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Northeast Minnesota Economic and Business Conditions Report - First Quarter 2017

Richard A. MacDonald

St. Cloud State University, macdonald@stcloudstate.edu

King Banaian

St. Cloud State University, kbanaian@stcloudstate.edu

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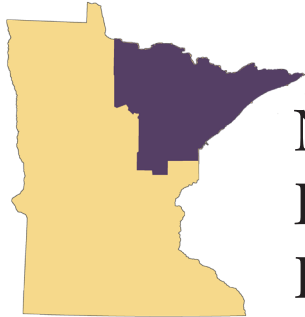


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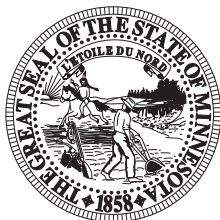
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Northeast Minnesota Economic and Business Conditions Report First Quarter 2017

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.



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Executive Summary

Continued strong economic growth in Northeast Minnesota is expected over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). Four of the five components of the LEI increased as the overall index surged by 6.25 points in the first quarter. An increase in the number of Duluth area residential building permits, an improvement in a general measure of statewide business conditions, a rise in a supply managers’ survey, and increased new filings of incorporation all helped lift this quarter’s index.

There were 626 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the first quarter of 2017 — representing a 2 percent decrease from one year earlier. Seventy-one new regional business incorporations were filed in the first quarter—39.2 percent more than in the same period of 2016. New limited liability company (LLC) filings in Northeast Minnesota rose 2.4 percent to a level of 345. New assumed names fell 17.7 percent and there were three fewer non-profits filings compared to one year earlier.

Sixty-six percent of new business filers in the Northeast Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year’s first quarter. Results of this voluntary survey indicate that about 3 percent of new filers come from communities of color, while more than 10 percent of new filings come from veterans. Nearly 3 percent of new filers come from the disability community and 1 percent of new filings are made by the immigrant community. Forty-three percent of new business filings in Northeast Minnesota in this year’s first quarter were initiated by women. MBS results also show that most new business filers in Northeast Minnesota have between 0 and \$10,000 in annual gross revenues (although 39 new filers have revenues in excess of \$50,000). The most popular industries for new businesses in Northeast Minnesota are construction, retail trade, other services, real estate/rental/leasing, and arts/entertainment/recreation. Employment levels at most new firms are between 0 and 5 workers, and nearly half of those starting a new business consider this a part-time activity.

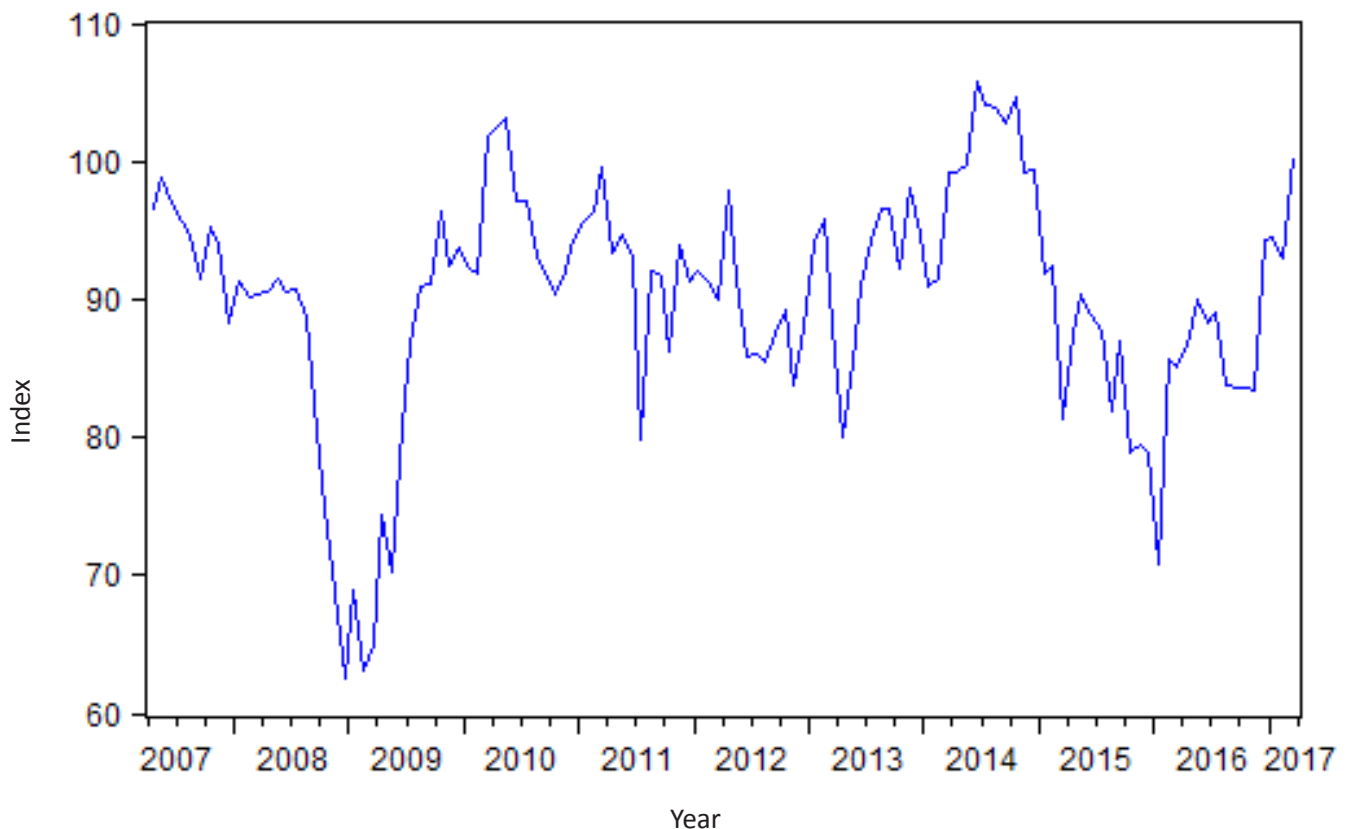
Northeast Minnesota employment was 0.2 percent lower than year ago levels in March. The regional unemployment rate was 6.8% (considerably lower than one year ago) while the labor force contracted by 1.4% from one year earlier. March 2017 initial claims for unemployment insurance were nearly 10 percent lower than the same month last year and the region’s job vacancies remain elevated. Annual bankruptcies in Northeast Minnesota continue to fall.

Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was mixed. Northeast Minnesota’s largest market experienced a 0.8 percent increase in overall employment over the year ending March 2017, but it shed jobs in its key education/health sector. The area unemployment rate fell to 5.9 percent, but the labor force contracted by 0.7 percent. Average weekly work hours rose 2.8 percent, but average hourly earnings fell. The value of residential building permits was slightly lower than March 2016.

Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast Minnesota Leading Economic Indicators Index (LEI) is designed to predict performance of the regional economy with a four-to-six month lead time. After an 8.23 point surge in the fourth quarter of 2016, this quarter's LEI rose another 6.25 points. The LEI is now 18 percent above its March 2016 level. As can be seen in the accompanying figure, the LEI has drifted upward since the beginning of 2016.

The SCSU Northeast Minnesota Leading Economic Indicators Index



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2017	Contribution to LEI, 4th quarter 2016
Minnesota Business Conditions Index	3.48	1.61
Northeast Minnesota initial claims for unemployment insurance	-0.73	-1.93
Northeast Minnesota new filings of incorporation	0.79	-0.15
Duluth Superior MSA residential building permits	0.28	5.85
Institute of Supply Management Purchasing Managers Index for manufacturing	2.43	2.85
TOTAL CHANGE	6.25	8.23

Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This indicator improved in the first quarter. Stronger performance of the Minnesota Business Conditions Index (which is used as an indicator of general statewide business conditions) lifted the Northeast Minnesota leading index as did higher residential building permits in the Duluth/Superior MSA. A rise in new business filings of incorporation also contributed favorably to the LEI.

SCSU Northeast Minnesota
Leading Economic Indicators Index

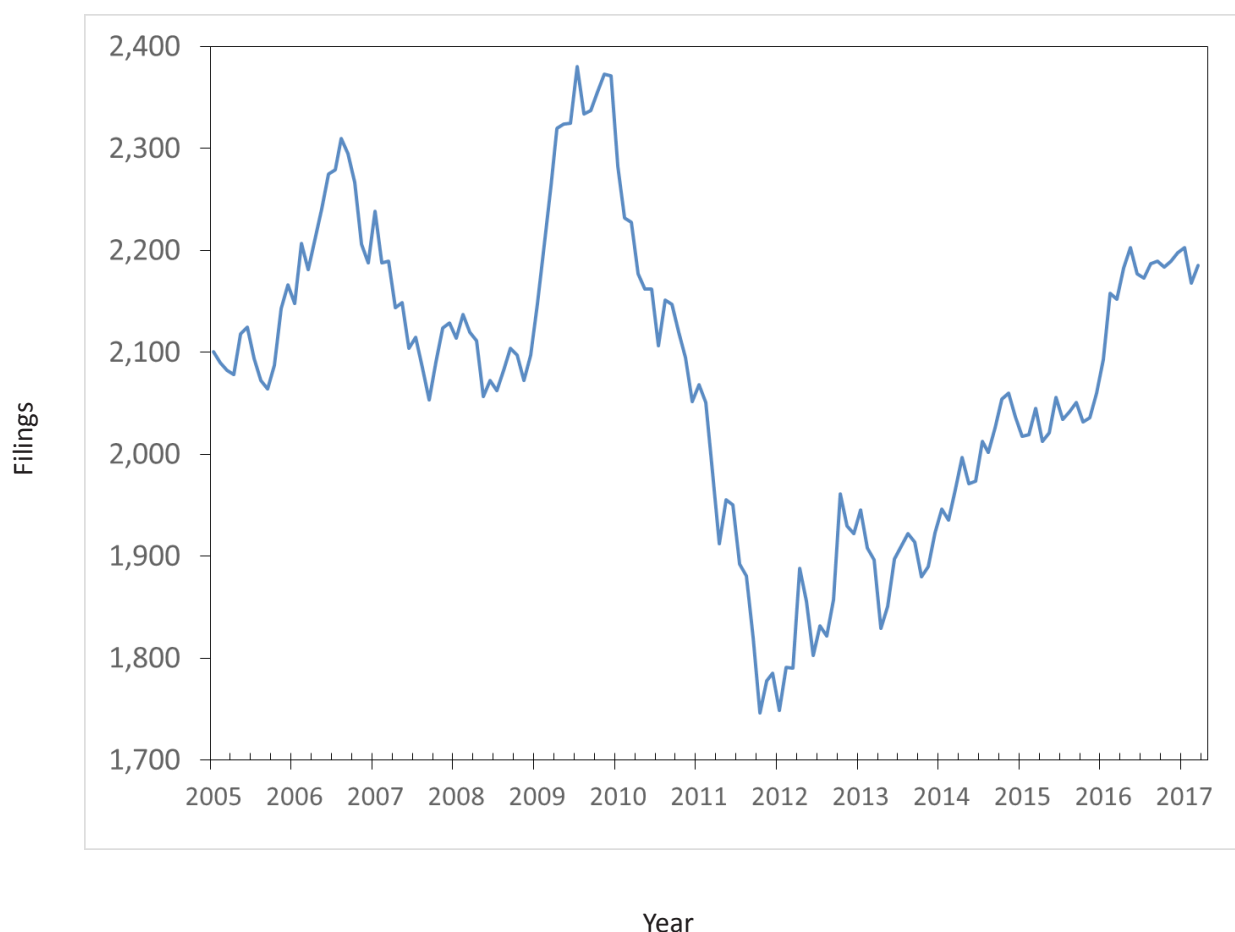
	2017	2016	Percentage change
Minnesota Business Conditions Index March	61.8	50.7	21.9%
Northeast Minnesota initial claims for unemployment insurance March	1,274	1,414	-9.9%
Northeast Minnesota new filings of incorporation First Quarter	71	51	39.2%
Duluth-Superior MSA single-family building permits March	8	4	100.0%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, March	57.2	51.8	10.4%
Northeast Minnesota Leading Economic Indicators Index March (December 1999 = 100)	100.4	85.0	18.0%

Northeast Minnesota Business Filings

Total new business filings fell by 2 percent compared to the first quarter of 2016. After trending upward since the end of 2011, the 12-month moving total of this series has flattened out over the past year. New business filings in Northeast Minnesota still have not returned to the pace observed prior to the Great Recession.

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

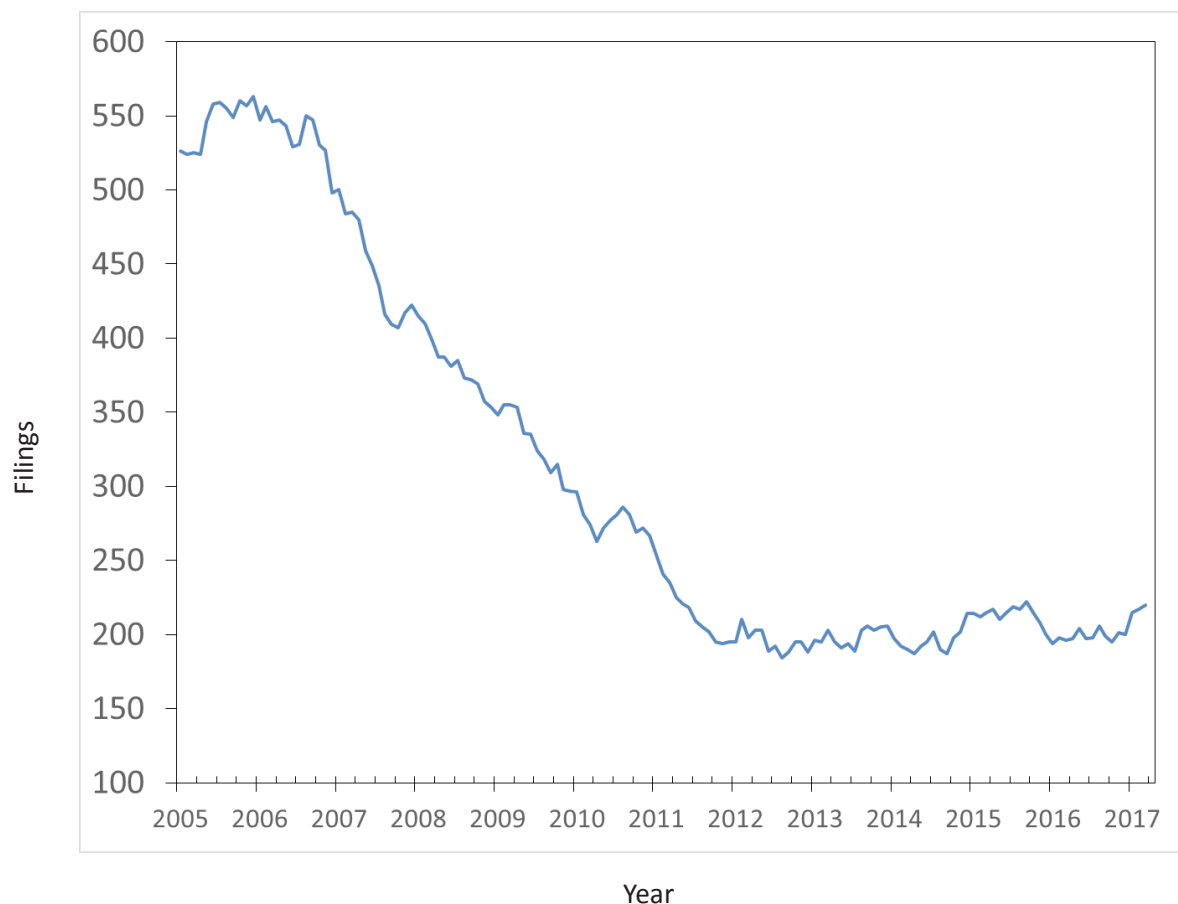
Total New Business Filings—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Northeast Minnesota Total New Business Filings	639	584	479	496	626	-2.0%

New filings for business incorporation swelled in this year's first quarter. Compared to the first quarter of 2016, new filings of incorporation in Northeast Minnesota were 39.2 percent higher. Despite this, as can be seen in the accompanying graph, the 12 month moving total of Northeast Minnesota new business incorporations has flattened out since the beginning of 2012.

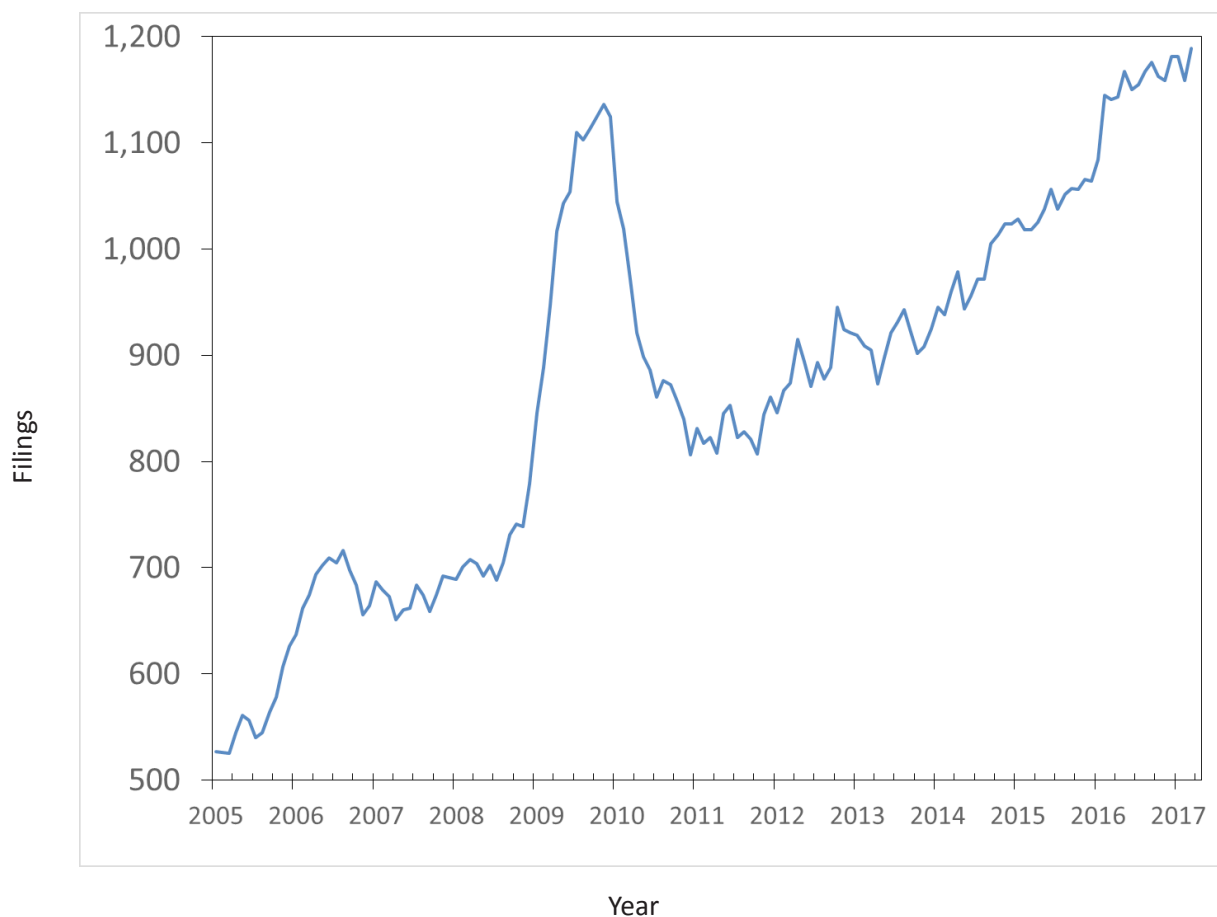
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Northeast Minnesota New Business Incorporations	51	53	48	48	71	39.2%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. This trend continued in the first quarter as new LLC filings grew 2.4 percent compared to the same period one year earlier. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was 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.

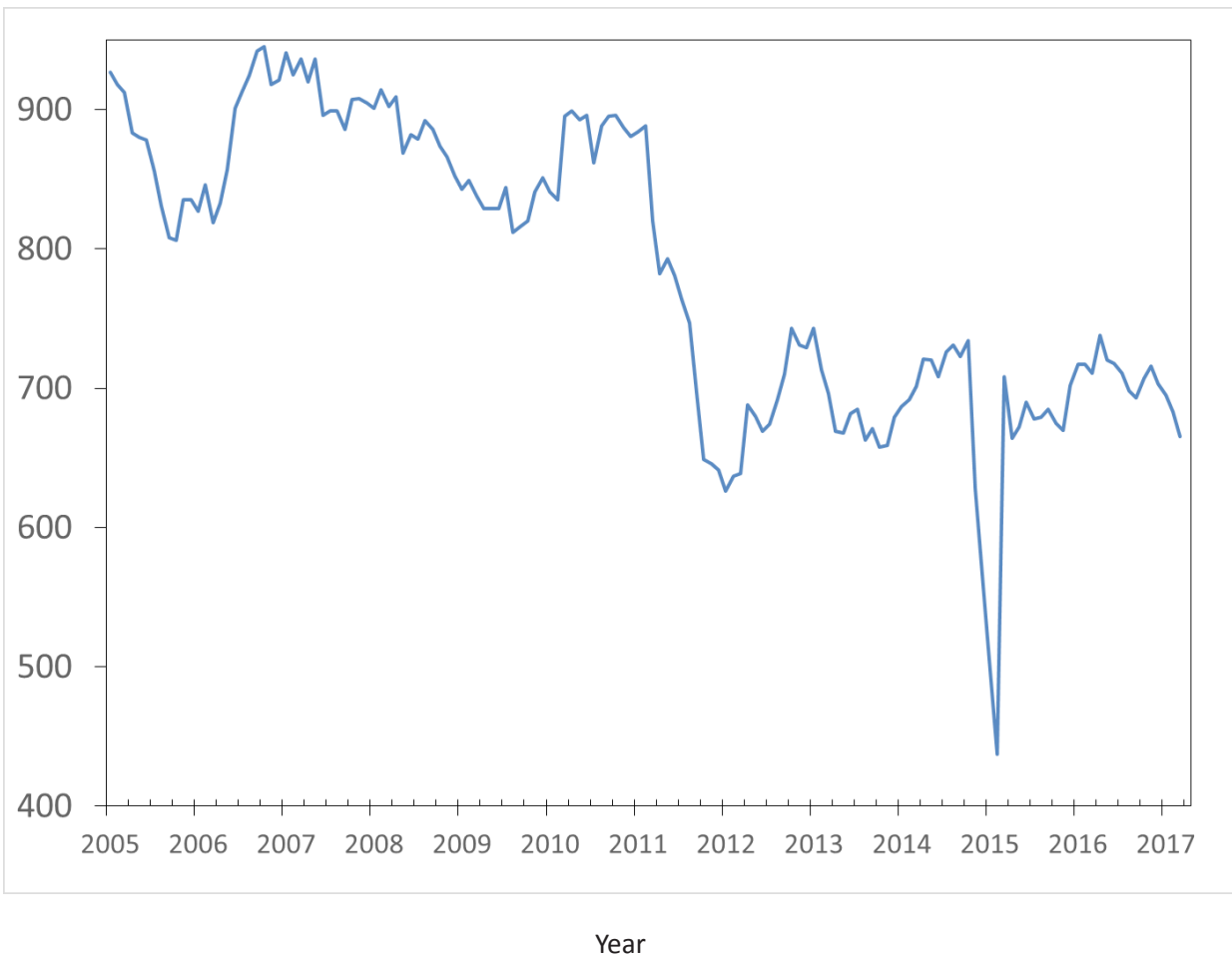
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	337	302	271	271	345	2.4%

Compared to the first quarter of 2016, assumed names fell by 17.7 percent in Northeast Minnesota. After leveling out from 2011 to 2014, new assumed names filings in Northeast Minnesota declined precipitously in 2014, but have since returned to the 2011-14 trend. However, the series still remains well below its level of the mid-2000s.

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



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Northeast Minnesota New Assumed Names	215	199	134	155	177	-17.7%

There were 33 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the first quarter of 2017, three fewer than were recorded one year ago.

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



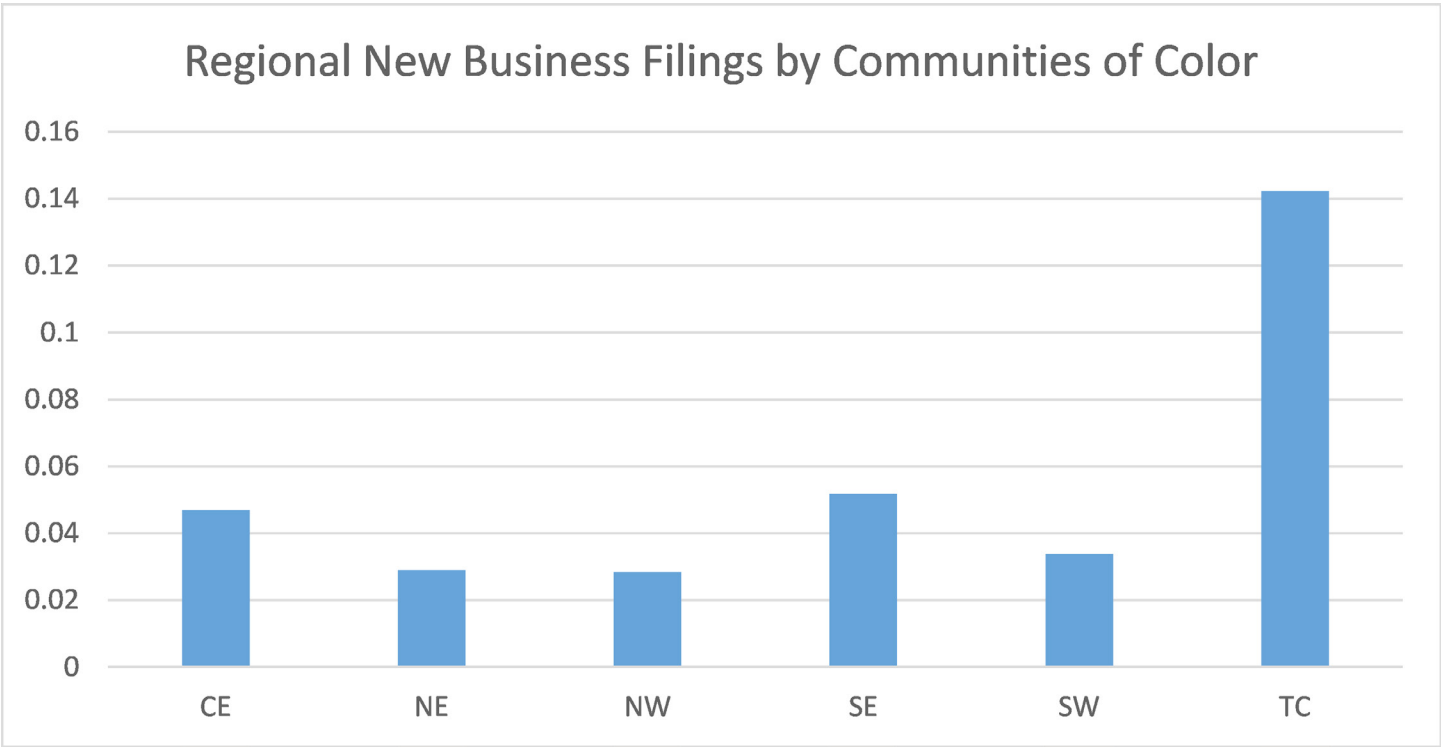
Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Northeast Minnesota New Non-Profits	36	30	26	22	33	-8.3%

Minnesota Business Snapshot Survey Results

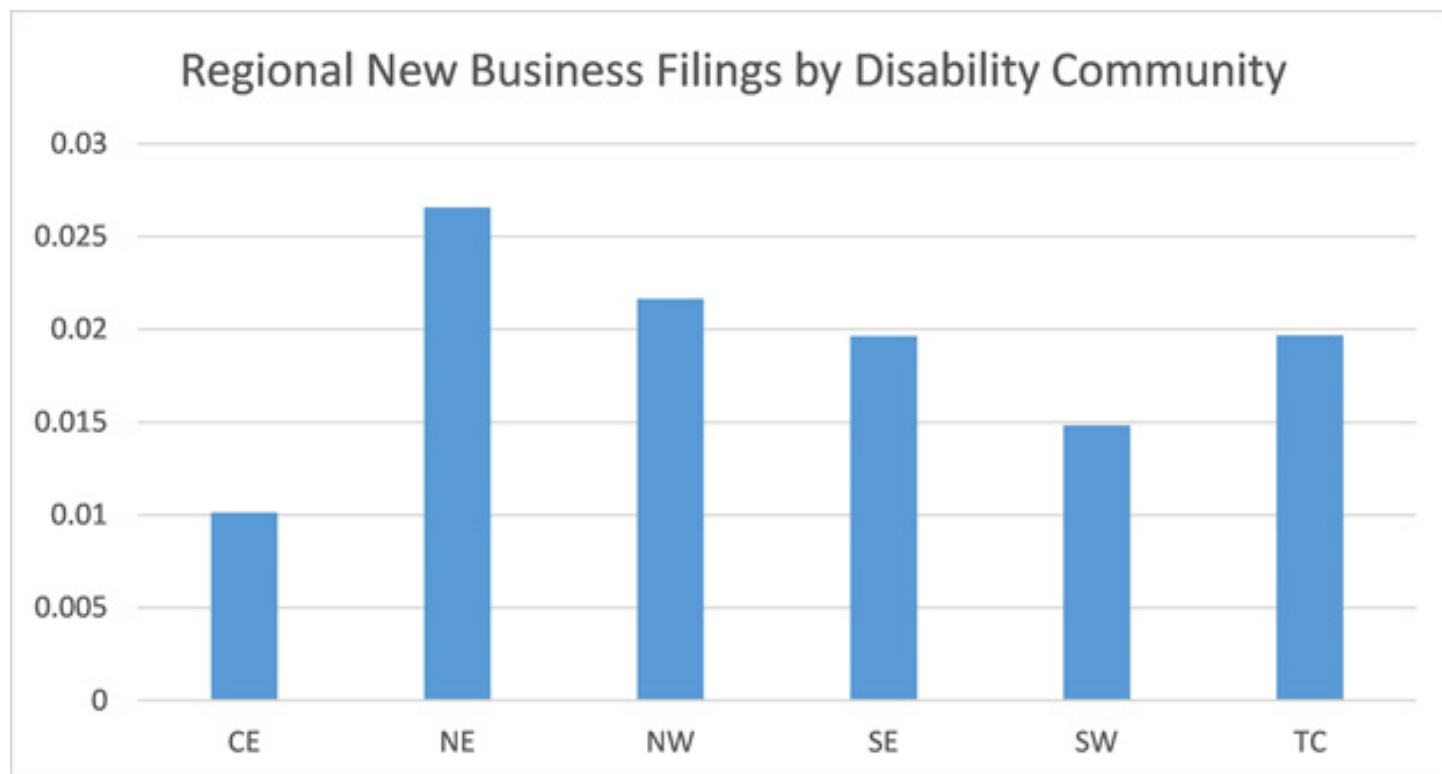
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey, known as the Minnesota Business Snapshot or MBS, for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, employment levels and annual revenue of the filer, and whether the business is a full- or part-time activity for the filing entity. While a comprehensive analysis of this promising new data set is the beyond the scope of this regional economic and business conditions report, the survey results do provide useful additional background information to complement the business filing data.

To match up MBS information with the data analyzed in this report, only surveys accompanying new filings in the first quarter of 2017 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 60 percent. This yields thousands of self-reported records in this emerging data set. For Northeast Minnesota, over 66 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

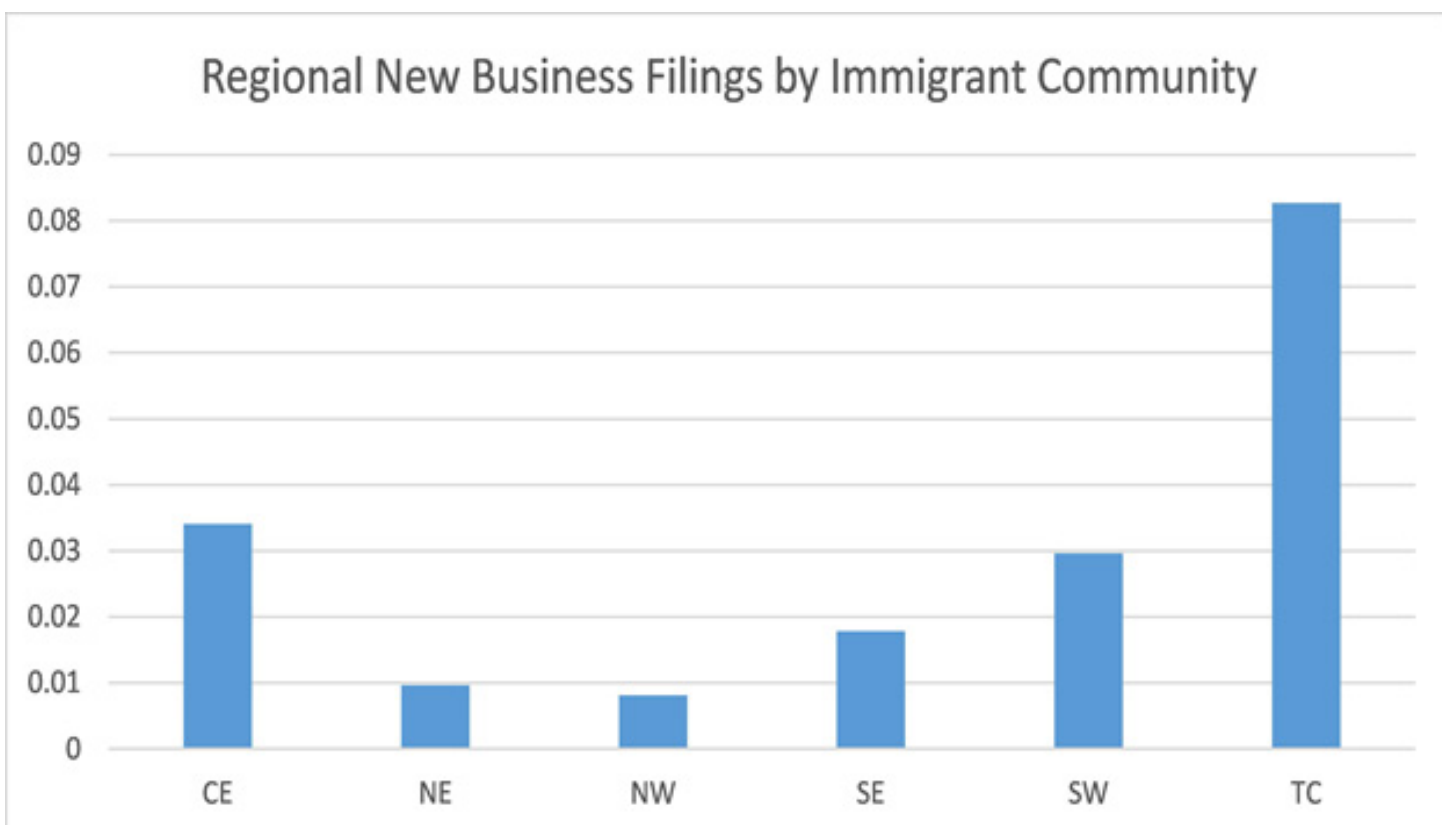
Approximately 3 percent of those new filers completing the MBS from the Northeast Minnesota planning area report being from a community of color. This is the lowest percentage of any of Minnesota’s six planning areas.



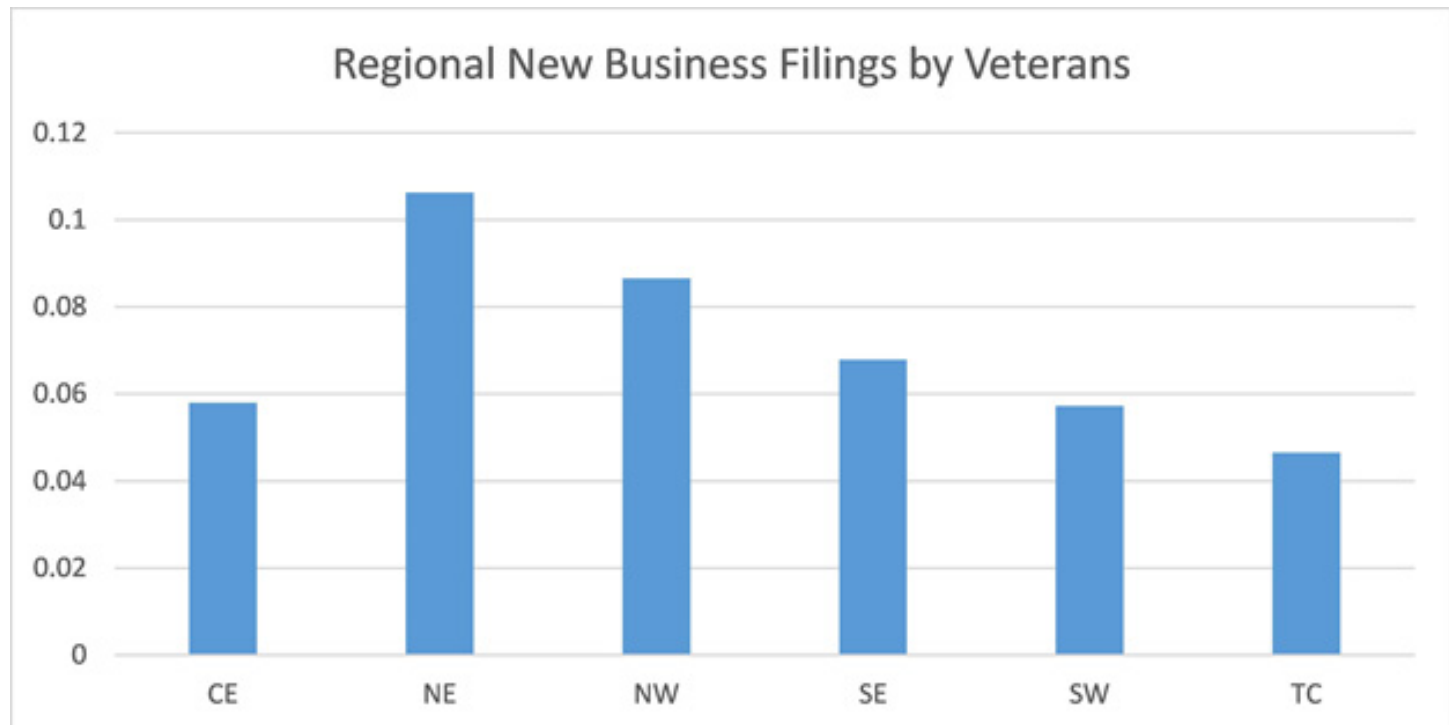
Nearly 3 percent of Northeast Minnesota’s new filers are from the disability community. This is larger than any of the planning areas in the state.



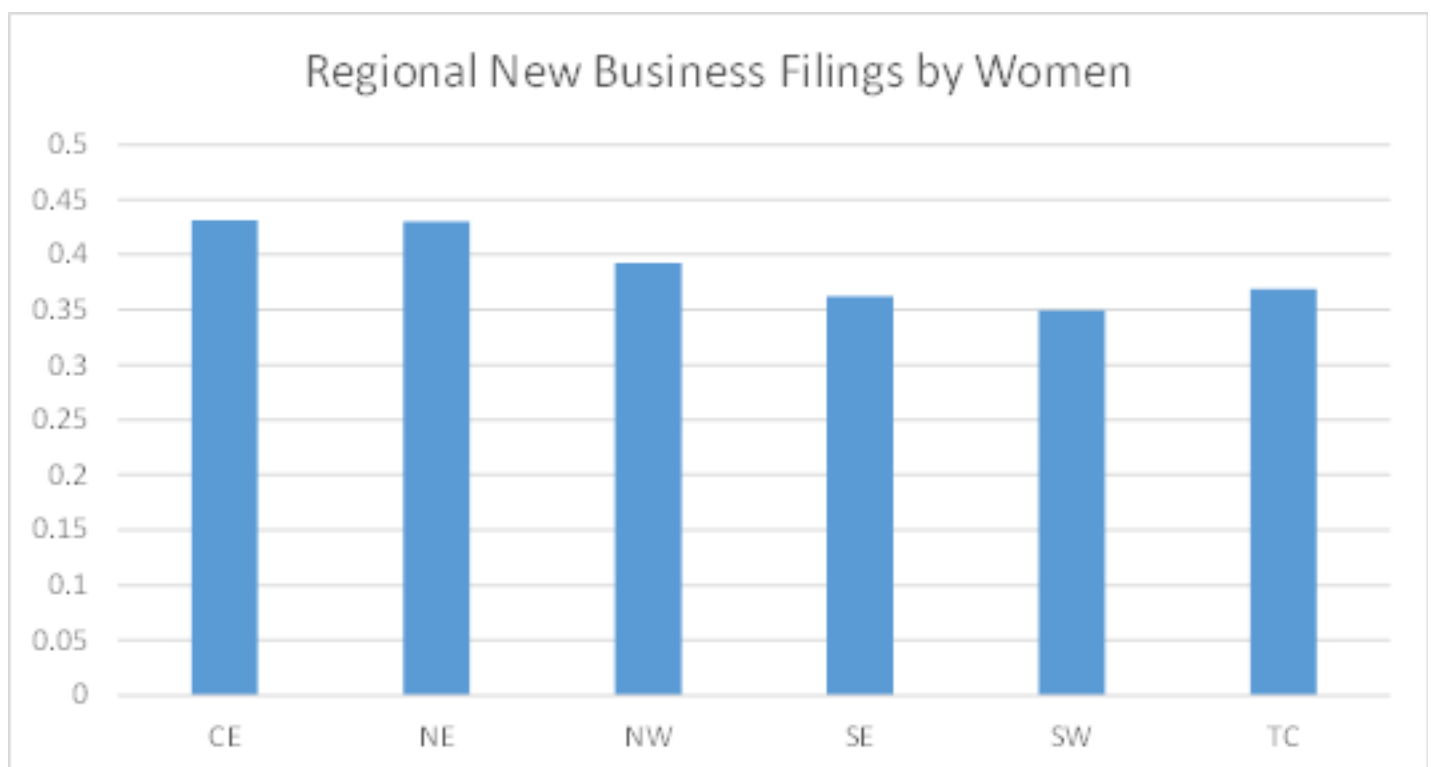
About 1 percent of new business filings in Northeast Minnesota come from the immigrant community. This is considerably lower than the percentage of new business filers in the Twin Cities.



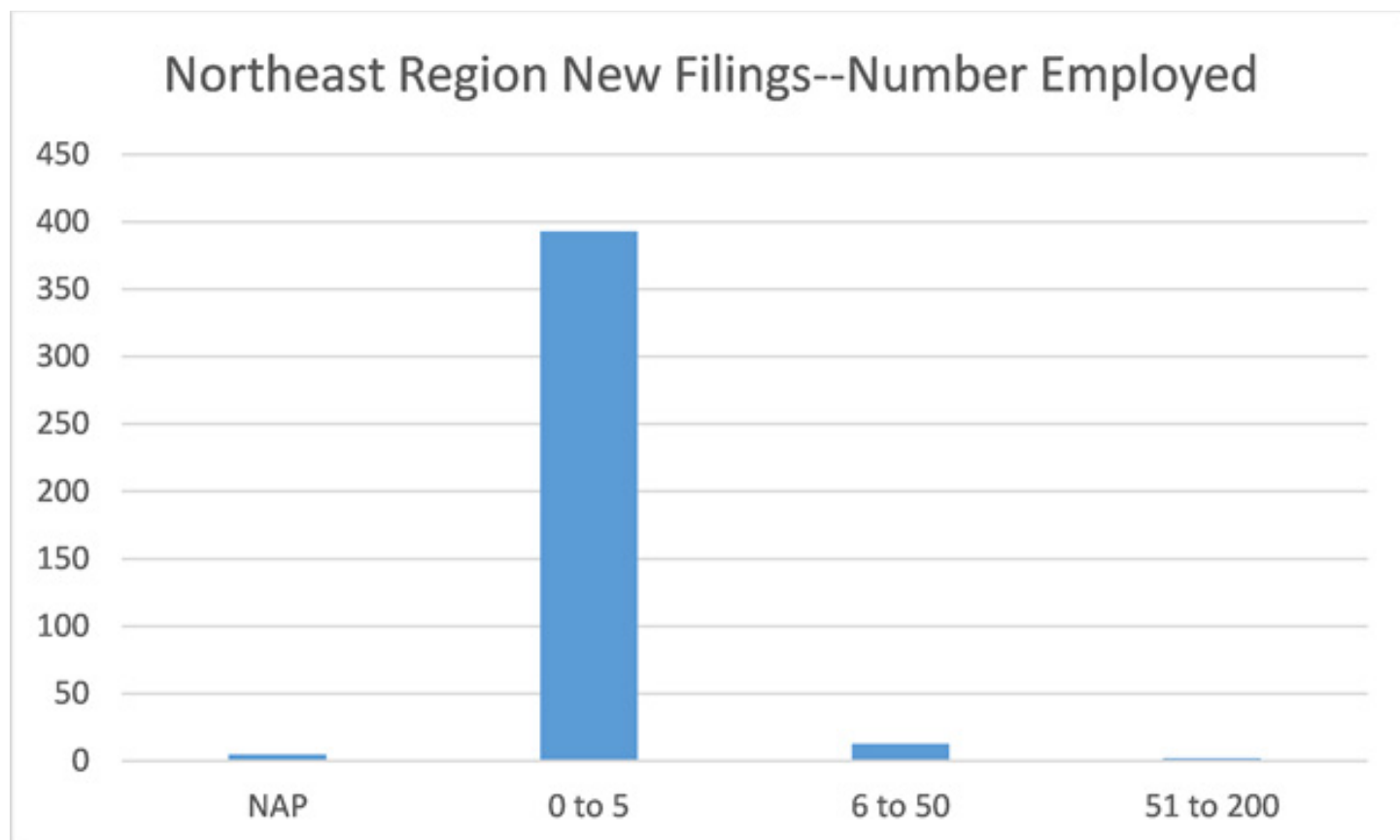
More than 10 percent of all new filings in Northeast Minnesota came from military veterans in the first quarter of 2017. This is considerably higher than in any of Minnesota's five other planning areas.



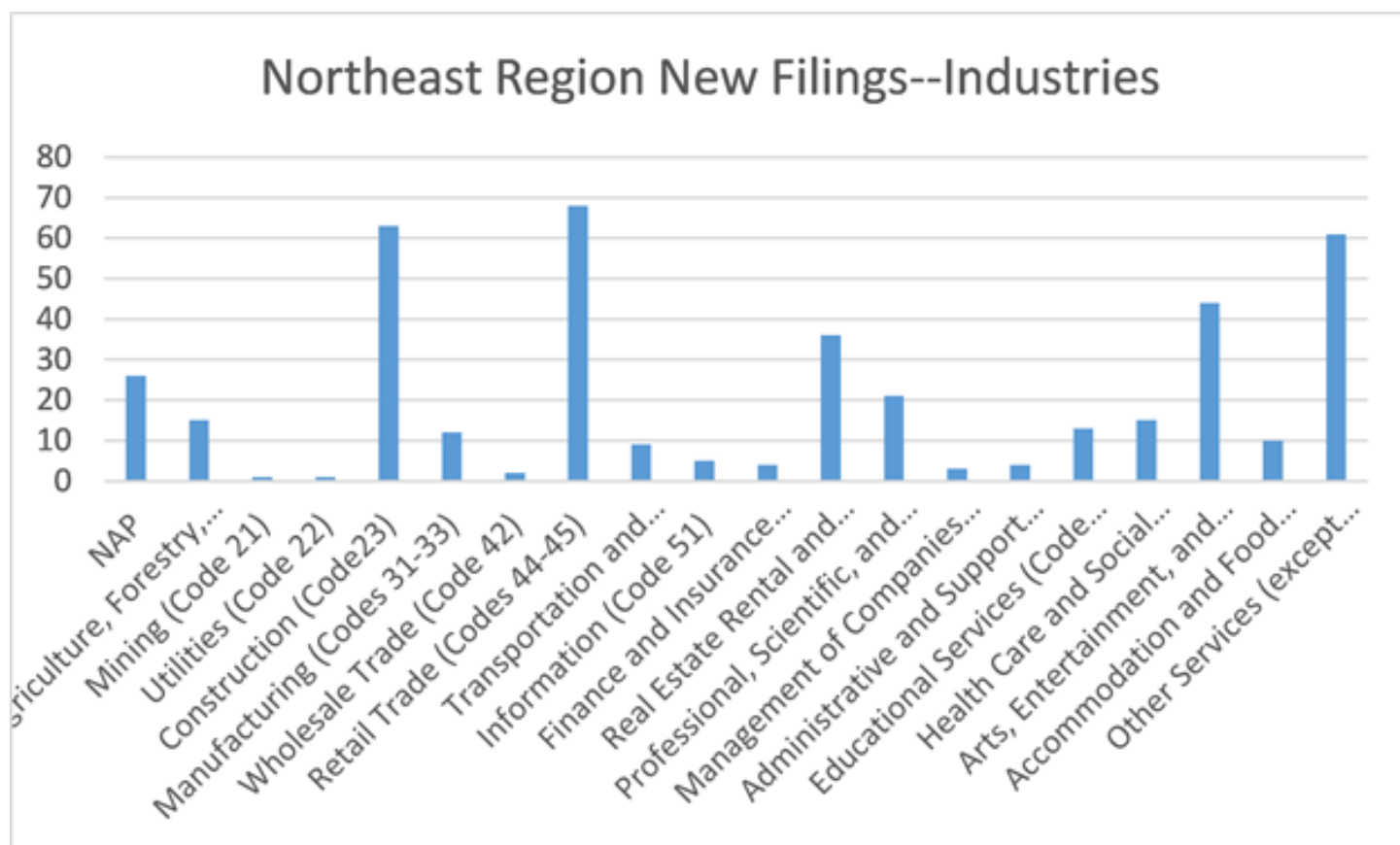
Woman owners represented approximately 43 percent of the new business filings in Northeast Minnesota in the first quarter of 2017.



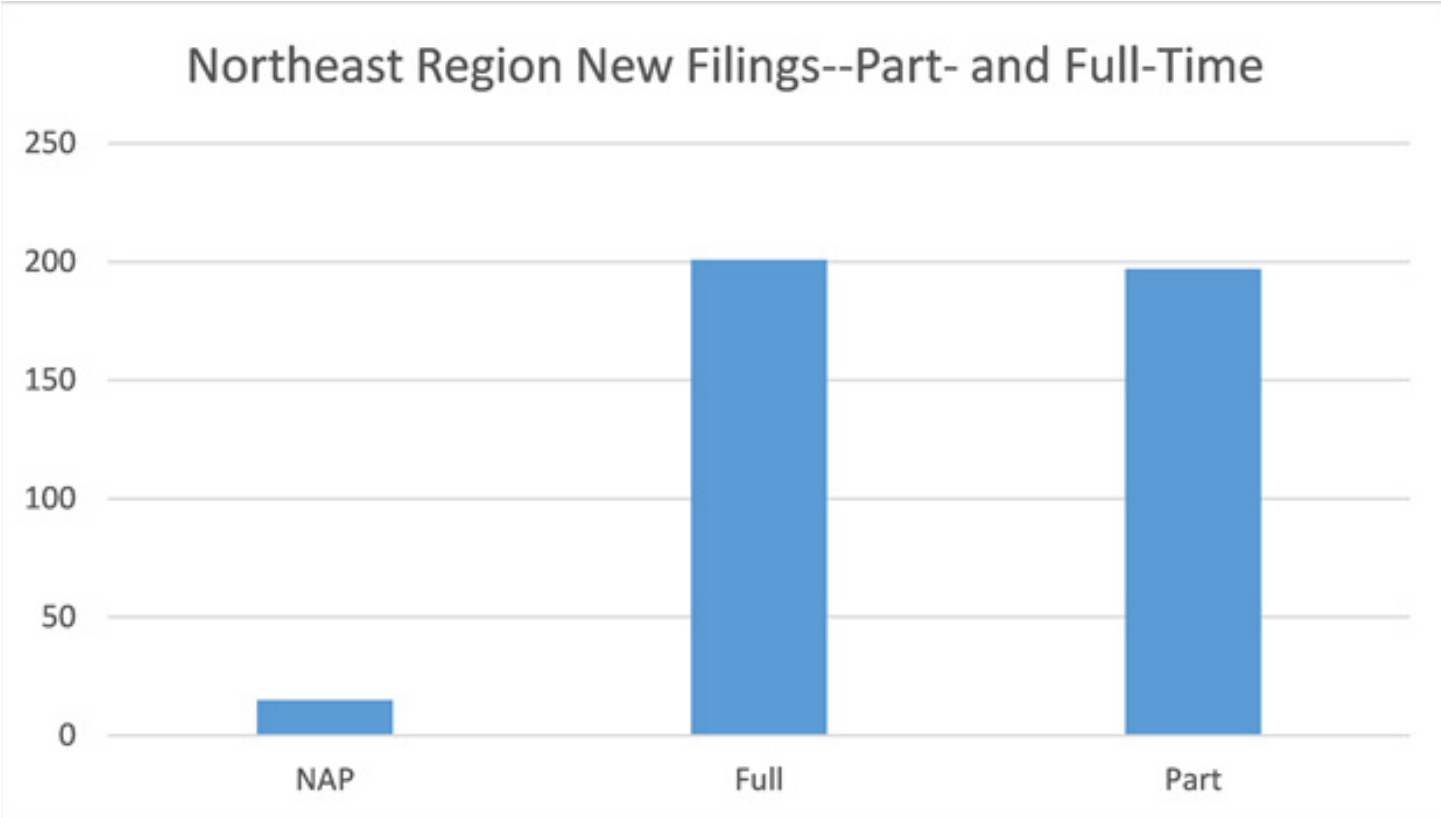
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by “NAP”—no answer provided), more than 400 responses were tallied to a question asking the new business filer to indicate the range of employment at the business. As expected, most new businesses start small—employment at most companies submitting a new filing ranges from 0-5 employees.



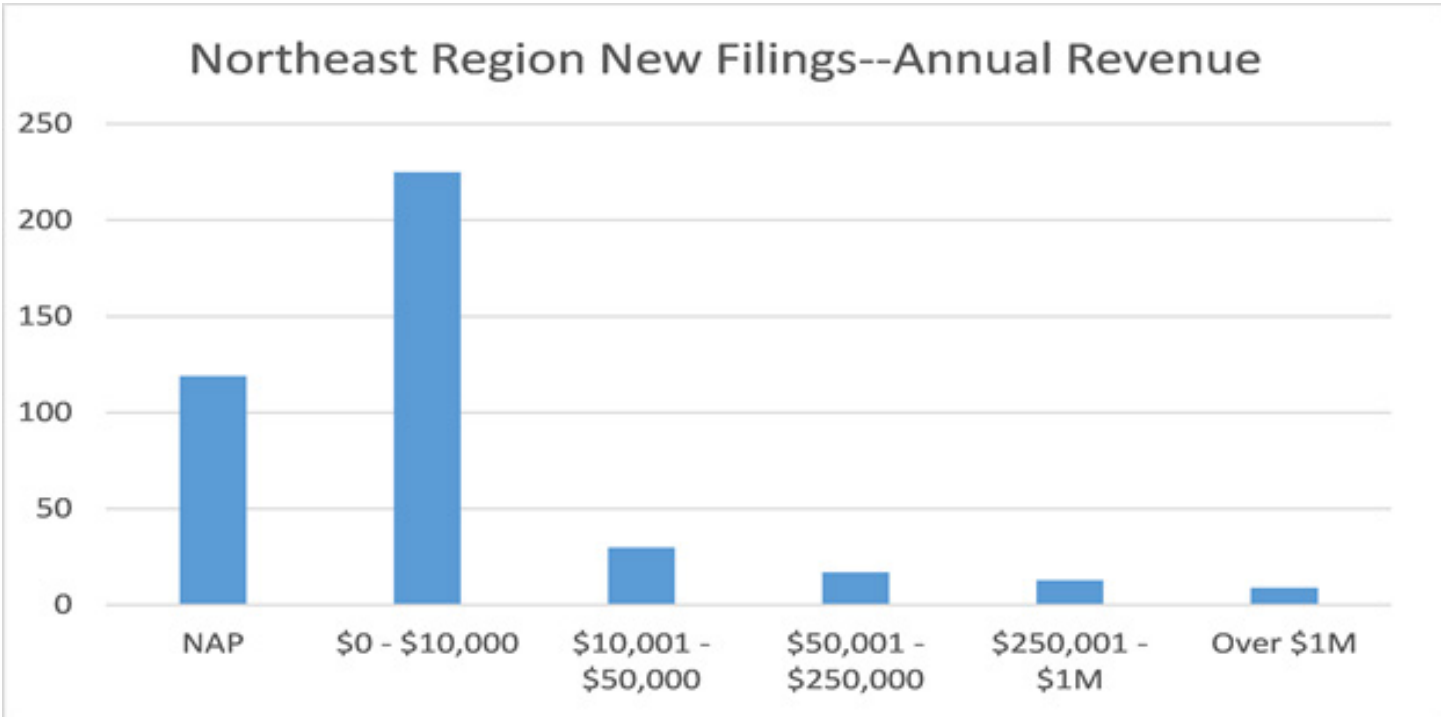
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, construction, retail trade, “other services”, real estate/rental/leasing, and arts/entertainment/recreation lead the way. Relatively few new businesses in Northeast Minnesota are entering the mining, manufacturing, transportation, health care, or education sectors.



Approximately half of those submitting a new business filing in Northeast Minnesota are part-time ventures.

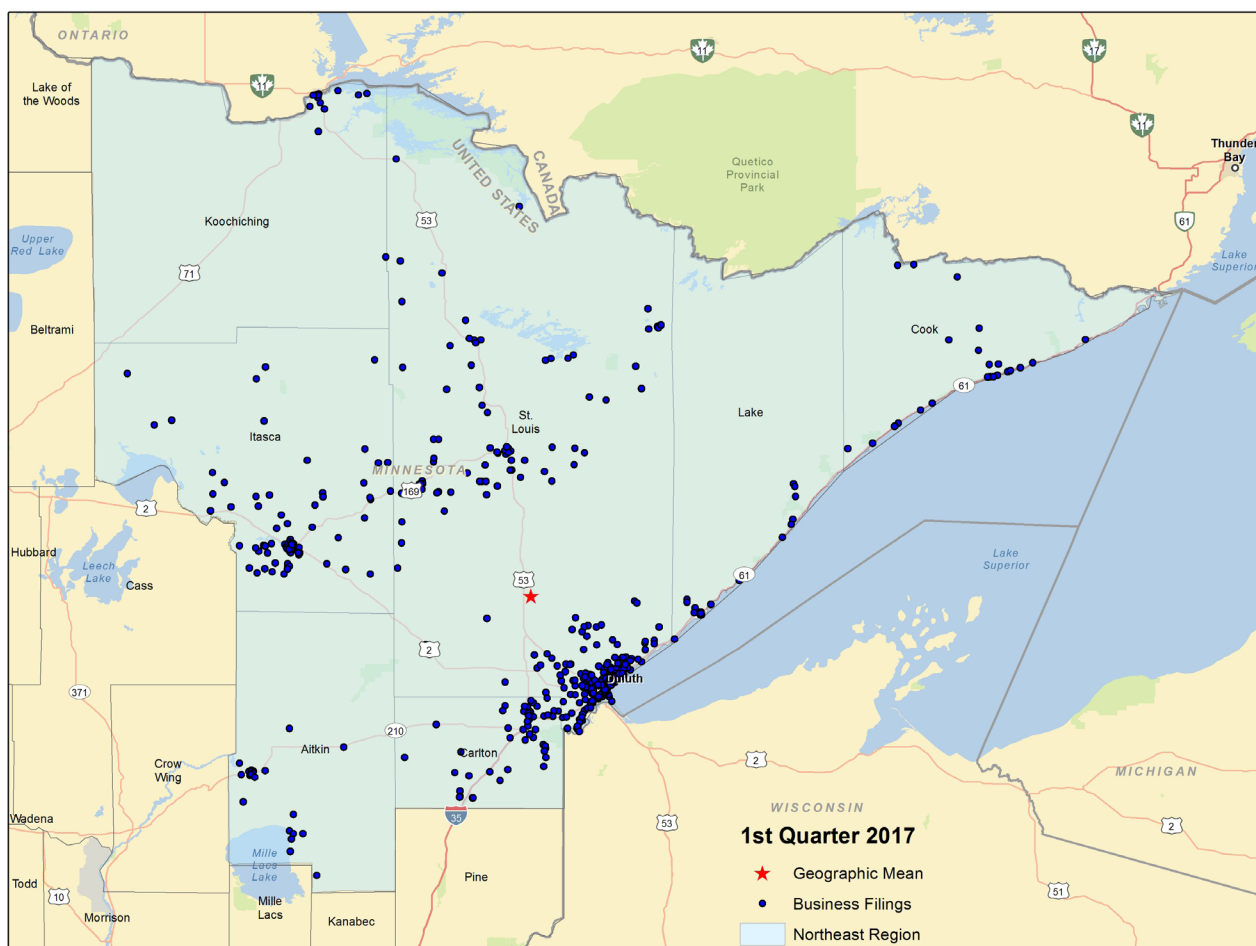


More than 100 new business filers in Northeast Minnesota did not provide an answer to the MBS item that asked them to report the company’s revenue. Of those businesses that answered the question, the largest share report revenues of less than \$10,000. Thirty-nine firms report revenues in excess of \$50,000.



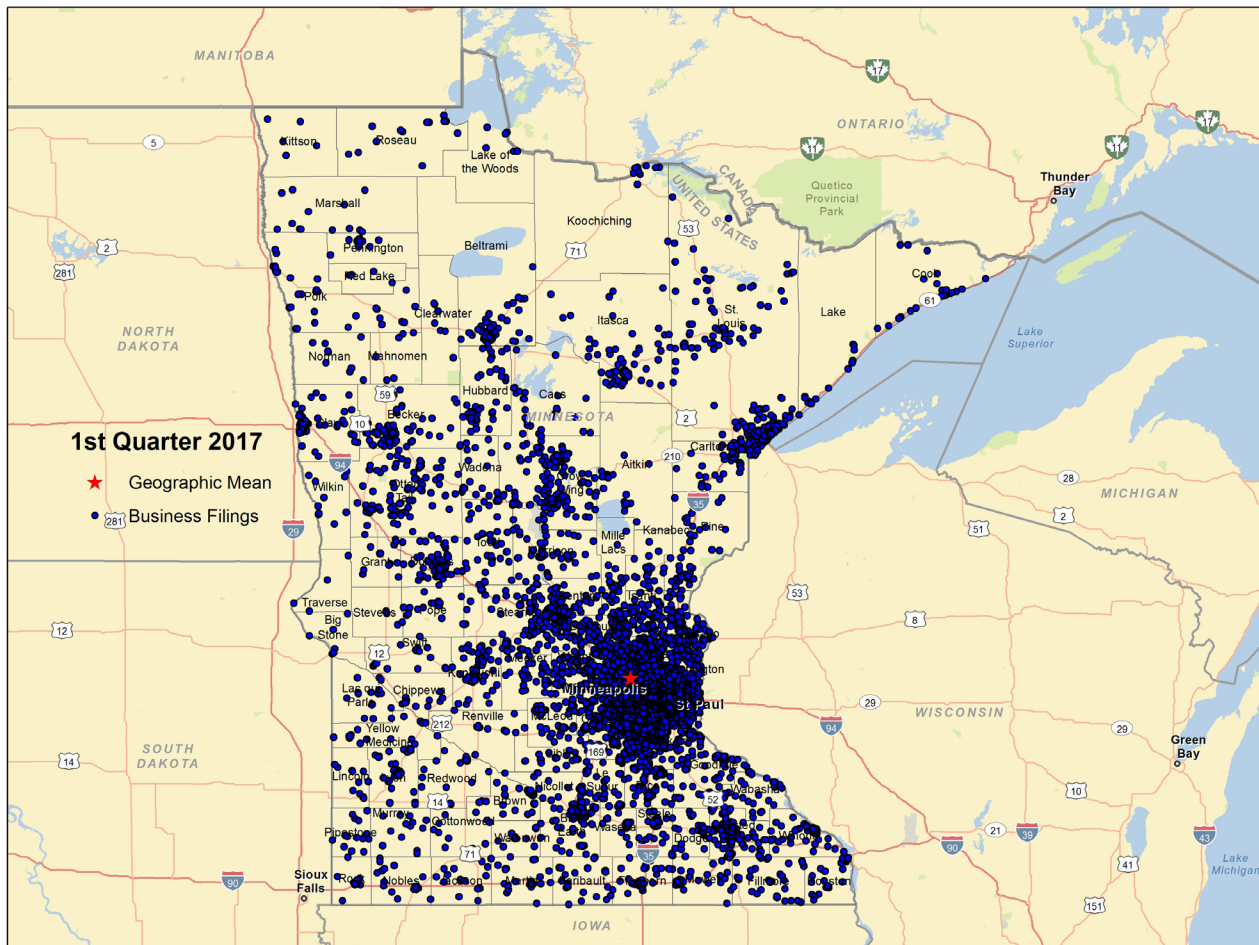
The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in the first quarter of 2017. The densest areas of new business formation are in the Duluth metro as well as along the region's well-traveled roadways. There was a noticeable cluster of new business formation along Highway 169, in the Virginia-Hibbing-Grand Rapids corridor.

Northeast Minnesota Planning Area--New Business Formation--Quarter 1: 2017



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. The importance of Interstates 90 and 35 as well as US-10 and MN 61 (along the North Shore) in new business filings is also easily seen in this map.

Minnesota--New Business Formation--Quarter 1: 2017

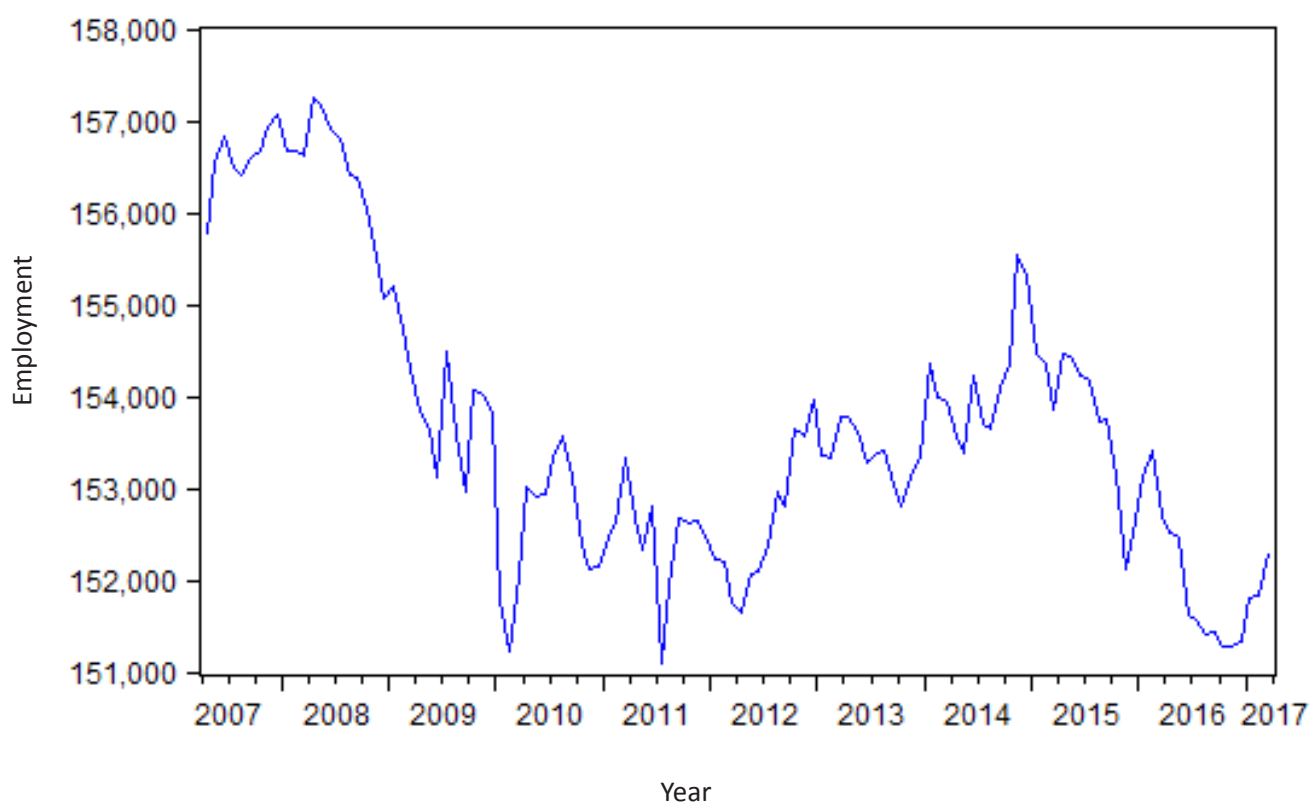


Northeast Minnesota Labor Market Conditions

March 2017 employment in the Northeast Minnesota planning area was 0.2 percent lower than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment has been slowly rising over the past couple of quarters.

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.

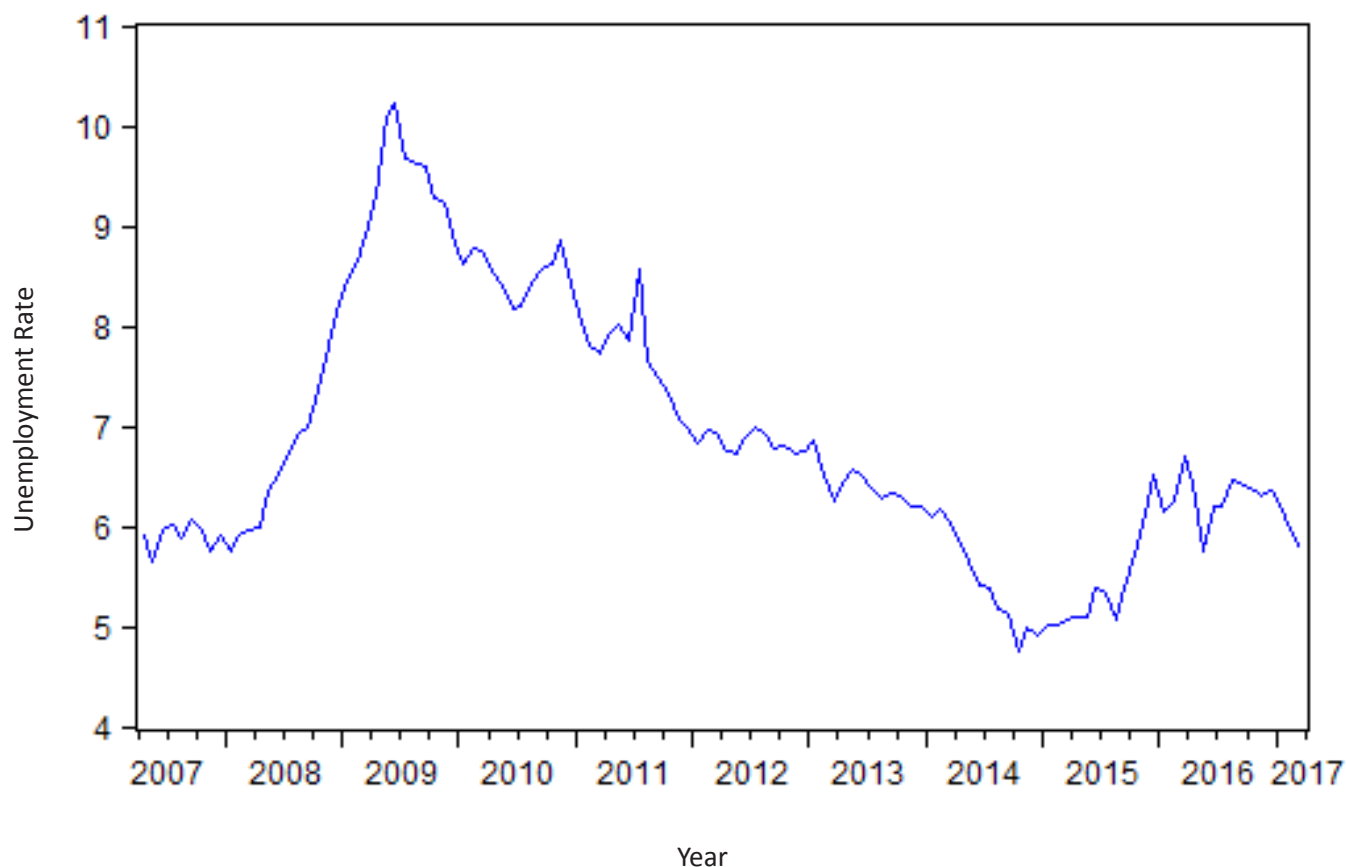
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	March 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Employment (Not seasonally adjusted)	150,878	152,427	151,596	150,024	148,492	149,826	150,507

The seasonally adjusted unemployment rate in Northeast Minnesota had been trending upward since the end of 2014. However, this series has been declining in recent quarters. At 6.8 percent, the non-seasonally adjusted rate was considerably lower than one year earlier. The unemployment rate in Northeast Minnesota is still higher than in any of Minnesota's other five planning areas.

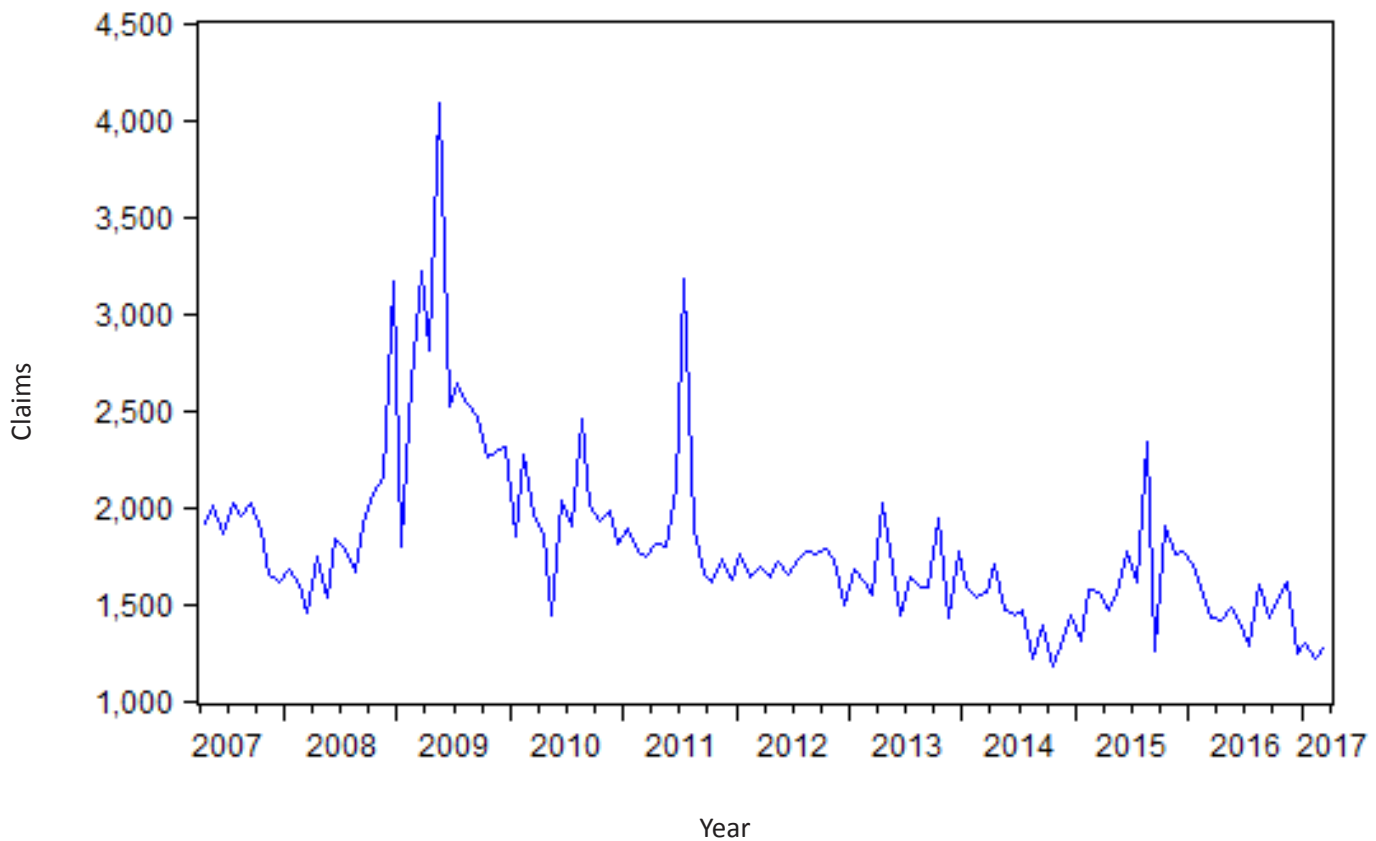
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	March 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Unemployment Rate (Not seasonally adjusted)	7.9%	5.2%	5.8%	6.4%	7.6%	7.0%	6.8%

On a seasonally adjusted basis, initial jobless claims in the Northeast region have been declining over the past several quarters. This quarter's initial jobless claims fell by 9.9% compared to one year earlier.

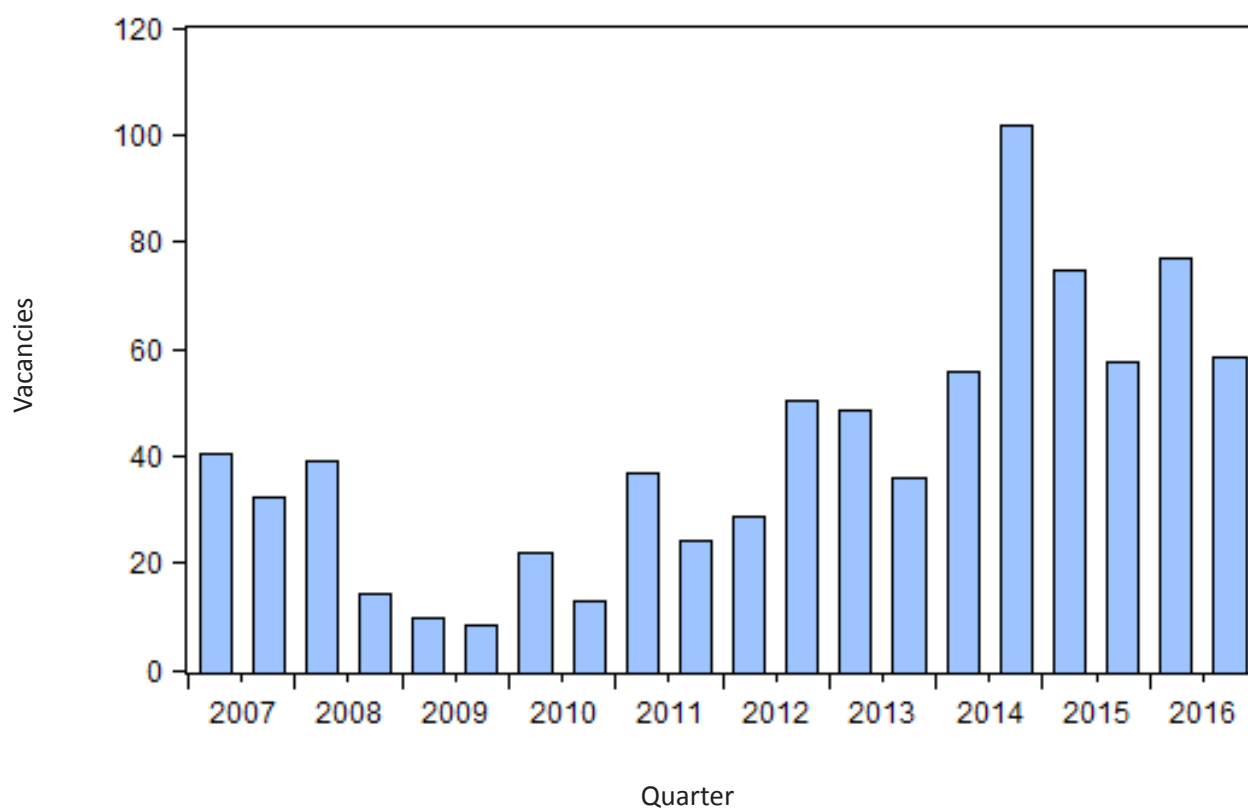
Total Initial Claims for Unemployment Insurance, seasonally adjusted— Northeast Minnesota Planning Area



Period	March 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Initial claims (Not seasonally adjusted)	1,414	1,614	2,632	2,043	1,488	1,052	1,274

The ratio of job vacancies per 100 unemployed remains elevated in Northeast Minnesota. With 64.64 job vacancies per 100 unemployed, the shortage of qualified workers continues to plague the northeast region. Fortunately, this job vacancy ratio has been trending downward since its peak at the end of 2014. While Northeast Minnesota's job vacancy ratio is about the same as observed in the Central and Northwest planning areas, the rate of job vacancies is considerably higher in the Twin Cities, Southeast and Southwest portions of the state. The ratio of job vacancies per 100 unemployed in the Twin Cities now stands at 106.83, representing more job vacancies than unemployed people available to fill these vacancies.

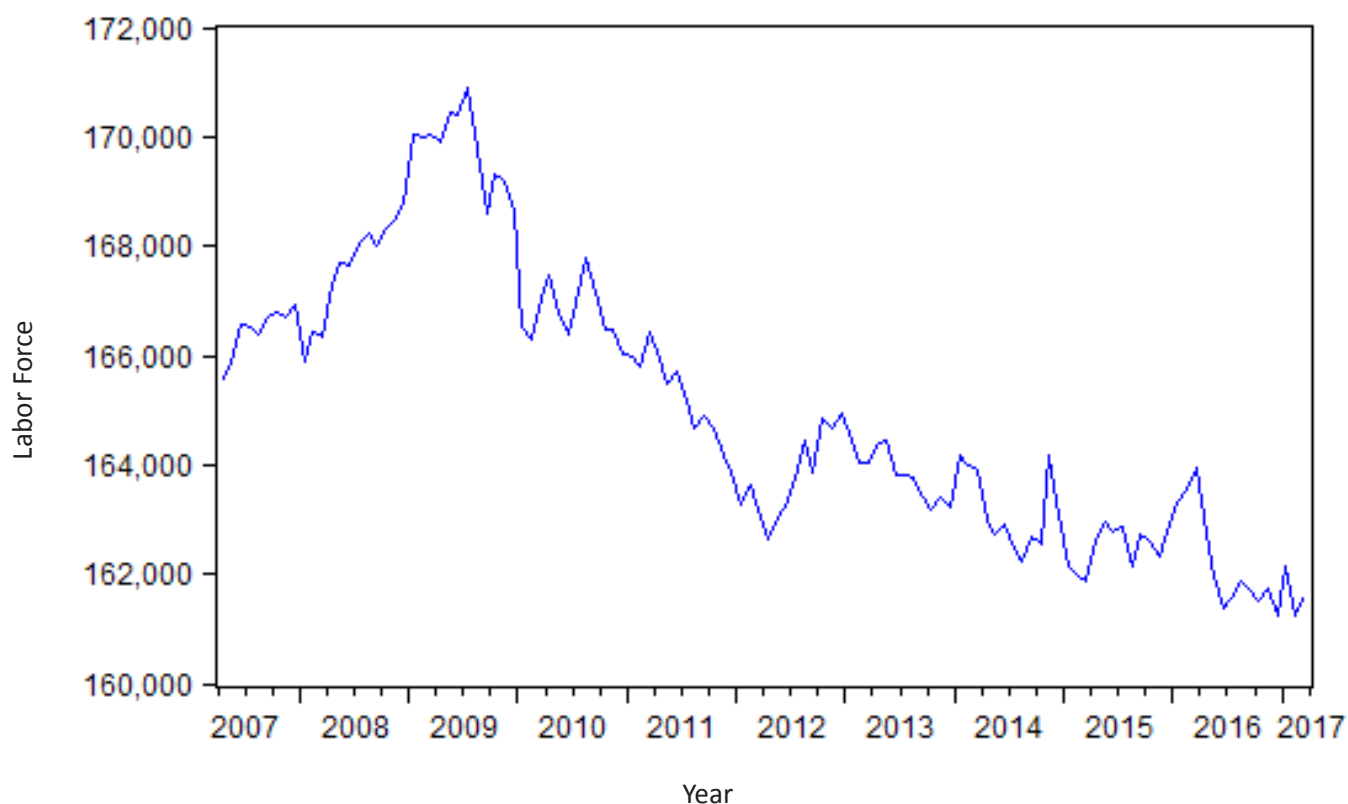
Job Vacancies per 100 Unemployed---Northeast Minnesota Planning Area



Quarter	2014:II	2014:IV	2015:II	2015:IV	2016:II	2016:IV
Job Vacancies per 100 Unemployed	58.22	116.60	73.18	59	80.62	64.64

The Northeast Minnesota labor force contracted by 1.4 percent over the past year. Using a 12-month moving average to account for seasonality, the regional labor force numbers have weakened in recent quarters. Only the central and Twin Cities planning areas are experiencing labor force growth. The four other planning areas are seeing their workforce decline on a year-over-year basis.

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

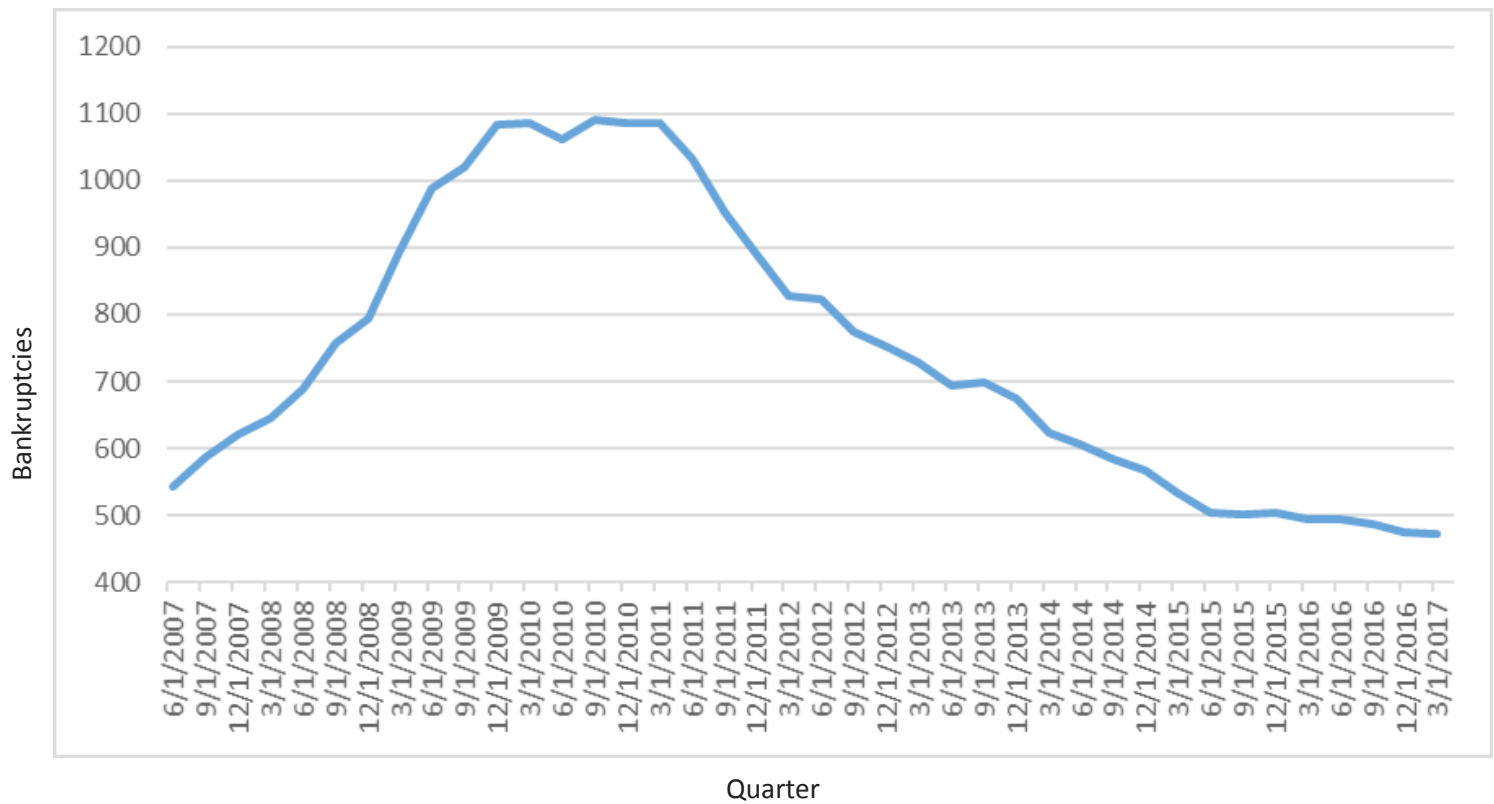


Year (March)	2012	2013	2014	2015	2016	2017
Labor Force (Not seasonally adjusted)	162,574	163,598	163,543	161,602	163,769	161,451

Northeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Northeast 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 third quarter of 2009, then leveled out for a few quarters. The series has gradually declined since the beginning of 2011.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2012	2013	2014	2015	2016	2017
Annual Bankruptcies (Not seasonally adjusted)	827	727	624	534	495	472

Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2017 (m)	134,500	133,392	0.8% ↑	0.4%
Manufacturing Employment	March 2017 (m)	7,252	7,255	0.0% ↔	-1.6%
Educational and Health Sector Employment	March 2017 (m)	32,044	32,288	-0.8% ↓	2.7%
Average Weekly Work Hours-Private Sector	March 2017 (m)	32.9	32	2.8% ↑	32.2
Average Earnings Per Hour-Private Sector	March 2017 (m)	\$24.39	\$24.76	-1.5% ↓	2.5%
Unemployment Rate	March 2017 (m)	5.9%	7.0%	NA ↓	6.9%
Labor Force	March 2017 (m)	142,892	143,899	-0.7% ↓	0.1%
Duluth-Superior Residential Building Permit Valuation, in thousands	March 2017 (m)	1,539	1,555	-1.0% ↓	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mixed in the recent quarter. Overall employment rose by 0.8 percent over the year ending March 2017, but employment in the key education/health sector (where more than 30,000 people have jobs) declined. Average weekly work hours increased, but average hourly earnings fell. The area unemployment rate decreased as the MSA's labor force contracted by 0.7 percent. The value of residential building permits in the Duluth/Superior MSA fell slightly.

State and National Indicators

MINNESOTA Indicators	Mar 2017	Dec 2016	Mar 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,879,836	2,915,048	2,831,674	-1.2%	1.7%
Average weekly hours worked, private sector	33.7	33.9	33.5	-0.6%	0.6%
Unemployment rate, seasonally adjusted	3.8%	4.0%	3.9%	NA	NA
Earnings per hour, private sector	\$28.21	\$27.85	\$27.05	1.3%	4.3%
Philadelphia Fed Coincident Indicator, MN	198.50	196.42	192.93	1.1%	2.9%
Philadelphia Fed Leading Indicator, MN	2.88	1.47	1.47	95.9 %	95.9%
Minnesota Business Conditions Index	61.8	52.3	50.7	18.2%	21.9%
Price of milk received by farmers (cwt)	\$17.50	\$19.60	\$15.80	-10.7%	10.8%
Enplanements, MSP airport, thousands	1,731.6	1,456.8	1,662.9	18.9%	4.1%
NATIONAL Indicators	Mar 2017	Dec 2016	Mar 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	145,858	145,325	143,673	0.4%	1.5%
Industrial production, index, SA	104.1	103.8	102.5	0.3%	1.6%
Real retail sales, SA (\$)	193,165	193,812	188,072	-0.3%	2.7%
Real personal income less transfers (\$, bill.)	12,154.6	12,088.4	11,825.3	0.5%	2.8%
Real personal consumption expenditures (\$, bill.)	11,695.6	11,709.4	11,374.4	-0.1%	2.8%
Unemployment rate, SA	4.5%	4.7%	5.0%	NA	NA
New building permits, SA, thousands	22,864	17,581	19,300	30.0%	18.5%
Standard & Poor's 500 stock price index	2,366.8	2,246.6	2,022.0	5.4%	17.1%
Oil, price per barrel in Cushing, OK	\$49.33	\$51.97	\$37.55	-5.1%	31.4%

Across the state, all year-over year categories of economic performance found in the State and National Indicators table are favorable. There was growth in payrolls, higher earnings per hour, more average weekly hours worked in the private sector, and a lower seasonally adjusted unemployment rate over the past twelve months. Current and leading Indicators from the Federal Reserve Bank of Philadelphia are both higher than one year earlier and the Minnesota Business Conditions index rose nearly 22 percent. Milk prices are higher than one year ago (although they declined over the three months ending March 2017) and enplanements at the Minneapolis-St. Paul airport increased by 4.1 percent over the last twelve months.

While three national economic indicators shown in the table were weaker over the past three months, most of the measures in this part of the table reinforce the strong economic outlook found throughout this report. 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 also higher. As noted last quarter, oil prices have firmed up to \$50 per barrel compared to under \$40 a year ago. While rising oil prices adversely impact the discretionary income of households, they also improve the economic well-being of those employed in the energy sector (which has been struggling in recent years).

The Northeast 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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Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.

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, Minnesota Business Snapshot.

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.