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Twin Cities Area Economic and Business Conditions Report - Fourth Quarter 2015

Richard A. MacDonald
St. Cloud State University, macdonald@stcloudstate.edu

King Banaian
St. Cloud State University, kbanaian@stcloudstate.edu

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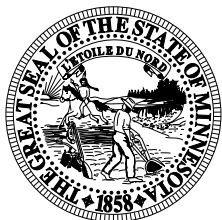
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Twin Cities Area Economic and Business Conditions Report Fourth Quarter 2015

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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Executive Summary

Twin Cities economic performance is expected to be steady over the next several months according to the prediction of the Twin Cities Index of Leading Economic Indicators (LEI). While the Twin Cities LEI fell by 2.48 points in the fourth quarter, three of the five index components increased and a neutral reading seems warranted by the preponderance of available data. Accounting for the decrease in the index are a reduction in new filings for LLC and incorporation in the fourth quarter as well as a decrease in a general measure of statewide business conditions. Three components had a favorable impact on the leading index in the recent quarter. Lower initial claims for unemployment insurance, an increase in the number of residential building permits in the Twin Cities MSA, and a second measure of general business conditions each made a positive contribution to the fourth quarter LEI.

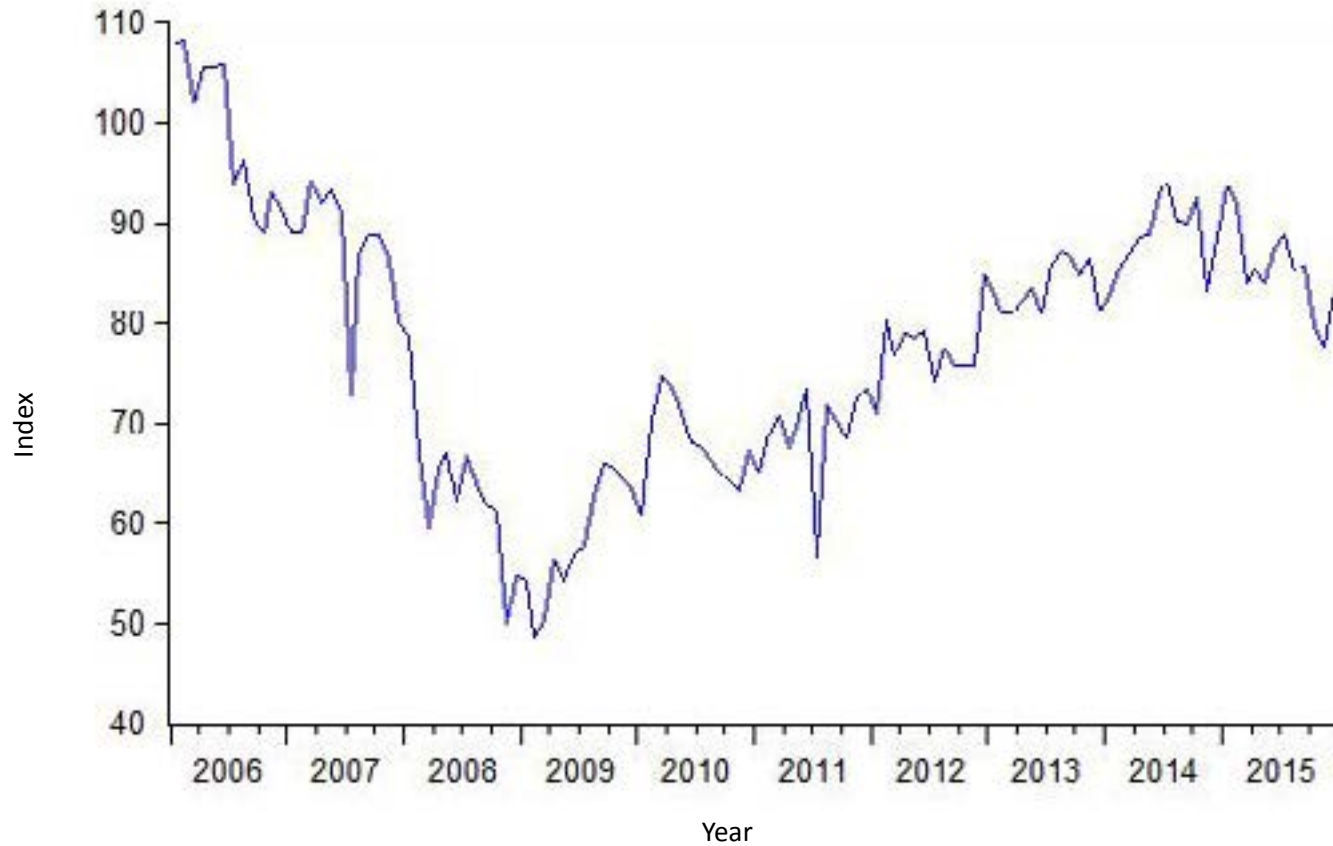
There were 9,014 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the fourth quarter of 2015—representing a 1.2 percent decrease from one year ago. There were 1,344 new regional business incorporations in the fourth quarter, a 0.1 percent decrease over year ago levels. Fourth quarter new LLC filings fell to 5,440 in the seven-county metro area—a 3.2 percent decrease compared to the fourth quarter of 2014. New assumed names totaled 1,837 in the fourth quarter—an improvement of 2.6 percent from the final quarter of 2014. There were 393 new filings for non-profits in the Twin Cities in the fourth quarter of 2015, 5.9 percent more filings than one year earlier.

Twin Cities employment increased by 2 percent over the year ending December 2015. The regional unemployment rate was 2.9 percent in December, an improvement on its 3.1 percent reading one year earlier. December 2015 initial claims for unemployment insurance were lower than year ago levels, falling by 2.6 percent to 11,702. The average weekly wage in the Twin Cities planning area was \$1,098 in the second quarter of 2015. This represents a 3.5 percent increase over the second quarter of 2014. The labor force expanded in the Minneapolis-St. Paul area by 30,834—a 1.9 percent increase over the prior year. After declining since 2010, Twin Cities bankruptcies have now leveled out over the past three quarters. Average weekly hours worked rose in the metro area and the relative cost of living in Minneapolis appears to have increased (but remained unchanged in St. Paul). There was an increase in average hourly earnings in the Twin Cities in the most recent quarter. The value of residential building permits fell by 18.2 percent in the Twin Cities MSA compared to one year ago.

Twin Cities Leading Economic Indicators Index

The SCSU Twin Cities Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six-month lead time. After falling by 1.61 points last quarter, the LEI fell another 2.48 points in the fourth quarter of 2015. The Twin Cities index is now 6 percent lower than one year ago and has slowly drifted downward since the beginning of 2015.

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 2015	Contribution to LEI, 3rd quarter 2015
Minnesota Business Conditions Index	-2.88	-0.74
Twin Cities initial claims for unemployment insurance	0.15	0.85
Twin Cities new filings of incorporation and LLCs	-2.38	0.61
Mpls.-St. Paul MSA residential building permits	2.37	-3.18
Philadelphia Fed Minnesota leading indicators	0.26	0.85
TOTAL CHANGE	-2.48	-1.61

The Twin Cities LEI contains 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 a value for its Minnesota Leading Indicators series that contributed favorably to the LEI this quarter. On the other hand, the Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—had a negative effect on this quarter’s LEI.

Two of the three local measures were positive in the fourth quarter. While higher single family residential building permits across the Minneapolis-St. Paul MSA produced a favorable reading, a reduction in new filings for incorporation and LLC in the planning area served as a drag on the leading index. A fall in initial jobless claims had a favorable impact on the LEI in the fourth quarter.

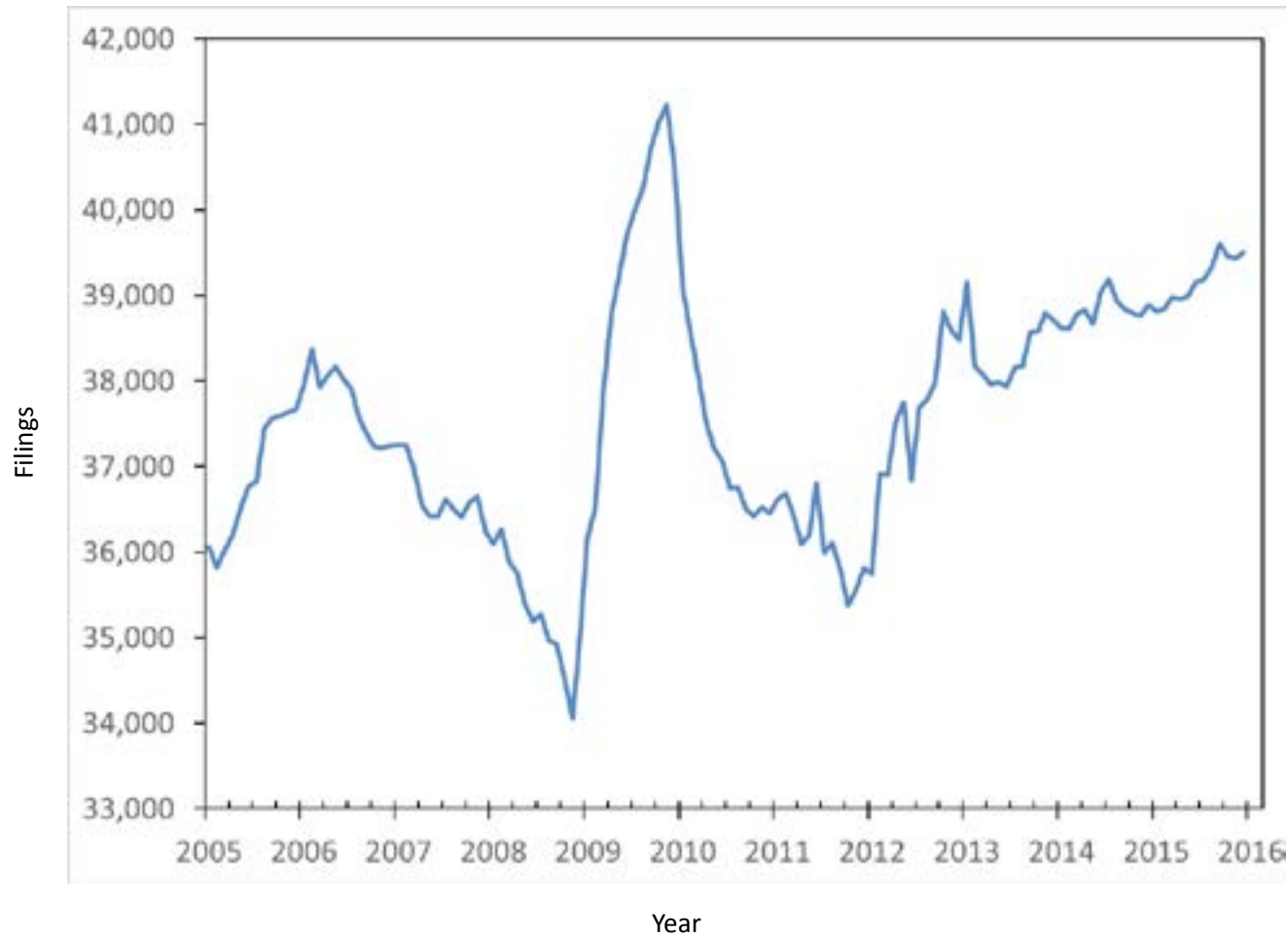
SCSU Twin Cities Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index December	48.2	61.4	-21.5%
Twin Cities initial claims for unemployment insurance December	11,702	12,010	-2.6%
Twin Cities new filings of incorporation and LLCs Fourth Quarter	6784	6965	-2.6%
Twin Cities MSA single-family building permits, December	527	513	2.7%
Index of Leading Economic Indicators Philadelphia Federal Reserve, December	1.53	1.69	-9.5%
Twin Cities Leading Economic Indicators Index December (December 1999 = 100)	83.2	88.5	-6.0%

Twin Cities Business Filings

Total new business filings have generally trended upward since the second half of 2011. This trend ceased in the fourth quarter as filings fell at a 1.2 percent year-over-year rate. 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.

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)

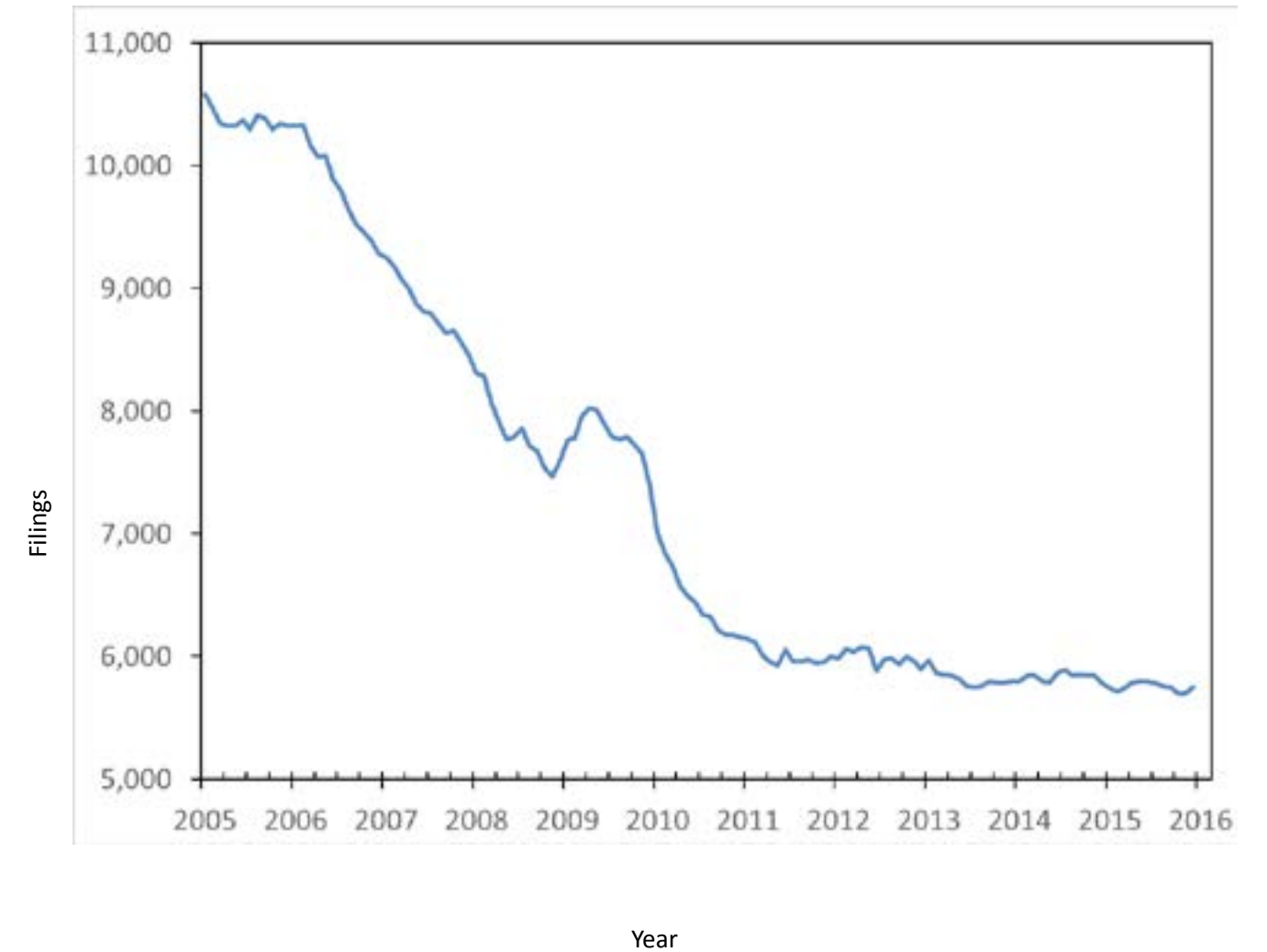


Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Twin Cities Total New Business Filings	9,127	10,494	10,306	9,684	9,014	-1.2%

Business Filings

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 incorporation were essentially unchanged from one year earlier in the fourth quarter of 2015.

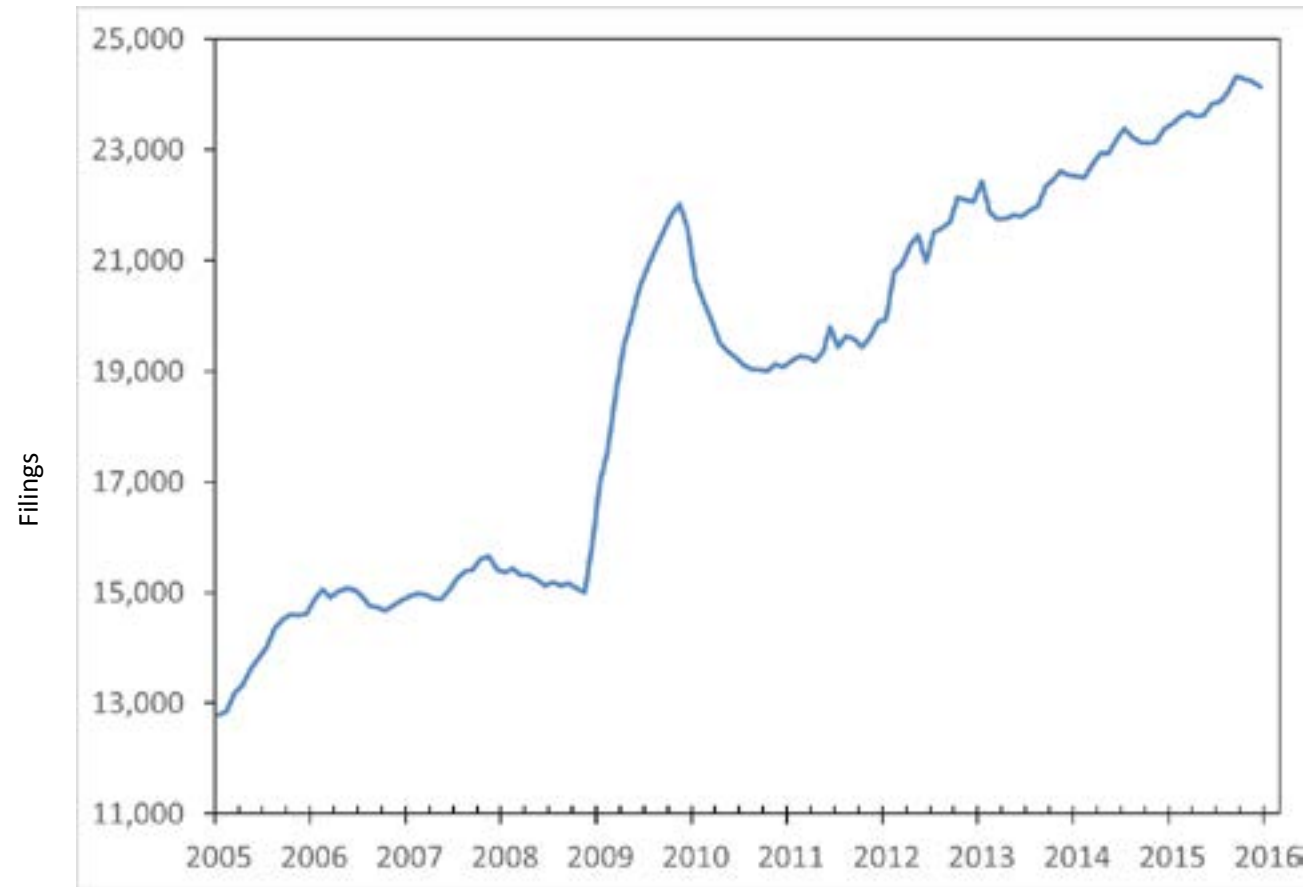
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Twin Cities New Business Incorporations	1,346	1,553	1,504	1,349	1,344	-0.1%

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. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2005. At a level of 5,440, new filings for LLC in the fourth quarter of 2015 were 3.2 percent lower than one year earlier.

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

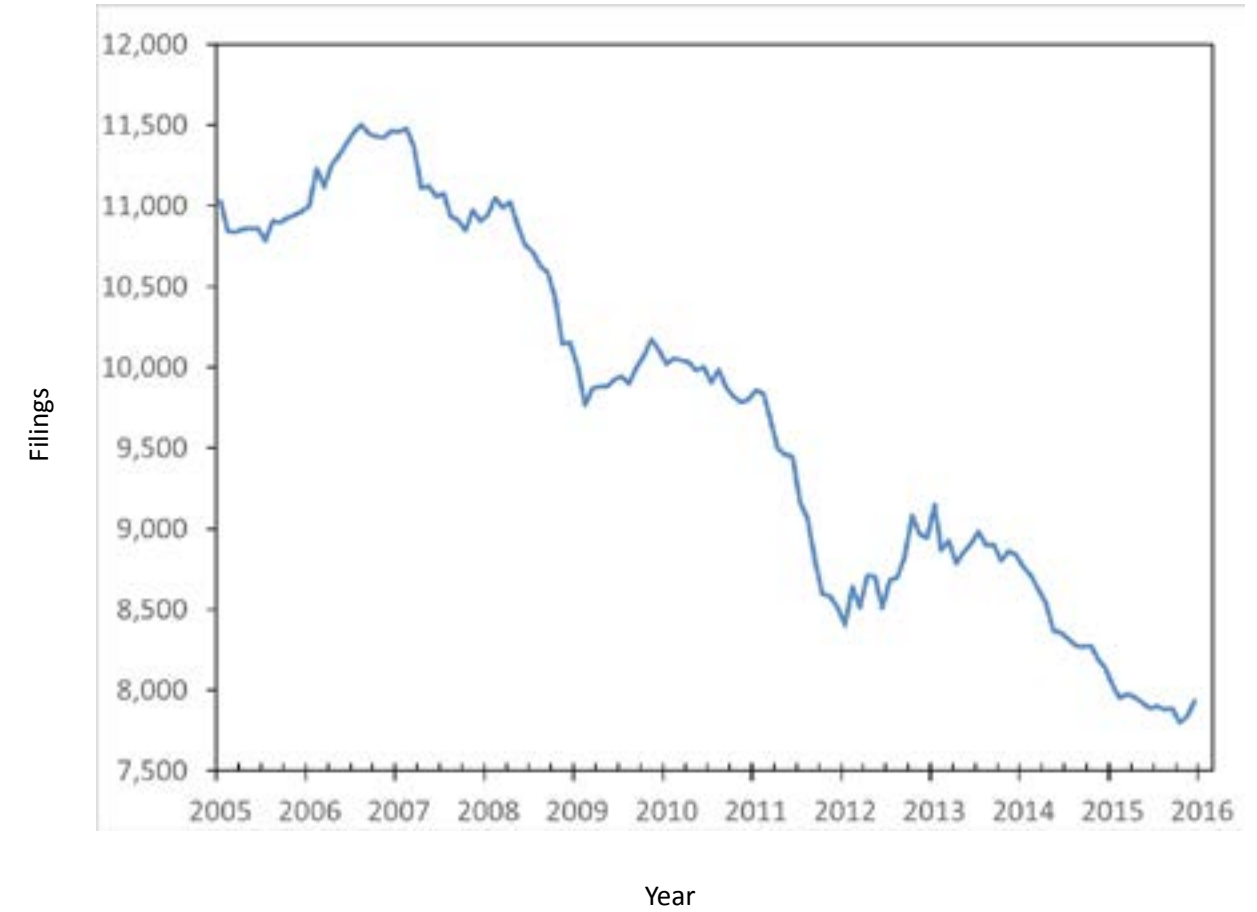


Year

Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Twin Cities New Limited Liability Companies	5,619	6,385	6,310	6,007	5,440	-3.2%

Assumed names, which include sole proprietors or organizations that do not have limited liability, rose 2.6 percent in the fourth quarter relative to the same period in 2014. This series has been on a downward slide since peaking out in 2006-2007.

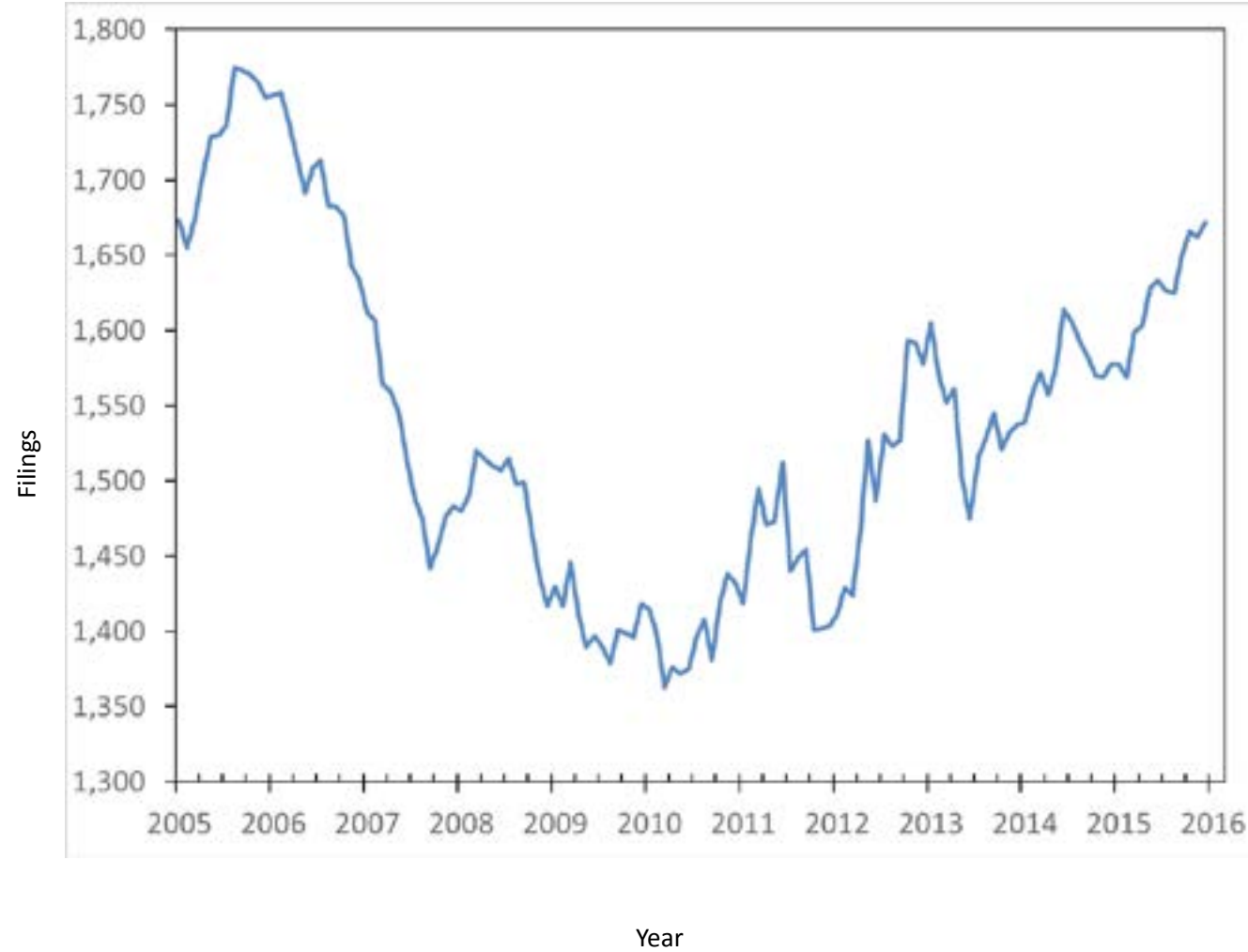
New Assumed Names—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Twin Cities New Assumed Names	1,791	2,099	2,061	1,937	1,837	2.6%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State has increased to a level last seen in the mid-2000s. With 393 new non-profits registered in the fourth quarter, this sector expanded by 5.9 percent compared to one year earlier.

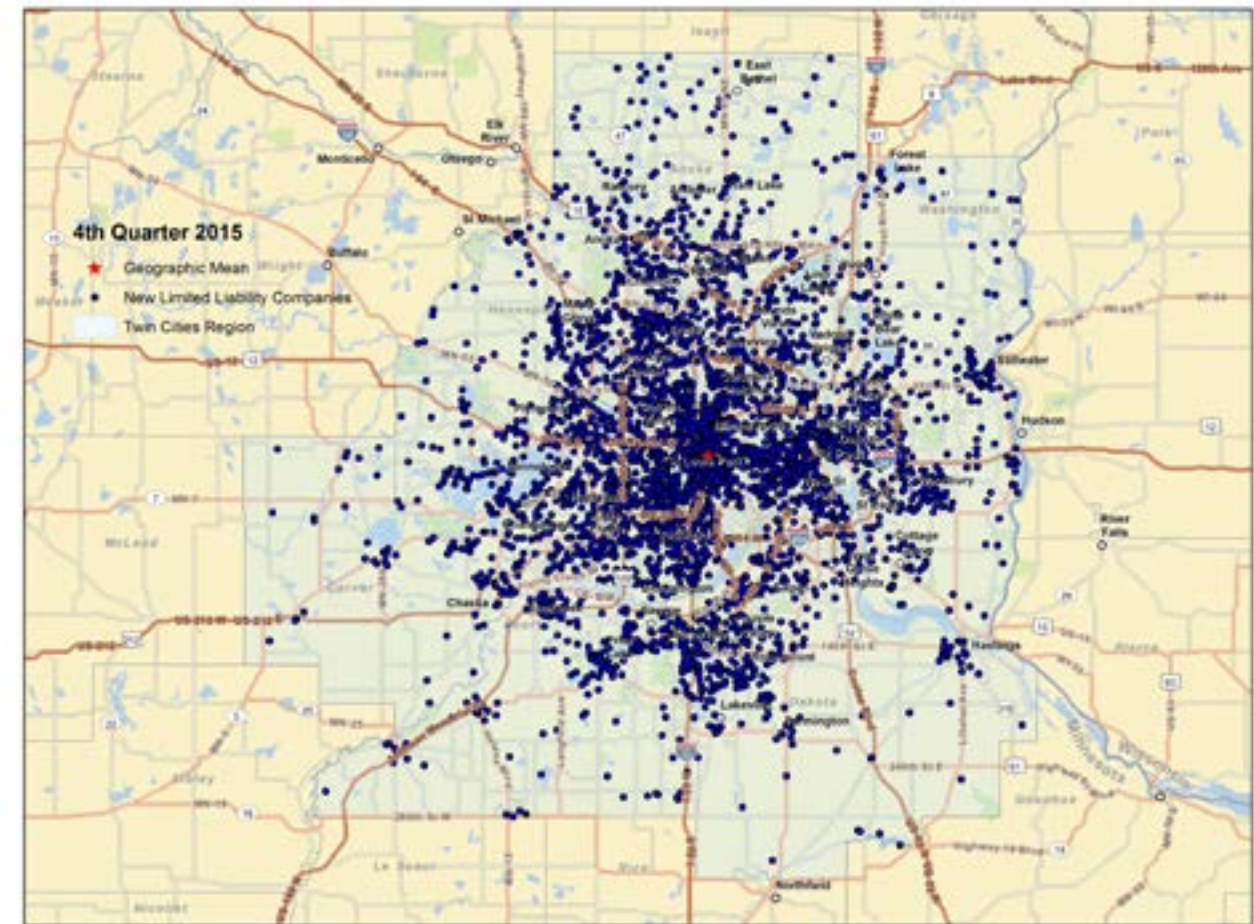
New Non-Profits—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Twin Cities New Non-Profits	371	457	431	391	393	5.9%

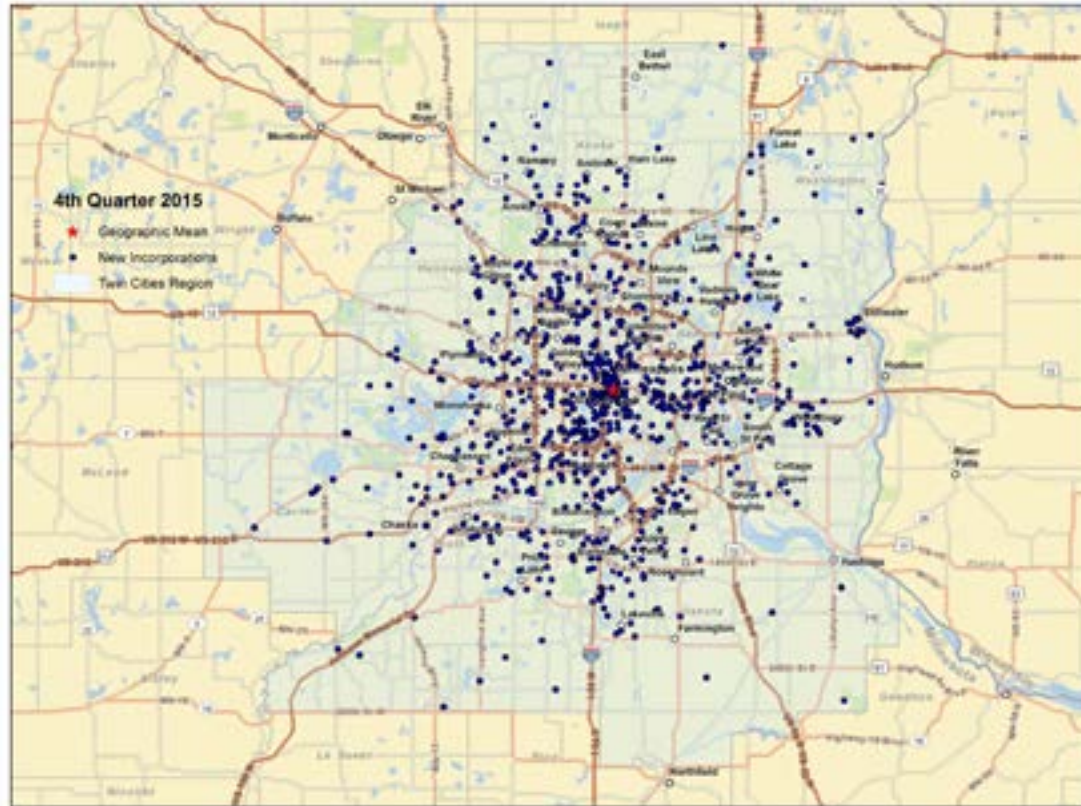
The first map shown below is a visual representation of new limited liability company formation around the 7-county Twin Cities planning area in the fourth quarter of 2015. The density of new LLC formation increases as the center of the planning area is approached. Some clusters of new LLC formation arise in the outer reaches of the area, but the largest share of new LLCs come towards the center of the map as well as around major roadways. The geographic mean of new LLC formation is southwest of Minneapolis—in St. Louis Park.

Twin Cities Planning Area — New Limited Liability Company Formation--Quarter 4: 2015



The second map shows new incorporations in the Twin Cities planning area. While there are considerably fewer new incorporations than LLCs, the distribution of newly incorporated businesses is similar to new LLCs (note that the geographic mean is largely the same in the two maps). The ratio of new LLCs to incorporations in the Twin Cities planning area was 4.05 in the fourth quarter. This is the lowest ratio of Minnesota’s six planning areas (the Central Minnesota planning area has a similar ratio of 4.08), and is much lower than the ratio of new LLCs to new incorporations in the Southeast Minnesota planning area (where it was a statewide high of 6.9).

Twin Cities Planning Area: New Incorporations--Quarter 4: 2015

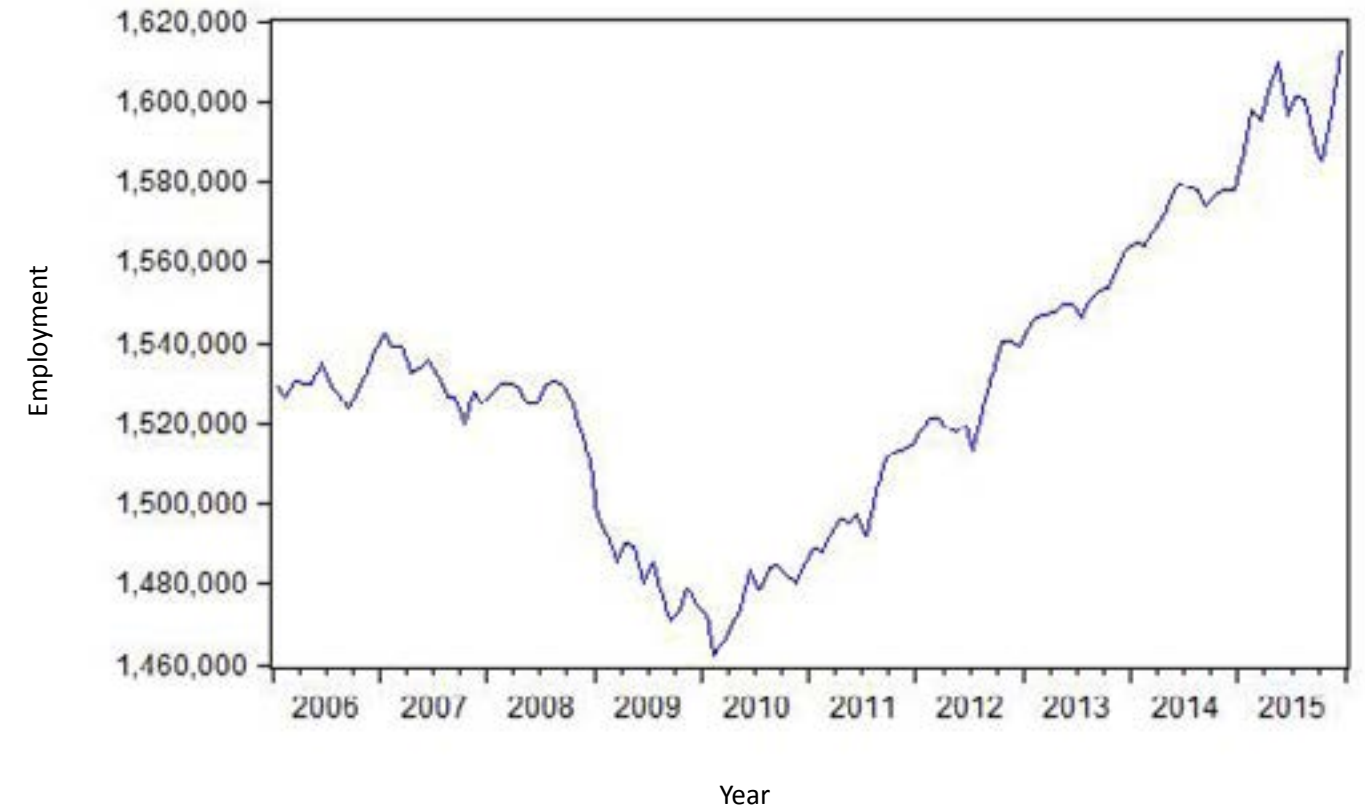


Twin Cities Labor Market Conditions

Employment of Twin Cities residents grew 2 percent over the past year. After relative stagnation through 2007 and a decline during the Great Recession, the area has experienced fairly steady employment growth since the start of 2010 (although the 12-month moving average of employment declined in the first half of 2015).

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.

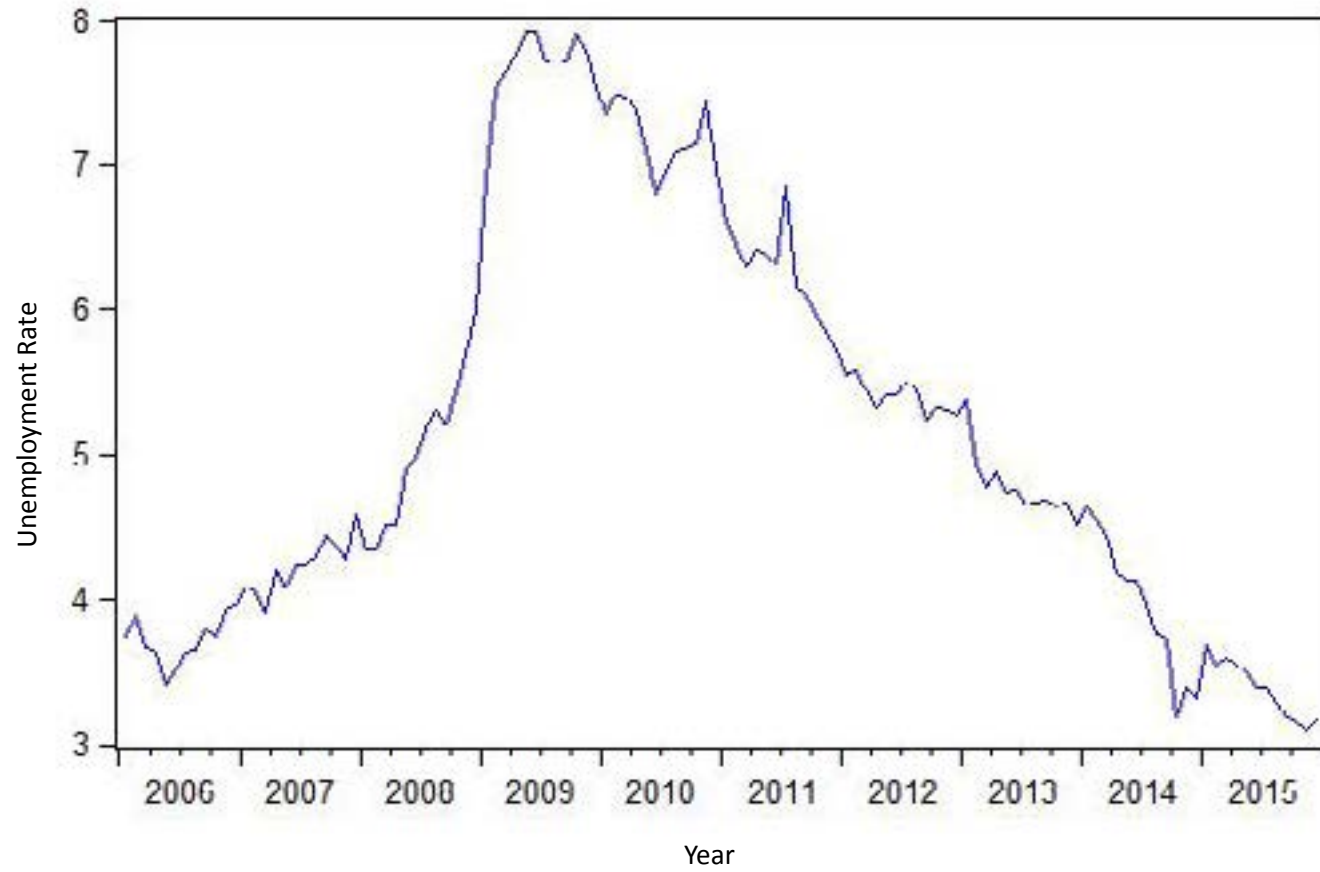
Employment—Twin Cities Planning Area (12-month moving average)



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Employment (Not seasonally adjusted)	1,576,462	1,617,218	1,606,818	1,592,823	1,591,415	1,604,264	1,608,563

The seasonally adjusted unemployment rate in the Twin Cities had declined since the end of the Great Recession in 2009. The unemployment rate rose at the end of 2014, but resumed its downward path in 2015. The non-seasonally adjusted unemployment rate now stands at 2.9 percent, lower than the 3.1 percent rate recorded one year earlier.

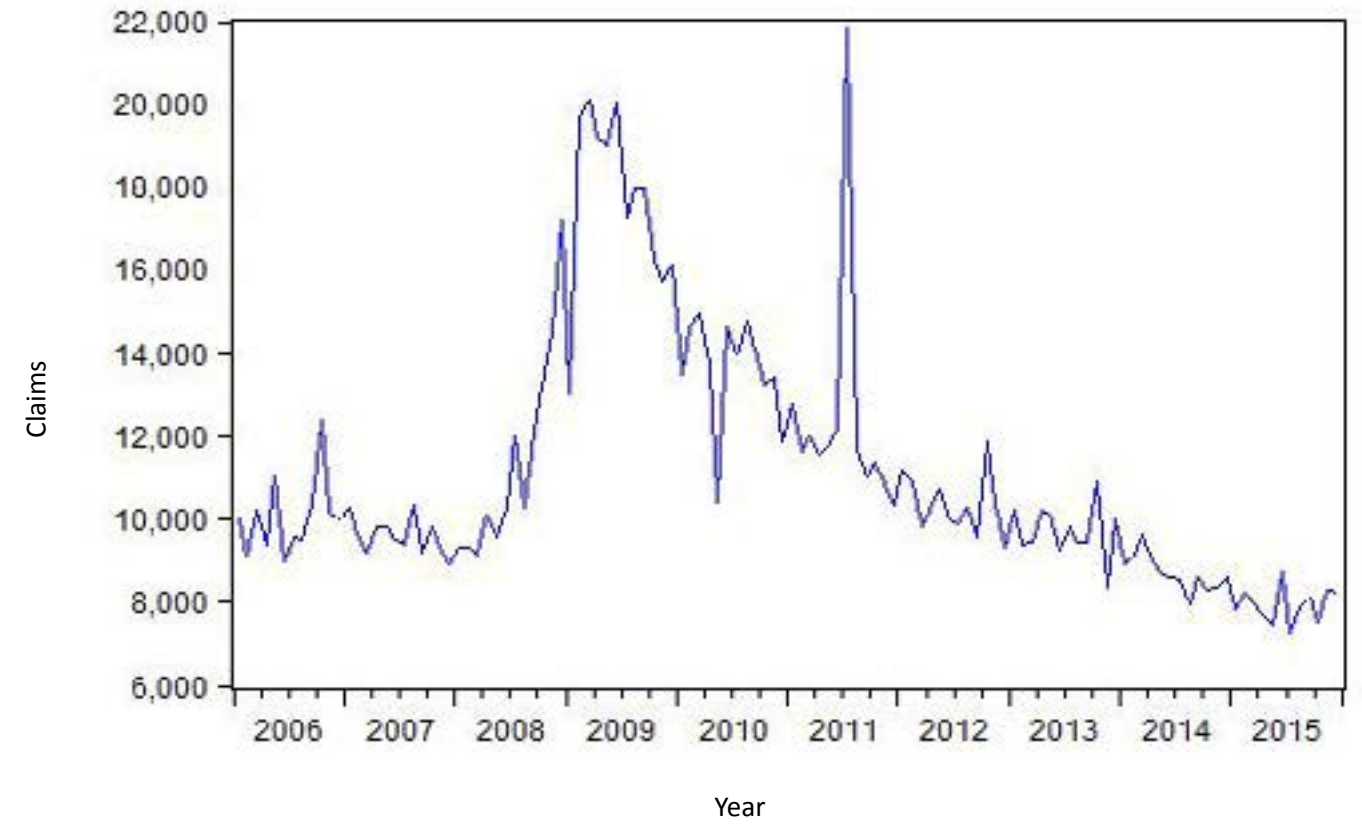
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Unemployment Rate (Not seasonally adjusted)	3.1%	3.6%	3.3%	3.1%	2.9%	2.7%	2.9%

New claims for unemployment insurance were 2.6 percent below year ago levels in December 2015. The graph of the seasonally adjusted series suggests claims are at levels that are among the lowest observed over the past 10 years.

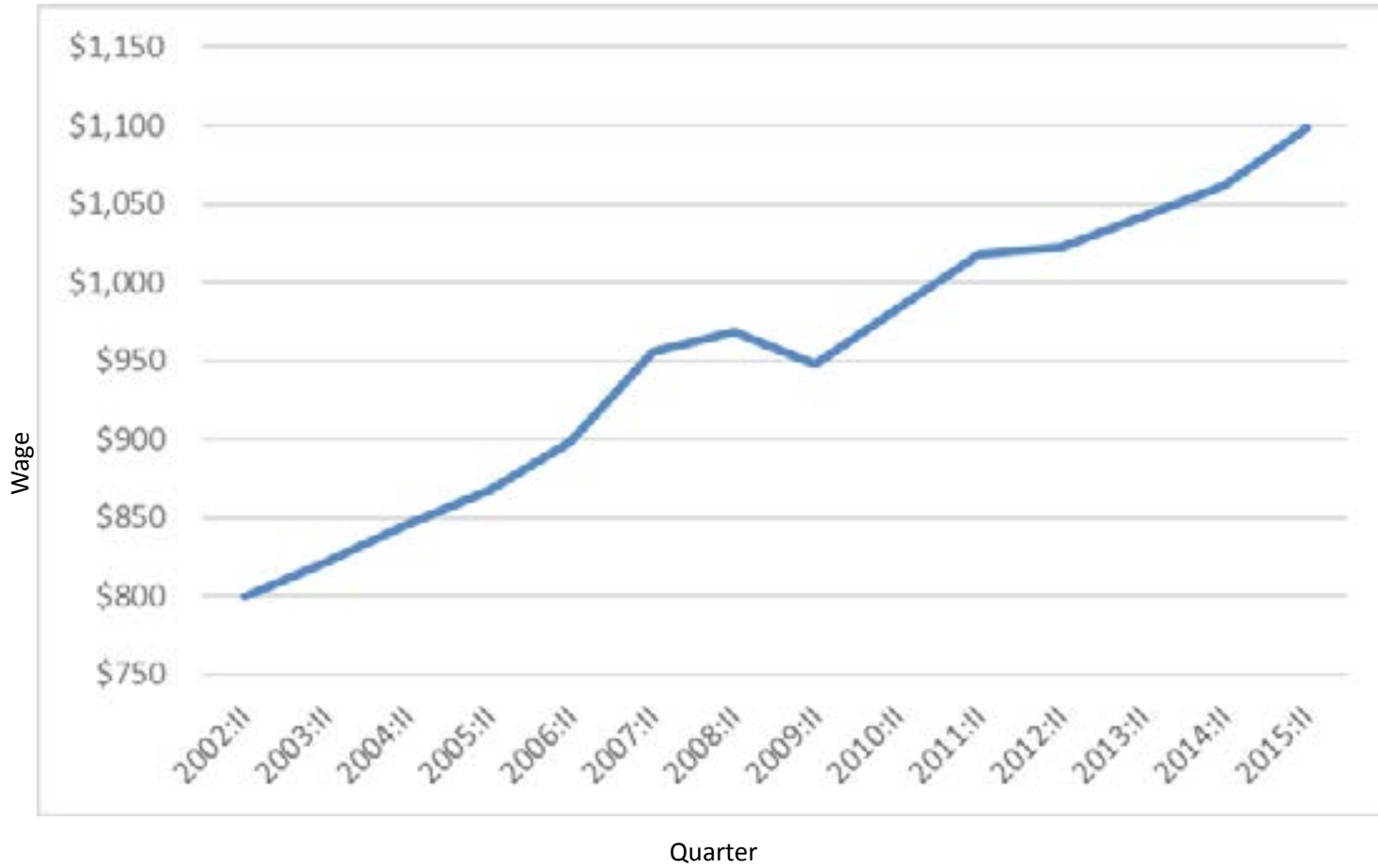
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Twin Cities Planning Area



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Initial claims (Not seasonally adjusted)	12,010	6,606	6,189	6,620	6,507	10,653	11,702

Twin Cities average weekly wages rose in this year’s second quarter (this is the most recently available data) to \$1,098—a 3.5 percent annual increase. This is (by far) the highest weekly earnings of any of Minnesota’s six planning areas. By comparison, the Southeast Minnesota planning area has the second highest average weekly wages in the state with a total of \$851.

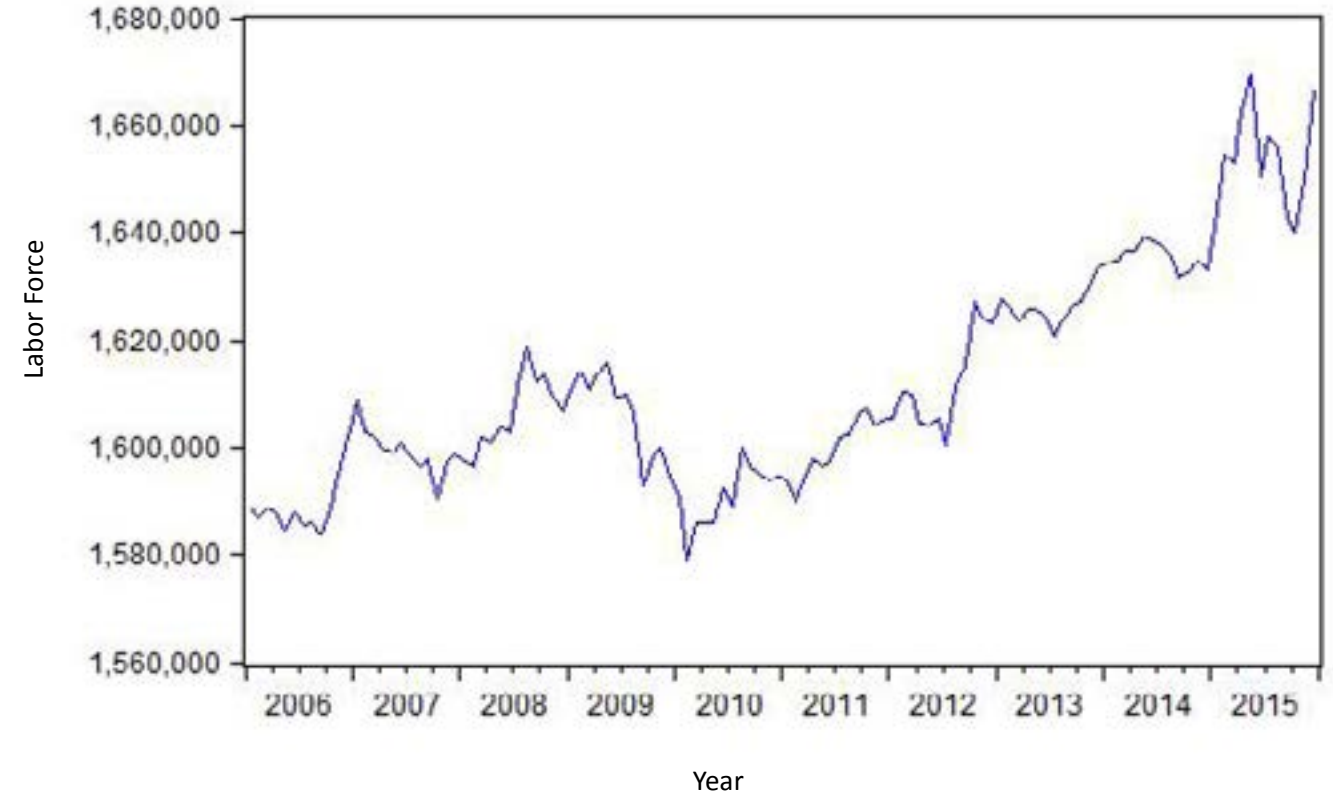
Average Weekly Wages—Twin Cities Planning Area



Quarter	2010:II	2011:II	2012:II	2013:II	2014:II	2015:II
Average Weekly Wage	\$983	\$1,018	\$1,022	\$1,042	\$1,061	\$1,098

The size of the Twin Cities labor force continues to rise. Over the last twelve months, the labor force in the Twin Cities planning area expanded by 1.9 percent to 1,657,289. The 12-month moving average (see accompanying graph) of the Twin Cities labor force is near its all-time high.

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

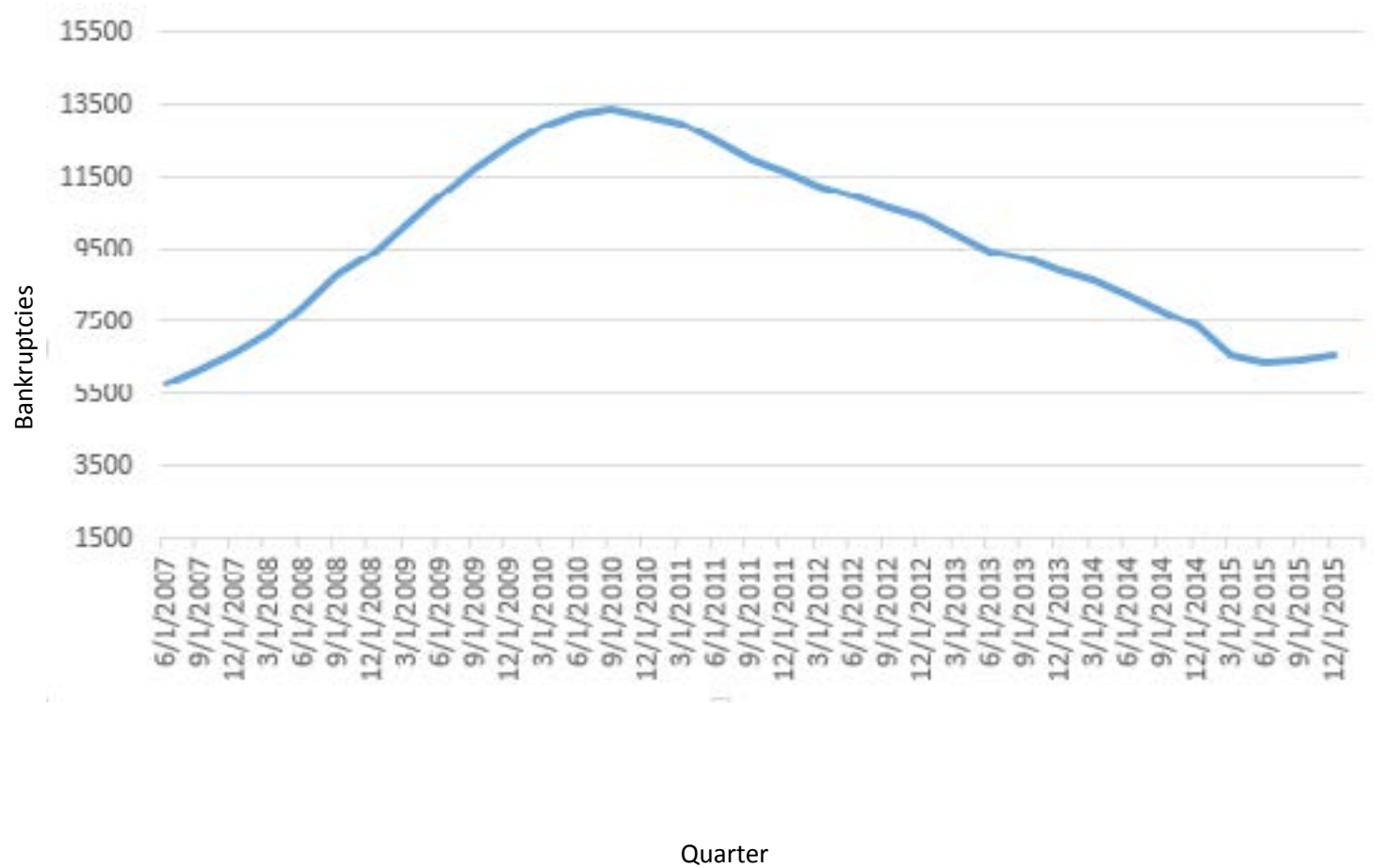


Year (December)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	1,591,782	1,601,148	1,618,121	1,627,503	1,626,455	1,657,289

Twin Cities Bankruptcies

The figure below shows the 12-month moving total for Twin Cities bankruptcies since the second quarter of 2007 (shortly before the beginning of the Great Recession). As can be seen in the figure, this moving total increased through the second quarter of 2010, and declined steadily until the beginning of 2015, at which time it began leveling out. With 6,615 bankruptcies over the past twelve months, the level of bankruptcies in the Twin Cities is at a level that was last seen prior to the Great Recession.

Twin Cities Bankruptcies (12-month moving total)



Year (Fourth Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (not seasonally adjusted)	13,177	11,661	10,350	8,930	7,385	6,615

Economic Indicators

Twin Cities MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (since 1999 unless noted)
Employment	December 2015 (m)	1,947,677	1,913,421	1.8% ↑	0.5%
Manufacturing Employment	December 2015 (m)	195,580	192,987	1.3% ↑	-1.3%
Average Weekly Work Hours Private Sector	December 2015 (m)	34.4	34.3	0.3% ↑	33.9 (since 2007)
Average Earnings Per Hour Private Sector	December 2015 (m)	\$26.82	\$26.62	0.8% ↑	0.5% (since 2007)
Average Weekly Work Hours Manufacturing (Production Workers)	December 2015 (m)	41.6	41.6	0.0% ↔	40.8 (since 2005)
Average Earnings Per Hour Manufacturing (Production Workers)	December 2015 (m)	\$21.05	\$20.84	1.0% ↑	1.4% (since 2005)
Unemployment Rate	December 2015 (m)	3.1%	3.2%	NA ↓	4.4%
Labor Force	December 2015 (m)	1,942,269	1,905,506	1.9% ↑	0.6%
MSP Residential Building Permit Valuation, in thousands	December 2015 (m)	176,875	216,182	-18.2% ↓	NA
Minneapolis Cost-of-Living Index	Annual Average 2015	108.3	107.6	0.7% ↑	NA
St. Paul Cost-of-Living Index	Annual Average 2015	107.5	107.5	0.0% ↔	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 14 Minnesota counties (the definition of the MSA was recently expanded to include Le Sueur, Mille Lacs, and Sibley counties): Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Le Sueur, Mille Lacs, Ramsey, Scott, Sherburne, Sibley, 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 experienced favorable labor market conditions in the last 12 months. Overall employment increased 1.8 percent in the Twin Cities MSA and manufacturing employment rose by 1.3 percent over the year ending December 2015. Average hourly earnings rose in both the private sector and in manufacturing and average weekly hours rose by 0.3 percent in the private sector (they were flat in manufacturing). The relative cost of living measure for Minneapolis increased in 2015, but was unchanged in St. Paul. The Twin Cities MSA is approximately 8 percent more expensive to live in than the average city in the United States. The value of residential building permits fell by 18.2 percent in December 2015 relative to the same period one year earlier. Compared to December 2015, the Twin Cities MSA unemployment rate was lower and the labor force was larger.

State and National Indicators

MINNESOTA Indicators	Dec 2015	Sep 2015	Dec 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,873,700	2,855,200	2,831,400	0.6%	1.5%
Average weekly hours worked, private sector	33.7	33.9	33.9	-0.6%	-0.6%
Unemployment rate, seasonally adjusted	3.5%	3.8%	3.7%	NA	NA
Earnings per hour, private sector	\$26.49	\$26.00	\$25.82	1.9%	2.6%
Philadelphia Fed Coincident Indicator, MN	176.47	175.40	172.34	0.6%	2.4%
Philadelphia Fed Leading Indicator, MN	1.53	1.30	1.84	17.7%	-16.8%
Minnesota Business Conditions Index	39.4	53.0	61.4	-25.7%	-35.8%
Price of milk received by farmers (cwt)	\$17.00	\$17.80	\$20.50	-4.5%	-17.1%
Enplanements, MSP airport, thousands	1,429.0	1,506.7	1,387.6	-5.2%	3.0%

NATIONAL Indicators	Dec 2015	Sep 2015	Dec 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	143,242	142,391	140,592	0.6%	1.9%
Industrial production, index, SA	106.0	107.6	107.9	-1.5%	-1.8%
Real retail sales, SA	188,393	188,097	185,548	0.2%	1.5%
Real personal income less transfers	11,782.3	11,690.1	11,396.9	0.8%	3.4%
Real personal consumption expenditures	11,344.7	11,292.7	11,061.0	0.5%	2.6%
Unemployment rate, SA	5.0%	5.1%	5.6%	NA	NA
New building permits, SA, thousands	17,620	18,482	15,098	-4.7%	16.7%
Standard & Poor's 500 stock price index	2,054.1	1,944.4	2,054.3	5.6%	0%
Oil, price per barrel in Cushing, OK	\$37.19	\$45.48	\$59.29	-18.2%	-37.3%

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate was lower, but average weekly hours worked in the private sector declined. Two indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy. Milk prices were 35.8 percent lower than one year ago in December. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 3 percent over the last twelve months.

On balance, the national economic indicators reported in the table suggest improved economic activity in recent months. While industrial production was lower and stock prices flat, most of the indicators showed strength. Employment, retail sales, consumer expenditures, and income all experienced growth over the recent quarter and the national unemployment rate fell. Oil prices continued to decline. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. New building permits were much stronger than one year ago as residential construction continues to recover from historically low levels during the Great Recession.

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.

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

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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, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.*
- 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: Bankruptcies*
- U.S. Bureau of Census: Durable Goods Orders, Housing Permits, Residential Building Permits, Retail Sales.*
- U.S. Department of Agriculture: Milk Prices.*
- U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income, Real Wages and Salaries.*
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