


3-2017

Central Minnesota Economic and Business Conditions Report - Fourth Quarter 2016

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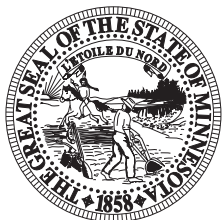
MacDonald, Richard A. and Banaian, King, "Central Minnesota Economic and Business Conditions Report - Fourth Quarter 2016" (2017). *Central Minnesota Economic and Business Conditions Report*. 12.
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Central Minnesota Economic and Business Conditions Report Fourth Quarter 2016

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.



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Executive Summary

The Central Minnesota planning area is expected to experience steady economic growth over the next several months according to predictions of the Central Minnesota Index of Leading Economic Indicators (LEI). The leading index rose by 0.86 points in the most recent period, with three components producing positive readings. Strength in a general measure of statewide business conditions along with rising residential building permits in the St. Cloud area helped drive the index upward this quarter. A small uptick in national durable goods orders also contributed favorably to the leading index. An increase in initial jobless claims in Central Minnesota and lower new business filings of incorporation in the Central Minnesota planning area had a negative impact on the LEI in the fourth quarter.

There were 1,280 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the fourth quarter of 2016 — representing a 3.7 percent decrease from one year ago. There were 134 new regional business incorporations in the fourth quarter, a 24.3 percent reduction from year ago levels. New limited liability company (LLC) filings in Central Minnesota increased 4.3 percent relative to the fourth quarter of 2015—rising to 754 in the current quarter. New assumed names totaled 351 over the recent quarter—a decrease of 8.6 percent compared to the same period in 2015. There were 41 new filings for Central Minnesota non-profit in the fourth quarter—four fewer filings than one year ago.

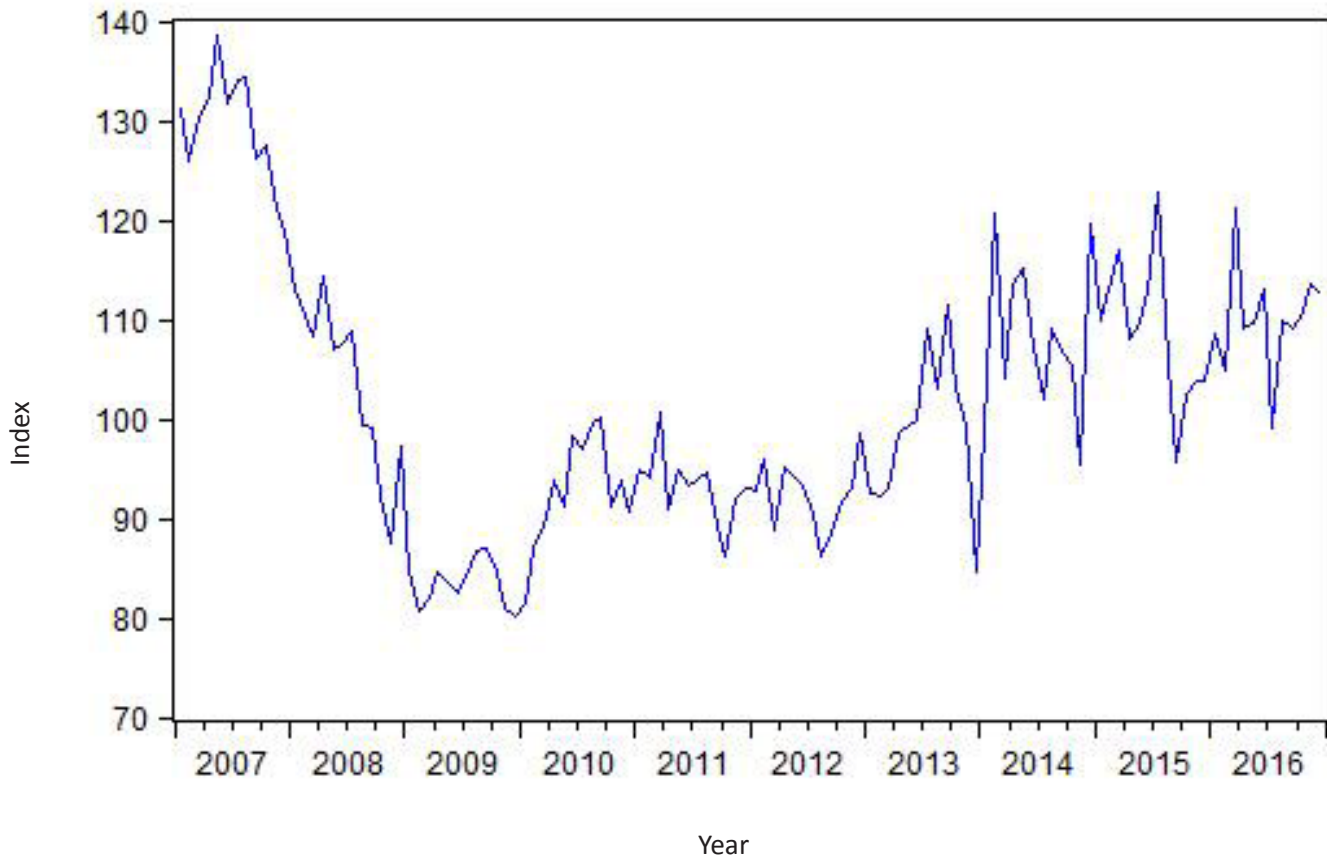
Based on preliminary data, Central Minnesota employment was 1.6 percent lower in December 2016 than it was one year earlier. Compared to one year ago, 5,889 fewer residents of Central Minnesota now have jobs. The December regional unemployment rate was 4.8 percent—up from 4.3 percent one year earlier. Initial claims for unemployment insurance were 8.9 percent lower in December than they were in the same month last year. The Central Minnesota labor force contracted by 1.1 percent over the past year and the region’s average weekly wage increased to \$766. As noted in last quarter’s Central Minnesota Economic and Business Conditions Report, regional bankruptcies have levelled out. The region’s 1,524 bankruptcies over the past twelve months are only slightly lower than they were in last quarter’s report.

Economic performance in the St. Cloud area was mixed, with higher unemployment rates, less help wanted linage, and a decline in the labor force being offset by higher employment, an overall increase in new business filings, a rise in home prices, and a reduction in initial jobless claims. A recent survey of St. Cloud area business leaders was also mixed in terms of future business optimism.

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 rose 0.86 points in the fourth quarter after contracting 2.90 points in the third quarter of the year. Compared to last year, the LEI is 8.22 percent higher. With the exception of Southwest Minnesota (where growth is expected to slow), Central Minnesota's steady pace is mirrored throughout the state, where steady or accelerating economic growth is predicted over the next several months.

SCSU Central Minnesota Index of Leading Economic Indicators
(December 1999 = 100)



Components of SCSU Central Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2016	Contribution to LEI, 3rd quarter 2016
Minnesota Business Conditions Index	1.53	-0.42
Central Minnesota initial claims for unemployment insurance	-1.16	-1.26
Central Minnesota new filings of incorporation	-0.64	0.02
St. Cloud MSA residential building permits	1.05	-2.19
National new orders for durable goods, real	0.08	0.95
TOTAL CHANGE	0.86	-2.90

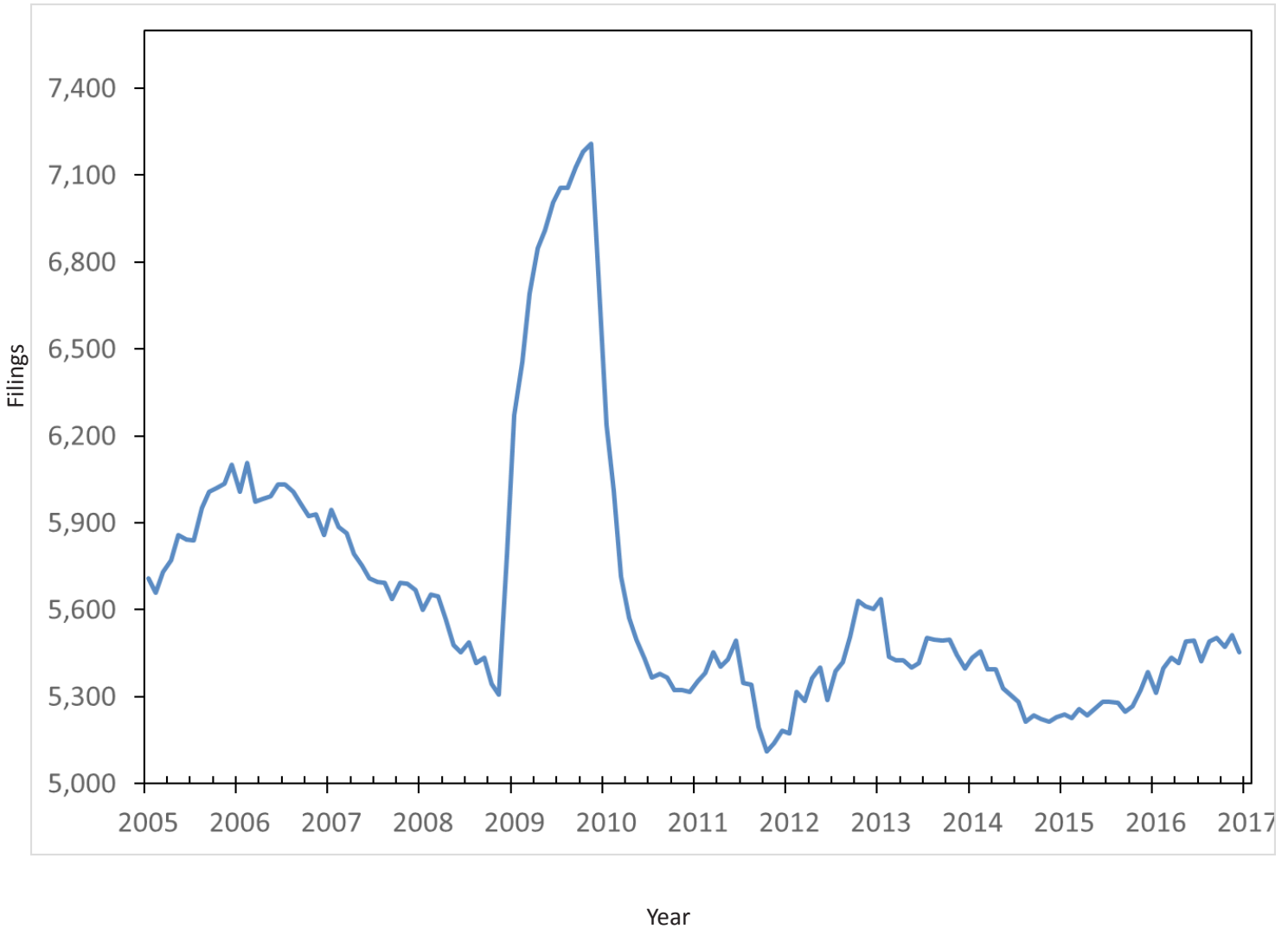
Two index components—St. Cloud MSA residential building permits and the Minnesota Business Conditions Index (which is a general measure of statewide business conditions)—had strong positive readings in the fourth quarter. Since Central Minnesota is an exporter of consumer durables, national durable goods orders are used as a proxy for regional economic performance. This indicator was also mildly positive in the current quarter. Weaker new filings of incorporation in Central Minnesota and higher initial jobless claims negatively impacted the leading index in the fourth quarter.

SCSU Central Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Minnesota Business Conditions Index December	52.3	48.2	8.51%
Central Minnesota initial claims for unemployment insurance December	5,795	6,358	-8.85%
Central Minnesota new filings of incorporation Fourth Quarter	134	177	-24.29%
St. Cloud MSA single family building permits December	12	8	50.00%
National new orders for durable goods, billions of real 1984 dollars, December	232.8	223.4	4.21%
Central Minnesota Leading Economic Indicators Index December (December 1999 = 100)	112.5	104.0	8.22%

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 1,280 new business filings in Central Minnesota in the fourth quarter. This represents a 3.7 percent decrease from the same period in 2015. As can be seen in the accompanying graph, there was an abrupt increase in new business filings in mid-2008. This resulted from a sharp increase in new LLC filings at that time. This outlier (resembling a shark fin) 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. The 12-month moving total of new business filings has levelled out since the second quarter of 2016.

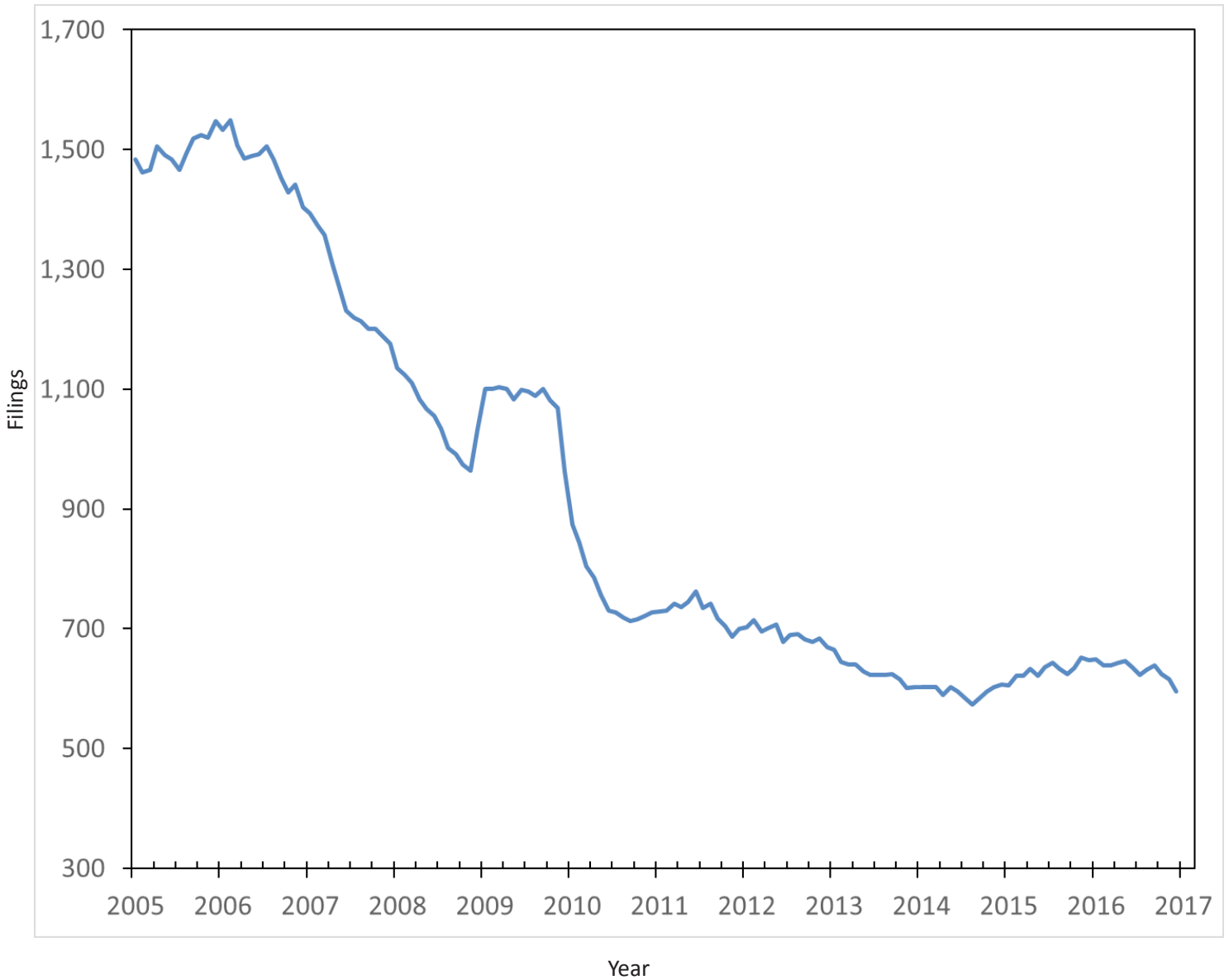
Total New Business Filings—Central Minnesota Planning Area (12-month moving total)



Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Central Minnesota Total New Business Filings	1,329	1,529	1,454	1,191	1,280	-3.7%

New business incorporations trended downward in Central Minnesota from 2005 to 2015. However, over the past several quarters, the 12-month moving total of this series had levelled out until the fourth quarter of 2016. Compared to one year ago, quarterly figures of new business incorporations plummeted (falling 24.3 percent) in the fourth quarter. This dragged down the moving total of new business incorporations in the region.

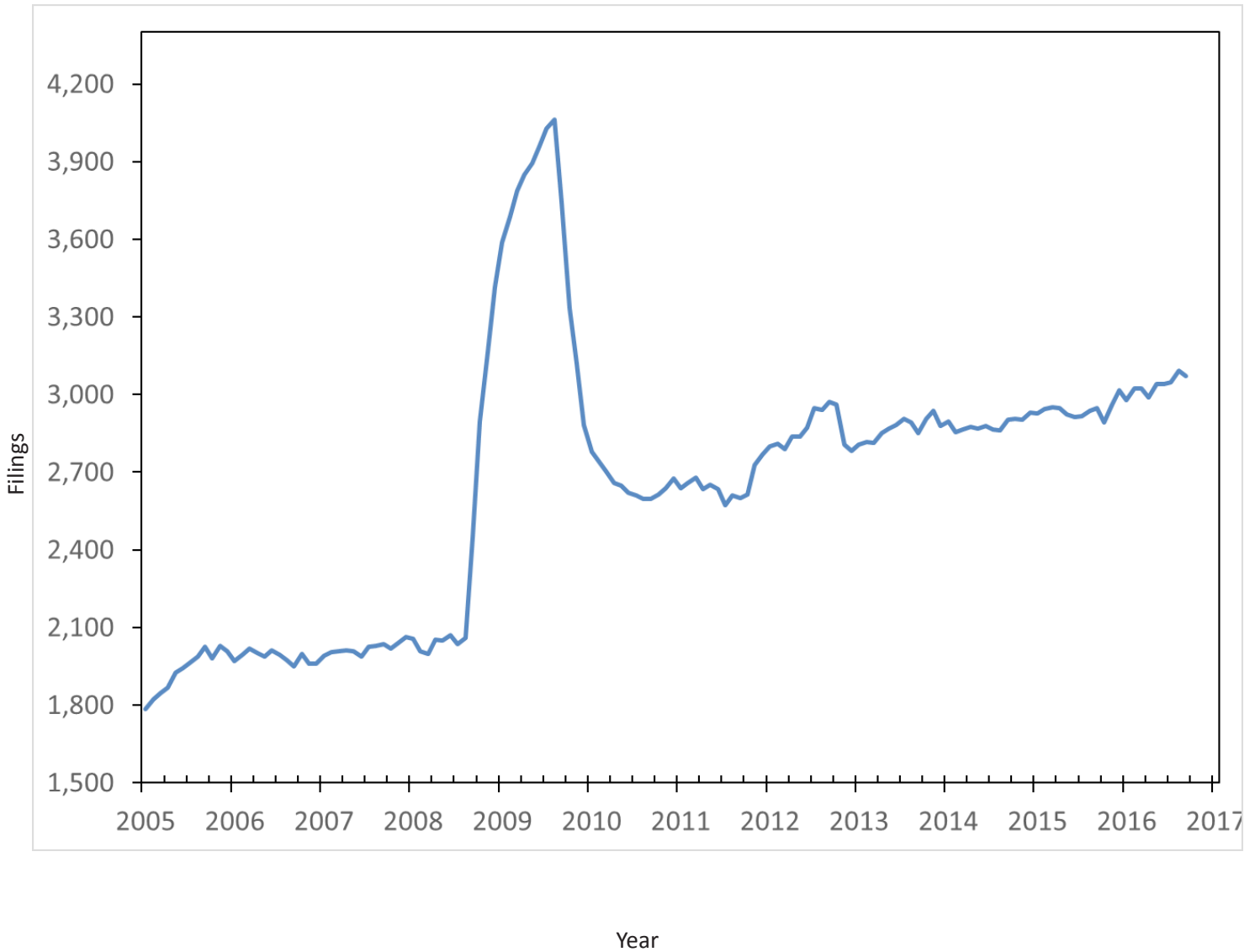
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Central Minnesota New Business Incorporations	177	182	163	117	134	-24.3%

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. The number of new LLCs increased by 4.3 percent (to 754) from one year earlier. As can be seen in the accompanying graph, the number of Central Minnesota LLCs has slowly trended upward in recent years.

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



Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Central Minnesota New Limited Liability Companies	723	840	792	686	754	4.3%

Assumed names, which include sole proprietors or organizations that do not have limited liability, fell in this year's fourth quarter. After a decade of decline (other than a brief steady period in 2011-12), this series had been trending upward in recent quarters, but it now appears to have reversed course since mid-year 2016.

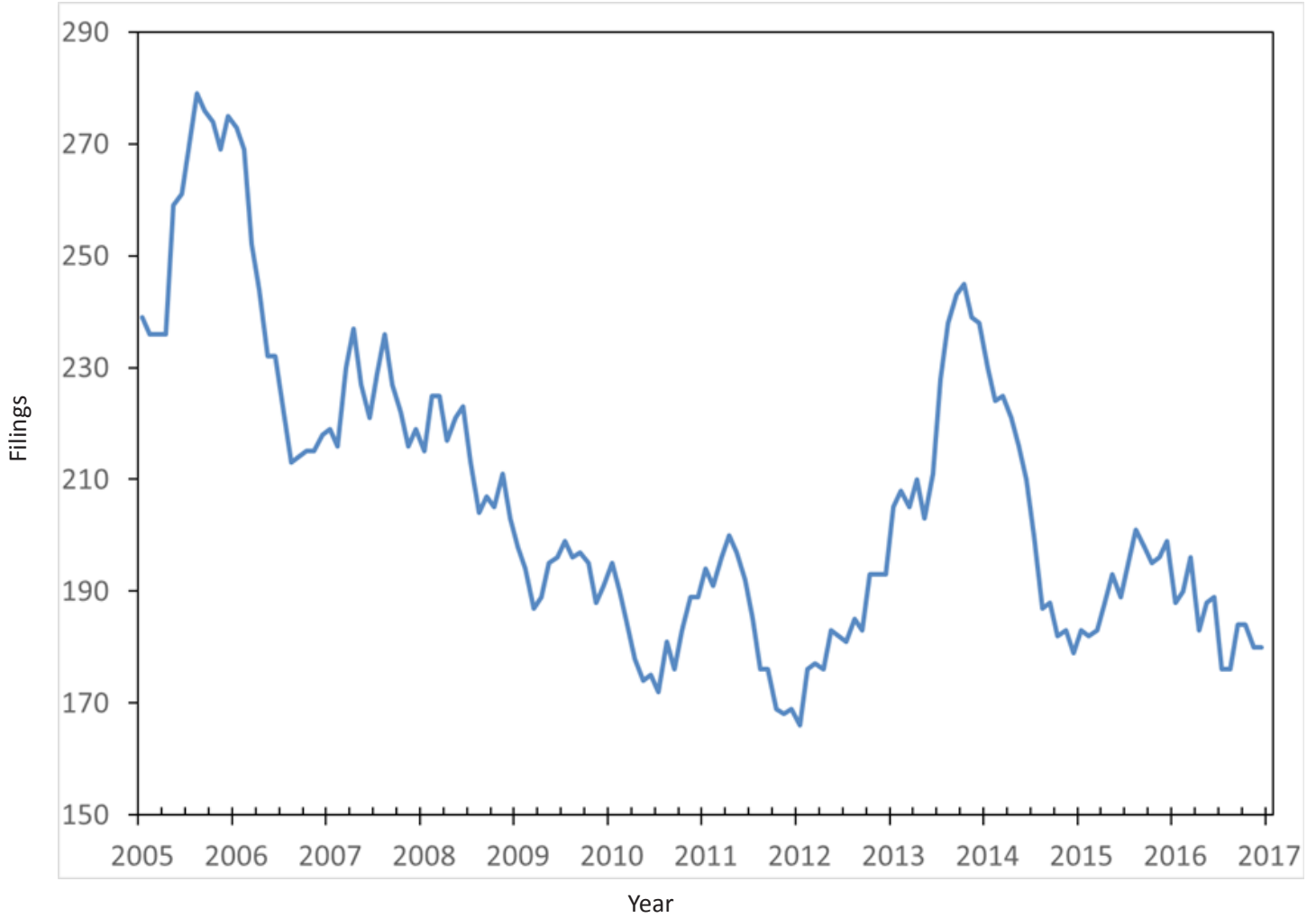
New Assumed Names—Central Minnesota Planning Area (12-month moving total)



Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Central Minnesota New Assumed Names	384	454	458	343	351	-8.6%

There were 41 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the fourth quarter of 2016. This was 8.9 percent fewer filings than one year ago.

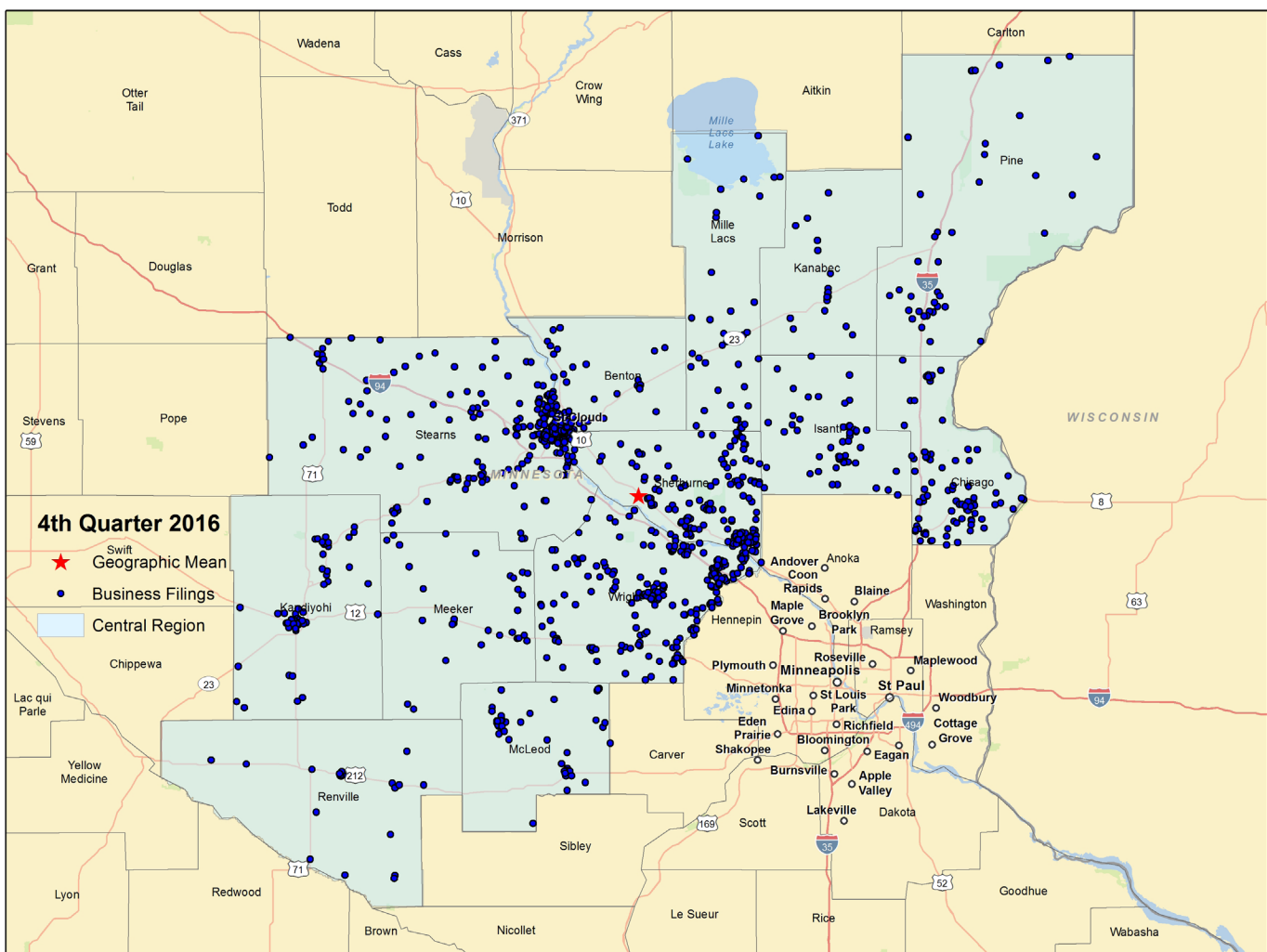
New Non-Profits—Central Minnesota Planning Area (12-month moving total)



Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Central Minnesota New Non-Profits	45	53	41	45	41	-8.9%

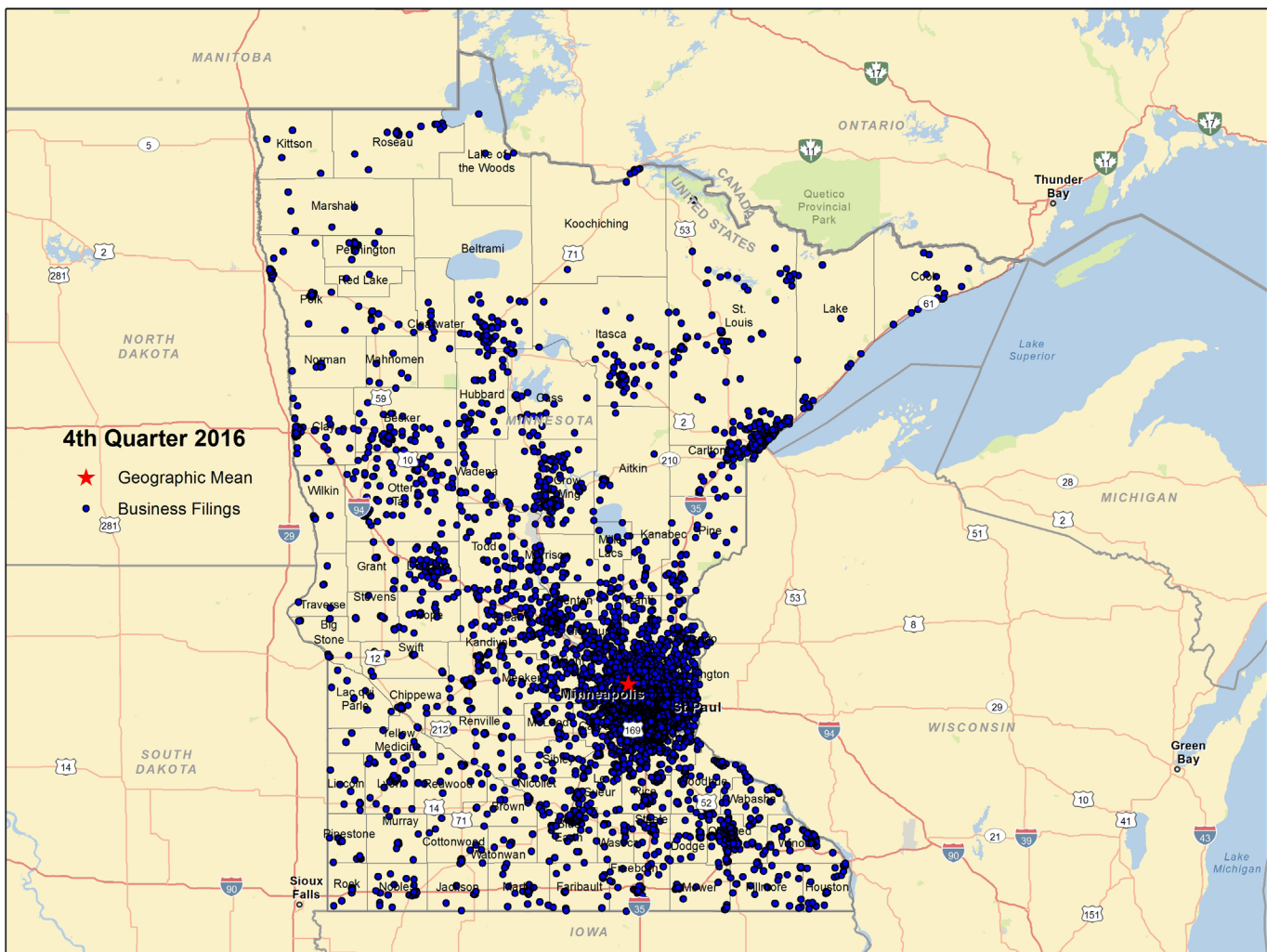
The first map shown below is a visual representation of new business filings around the Central Minnesota planning area in the fourth quarter of 2016. As usual, the densest areas of new business formation are in the St. Cloud metro as well as along the I-94/US-10 corridor approaching the Twin Cities. The geographic center of new filings lies within that I-94/US-10 corridor. Well-traveled roadways are also a predictor of new business filings in Central Minnesota.

Central Minnesota Planning Area--New Business Formation--Quarter 4: 2016



The second map shows new business filings for the state as a whole. This visual aid demonstrates the considerable extent to which the Twin Cities metro area dominates new business formation in the state. The map shows how the Twin Cities metro stretches along roadways into the Southeast, Southwest and Central planning areas. The map demonstrates the importance of cities and roadways in encouraging economic development. St. Cloud now appears to be integrated into the Twin Cities metro as the I-94/US-10 corridor continues to be a magnet for new business formation.

Minnesota--New Business Formation--Quarter 4: 2016

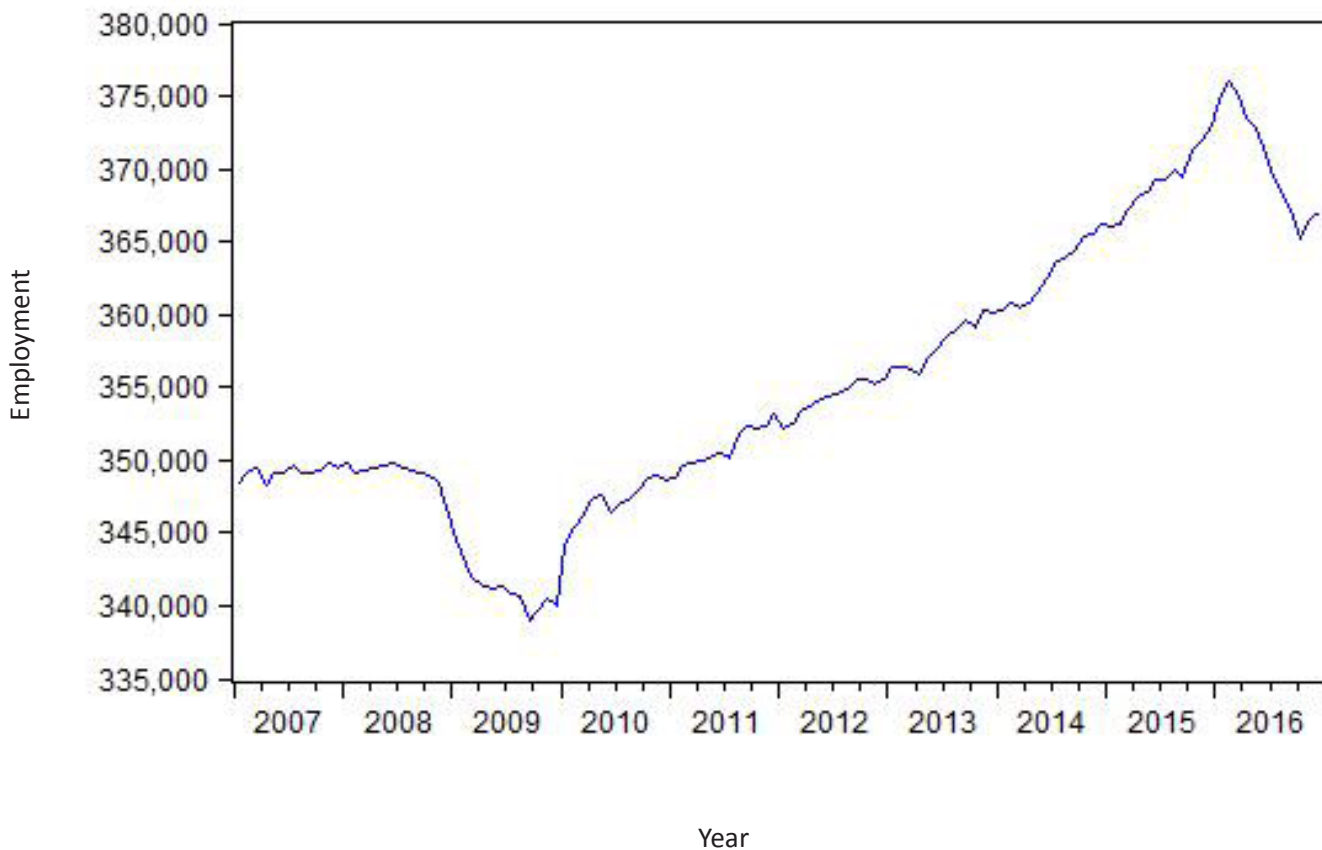


Central Minnesota Labor Market Conditions

Central Minnesota employment fell 1.6 percent over the year ending December 2016. Note that all of Minnesota’s six planning areas experienced declining year-over-year employment in December. There is a possibility that benchmark revisions prepared by the Minnesota Department of Employment and Economic Development in March will reverse this data trend. This will be looked at in next quarter’s report. The 12-month moving average of Central Minnesota employment turned downward throughout most of 2016, but may have bottomed out at the end of the year.

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.

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



Month	December 2015	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016
Employment (Not seasonally adjusted)	371,375	373,181	369,929	367,168	368,618	367,783	365,486

Central Minnesota’s unemployment rate was 4.8 percent in December 2016, considerably higher than one year earlier. The seasonally adjusted unemployment rate has started to inch up in recent quarters (see figure below).

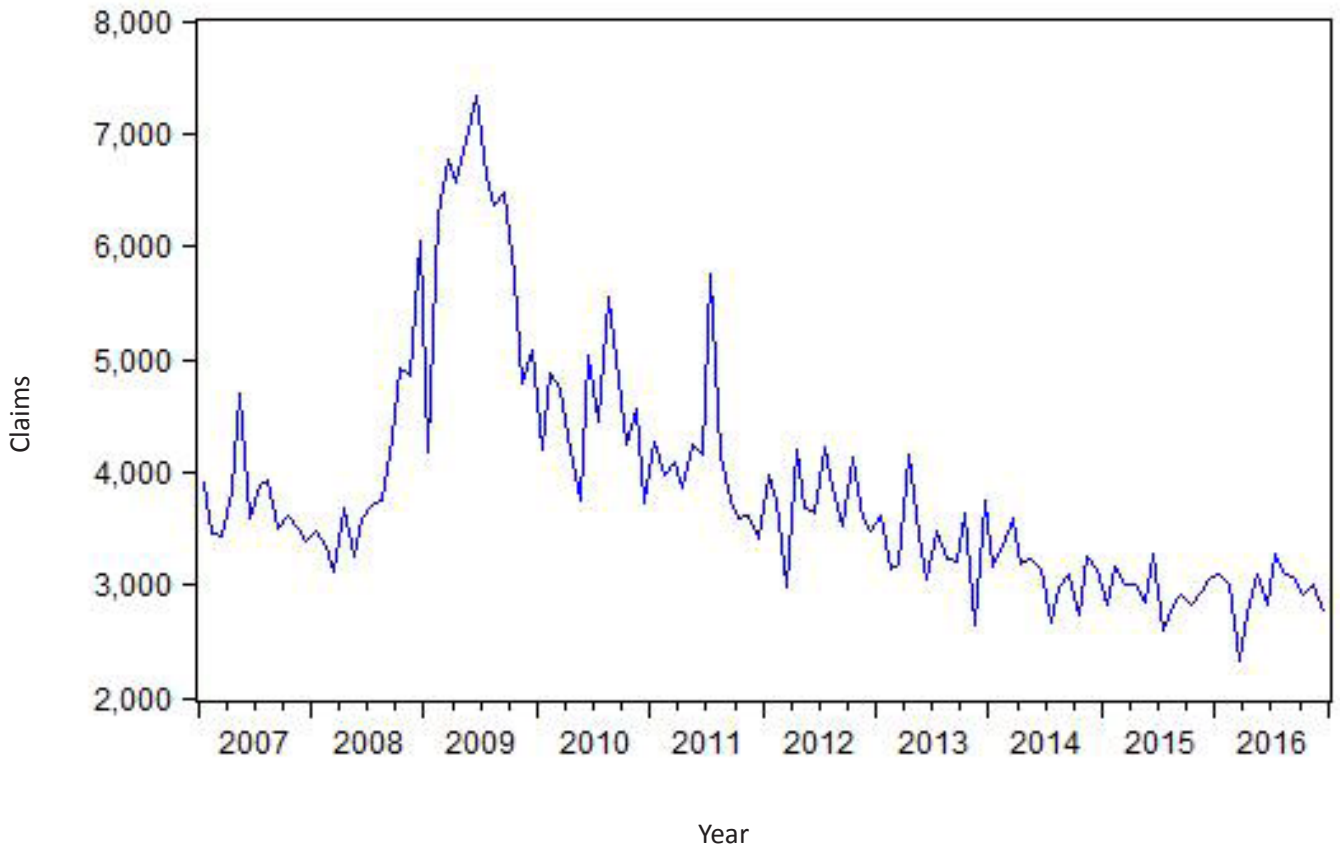
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	December 2015	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016
Unemployment Rate (Not seasonally adjusted)	4.3%	3.8%	3.8%	3.4%	3.3%	3.4%	4.8%

Initial claims for unemployment insurance in the Central Minnesota planning area were 5,795 in December 2016. This was 8.9 percent fewer claims than one year ago. As can be seen in the accompanying graph, the seasonally adjusted initial jobless claims series had trended downward since peaking in 2009. However, this series has flattened out in recent quarters.

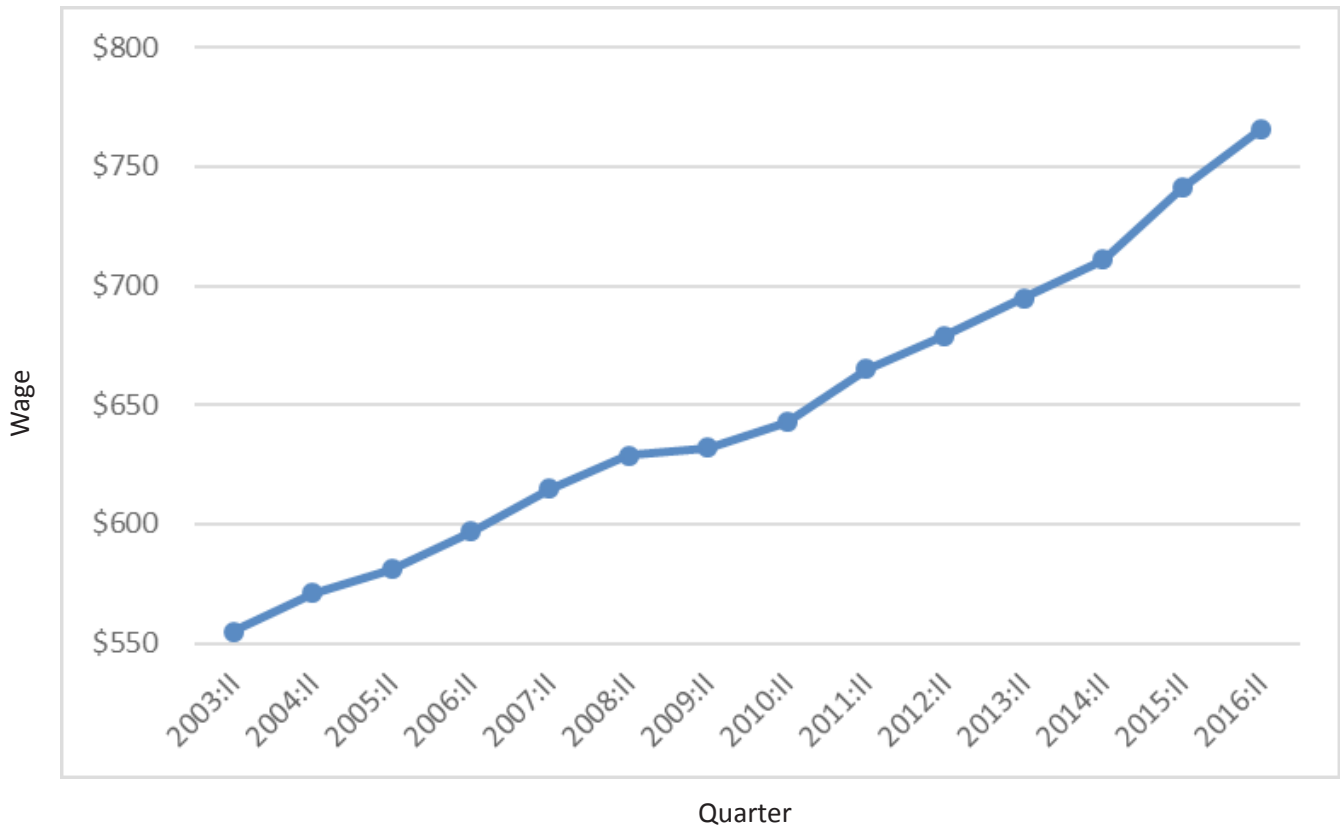
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Central Minnesota Planning Area



Period	December 2015	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016
Initial claims (Not seasonally adjusted)	6,358	2,246	1,698	1,808	2,130	5,760	5,795

The average weekly wage continued to climb upward in the second quarter of 2016 (this is the most recently available data). At \$766, Central Minnesota wages are now higher than those reported in Northeast Minnesota (where they are \$765). This is the first time Central Minnesota wages have surpassed those paid in the northeastern part of the state. Central Minnesota’s average weekly wage is still considerably below that paid in the Southeast planning area (\$872) and in the Twin Cities (\$1,117).

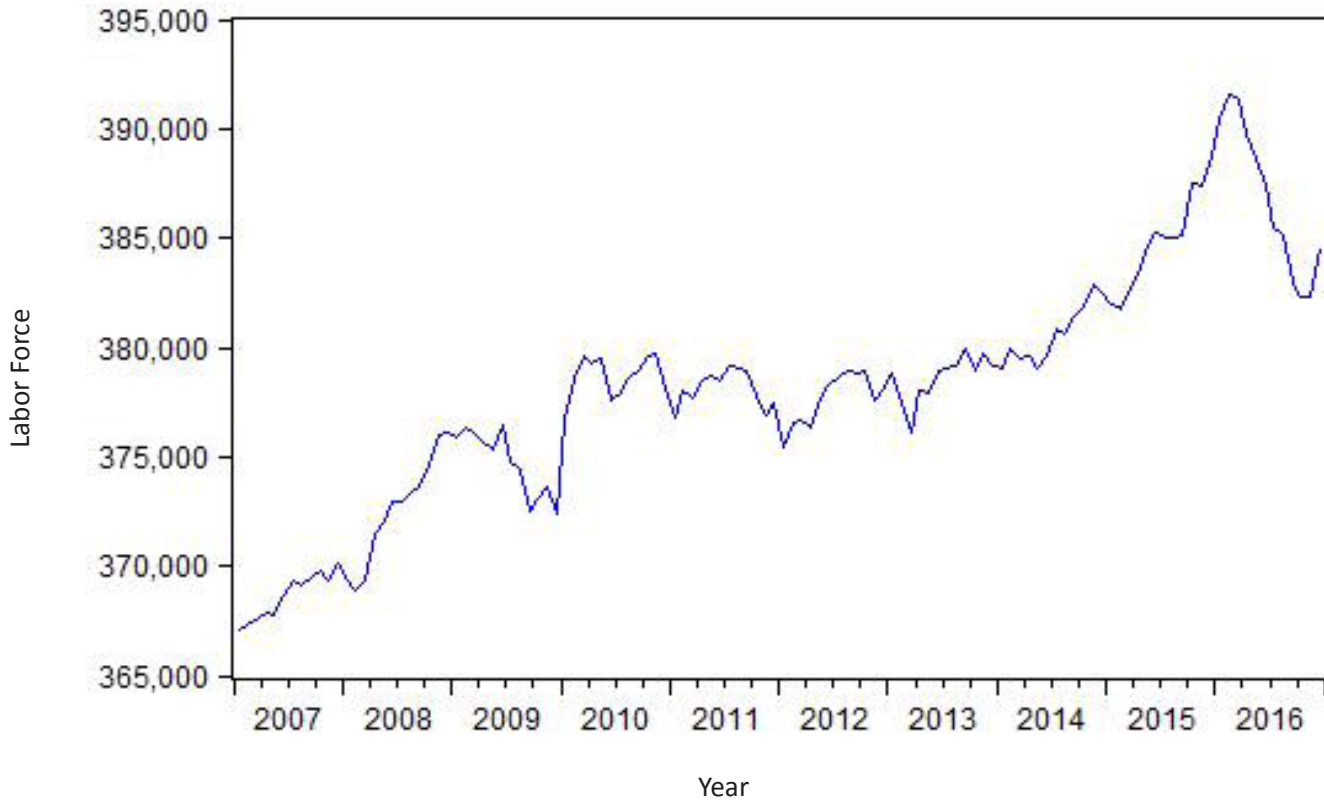
Average Weekly Wage---Central Minnesota Planning Area



Quarter	2011:II	2012:II	2013:II	2014:II	2015:II	2016:II
Average Weekly Wage	\$665	\$679	\$695	\$711	\$741	\$766

The Central Minnesota labor force contracted at a 1.1 percent rate over the year ending in December 2016. As seen in the accompanying graph, the 12-month moving average of the regional labor force declined through most of 2016. As with other areas throughout the state, Central Minnesota is having difficulty replacing retiring workers—an economic and demographic trend that could go on for several years.

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

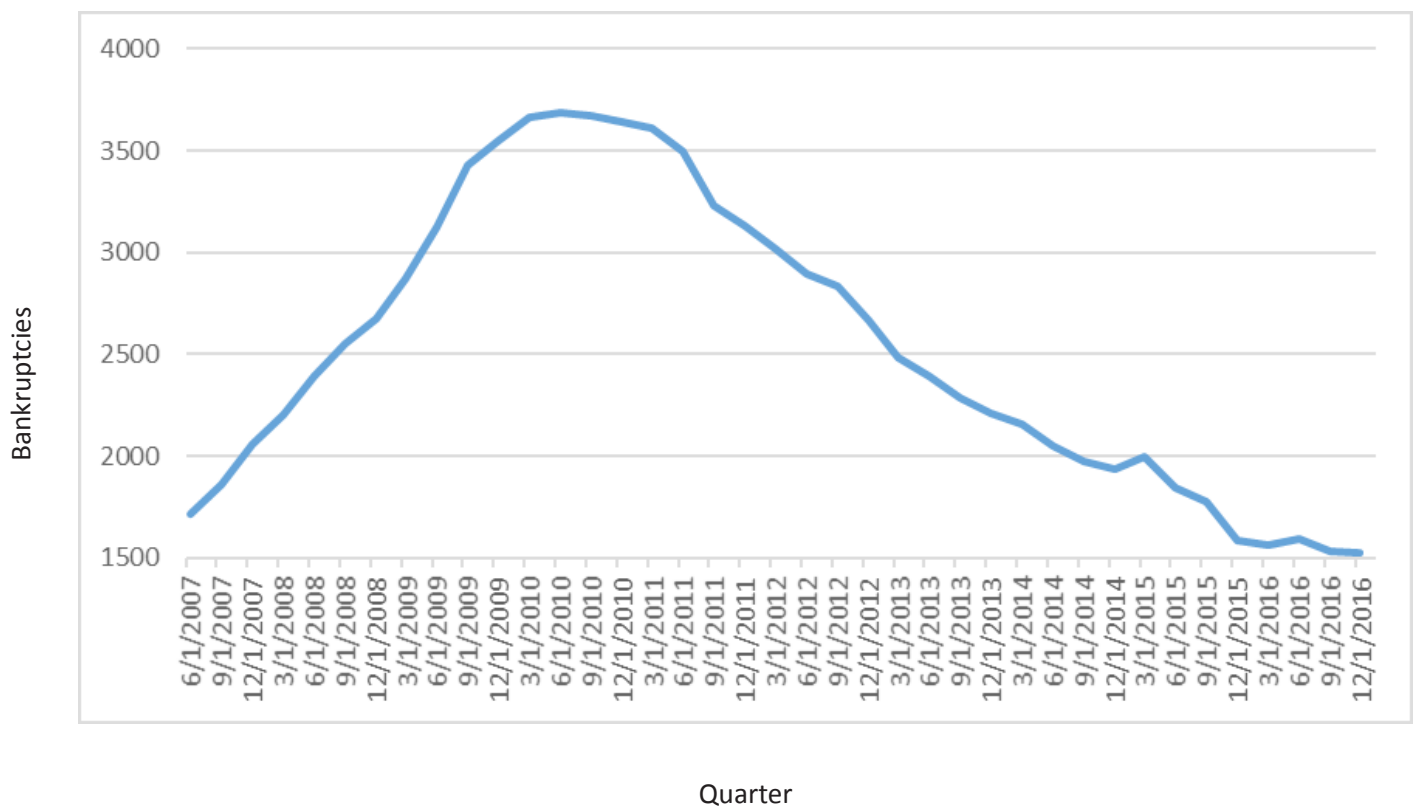


Year (December)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	376,407	377,114	378,180	381,636	387,884	383,734

Central Minnesota Bankruptcies

The figure below shows the 12-month moving total for Central Minnesota 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 has now started to bottom out. With 1,524 bankruptcies over the past twelve months, the annual level of bankruptcies in Central Minnesota is slightly lower than it was three months ago.

Central Minnesota Bankruptcies (12-month moving total)



Year (Fourth Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	3,132	2,668	2,213	1,936	1,584	1,524

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 2016 (m)	111,566	109,075	2.3% ↑	0.8%
Manufacturing Employment	December 2016 (m)	14,804	14,942	-0.9% ↓	-1.0%
Average Weekly Work Hours--Private Sector	December 2016 (m)	NA	NA	NA	NA
Average Earnings Per Hour--Private Sector	December 2016 (m)	NA	NA	NA	NA
Unemployment Rate	December 2016 (m)	4.2%	3.7%	NA ↑	4.9%
Labor Force	December 2016 (m)	111,338	111,884	-0.5% ↓	0.6%
SCSU Future Employment Index	November 2016 (q)	20	35.7	-44.0% ↓	22.4 (since 2005)
SCSU Future Length of Workweek Index	November 2016 (q)	-2	0	NA ↓	4.2 (since 2005)
SCSU Future Employee Compensation Index	November 2016 (q)	64	60.7	5.4% ↑	44.8 (since 2005)
SCSU Future Worker Shortage Index	November 2016 (q)	32	35.7	-10.4% ↓	17.7 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	December 2016 (m)	1,547	1,689	-8.4% ↓	NA
<i>St. Cloud Times</i> Help Wanted Linage	October 2016 (q)	2,328.3	2,533.3	-8.1% ↓	NA
BUSINESS FORMATION					
New Business Filings	Fourth Quarter 2016	373	339	10.0% ↑	331 (since 2000)
Assumed Names	Fourth Quarter 2016	115	91	26.4% ↑	61 (since 2000)
Business Incorporations	Fourth Quarter 2016	28	43	-34.9% ↓	59 (since 2000)
Limited Liability Companies	Fourth Quarter 2016	220	194	13.4% ↑	150 (since 2000)
Non-Profits	Fourth Quarter 2016	10	11	-9.1% ↓	14 (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 2016 (q)	38	42.8	-11.2% ↓	37.9 (since 2005)
SCSU Future Capital Expenditures Index	November 2016 (q)	36	28.5	26.3% ↑	23 (since 2005)
SCSU Future National Business Activity Index	November 2016 (q)	18	30.4	-40.8% ↓	21.9 (since 2005)
St. Cloud Index of Leading Economic Indicators	October 2016 (m)	102.6	102.6	0.0% ↔	NA
PRICES					
St. Cloud Cost of Living Index	Third Quarter 2016 (q)	NA	NA	NA	NA
St. Cloud Median Home Sales Prices	December 2016 (m)	\$160,750	\$138,774	15.8% ↑	NA
SCSU Future Prices Received Index	November 2016 (q)	34	32.1	5.9% ↑	26.8 (since 2005)

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

Central Minnesota contains the St. Cloud MSA, where mixed signals of the future economic health of this metropolitan area have emerged in recent months. For example, the future outlook from a survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University was mixed, with some components increasing from one year earlier and others appearing to be weaker. Help Wanted lineage in the St. Cloud Times is down, the unemployment rate rose, and the labor force contracted. However, new business filings rose, median home sales prices increased, employment improved, and initial jobless claims declined.

State and National Indicators

MINNESOTA Indicators	Dec 2016	Sep 2015	Dec 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,919,300	2,905,600	2,875,700	0.5%	1.0%
Average weekly hours worked, private sector	33.9	34.1	33.7	-0.6%	0.6%
Unemployment rate, seasonally adjusted	3.9%	4.0%	3.7%	NA	NA
Earnings per hour, private sector	\$27.87	\$27.33	\$26.36	2.0%	5.7%
Philadelphia Fed Coincident Indicator, MN	181.73	180.23	176.73	0.8%	2.8%
Philadelphia Fed Leading Indicator, MN	2.01	1.19	1.23	68.9%	63.4%
Minnesota Business Conditions Index	52.3	48.4	39.4	8.1%	32.7%
Price of milk received by farmers (cwt)	\$19.70	\$17.90	\$17.00	10.1%	15.9%
Enplanements, MSP airport, thousands	1,456.8	1,536.1	1,429.0	-5.2%	1.9%

NATIONAL Indicators	Dec 2016	Sep 2015	Dec 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	145,303	144,808	143,146	0.3%	1.5%
Industrial production, index, SA	104.6	104.2	104.0	0.4%	0.6%
Real retail sales, SA (\$)	193,017	191,817	189,246	0.6%	2%
Real personal income less transfers (\$, bill.)	12,074.8	12,022.9	11,848.2	0.4%	1.9%
Real personal consumption expenditures (\$, bill.)	11,672.4	11,603.3	11,351.5	0.6%	2.8%
Unemployment rate, SA	4.7%	4.9%	5.0%	NA	NA
New building permits, SA, thousands	17,581	20,857	17,620	-15.7%	-0.2%
Standard & Poor's 500 stock price index	2,246.6	2,157.7	2,054.1	4.1%	9.4%
Oil, price per barrel in Cushing, OK	\$51.97	\$45.18	\$37.19	15.0%	39.7%

Across the state there was growth in payrolls, higher earnings per hour, and more average weekly hours worked in the private sector over the past twelve months. The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia are favorable—current conditions are stronger and the future conditions index surged compared to one year earlier. The Minnesota Business Conditions index also turned positive this quarter. Milk prices have finally started to rise and enplanements at the Minneapolis-St. Paul airport increased by 1.9 percent over the last twelve months.

The national economic indicators reported in the table are also largely favorable. Over the past twelve months, stock prices rose, employment increased, and real income and consumer expenditures expanded. The national unemployment rate fell and retail sales improved. Industrial production picked up. National building permits were nearly unchanged from one year earlier and oil prices have begun to rise. While rising oil prices will adversely impact the discretionary income of households, it will also improve the economic well-being of those employed in the energy sector (which has been struggling over the last two years).

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.

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

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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.

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.

U.S. Energy Information Administration: Oil Prices.