↓	4.5%
Labor Force	December 2014 (m)	1,905,506	1,904,505	0.1% ↑	0.5%
MSP Residential Building Permit Valuation	December 2014 (m)	216,182	234,612	-7.9% ↓	218,384
Minneapolis Cost-of-Living Index	Third Quarter 2014	107.0	110.3	-3.0% ↓	NA
St. Paul Cost-of-Living Index	Third Quarter 2014	105.8	108	-2.0% ↓	NA

(m) represents a monthly series

The Minneapolis-St. Paul Metropolitan Statistical Area (an MSA is a grouping of counties and municipalities identified by the Census as having economic and demographic forces in common) includes 11 Minnesota counties: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright. This MSA also includes the Wisconsin counties of Pierce and St. Croix. It is thus much larger than the seven-county Twin Cities planning area.

Still, activity outside of the area influences economic behavior within it, and vice versa. The larger Minneapolis-St. Paul MSA generally experienced favorable labor market conditions in the end of 2014. Overall employment increased 1.3 percent in the Twin Cities MSA and manufacturing employment rose by 2.7 percent over the same period. Both private sector average weekly hours and average hourly earnings declined. In the manufacturing sector, however, both average work hours and hourly earnings rose. The MSA unemployment rate fell and the regional labor force increased. The cost of living measure for both Minneapolis and St. Paul declined in the third quarter compared to the same period in 2013. Minneapolis is approximately 7 percent more expensive to live in than the average city in the United States and St. Paul's relative cost of living is about 5.8 percent higher. The value of residential building permits in the Twin Cities MSA fell by 7.9 percent in December 2014 relative to the same period 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 Twin Cities 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 Twin Cities Planning Area consists of seven counties: Anoka; Carver; Dakota; Hennepin; Ramsey; Scott; and Washington.

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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. Bankruptcy Courts

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

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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.