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Southwest Minnesota Economic and Business Conditions Report - First Quarter 2017

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Southwest 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 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.

Office of the Minnesota
Secretary of State

School of Public Affairs
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Executive Summary

Increased economic growth in Southwest Minnesota is expected over the next several months according to the predictions of the St. Cloud State University Southwest Minnesota Index of Leading Economic Indicators (LEI). Three of four LEI components were positive in the first quarter. An improvement in the rural outlook and lower jobless claims contributed favorably to the LEI in the first quarter. An increase in residential building permits in the Mankato MSA also helped lift the leading index. After falling 2.77 points in last year's fourth quarter, the Southwest Minnesota LEI rose by 4.68 points in the current quarter. The index has now increased by 2.8% over the past twelve months.

There were 787 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the first quarter of 2017 — representing 18.3 percent more new filings than one year ago. There were 61 new regional business incorporation filings in the first quarter, an 8.9 percent increase from last year's first quarter. New LLC filings in Southwest Minnesota rose 14.1 percent from one year earlier and new assumed names climbed to 236—a 24.2 percent increase compared to March 2016. There were 44 new filings for Southwest Minnesota non-profit in the first quarter—16 more than one year earlier.

Sixty percent of new business filers in the Southwest Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's first quarter. Results of this voluntary survey indicate that a little over 3 percent of new filers come from communities of color. Nearly 6 percent of new businesses filings are from veterans. About 1.5 percent of new filers come from the disability community and nearly 3 percent of new filings are made by the immigrant community. Thirty-five percent of new business filings in Southwest Minnesota in this year's first quarter were initiated by women. MBS results also show that most new business filers in Southwest Minnesota have between 0 and $10,000 in annual gross revenues (although 64 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Southwest Minnesota are agriculture, construction, retail trade, and other services. Employment levels at most new firms are between 0 and 5 workers, and 44 percent of those starting a new business consider this a part-time activity.

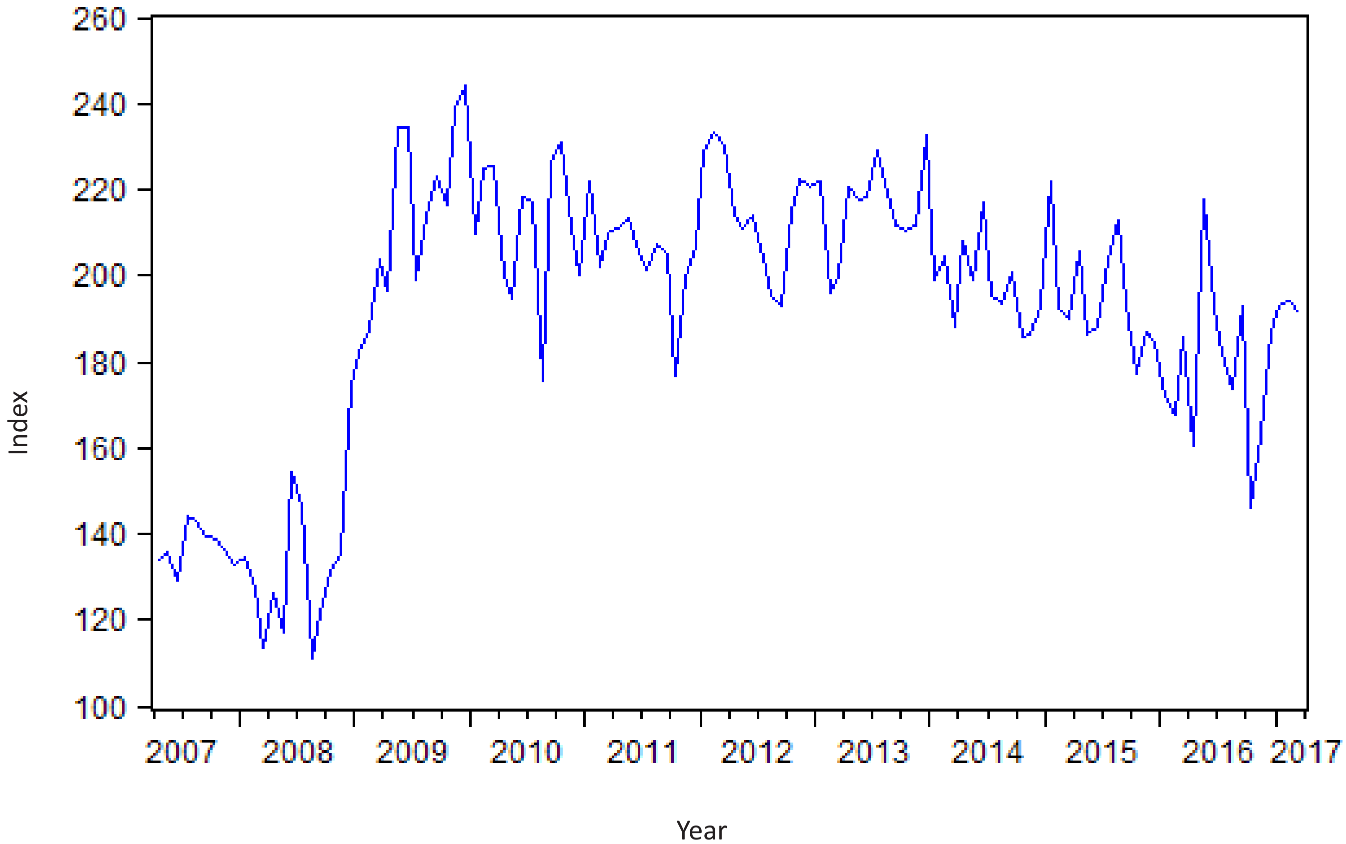
Employment of Southwest Minnesota residents declined by 1 percent over the year ending March 2017. The regional unemployment rate was 4.7 percent in March, a decrease from a 4.9 percent reading in March 2016. Nearly 150 fewer initial claims for unemployment insurance were reported compared to year-ago levels in March--a 12.6 percent decrease. The Southwest Minnesota labor force contracted by 1.2 percent over the year ending March 2017. Job vacancies remain elevated in the region. Bankruptcies continued to fall in Southwest Minnesota.

Economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota—was mostly favorable in the most recent quarter. Initial jobless claims fell, new business filings rose, the relative cost of living declined, the value of residential building permits surged, the unemployment rate fell, average weekly work hours increased, and hourly earnings rose. The only negative readings in the Mankato MSA in the first quarter were from a decline in employment and a reduction in the size of its labor force.

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 rose by 4.68 points in the first quarter and is now 2.8 percent above its level in March 2016. 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,1st quarter 2017	Contribution to LEI, 4th quarter 2016
Rural Mainstreet Index	3.27	1.95
Southwest Minnesota initial claims for unemployment insurance	1.33	-2.47
Southwest Minnesota new filings of incorporation and LLCs	-0.71	2.17
Mankato MSA single-family building permits	0.79	-4.42
TOTAL CHANGE	**4.68**	**-2.77**

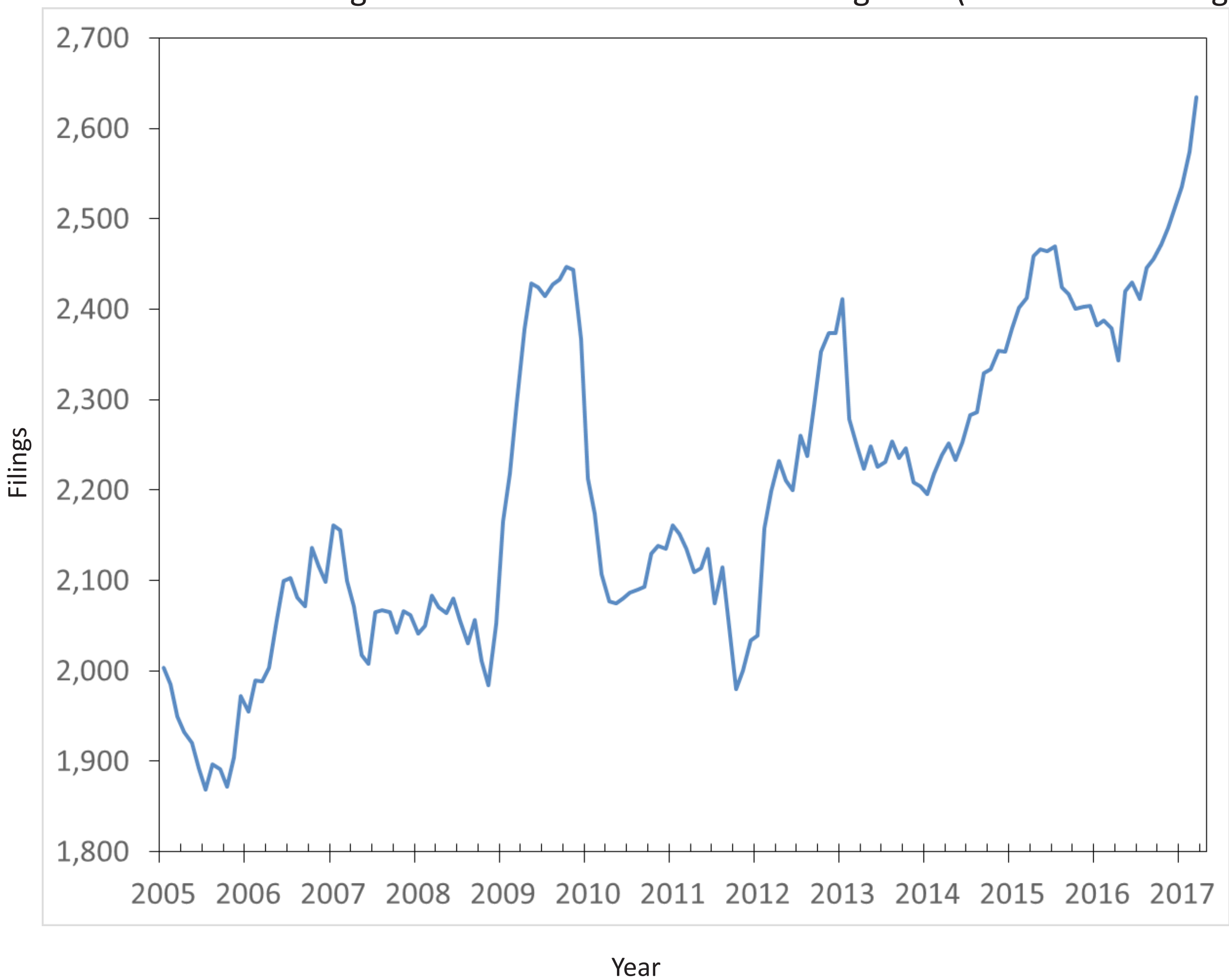
The Southwest Minnesota LEI has four components, three of which increased in the first quarter. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns with average population of 1,300 in ten Midwestern states. This index is used as a proxy 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 components were lower initial jobless claims and higher Mankato/North Mankato Metropolitan Statistical Area (MSA) single family residential building permits. Lower recent business filings in Southwest Minnesota weighed on this quarter's leading index.

SCSU Southwest Minnesota Leading Economic Indicators Index	2017	2016	Percentage Change
Rural Mainstreet Index, Creighton University March	46.1	44.7	3.1%
Southwest Minnesota initial claims for unemployment insurance March	1,302	1,181	-12.6%
Southwest Minnesota new filings of incorporation and LLCs First Quarter	507	447	13.4%
Mankato MSA single-family building permits March	12	11	9.1%
Southwest Minnesota Leading Economic Indicators Index March (December 1999 = 100)	191.0	185.8	2.8%

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 18.3 percent from year earlier levels in the first quarter. As seen in the accompanying figure, the 12-month moving average of this series has been rising since the beginning of 2016. 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).

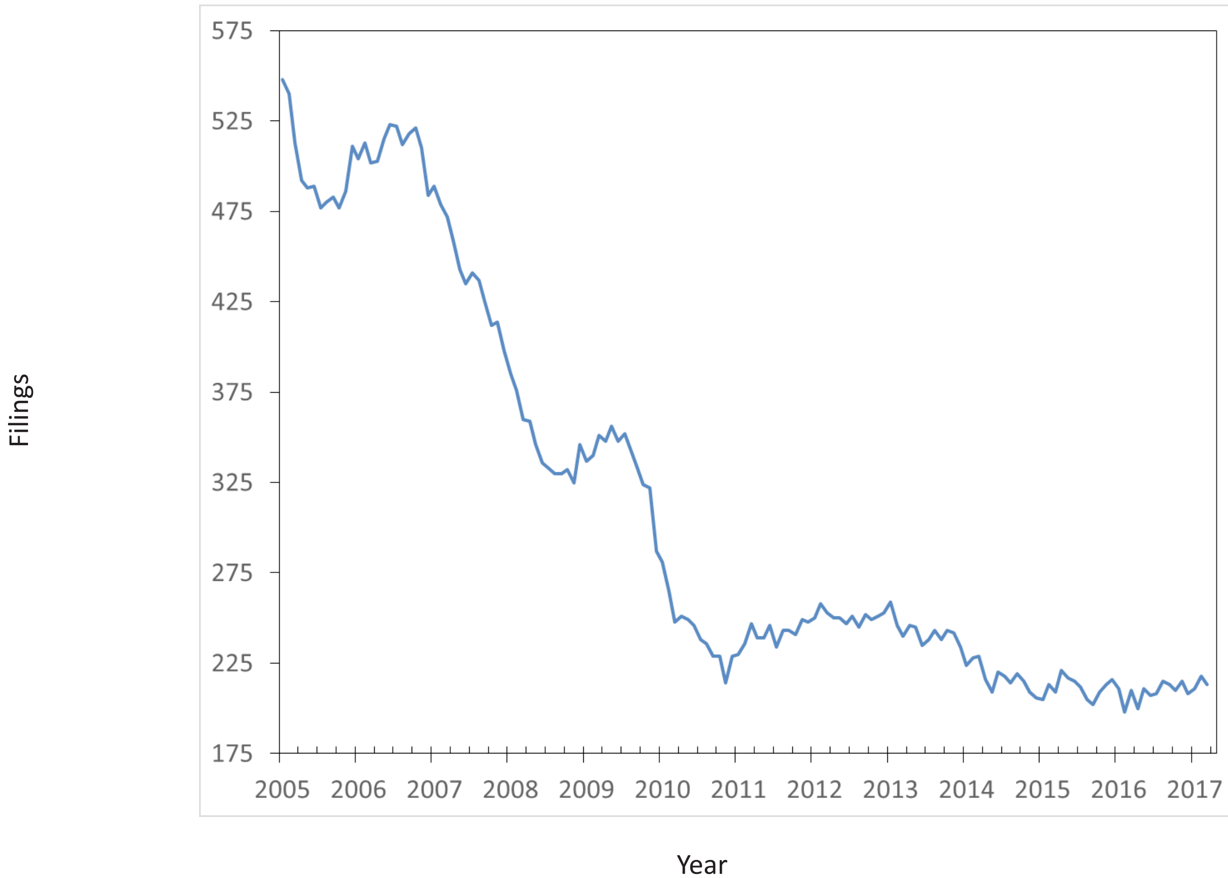
Total New Business Filings—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southwest Minnesota Total New Business Filings	665	697	544	607	787	18.3%

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. First quarter 2017 new regional incorporations increased by 8.9 percent compared to the same quarter in 2016.

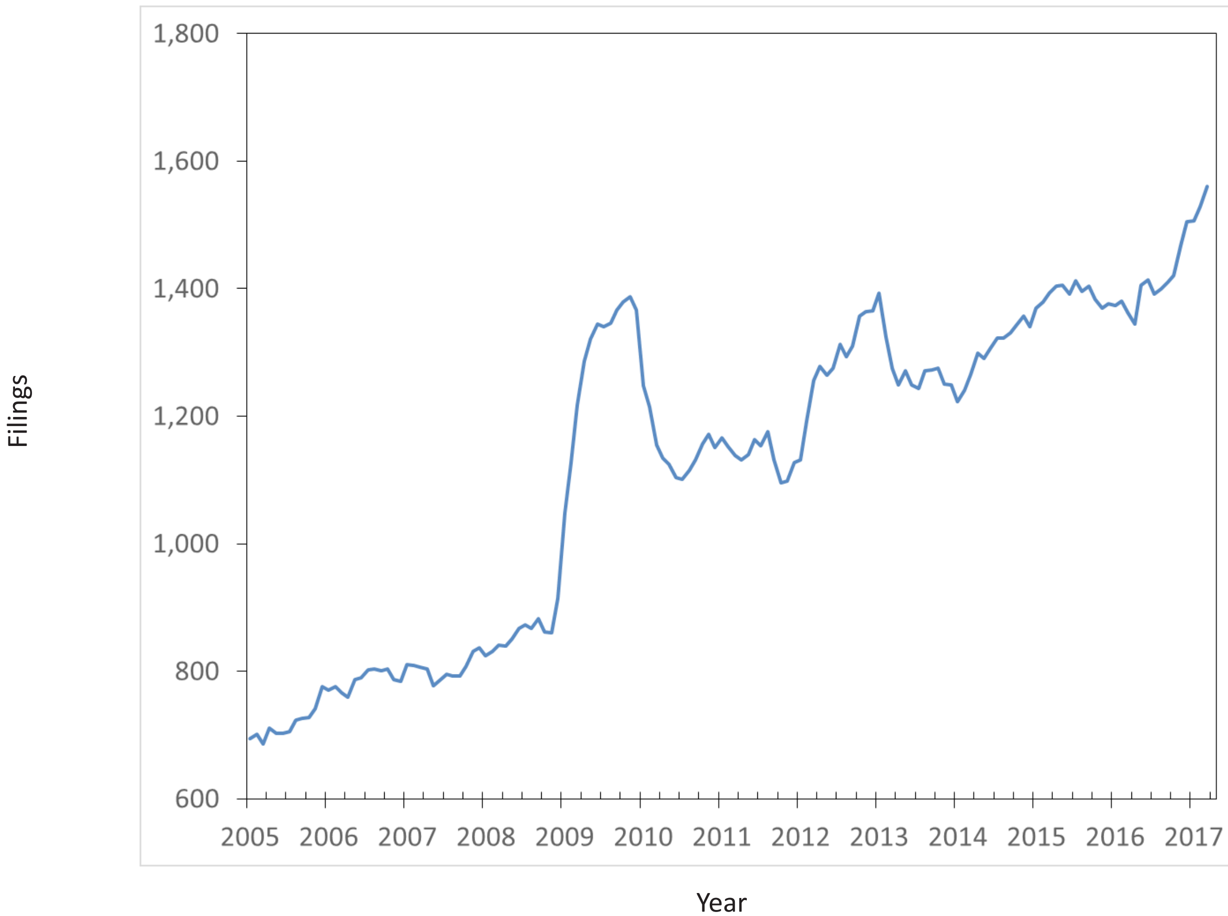
New Incorporations—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southwest Minnesota New Business Incorporations	56	56	40	56	61	8.9%

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 14.1 percent surge in new LLC filings in the most recent quarter.

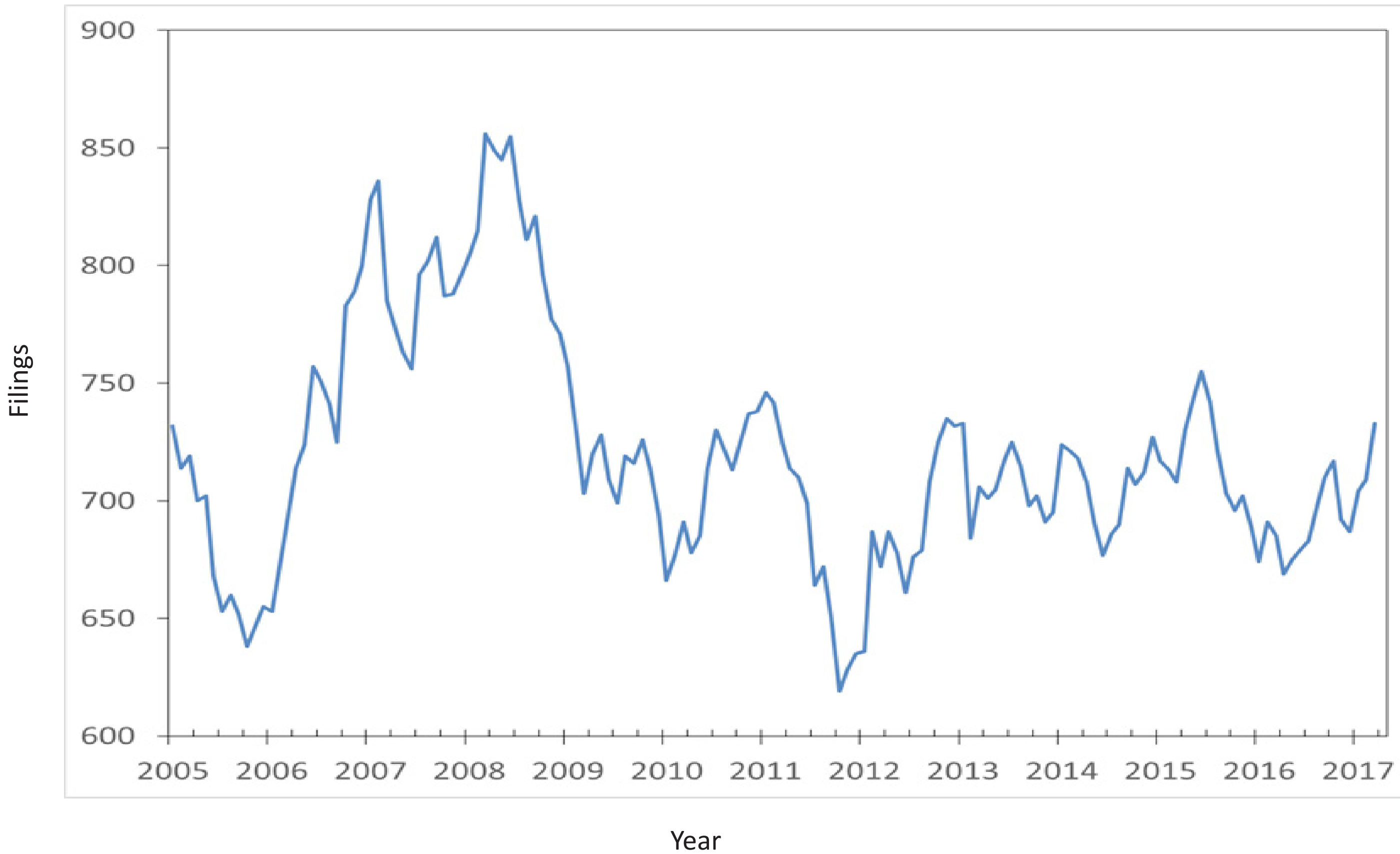
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	391	411	317	386	446	14.1%

First quarter assumed names jumped 24.2% compared to the same period in 2016. 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)

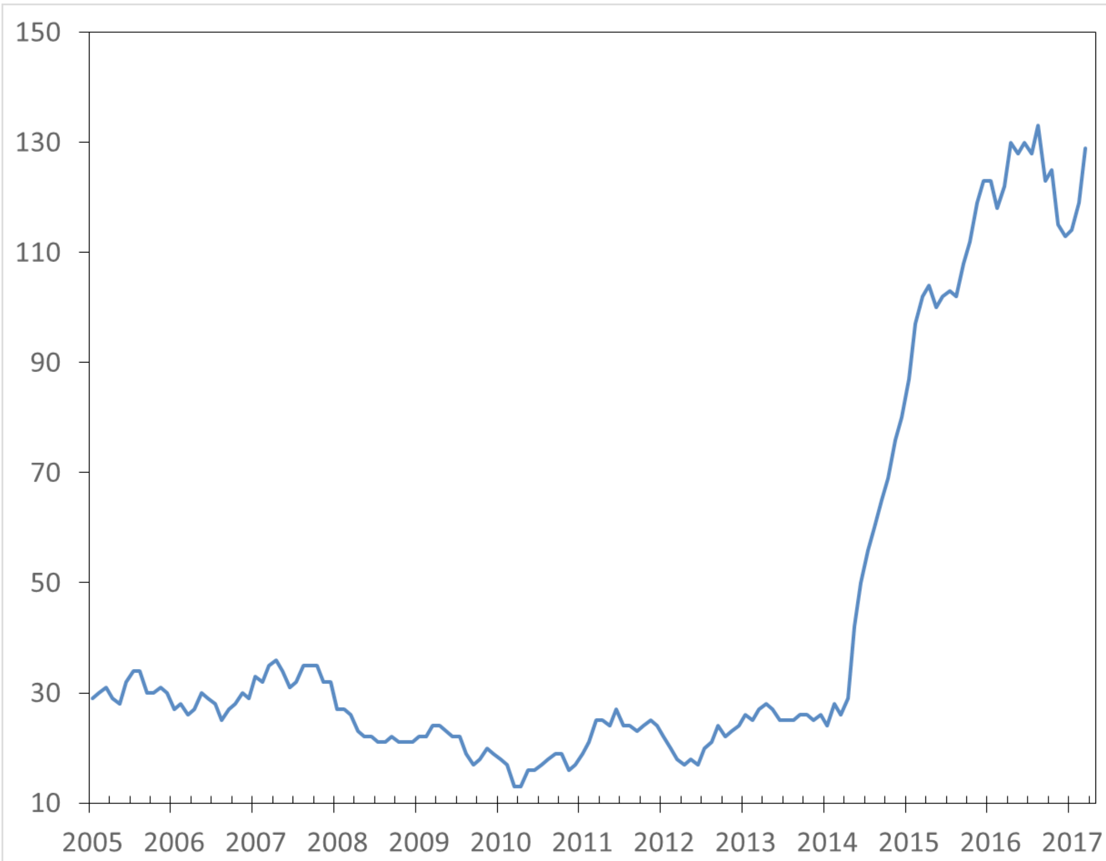


Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southwest Minnesota New Assumed Names	190	194	163	140	236	24.2%

There were 44 newly registered non-profits in the first quarter. This is sixteen more 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)

Filings



Year

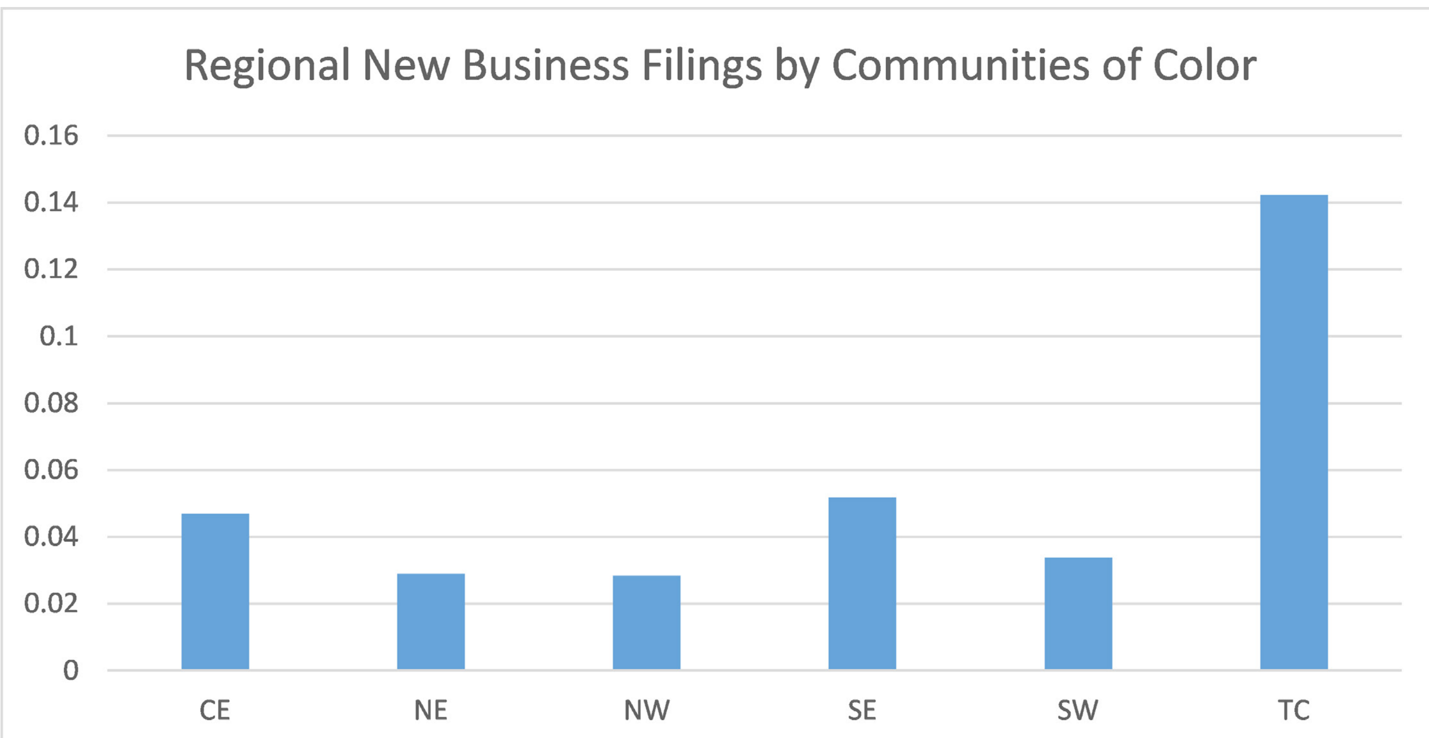
Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southwest Minnesota New Non-Profits	28	36	24	25	44	57.1%

Minnesota Business Snapshot Survey Results

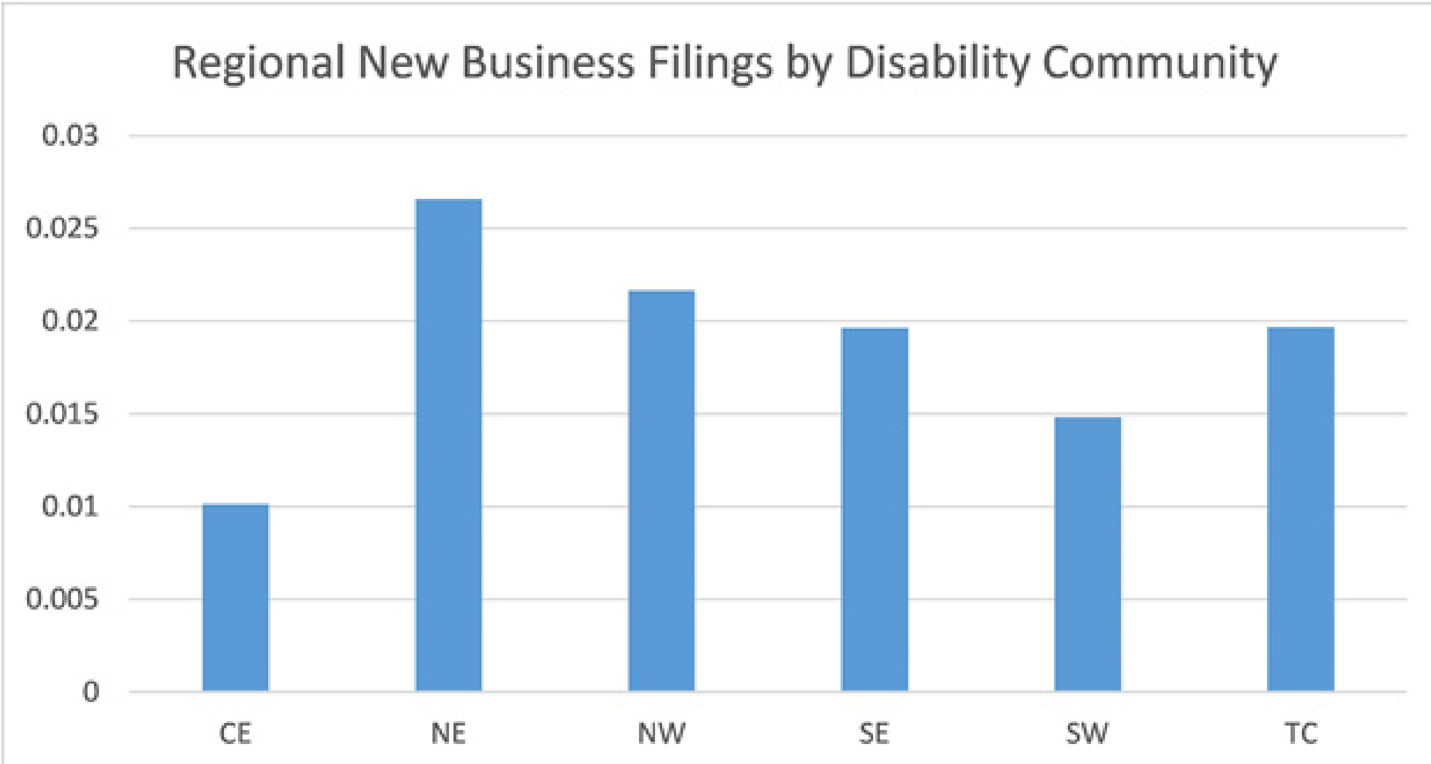
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot or MBS) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 the 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 Southwest Minnesota, slightly less than 60 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

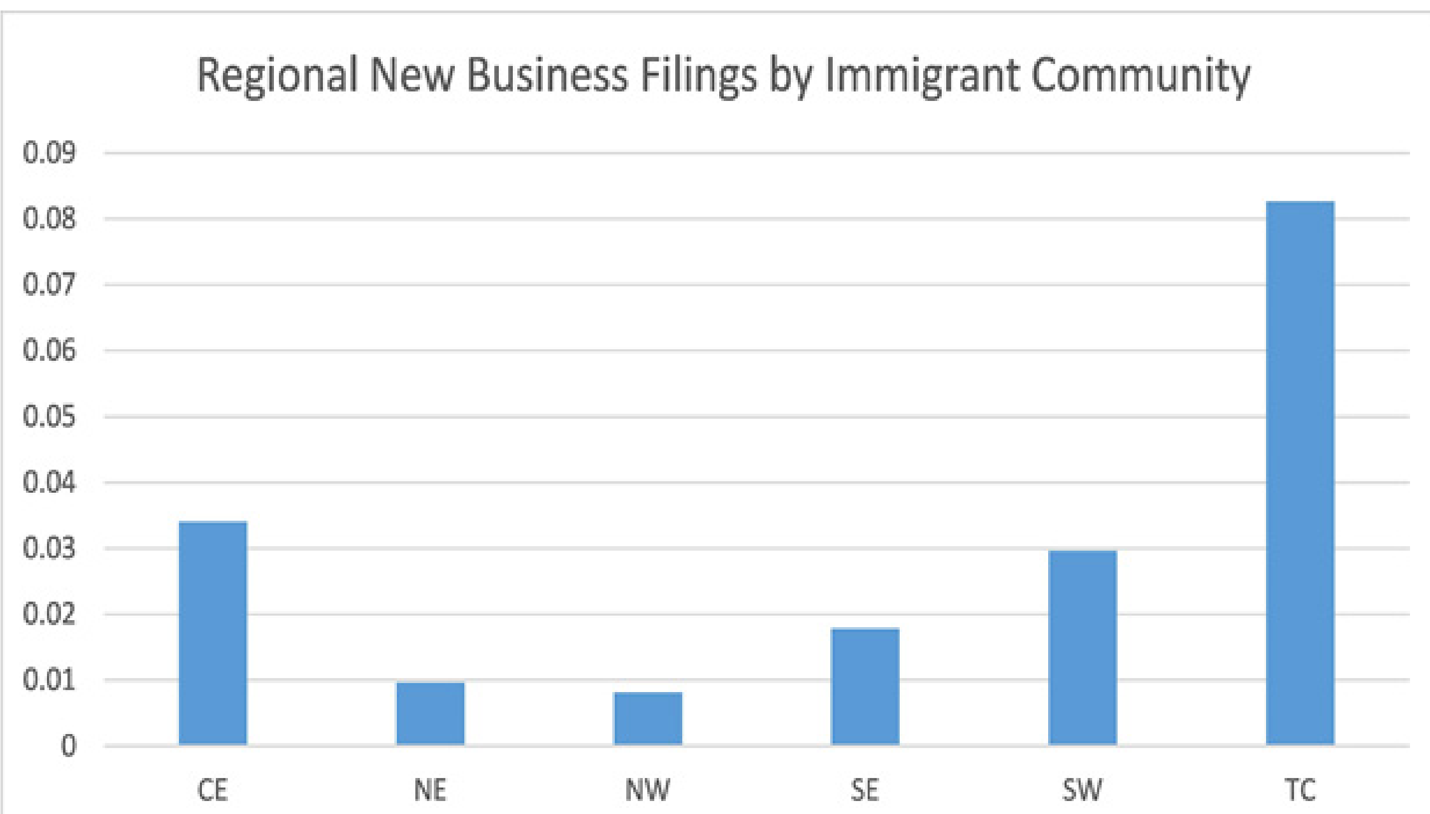
A little over 3 percent of those new filers completing the MBS from the Southwest Minnesota planning area report being from a community of color. This is a considerably lower percentage than in the Twin Cities and is lower than the central and southeast planning areas.



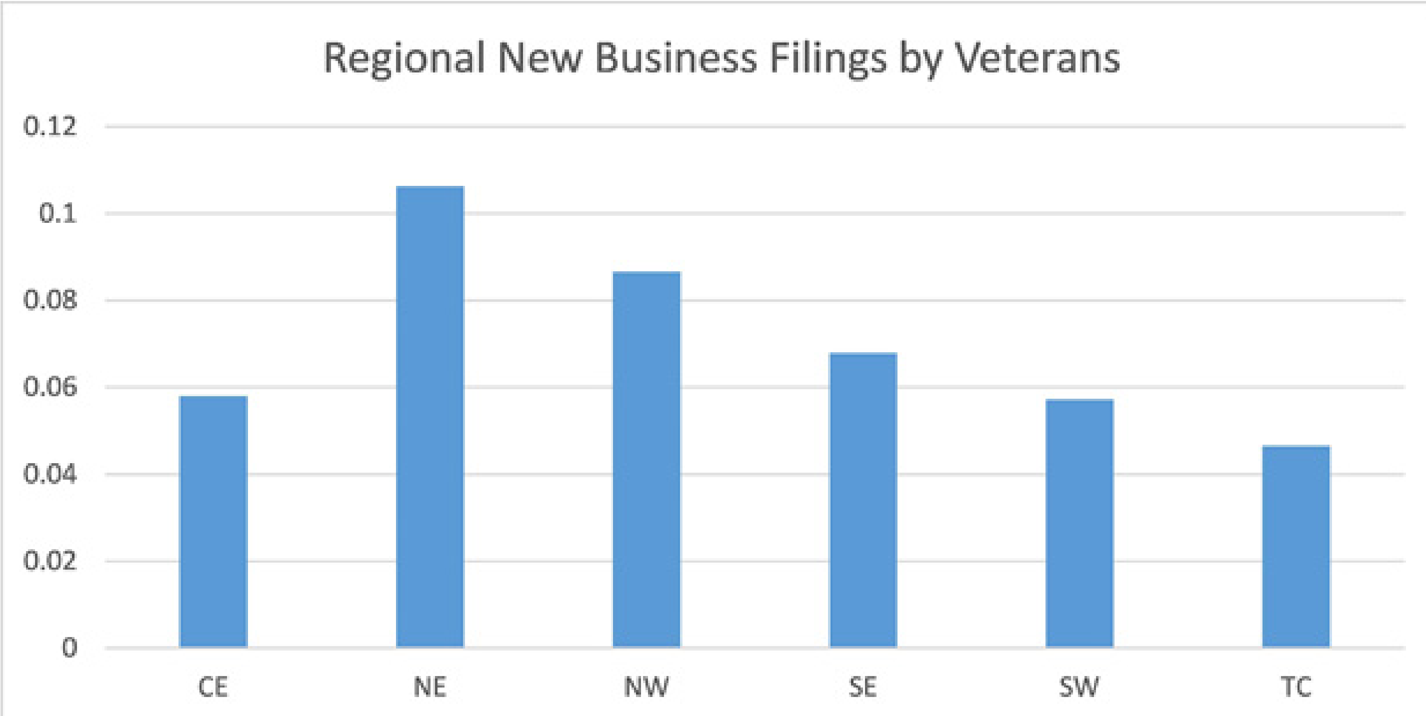
About 1.5 percent of Southwest Minnesota's new filers are from the disability community.



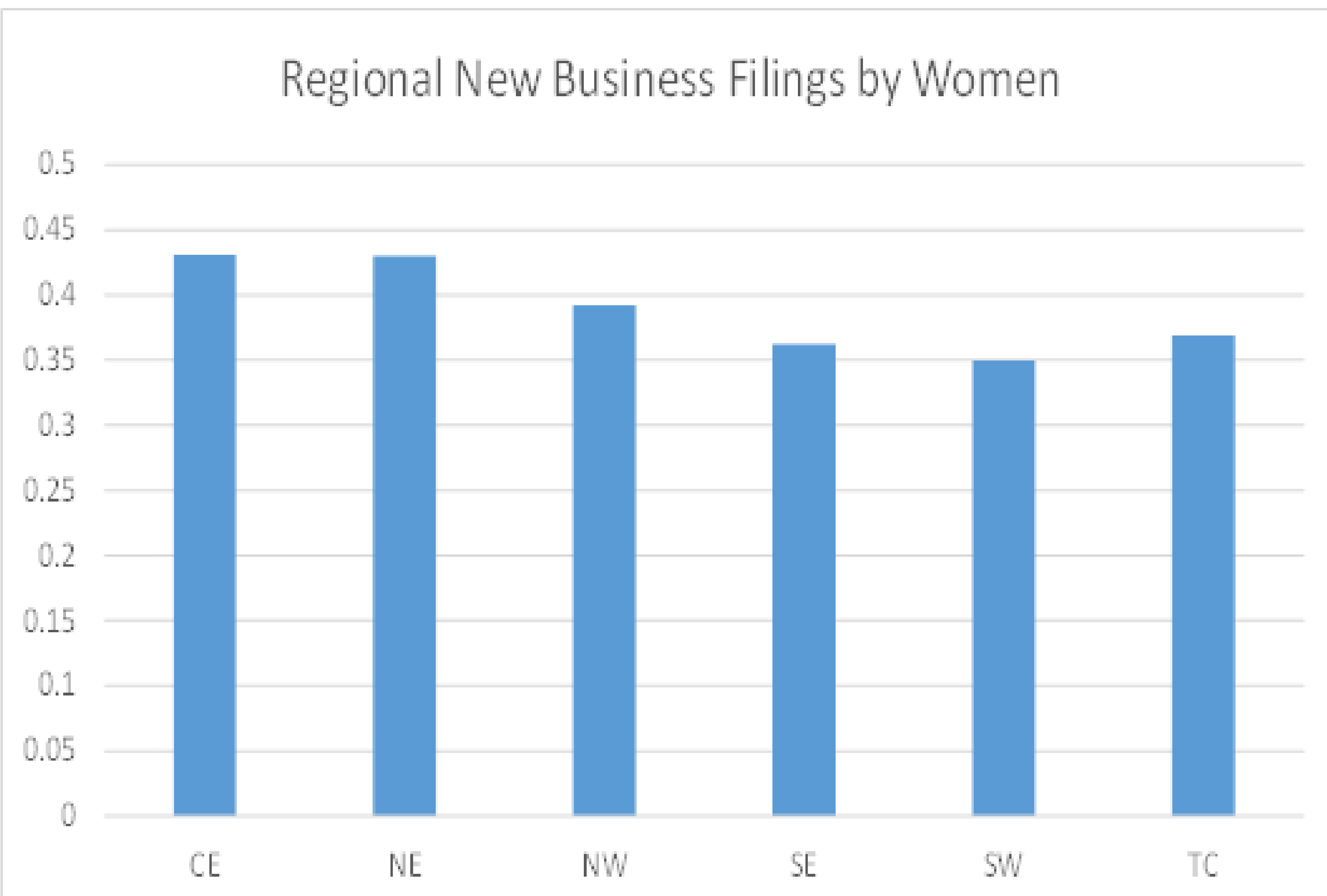
Three percent of new business filings in Southwest Minnesota come from the immigrant community. While this is a much lower percentage than in the Twin Cities, it is similar to the central planning area—which is the second ranked region for immigrant new business filings.



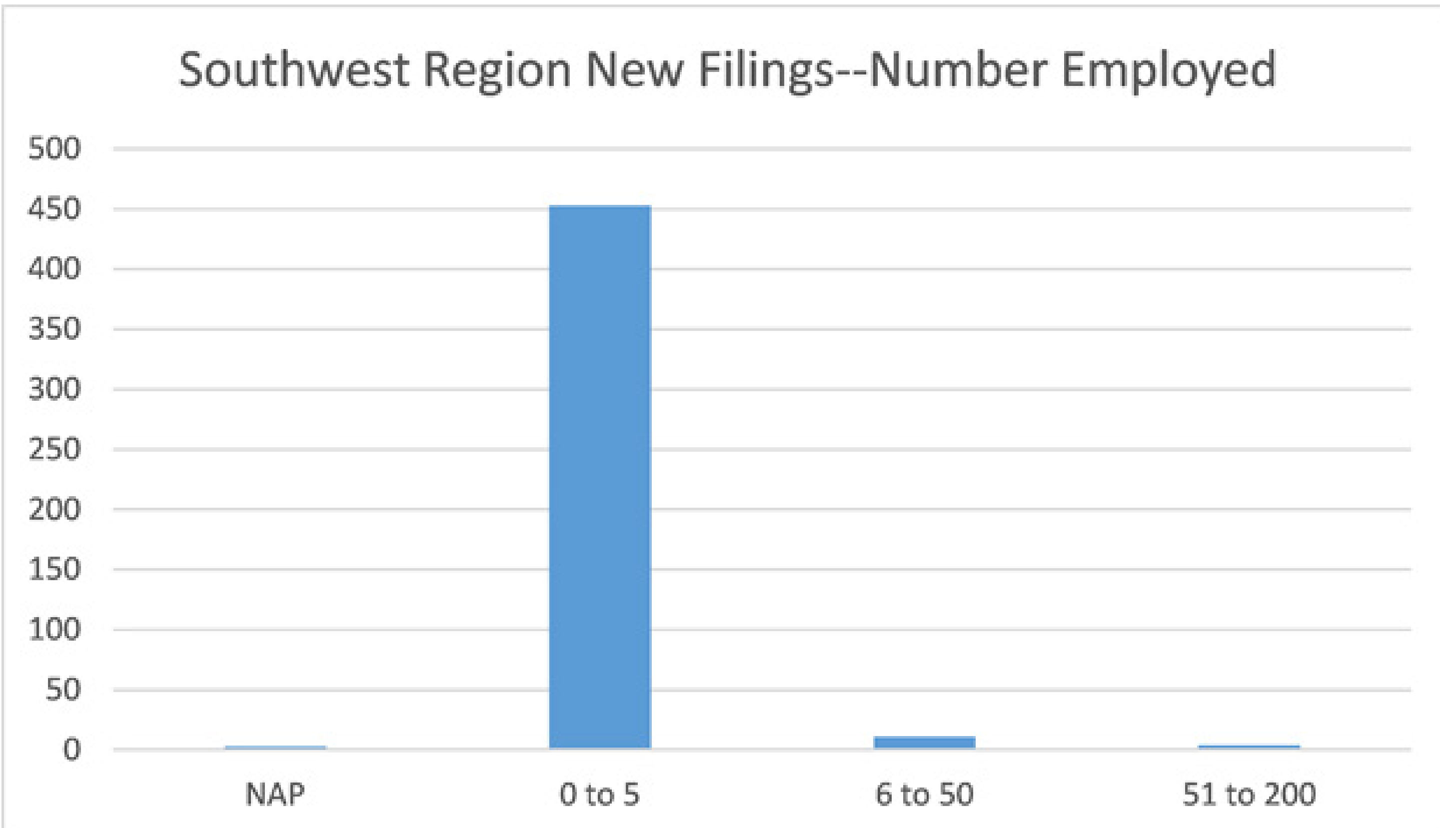
Almost 6 percent of new filings in Southwest Minnesota come from military veterans.



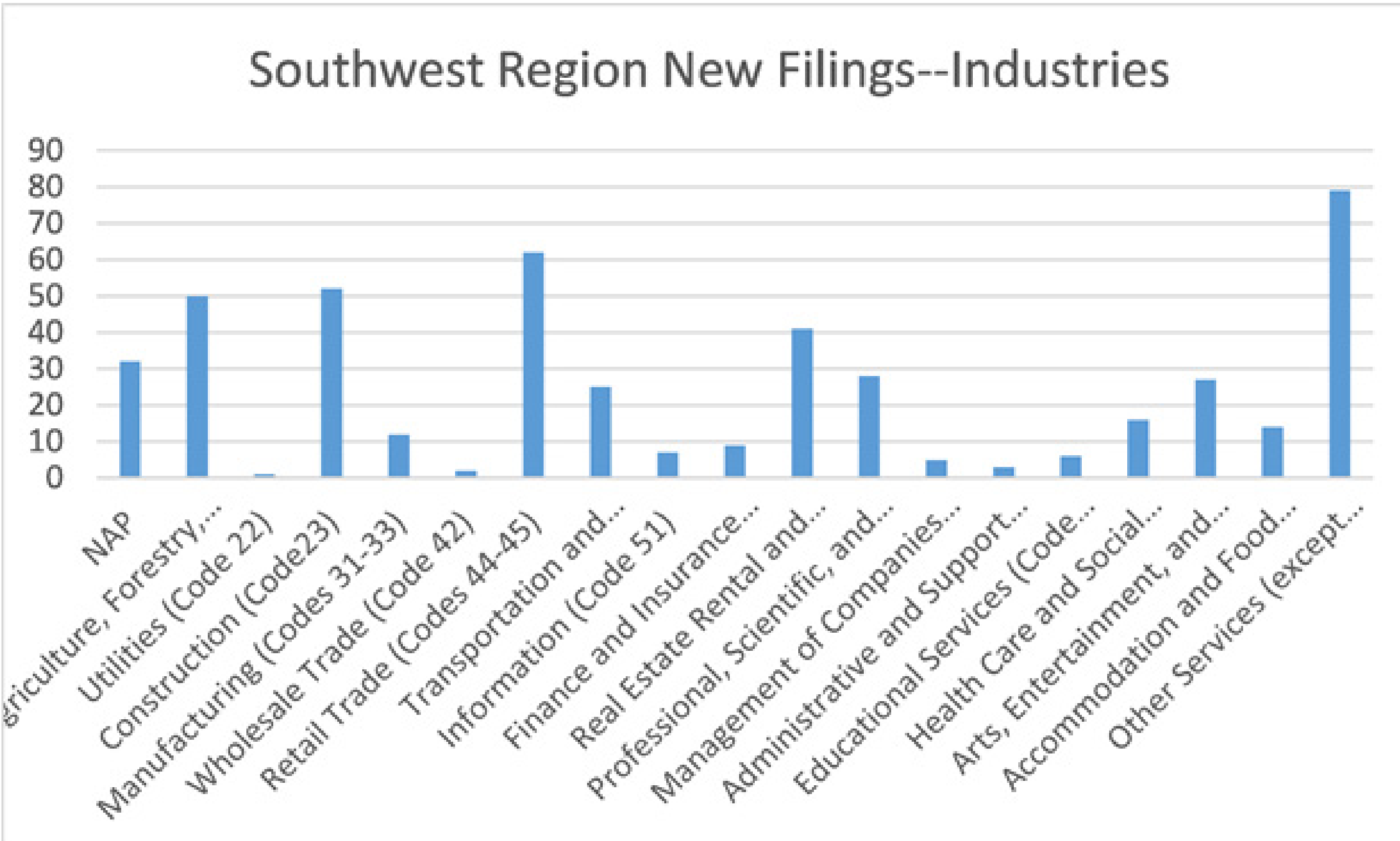
Woman owners represented 35 percent of the new business filings in Southwest Minnesota in the first quarter of 2017.



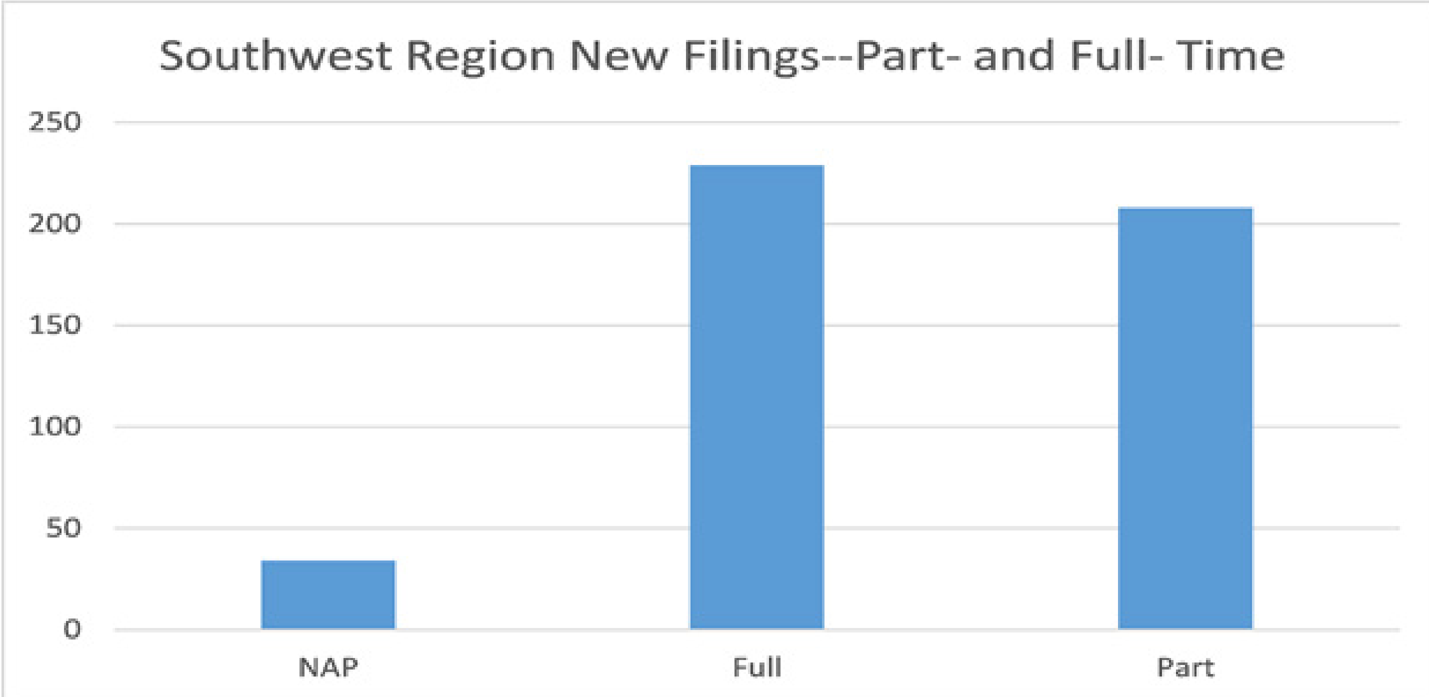
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by "NAP"—no answer provided), more than 1,000 responses were tallied to a question asking the new business filer 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.



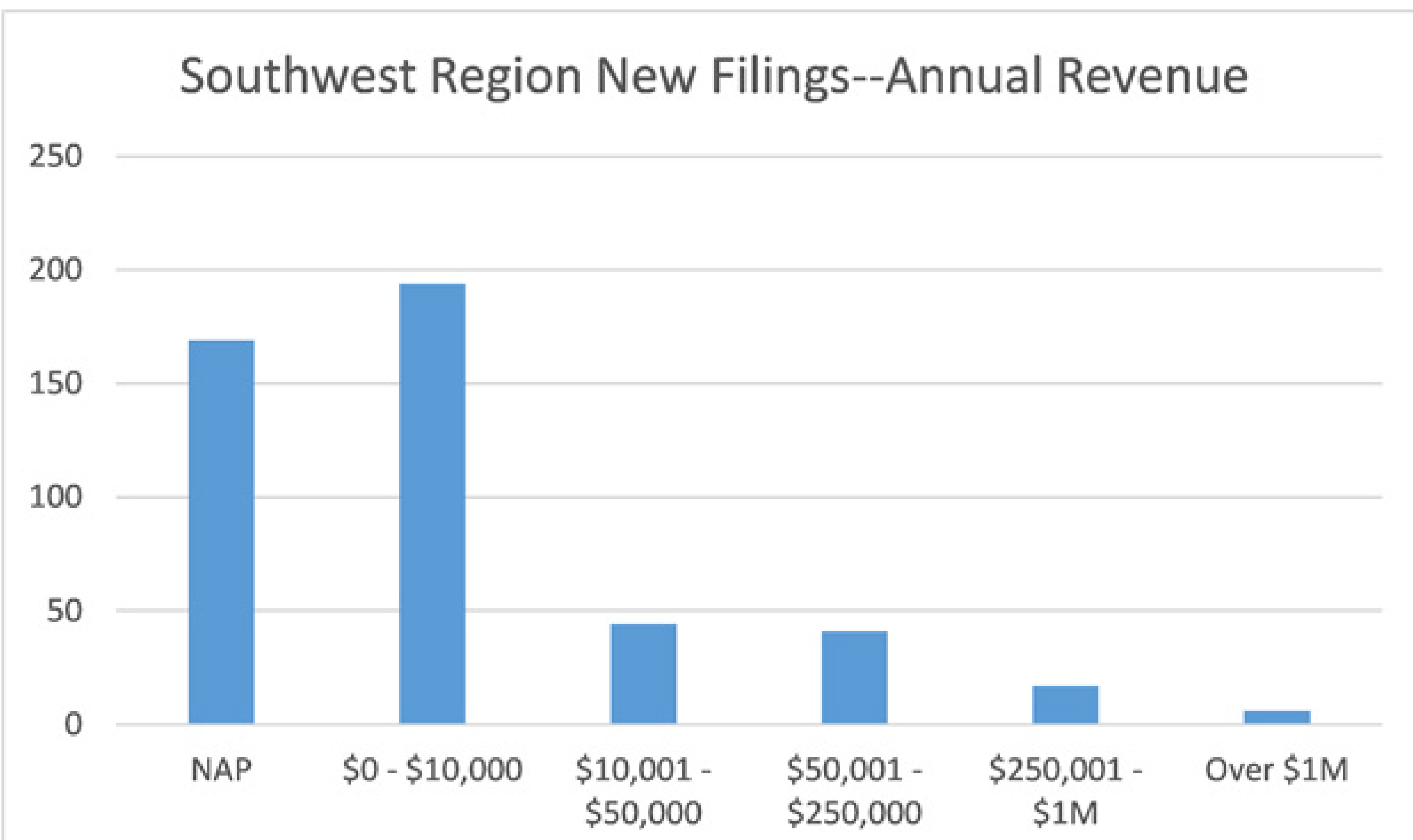
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, construction, retail trade, and "other services" lead the way. Transportation/warehousing, real estate/rental/leasing, professional/scientific/technical, and arts/entertainment/recreation are also well represented in the sample. Relatively few new businesses in Southwest Minnesota are entering the high employment education and health care sectors.



Forty-four percent of those submitting a new business filing in Southwest Minnesota in the first quarter of 2017 are part-time ventures.

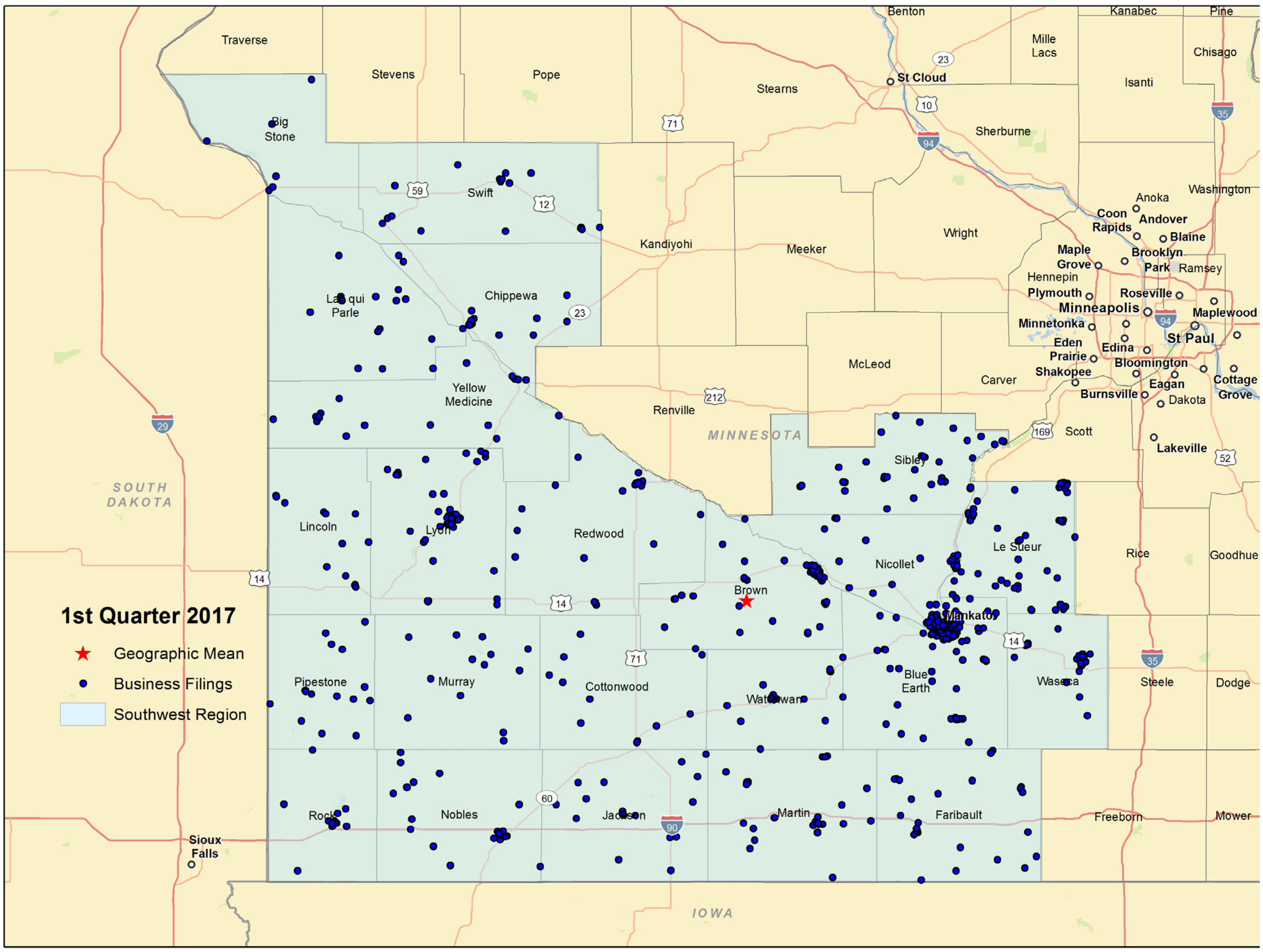


One hundred sixty-nine new filers in Southwest Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues less than $10,000. Sixty-four firms report annual revenues more than $50,000.



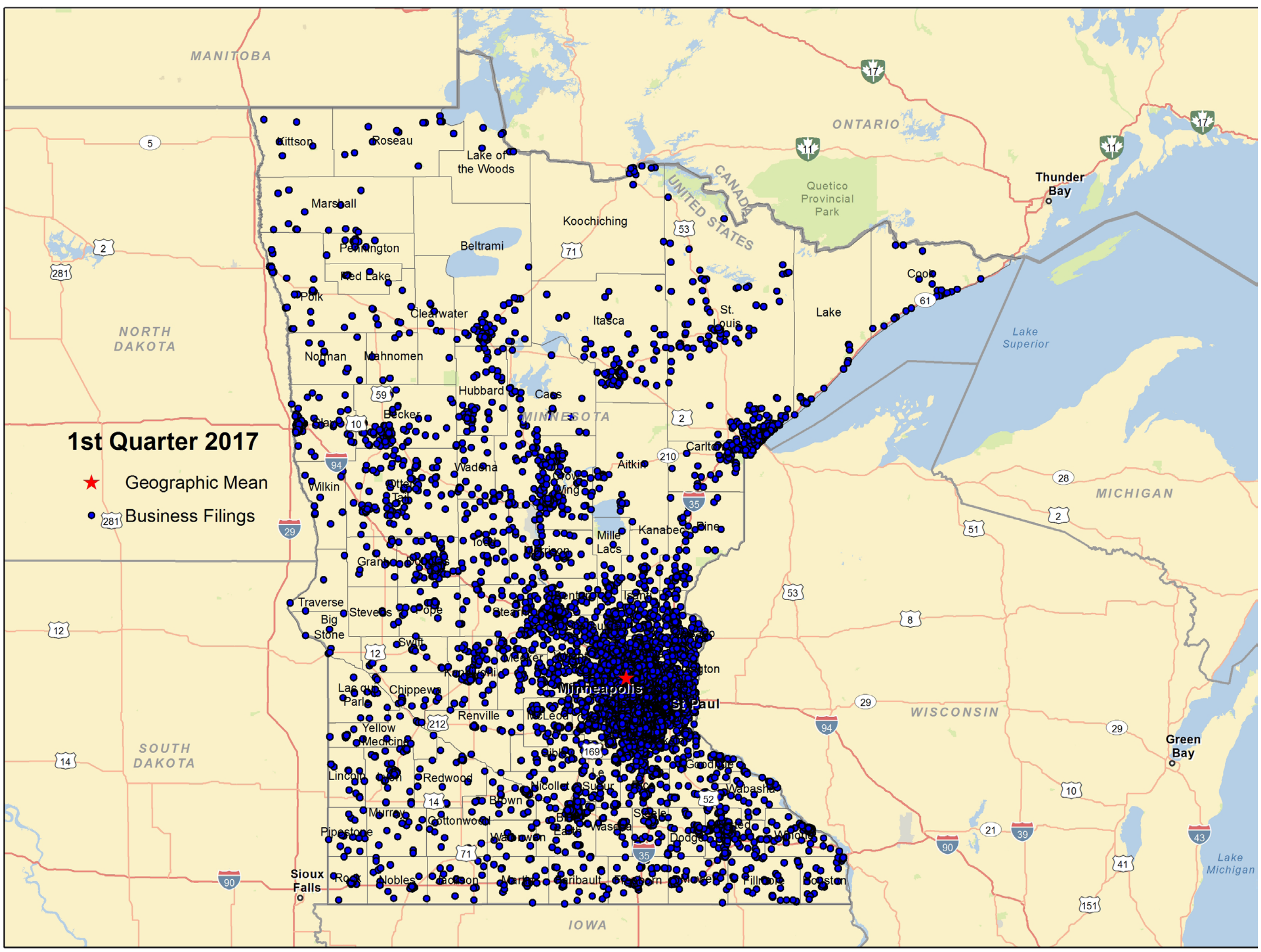
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the first quarter of 2017. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, New Ulm, 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 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

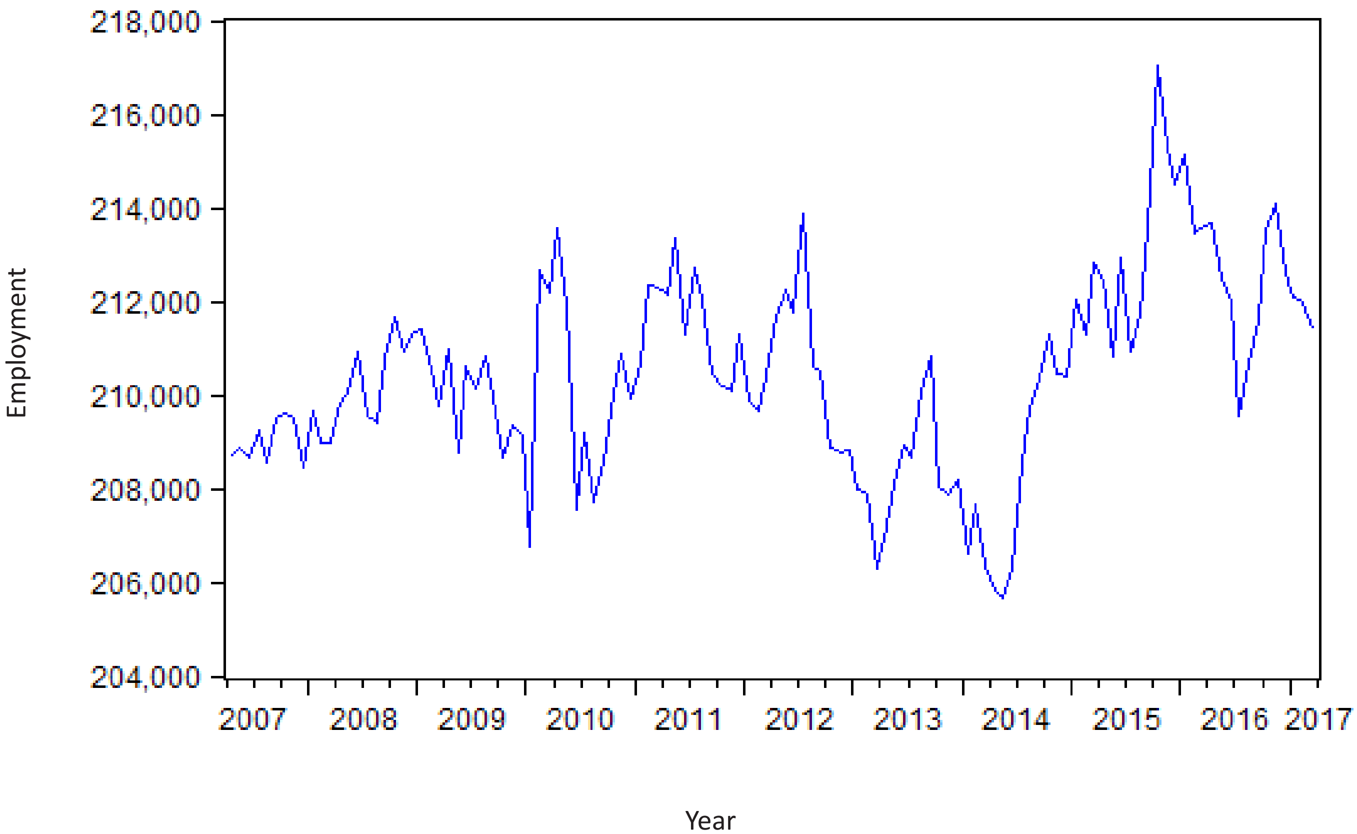


Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area fell by 1 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 then declined precipitously. It rebounded in mid-2016, but this quarter saw a return to the downward movement in this series.

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.

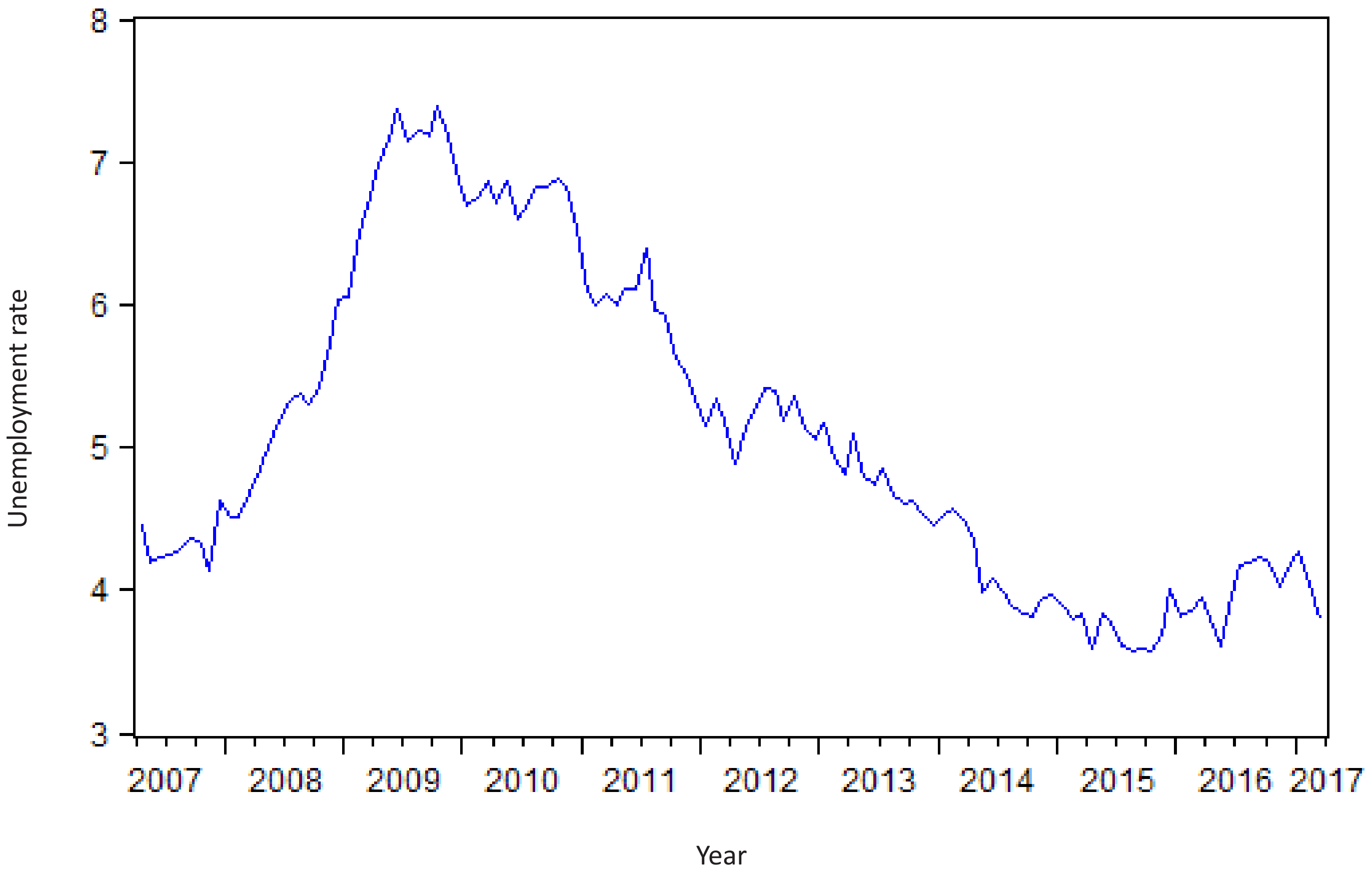
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	March 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Employment (Not seasonally adjusted)	213,003	216,642	215,956	213,181	210,717	208,827	210,863

The seasonally adjusted unemployment rate in Southwest Minnesota appears to have bottomed out in 2015. This seasonally adjusted rate inched up in 2016, but it declined in the first quarter of this year. The non-seasonally adjusted measure now stands at 4.7 percent — a decrease from the 4.9 percent rate recorded in March 2016.

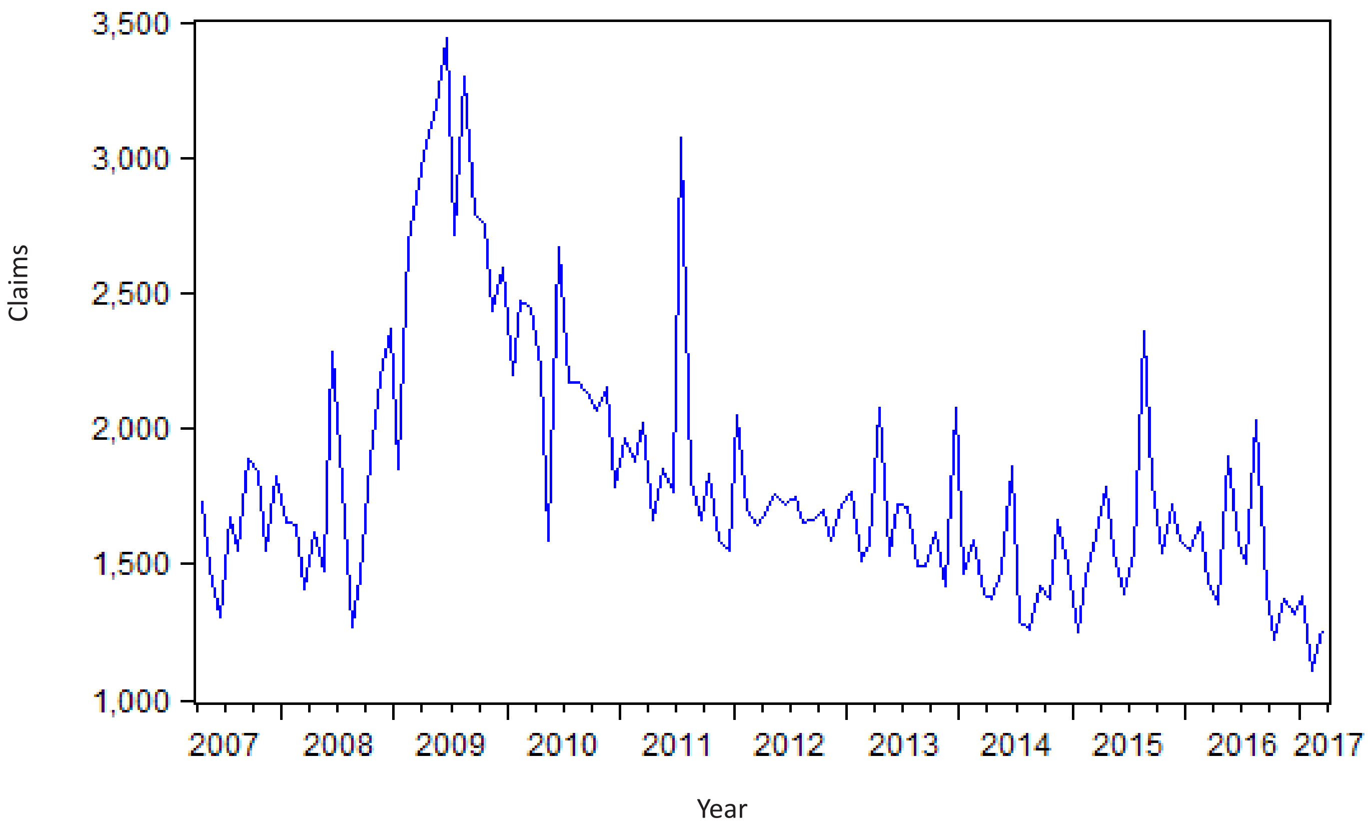
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	March 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Unemployment rate (not seasonally adjusted)	4.9%	3.4%	3.1%	4.2%	5.6%	5.1%	4.7%

New claims for unemployment insurance in March 2017 were 12.6 percent lower than one year earlier. The accompanying graph shows a seasonally adjusted series of initial jobless claims. This series drifted upward for several quarters beginning in the middle months of 2014, but it has declined since that time.

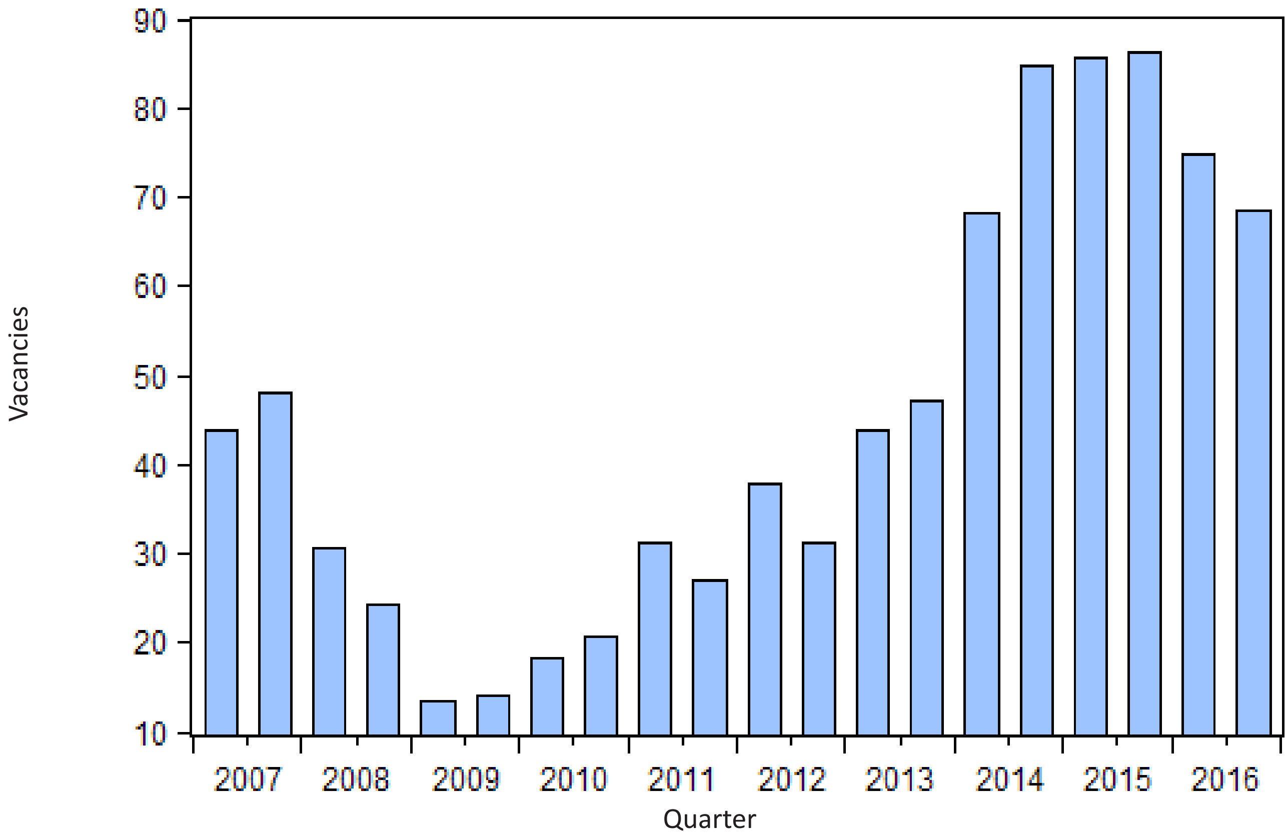
Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Southwest Minnesota Planning Area



Period	March 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Initial claims (Not seasonally adjusted)	1,181	950	2,303	2,784	1,814	878	1,032

The ratio of job vacancies per 100 unemployed remains elevated in Southwest Minnesota. With 79.36 job vacancies per 100 unemployed, the shortage of qualified workers continues to plague the region. Fortunately, the job vacancy ratio appears to have peaked out in the fourth quarter of 2015, and has since trended downward. Except for the Twin Cities and Southeast planning areas, this region's job vacancy ratio is higher than all other Minnesota planning areas.

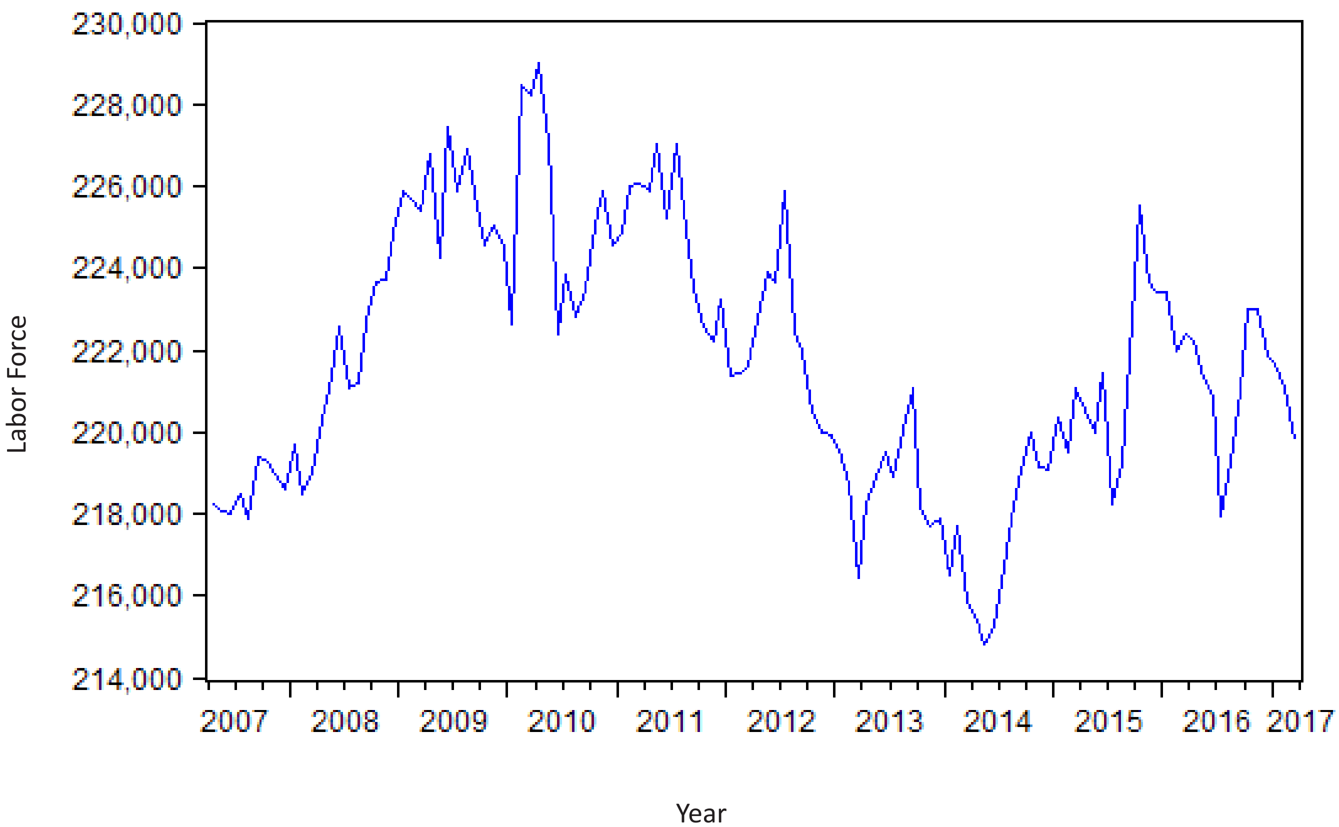
Job Vacancies per 100 Unemployed----Southwest Minnesota Planning Area



Quarter	2014:II	2014:IV	2015:II	2015:IV	2016:II	2016:IV
Job Vacancies per 100 Unemployed	73.89	97.74	90.1	96.27	80.73	79.36

The Southwest Minnesota labor force contracted by 1.2 percent over the year ending March 2017. As can be seen in the accompanying figure, the 12-month moving average of the planning area's labor force has fluctuated in recent quarters. It is now at the same level observed two years ago.

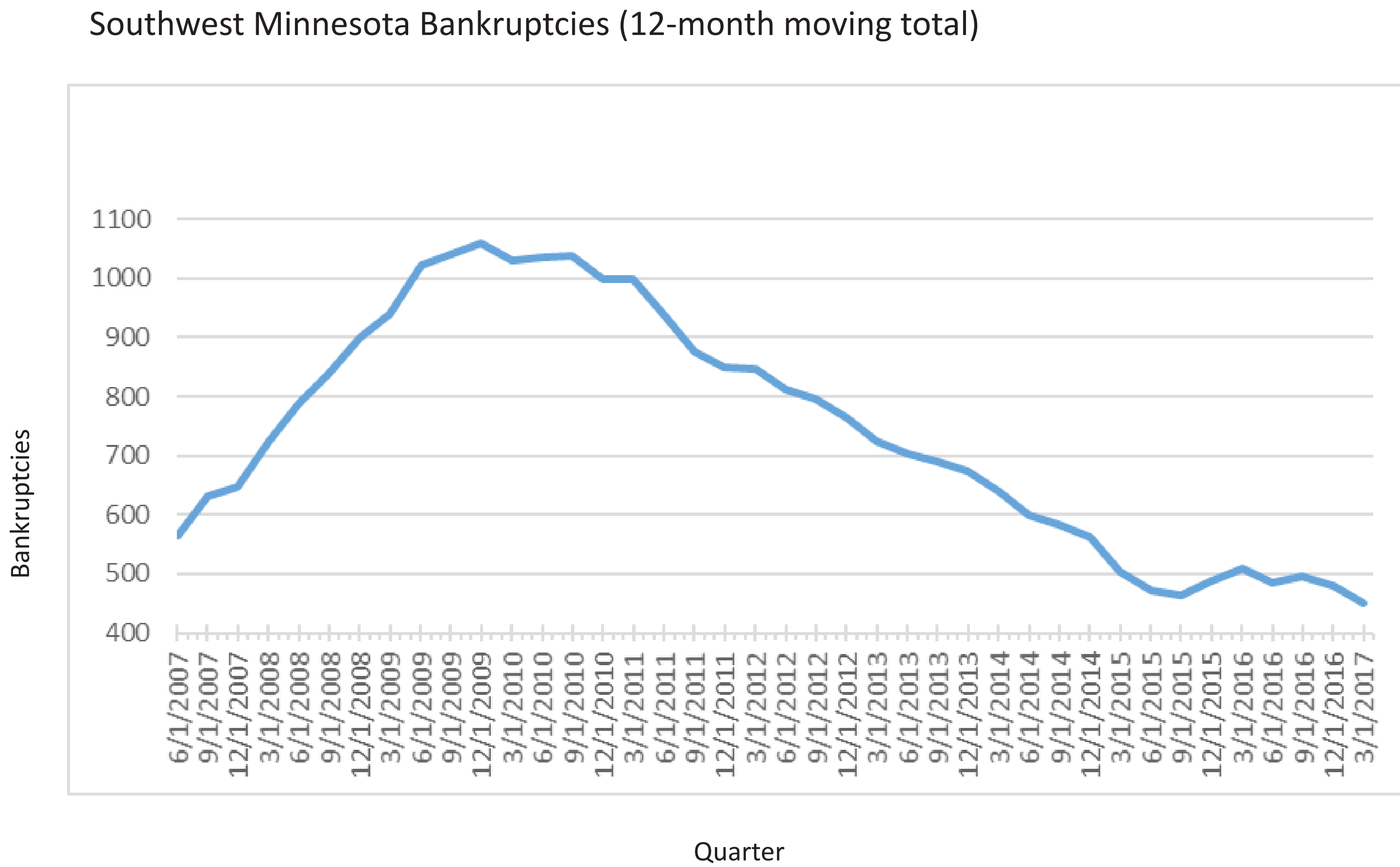
Labor Force—Southwest Minnesota Planning Area (12-month moving average)



Year (March)	2012	2013	2014	2015	2016	2017
Labor Force (Not seasonally adjusted)	223,224	218,088	217,484	222,674	223,982	221,352

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 flattening out toward the end of 2015. With 451 bankruptcies over the past twelve months, this series has once again begun to decline.



Year (First Quarter)	2012	2013	2014	2015	2016	2017
Annual Bankruptcies (Not seasonally adjusted)	847	725	639	504	510	451

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	March 2017 (m)	57,571	57,742	-0.3% ↓	1.0%
Goods-Producing Employment	March 2017 (m)	9,615	9,377	2.5% ↑	-0.5%
Average Weekly Work Hours - Private Sector	March 2017 (m)	30.0	29.9	0.3% ↑	32.1
Average Earnings Per Hour - Private Sector	March 2017 (m)	$23.90	$23.00	3.9% ↑	0.4%
Unemployment Rate	March 2017 (m)	3.4%	3.5%	NA ↓	4.3%
Labor Force	March 2017 (m)	60,481	61,182	-1.1% ↓	0.7%
Initial Jobless Claims	March 2017 (m)	233	353	-34.0% ↓	NA
Business Formation					
Total New Business Filings	First Quarter 2017 (q)	214	200	7.0% ↑	165 (since 2000)
New Business Incorporations	First Quarter 2017 (q)	17	10	70.0% ↑	26 (since 2000)
New Limited Liability Companies	First Quarter 2017 (q)	138	117	17.9% ↑	78 (since 2000)
New Assumed Names	First Quarter 2017 (q)	50	62	-19.4% ↓	54 (since 2000)
New Non-profits	First Quarter 2017 (q)	9	11	-18.2% ↓	7 (since 2000)
Mankato / North Mankato Residential Building Permit Valuation, in thousands	March 2017 (m)	5,092	2,642	92.7% ↑	NA
Mankato / North Mankato Cost of Living Index	Annual 2016	92.9	94.4	-1.6% ↓	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 decreased and the labor force contracted over the year ending March 2017. However, the performance of other economic indicators in Mankato was quite favorable. For example, initial jobless claims fell, new business filings rose, the relative cost of living declined, average weekly work hours increased, the unemployment rate fell, average hourly earnings rose, and the value of residential building permits surged.

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 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.

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