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# Southwest Minnesota Economic and Business Conditions Report - Fourth Quarter 2016

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# Southwest 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 Southwest Minnesota Planning Area consists of 23 counties: Big Stone; Blue Earth; Brown; Chippewa; Cottonwood; Faribault; Jackson; Lac qui Parle; Le Sueur; Lincoln; Lyon; Martin; Murray; Nicollet; Nobles; Pipestone; Redwood; Rock; Sibley; Swift; Waseca; Watonwan; and Yellow Medicine.

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## Executive Summary

**Somewhat slower economic growth in Southwest Minnesota is expected over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI).** Two of four LEI components were positive in the fourth quarter. An increase in new filings of incorporation and LLC and an improvement in the rural outlook contributed favorably to the LEI this quarter. An increase in initial jobless claims and lower residential building permits in the Mankato MSA weighed on the index. After rising just 0.03 points in the third quarter, the Southwest Minnesota LEI declined by 2.77 points in the current quarter. The index has now increased by 1.4% over the past twelve months.

**There were 607 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the fourth quarter of 2016 — representing 10.4 percent more new filings than one year earlier.** There were 56 new regional business incorporation filings in the fourth quarter, an 8.2 percent reduction from last year's fourth quarter. New LLC filings in Southwest Minnesota surged by 32.6 percent—increasing to 386 in the fourth quarter of 2016. New assumed names totaled 140 in the fourth quarter—14.1 percent fewer filings than in December 2015. There were 25 new filings for Southwest Minnesota non-profit in the fourth quarter—ten fewer than one year earlier.

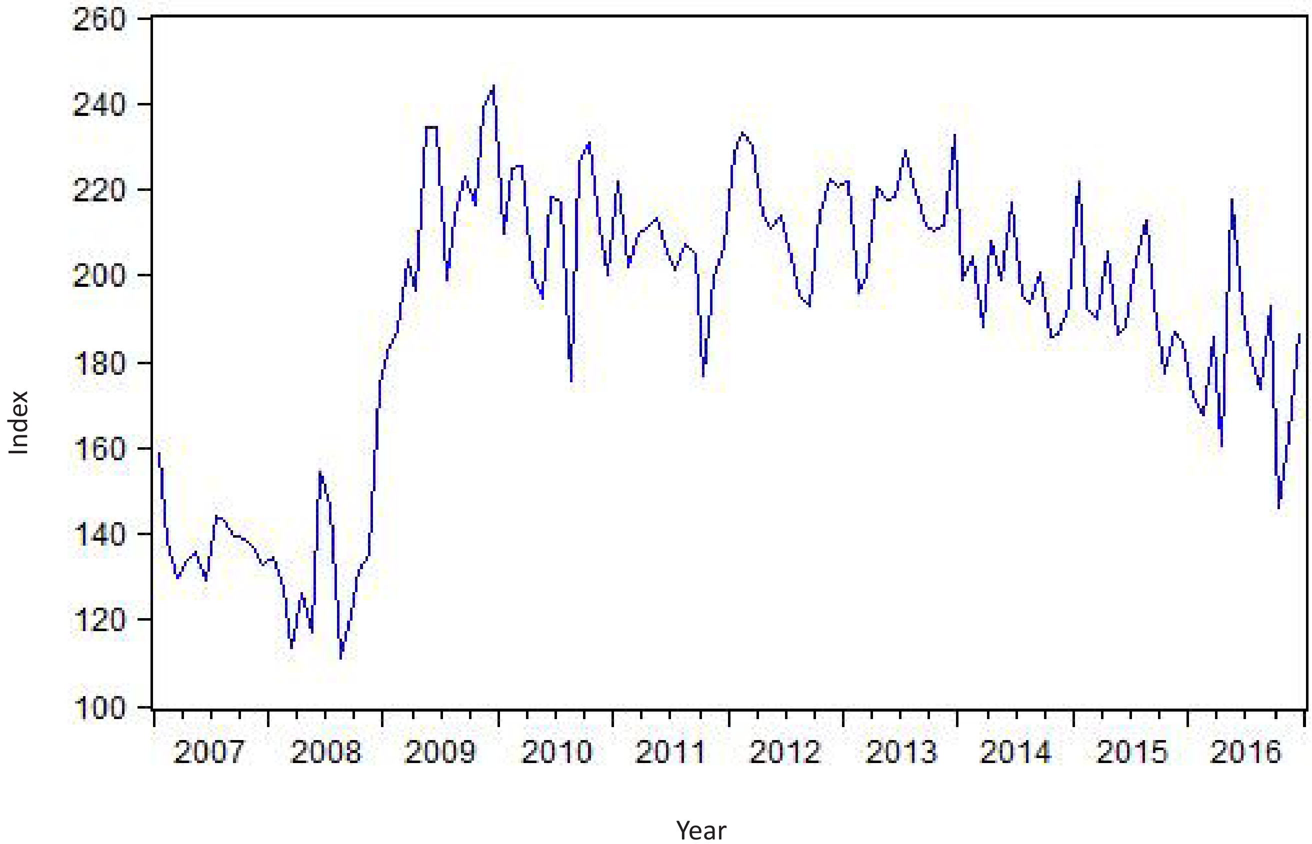
**Based on preliminary data, employment of Southwest Minnesota residents declined by 3.2 percent over the year ending December 2016.** 6,958 fewer Southwest Minnesota residents have jobs than did one year earlier. The regional unemployment rate was 4.2 percent in December, an increase from a 3.9 percent reading in December 2015. Nearly six hundred fewer initial claims for unemployment insurance were reported compared to year-ago levels in December—a 17.3 percent decrease. The Southwest Minnesota labor force contracted by 6,613 (a 2.9 percent decrease) over the year ending December 2016. Average weekly wages in Southwest Minnesota increased to $725 in the most recent reporting period (a $16 increase from one year earlier). Bankruptcies inched downward in Southwest Minnesota.

**Economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota—was mixed in the most recent quarter.** On the positive side, employment increased, initial jobless claims fell, new business filings rose, and the relative cost of living declined. This was offset by a smaller labor force, a larger unemployment rate, a drop in the value of residential building permits, and lower goods-producing employment.

## Southwest Minnesota Leading Economic Indicators Index

The SCSU Southwest Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI fell by 2.77 points in the fourth quarter and is now 1.4 percent above its level in December 2015. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has been highly variable since the end of the Great Recession but had slowly drifted downward since the end of 2013. This trend appears to have been reversed in recent quarters.

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




## Components of SCSU Southwest Minnesota Leading Economic Indicators Index

| Component of Index | Contribution to LEI, 4th quarter 2016 | Contribution to LEI, 3rd quarter 2016 |
|---|---|---|
| Rural Mainstreet Index | 1.95 | -4.04 |
| Southwest Minnesota initial claims for unemployment insurance | -2.47 | -3.48 |
| Southwest Minnesota new filings of incorporation and LLCs | 2.17 | 2.54 |
| Mankato MSA single-family building permits | -4.42 | 5.01 |
| **TOTAL CHANGE** | **-2.77** | **0.03** |

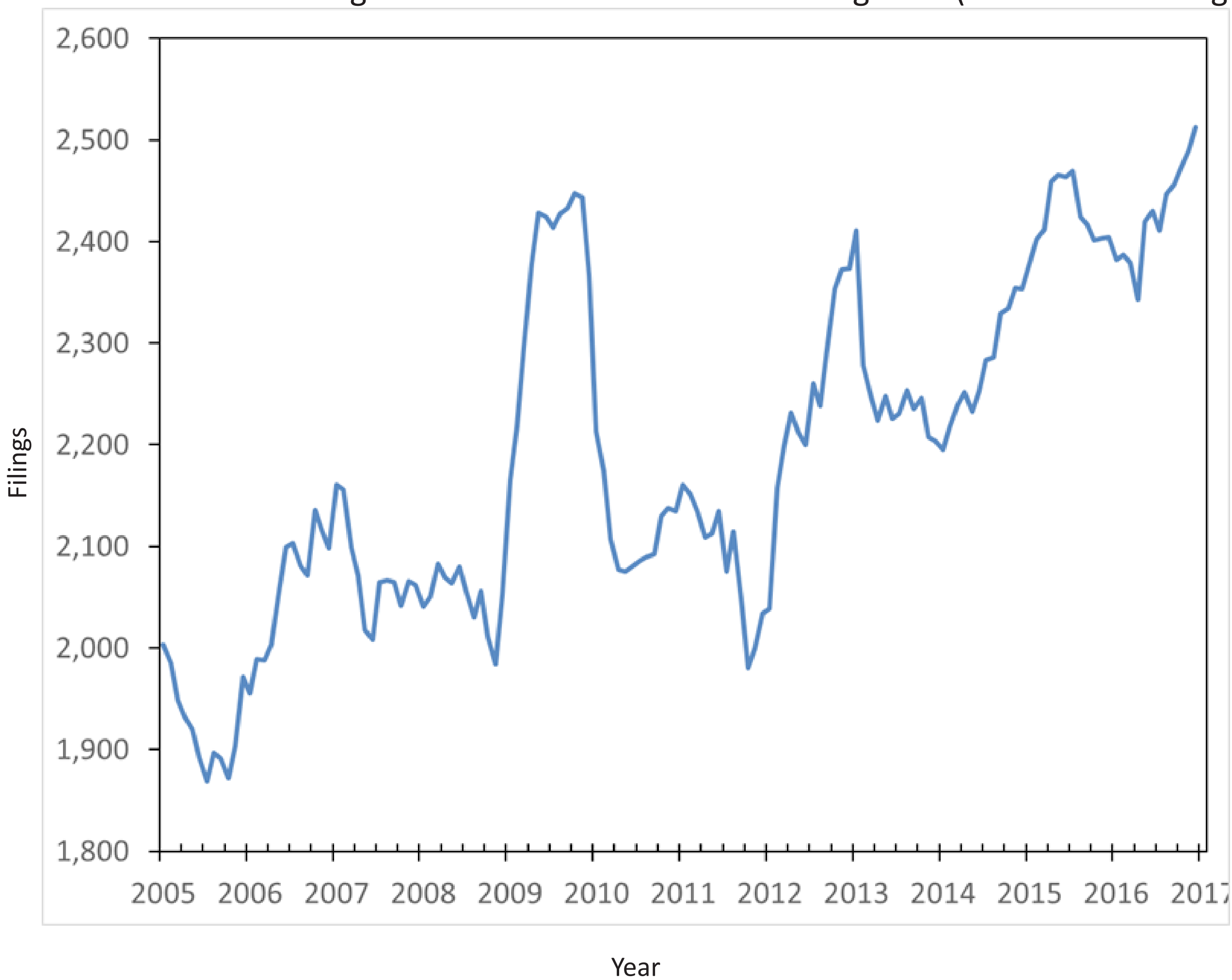
The Southwest Minnesota LEI has four components, two of which increased in the fourth quarter. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns with average population of 1,300 in ten Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. It had a positive impact on the LEI in the most recent quarter. The other favorable component of the index was new business filings for incorporation and LLC in the planning area. Lower Mankato/North Mankato Metropolitan Statistical Area (MSA) single family residential building permits weighed on the leading index and higher initial jobless claims in Southwest Minnesota also had a negative impact.

| SCSU Southwest Minnesota<br>Leading Economic Indicators Index | 2016 | 2015 | Percentage Change |
|---|---|---|---|
| Rural Mainstreet Index, Creighton University<br>December | 41.7 | 37 | 12.7% |
| Southwest Minnesota initial claims for unemployment insurance<br>December | 2,784 | 3,366 | -17.3% |
| Southwest Minnesota new filings of incorporation and LLCs<br>Fourth Quarter | 442 | 352 | 25.6% |
| Mankato MSA single-family building permits<br>December | 4 | 6 | -33.3% |
| Southwest Minnesota Leading Economic Indicators Index<br>December (December 1999 = 100) | 187.2 | 184.7 | 1.4% |

## Southwest Minnesota Business Filings

The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings rose by 10.4 percent from year earlier levels in the fourth quarter. This series has now begun to rise again after declining throughout much of 2015. Note that the abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier is related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota (although less so in the southwest region).

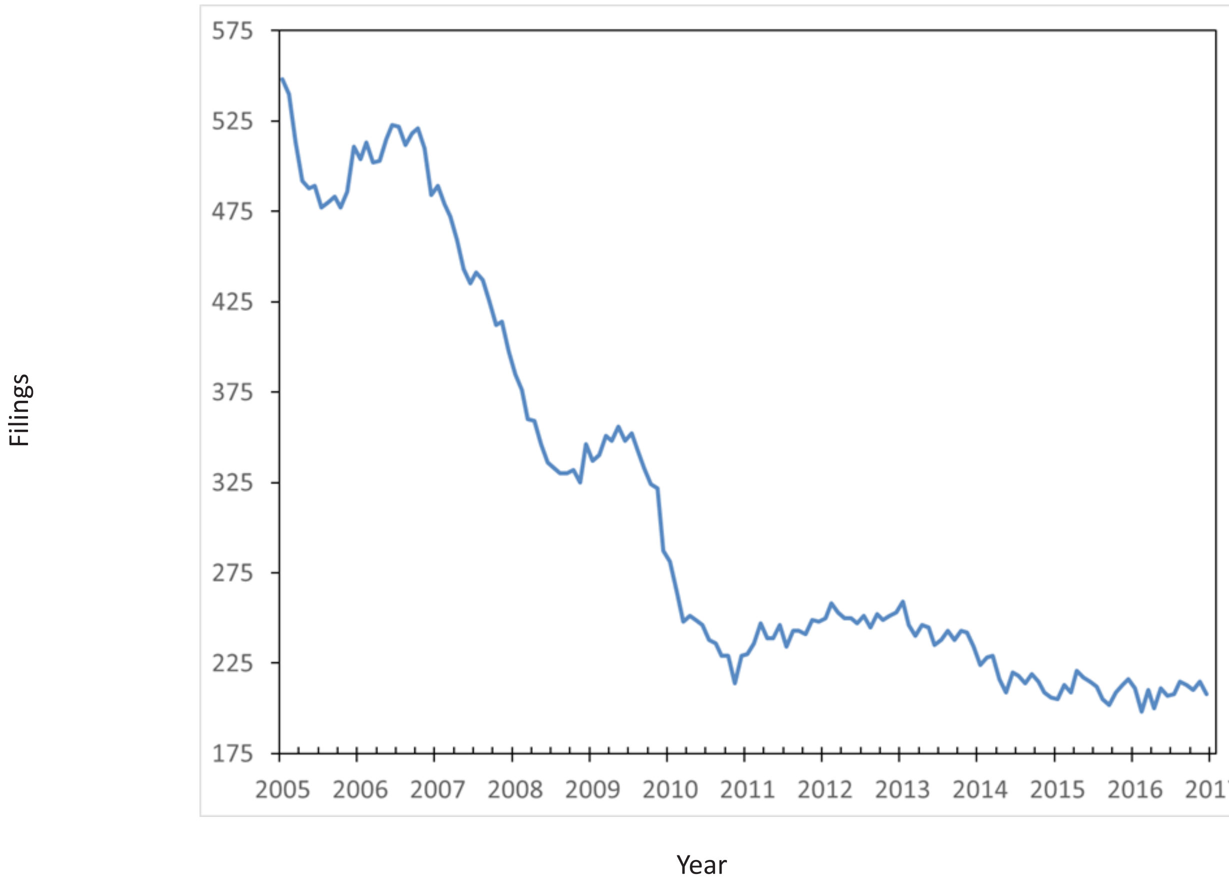
Total New Business Filings—Southwest Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Southwest Minnesota Total New Business Filings | 550 | 665 | 697 | 544 | 607 | 10.4% |

New business incorporations trended downward sharply in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend has resumed until flattening out over the past several quarters. Fourth quarter 2016 new regional incorporations decreased by 8.2 percent compared to the same quarter in 2015.

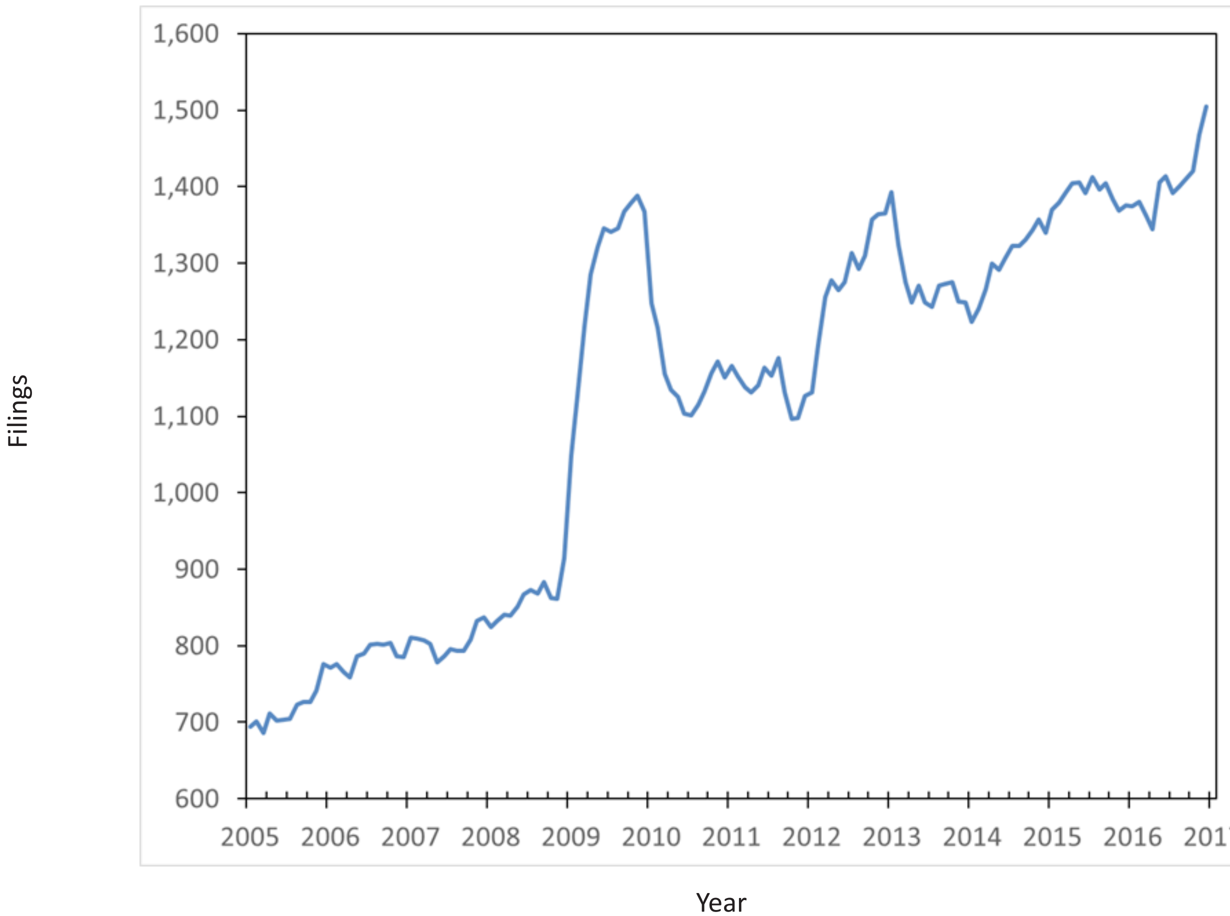
## New Incorporations—Southwest Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Southwest Minnesota New Business Incorporations | 61 | 56 | 56 | 40 | 56 | -8.2% |

There has been a move in Southwest Minnesota, as in the rest of the state, away from traditional incorporation and towards the limited liability company (LLC). While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there was a considerable upward trend in LLCs in Southwest Minnesota until flattening out in recent quarters. This upward trend now appears to have resumed, helped by a 32.6 percent surge in new LLC filings in the most recent quarter.

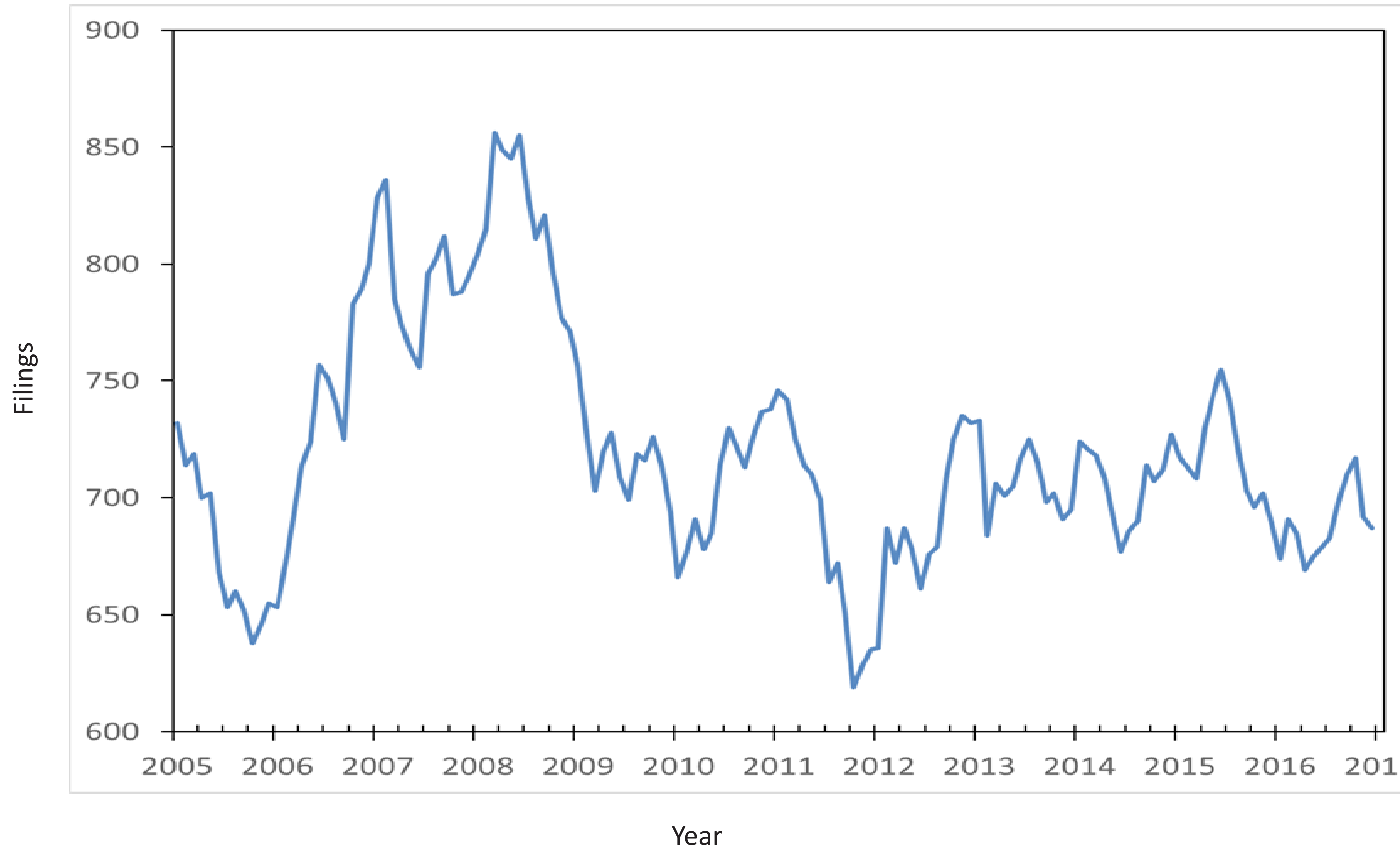
## New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Southwest Minnesota New Limited Liability Companies | 291 | 391 | 411 | 317 | 386 | 32.6% |

Third quarter assumed names fell by 14.1% compared to the same period in 2015. As can be seen in the accompanying figure, while this series has been very volatile in recent years, new assumed names are little changed since the beginning of 2013.

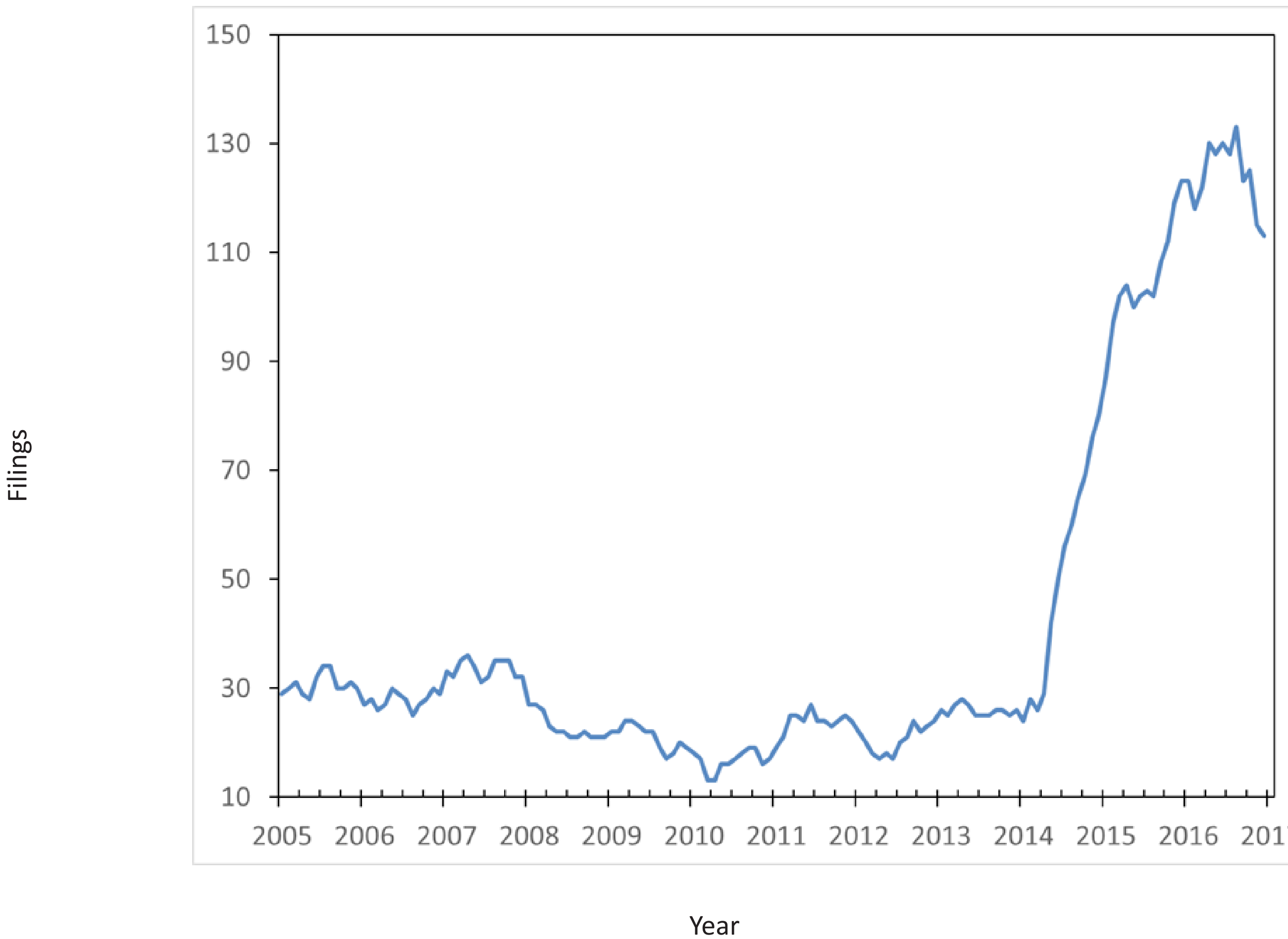
## New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Southwest Minnesota New Assumed Names | 163 | 190 | 194 | 163 | 140 | -14.1% |

There were 25 newly registered non-profits in the fourth quarter. This is ten fewer than one year ago. As can be seen in the graph below, the non-profits series has now levelled out after a considerable increase over the previous two years.

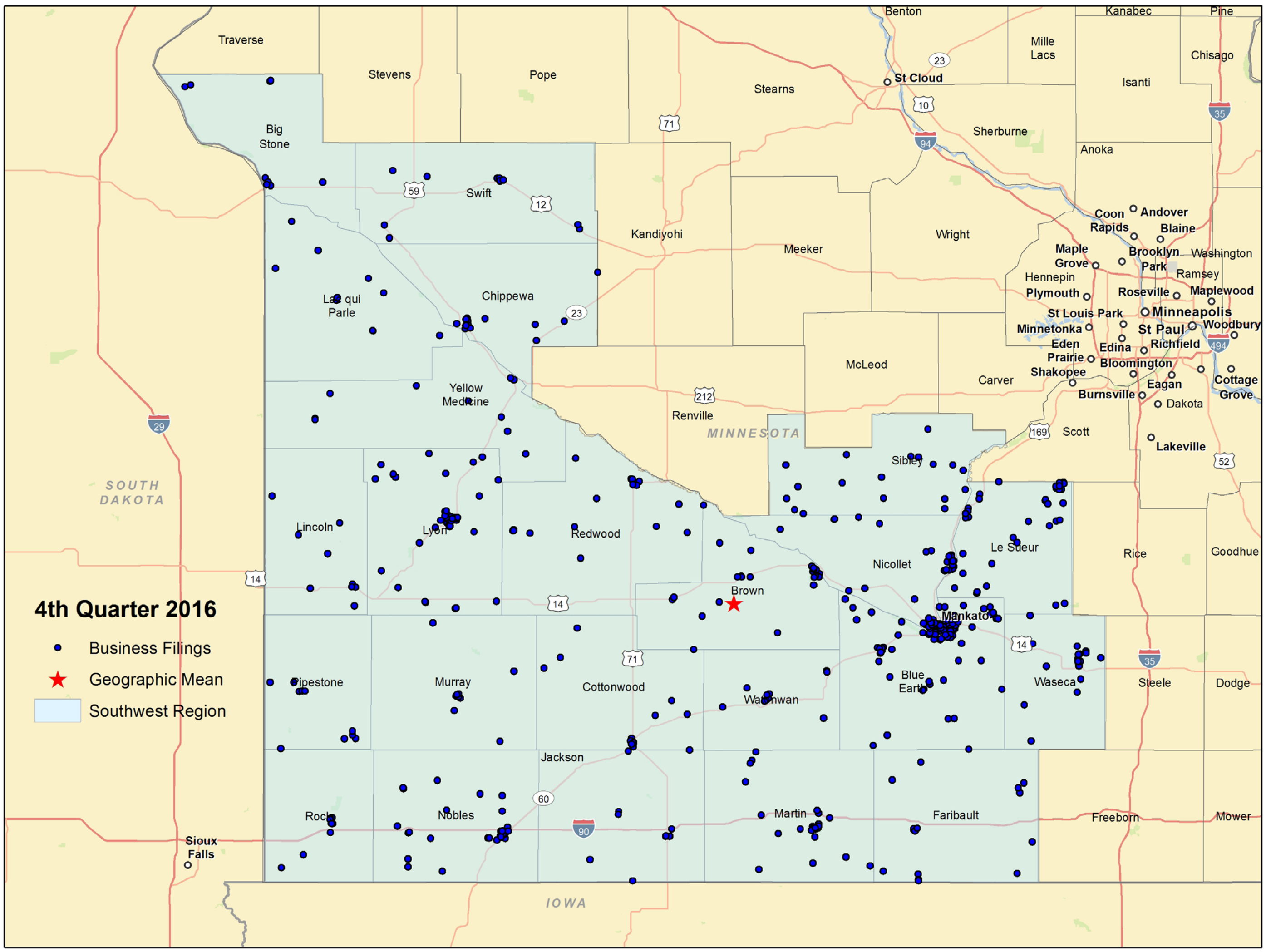
## New Non-Profits—Southwest Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Southwest Minnesota New Non-Profits | 35 | 28 | 36 | 24 | 25 | -28.6% |

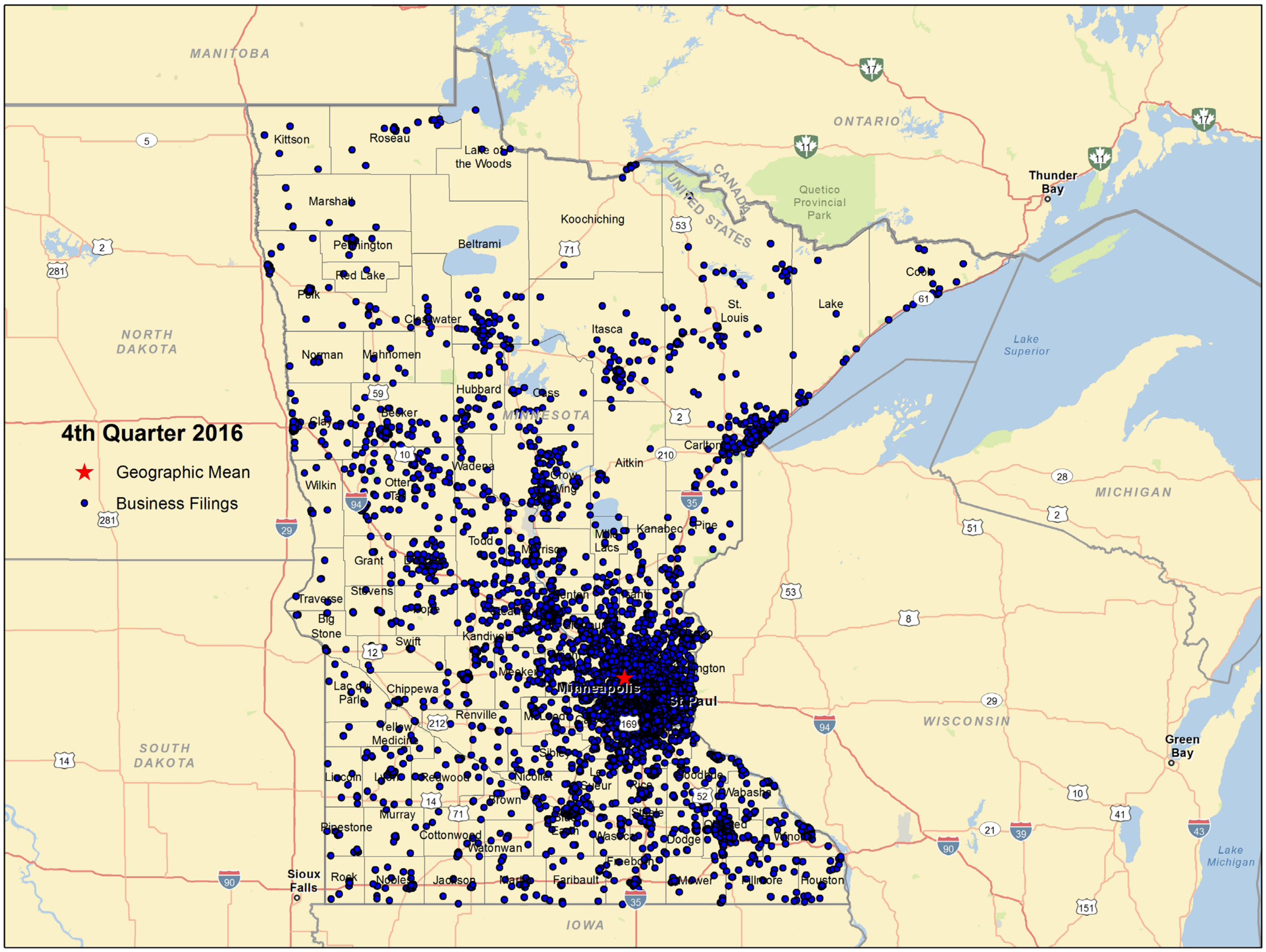
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the fourth quarter of 2016. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, New Ulm, St Peter, and several cities along I-90. As has been noted in previous editions of this report, well-traveled roadways are a predictor of new business formation in Southwest Minnesota.

## Southwest 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

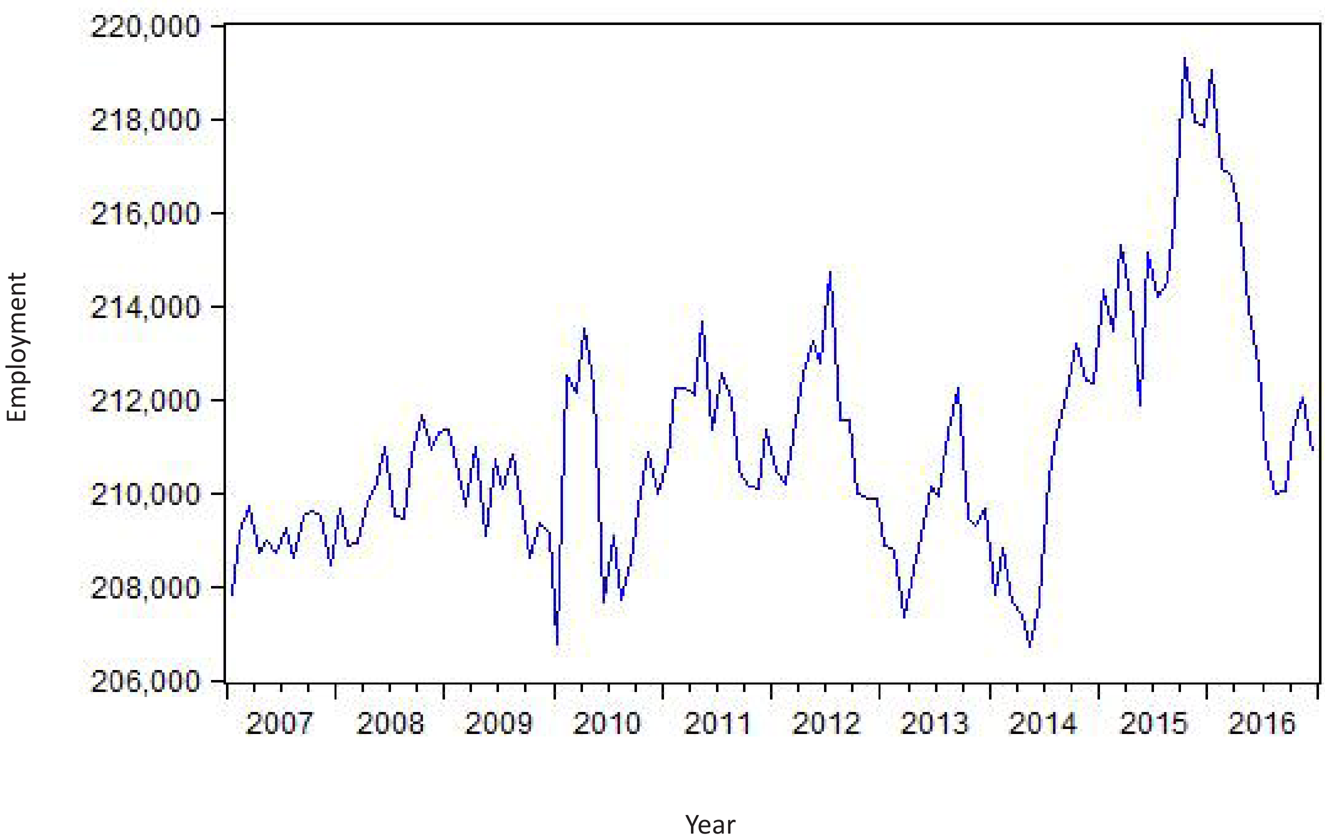


## Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area fell by 3.2 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average trended upward from the middle of 2014 until the end of 2015, but has declined precipitously in recent quarters. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in December 2016 (see accompanying table) was 211,385 a decrease of 6,958 over the prior year. Note that some of the regional labor market estimates discussed in this section are subject to an upcoming benchmark revision, so some profiled data patterns may look different in next quarter's report.

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—Southwest 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) | 218,343 | 210,995 | 209,219 | 208,413 | 214,285 | 213,702 | 211,385 |

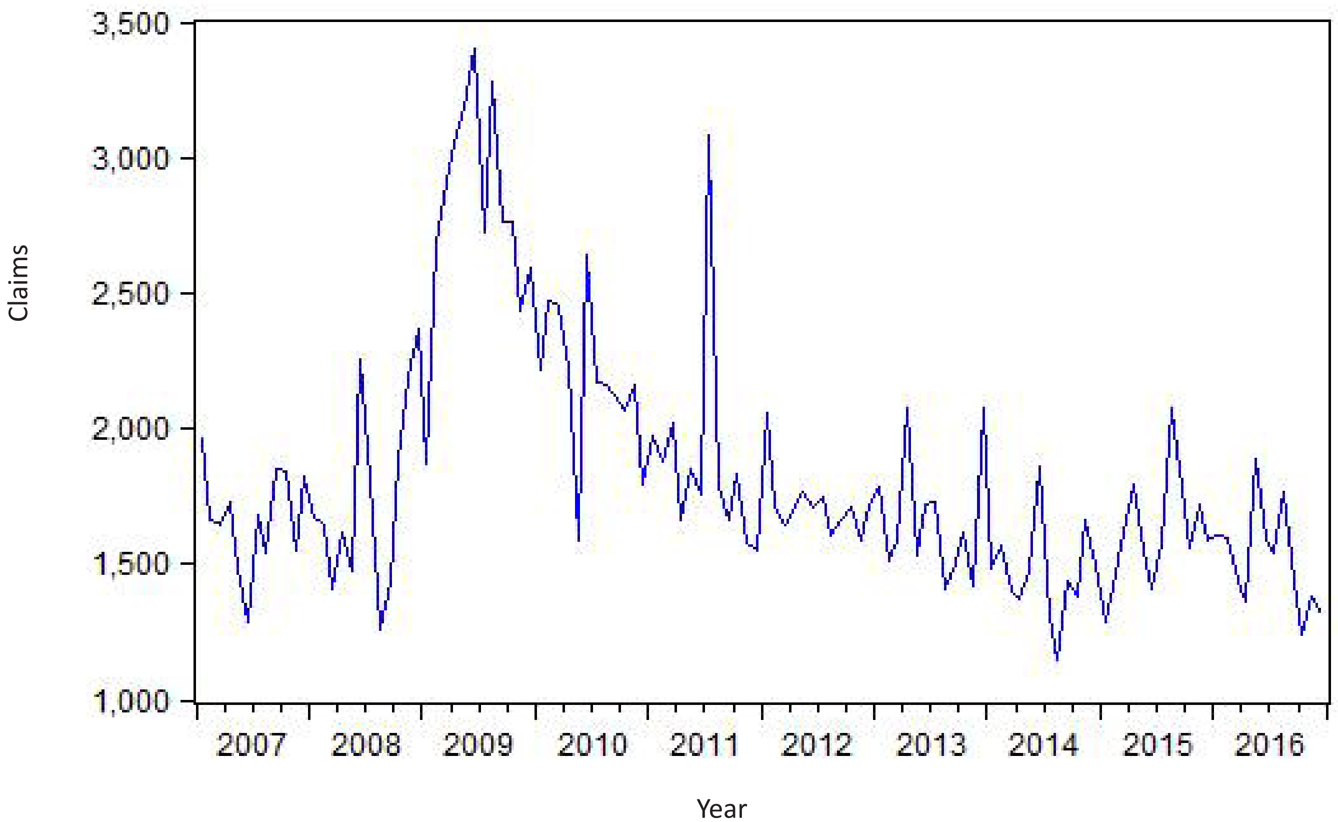
The seasonally adjusted unemployment rate in Southwest Minnesota appears to have bottomed out in 2015 and has started to inch up in recent quarters. Both the seasonally and non-seasonally adjusted unemployment rates rose in the fourth quarter. The non-seasonally adjusted measure now stands at 4.2 percent — an increase from the 3.9 percent rate recorded in December 2015.

## Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area


| Month | December 2015 | July 2016 | August 2016 | September 2016 | October 2016 | November 2016 | December 2016 |
|---|---|---|---|---|---|---|---|
| Unemployment rate (not seasonally adjusted) | 3.9% | 4% | 3.7% | 3.3% | 3.2% | 3% | 4.2% |

New claims for unemployment insurance in December 2016 were 17.3 percent lower than one year earlier. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series drifted upward for several quarters beginning in the middle months of 2014, but it has declined over the past several quarters.

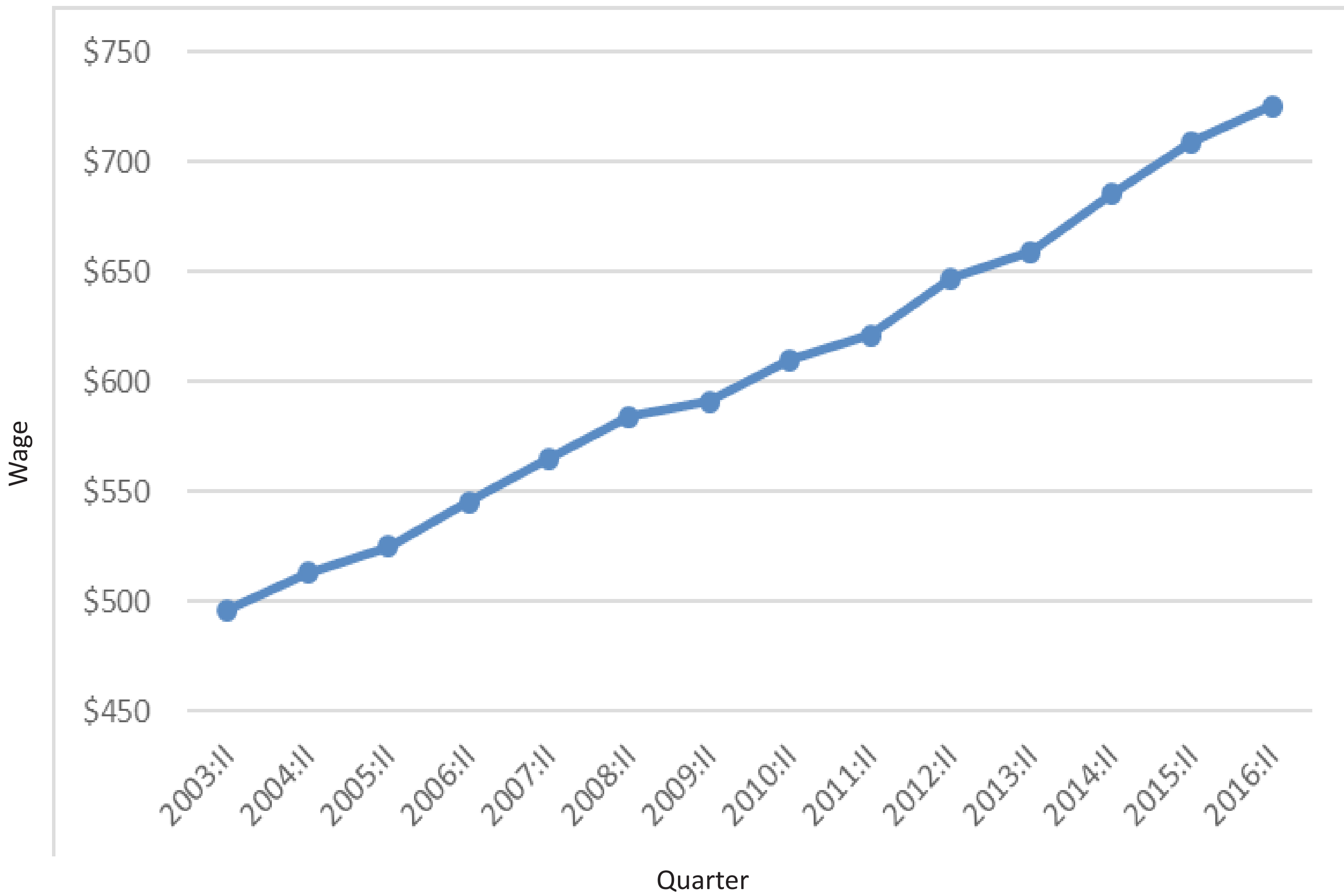
## Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area




| Period | December 2015 | July 2016 | August 2016 | September 2016 | October 2016 | November 2016 | December 2016 |
|---|---|---|---|---|---|---|---|
| Initial claims (Not seasonally adjusted) | 3,366 | 1,060 | 1,077 | 1,113 | 950 | 2,303 | 2,784 |

At $725, average weekly wages in the southwest are the fifth lowest of Minnesota's six planning areas (only Northwest Minnesota has lower wages). The average weekly wage in the southwest portion of the state increased by 2.3 percent over the year ending in the second quarter of 2016 (this is the most recently available data). The planning area with the next highest average weekly wage is Northeast Minnesota, where the wage is $765, but growing less rapidly than in other parts of the state.

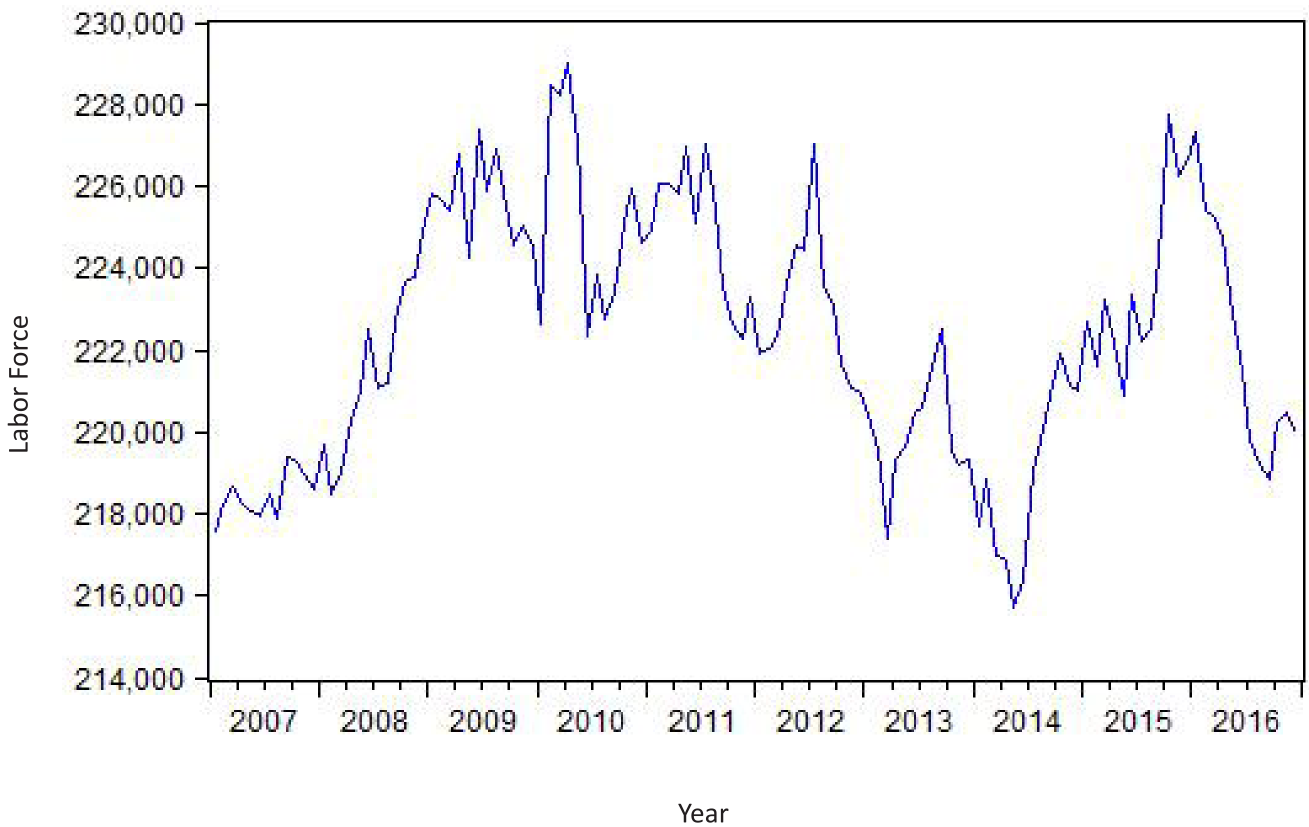
Average Weekly Wage---Southwest Minnesota Planning Area




| Quarter | 2013:IV | 2014:II | 2014:IV | 2015:II | 2015:IV | 2016:II |
|---|---|---|---|---|---|---|
| Average Weekly Wage | $621 | $647 | $659 | $685 | $709 | $725 |

The Southwest Minnesota labor force contracted by 6,613–a 2.9 percent annual decrease—over the year ending December 2016. As can be seen in the accompanying figure, the planning area's labor force had trended upward since the middle months of 2014, but has declined in 2016.

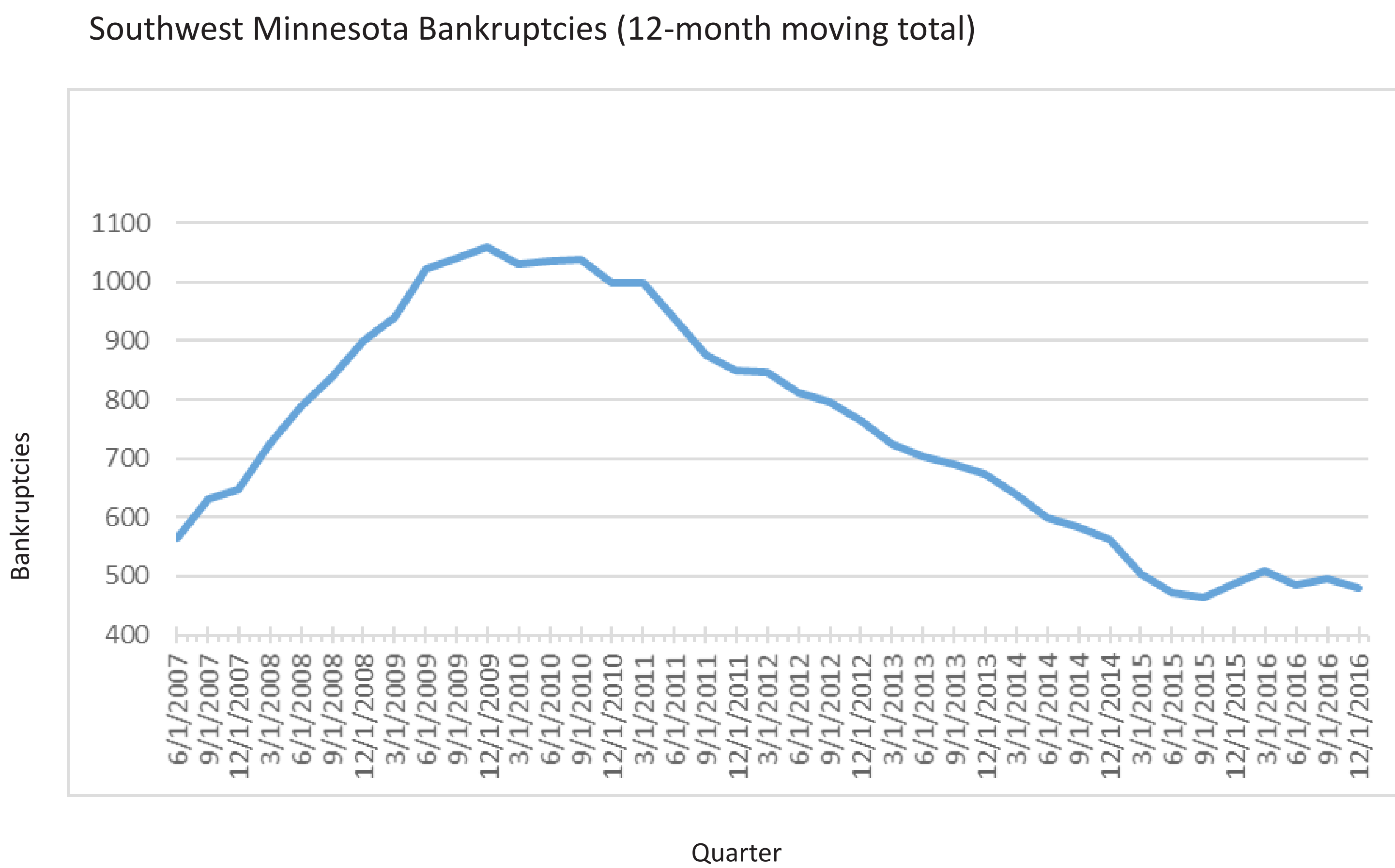
Labor Force—Southwest Minnesota Planning Area (12-month moving average)




| Year (December) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Labor Force (Not seasonally adjusted) | 222,147 | 220,376 | 219,262 | 221,309 | 227,163 | 220,550 |

## Southwest Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southwest 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 until the end of 2009, and steadily declined until the fourth quarter of last year. With 481 bankruptcies over the past twelve months, the level of bankruptcies in Southwest Minnesota inched down slightly in the most recent quarter.




| Year (Fourth Quarter) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Annual Bankruptcies (Not seasonally adjusted) | 849 | 765 | 674 | 561 | 489 | 481 |

## Economic Indicators

| Mankato-North Mankato MSA Indicators | Period Covered | Current Period | Prior Year | Annual Percent Change | Long-Term Average (since 1999, unless noted) |
|---|---|---|---|---|---|
| Labor Market | | | | | |
| Employment | December 2016 (m) | 56,967 | 56,911 | 0.1% ↑ | 0.7% |
| Goods-Producing Employment | December 2016 (m) | 9,761 | 9,817 | -0.6% ↓ | -0.7% |
| 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) | 3.1% | 2.5% | NA ↑ | 3.7% |
| Labor Force | December 2016 (m) | 58,642 | 59,988 | -2.2% ↓ | 0.6% |
| Initial Jobless Claims | December 2016 (m) | 487 | 636 | -23.4% ↓ | NA |
| Business Formation | | | | | |
| Total New Business Filings | Fourth Quarter 2016 (q) | 192 | 162 | 18.5% ↑ | 148 (since 2000) |
| New Business Incorporations | Fourth Quarter 2016 (q) | 13 | 14 | -7.1% ↓ | 24 (since 2000) |
| New Limited Liability Companies | Fourth Quarter 2016 (q) | 130 | 92 | 41.3% ↑ | 72 (since 2000) |
| New Assumed Names | Fourth Quarter 2016 (q) | 39 | 46 | -15.2% ↓ | 46 (since 2000) |
| New Non-profits | Fourth Quarter 2016 (q) | 10 | 10 | 0.0% ↔ | 6 (since 2000) |
| Mankato / North Mankato Residential Building Permit Valuation, in thousands | September 2016 (m) | 576 | 1,728 | -66.7% ↓ | NA |
| Mankato / North Mankato Cost of Living Index | Third Quarter 2016 (q) | 93.0 | 94.0 | -1.1% ↓ | NA |

(m) represents a monthly series

(q) represents a quarterly series

Southwest Minnesota contains the Mankato/North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. As the accompanying table shows, Mankato employment increased slightly over the year ending December 2016. Initial jobless claims fell, new business filings rose, and the relative cost of living declined. However, the unemployment rate rose, the labor force contracted, goods-producing employment was lower, and the valuation of residential building permits 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 Southwest Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

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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*Federal Reserve Board of Governors: Industrial Production.*

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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.*

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