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Southeast Minnesota Economic and Business Conditions Report - Second Quarter 2017

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Southeast Minnesota
Economic and Business Conditions Report
Second 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 Southeast Minnesota Planning Area consists of 11 counties:
Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona.

Office of the Minnesota
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School of Public Affairs
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EXECUTIVE SUMMARY

Steady economic growth in Southeast Minnesota is expected to continue over the next several months according to the most recent prediction of the Southeast Minnesota Index of Leading Economic Indicators (LEI). After a quarter in which the LEI experienced a revised 11.83 point increase, the Southeast Minnesota leading index paused, falling 1.01 points in the second quarter of 2017. Four components of the LEI had negative readings in the second quarter. A rise in initial claims for unemployment benefits, a smaller number of residential building permits in Rochester, decreased new filings of incorporation and LLC in the Southeast Minnesota planning area, and softer consumer sentiment all weighed on the LEI. Improvement in the Minnesota Business Conditions Index (which serves as a general measure of state business conditions) had a favorable impact on the leading index.

There were 886 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the second quarter of 2017 — representing a 2.7 percent decrease from one year ago. There were 47 new regional business incorporations in the second quarter, a 35.6 percent reduction from prior year levels. At a level of 555, second quarter new limited liability company (LLC) filings in Southeast Minnesota were 3.5 percent higher than the second quarter of 2016. With 245 filings, new assumed name activity was 4.3 percent lower than the same quarter last year. There were 7 fewer new filings for Southeast Minnesota non-profits over the last three months compared to one year earlier.

Sixty-three percent of new business filers in the Southeast Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's second quarter. Results of this voluntary survey indicate that more than 5.5 percent of new filers come from communities of color and a similar percentage are veterans. One percent of new filers come from the disability community and 5 percent of new filings are made by the immigrant community. Thirty-seven percent of new business filings in Southeast Minnesota in this year's second quarter were initiated by women. MBS results also show that most new business filers in Southeast Minnesota have between 0 and $10,000 in annual gross revenues (although 56 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Southeast Minnesota are construction, retail trade, and other services. Employment levels at most new firms are between 0 and 5 workers, and 46 percent of those starting a new business consider this a part-time activity.

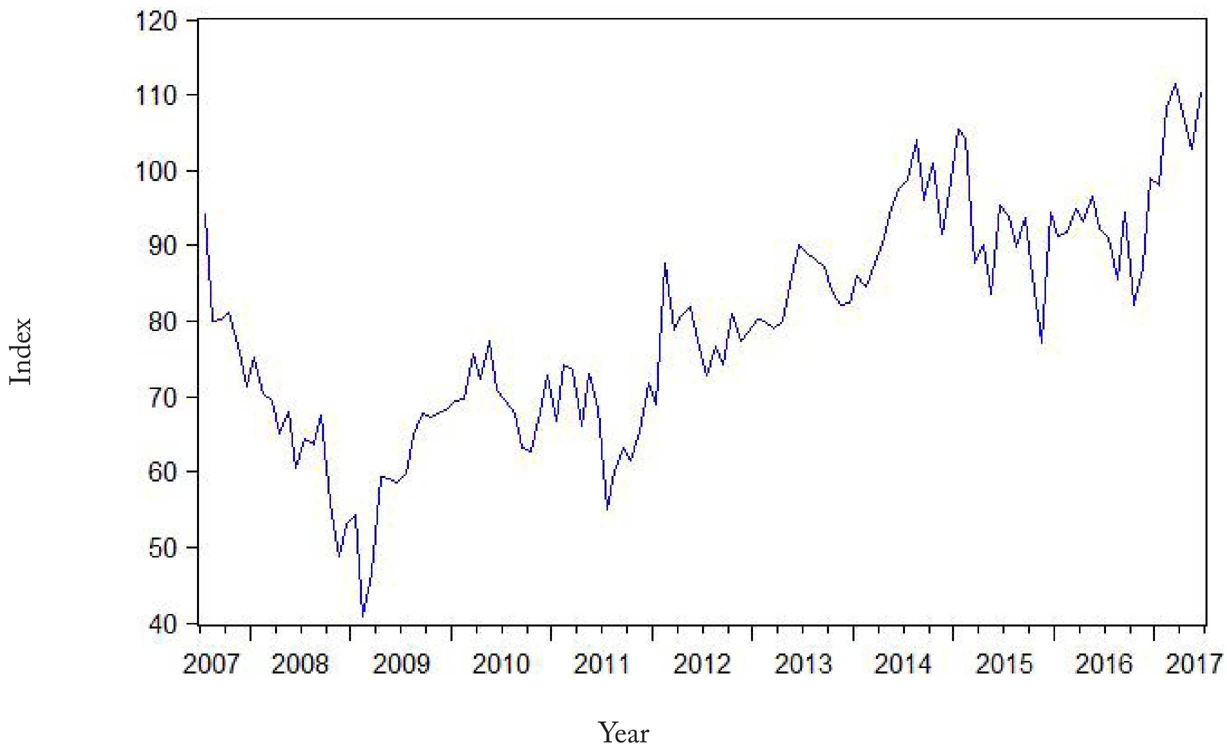
Employment of Southeast Minnesota residents rose by 1 percent over the year ending June 2017. The regional unemployment rate was 3.4 percent in June, lower than the 3.6 percent level recorded one year earlier. Initial claims for unemployment insurance in June 2017 declined by 13.8 percent from one year earlier and the Southeast Minnesota labor force increased by 0.8 percent. Average weekly wages flattened out in Southeast Minnesota and the planning area's annual bankruptcies increased slightly.

Data from the Rochester area—the largest market in Southeast Minnesota—were generally favorable, with an increase in overall employment (along with employment growth in the key health/education sector), a rise in the value of residential building permits, a lower unemployment rate, a growing labor force, and increased hourly earnings having a positive impact on the outlook. On the negative side was lower overall new business filings (including lower new incorporations, assumed names, and non-profits), a decline in manufacturing employment, and lower weekly work hours.

SOUTHEAST MINNESOTA LEADING ECONOMIC INDICATORS INDEX

The SCSU Southeast 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 finished 1.01 points lower in the second quarter, but is still 19.6 percent above its level of one year earlier. As can be seen in the accompanying figure, the LEI had been on the rise in recent quarters, but flattened out in the second quarter. Overall fundamentals in the Southeast economy appear to remain strong, so this one quarter pause in the region's upward trend is not likely to persist.

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



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2017	Contribution to LEI, 1st quarter 2017
Minnesota Business Conditions Index	3.44	6.01
Southeast Minnesota initial claims for unemployment insurance	-0.14	1.93
Southeast Minnesota new filings of incorporation and LLCs	-2.03	1.90
Rochester MSA residential building permits	-1.17	2.78
Consumer Sentiment, University of Michigan	-1.11	-0.79
TOTAL CHANGE	**-1.01**	**11.83**

Four of five components of the LEI had a negative reading in the second quarter. Recent improvement in the Minnesota Business Conditions survey (conducted by Creighton University), which serves as a general measure of statewide business conditions, was the one indicator with a positive value in this quarter's index. Higher initial claims for unemployment insurance in recent months, decreased new filings of incorporation and LLC in the Southeast Minnesota planning area, lower Rochester metro area residential building permits, and softer consumer sentiment all weighed on the index in the most recent quarter.

SCSU Southeast Minnesota Leading Economic Indicators Index

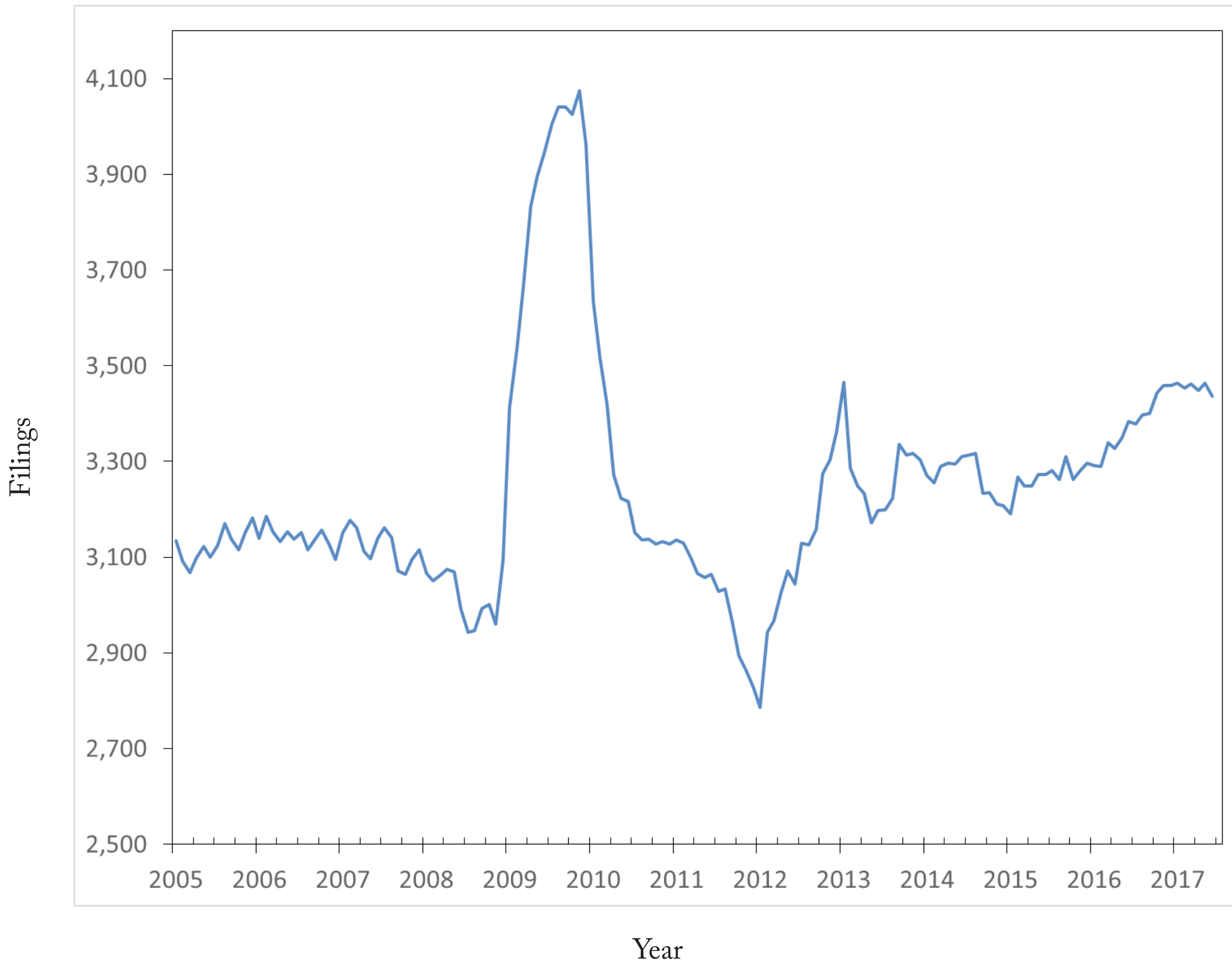
	2016	2015	Percentage change
Minnesota Business Conditions Index June	68	51.6	31.8%
Southeast Minnesota initial claims for unemployment insurance June	1,120	1,299	-13.8%
Southeast Minnesota new filings of incorporation and LLCs Second Quarter	602	609	-1.1%
Rochester MSA single-family building permits June	57	44	29.5%
Consumer Sentiment, University of Michigan June	95.1	93.5	1.7%
Southeast Minnesota Leading Economic Indicators Index June (December 1999 = 100)	110.4	92.3	19.6%

SOUTHEAST MINNESOTA BUSINESS FILINGS

Second quarter new business filings fell 2.7 percent to a level of 886. As can be seen in the accompanying graph, the 12-month moving total of new business filings in Southeast Minnesota had trended upward since the end of 2014, but the series has flattened out in 2017. The abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier (resembling a shark fin) is related to considerably higher filings in the construction industry due to legal and regulatory issues and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

Note: The graphs in this section show the 12-month moving total for the various new business filings in Southeast Minnesota that are registered with the Office of the Minnesota Secretary of State. Doing so removes seasonal patterns in the data.

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



Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Southeast Minnesota Total New Business Filings	911	821	798	932	886	-2.7%

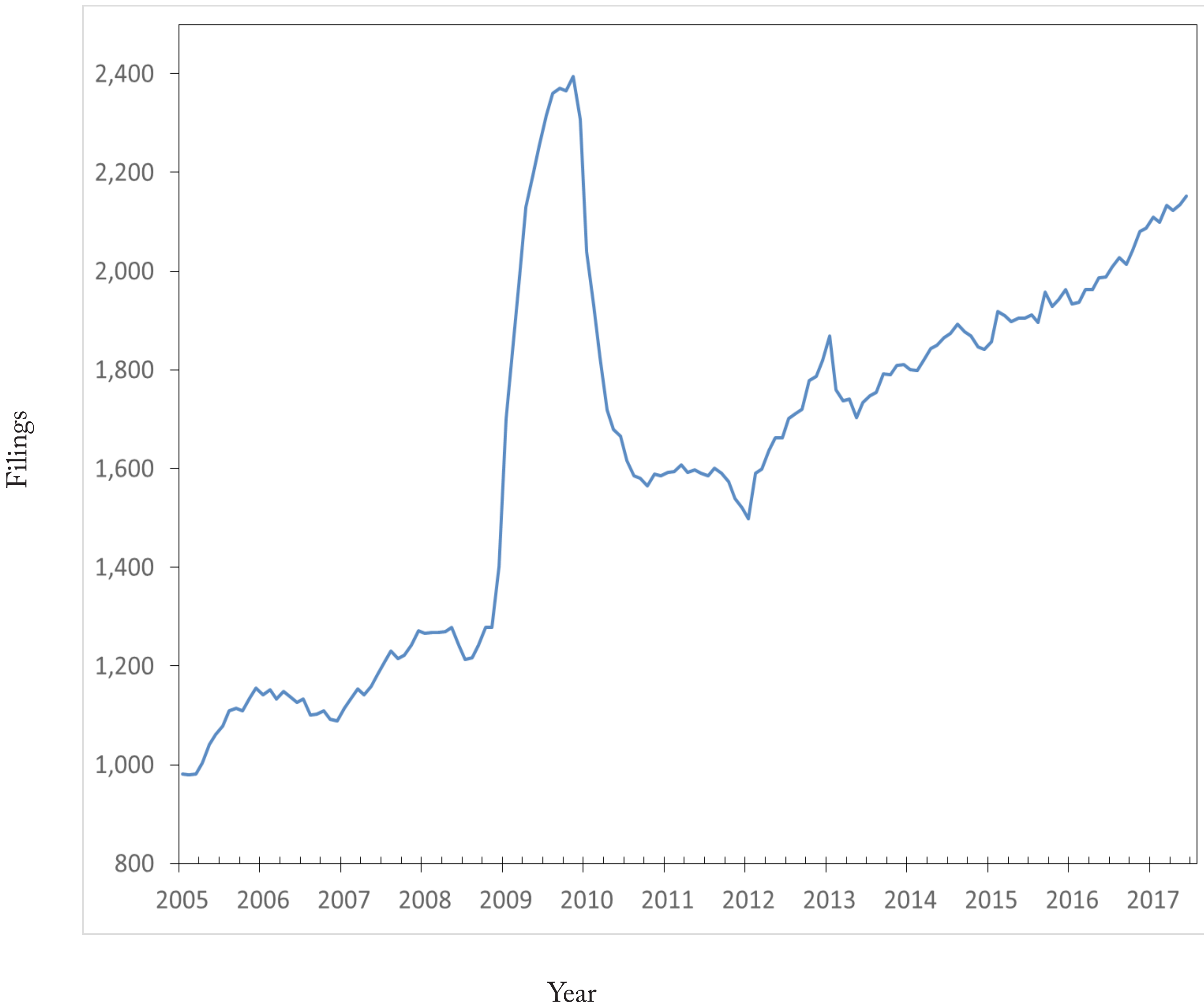
New business incorporations have slowly trended downward in Southeast Minnesota since the beginning of 2015. New incorporations fell 35.6 percent from year earlier levels in the most recent quarter.

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

Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Southeast Minnesota New Business Incorporations	73	65	65	70	47	-35.6%

There has been a move in Southeast Minnesota, as in all of the state, away from the traditional incorporation form of business organization towards the LLC. While new business incorporations remain an important indicator of new business formation in Southeast Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southeast Minnesota. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2005. Second quarter LLC filings rose by 3.5 percent over their year earlier level.

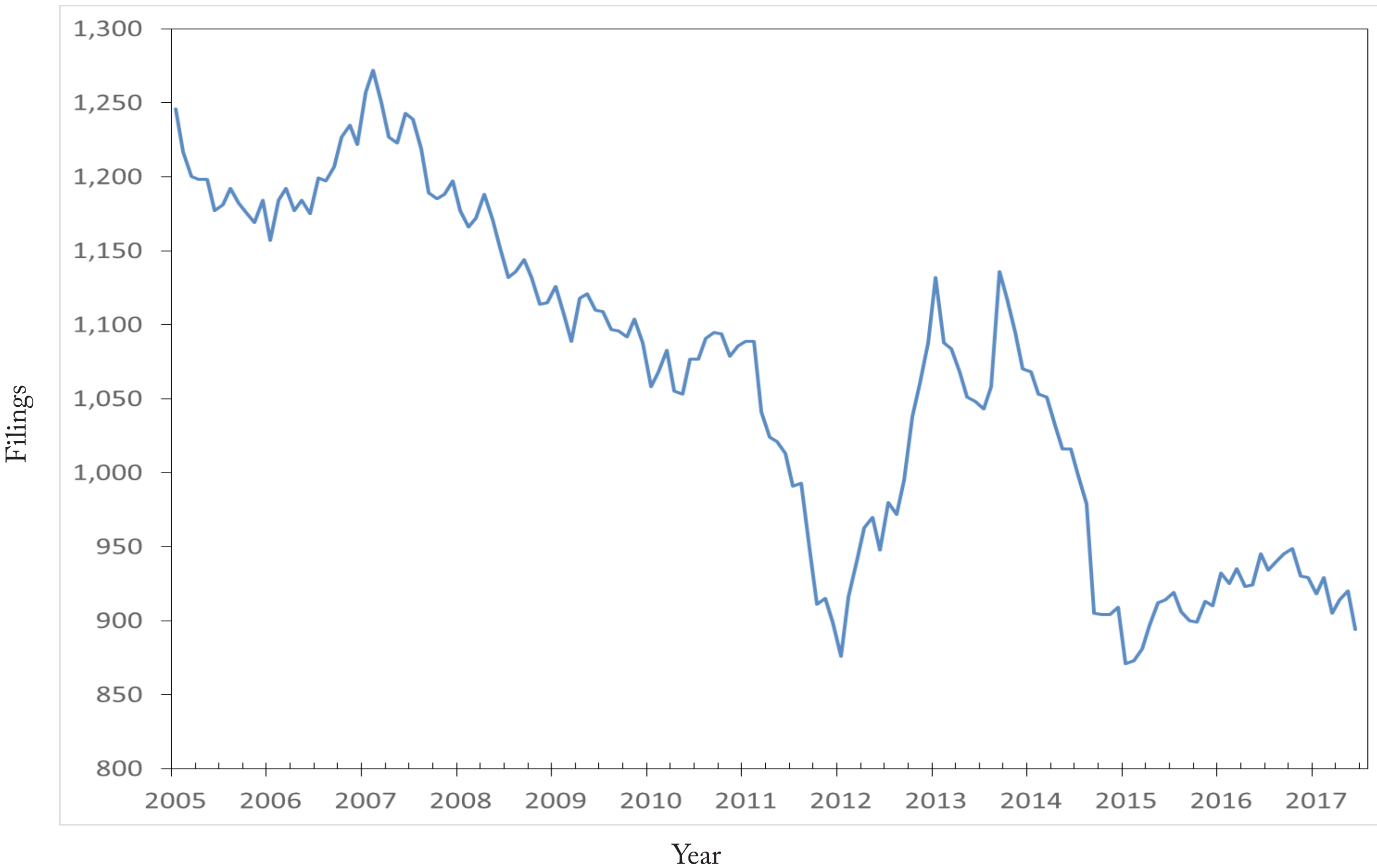
New Limited Liability Companies—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Southeast Minnesota New Limited Liability Companies	536	519	493	585	555	3.5%

On a year over year basis, assumed names, which include sole proprietors or organizations that do not have limited liability, declined in Southeast Minnesota in the second quarter. As can be seen in the accompanying graph, after increasing in 2012, this series moved downward until the beginning of 2015, at which time it began to slowly trend upward. However, the series has now begun to trend downward in recent quarters.

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

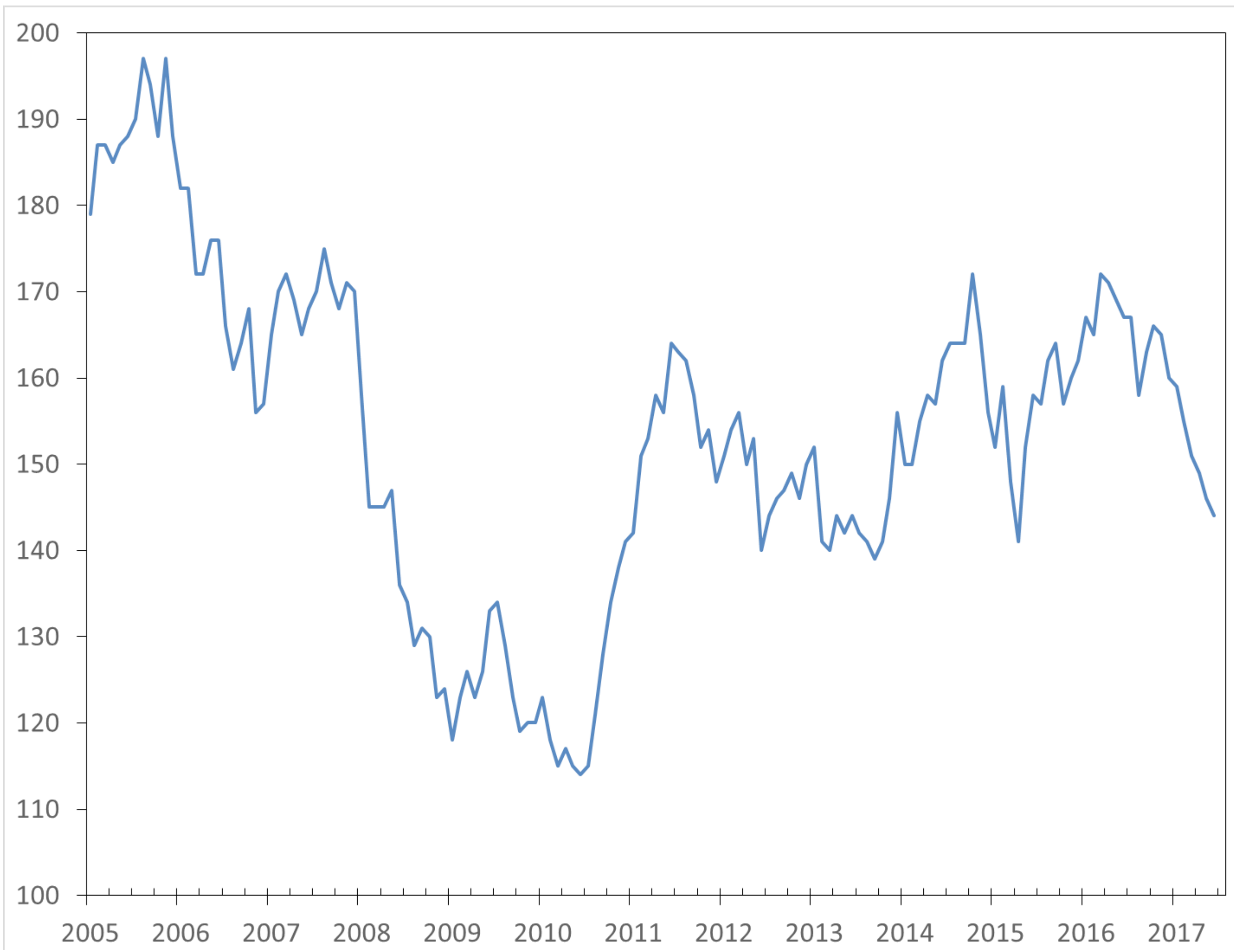


Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Southeast Minnesota New Assumed Names	256	198	205	246	245	-4.3%

The moving total of new Southeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State has been volatile over the past several years. As can be seen in the accompanying graph, this series has turned downward since the beginning of 2016. The number of newly formed non-profits totaled 39 in the recent quarter (a 15.2 percent reduction from the second quarter of 2016).

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

Filings



Year

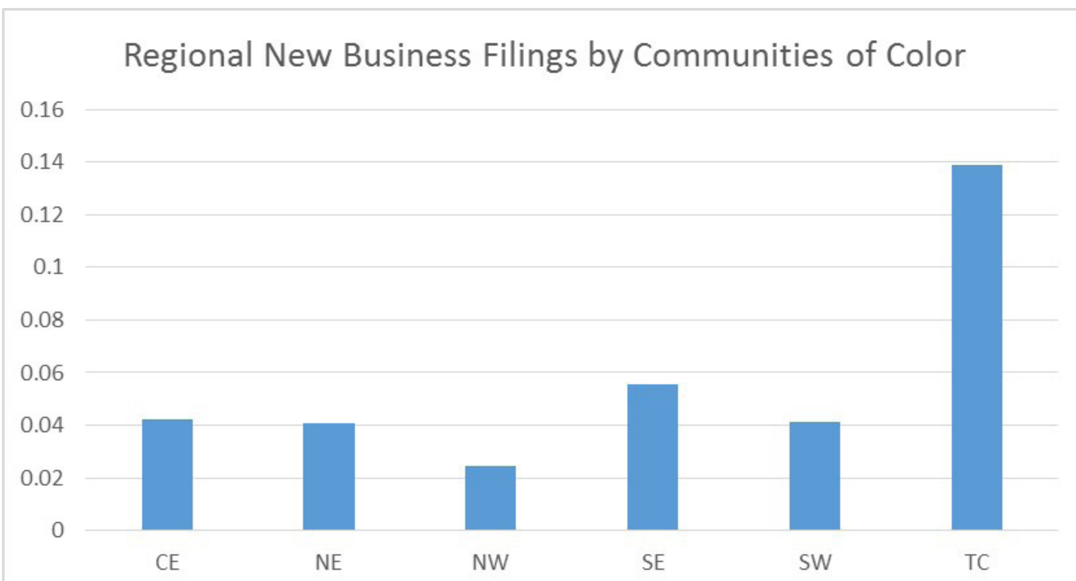
Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Southeast Minnesota New Non-Profits	46	39	35	31	39	-15.2%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

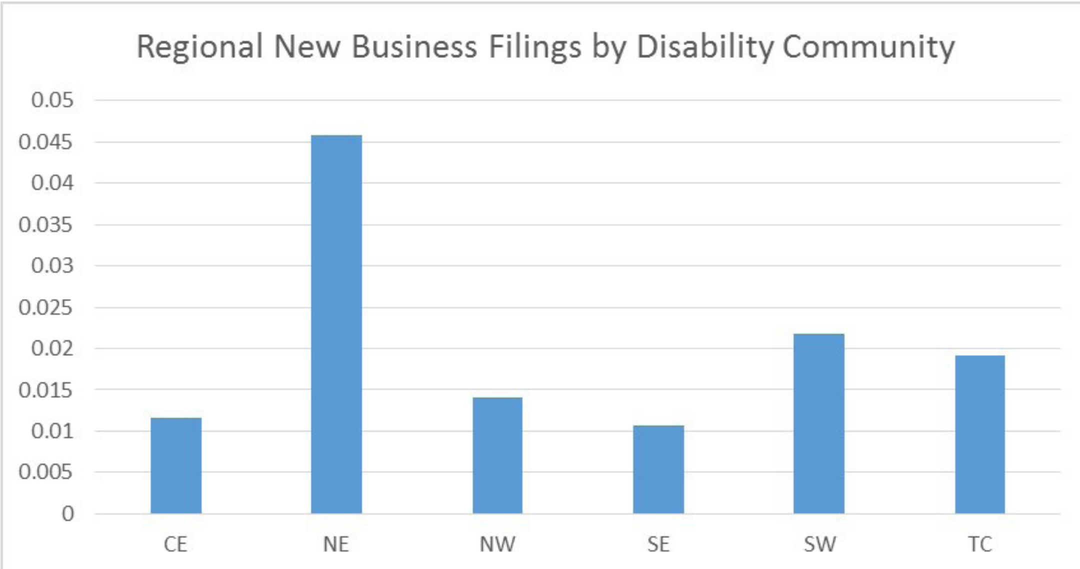
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 Minnesota Business Snapshot (MBS) information with the data analyzed in this report, only surveys accompanying new filings in the second quarter of 2017 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 61 percent. This yields thousands of self-reported records in this emerging data set. For Southeast Minnesota, slightly less than 63 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

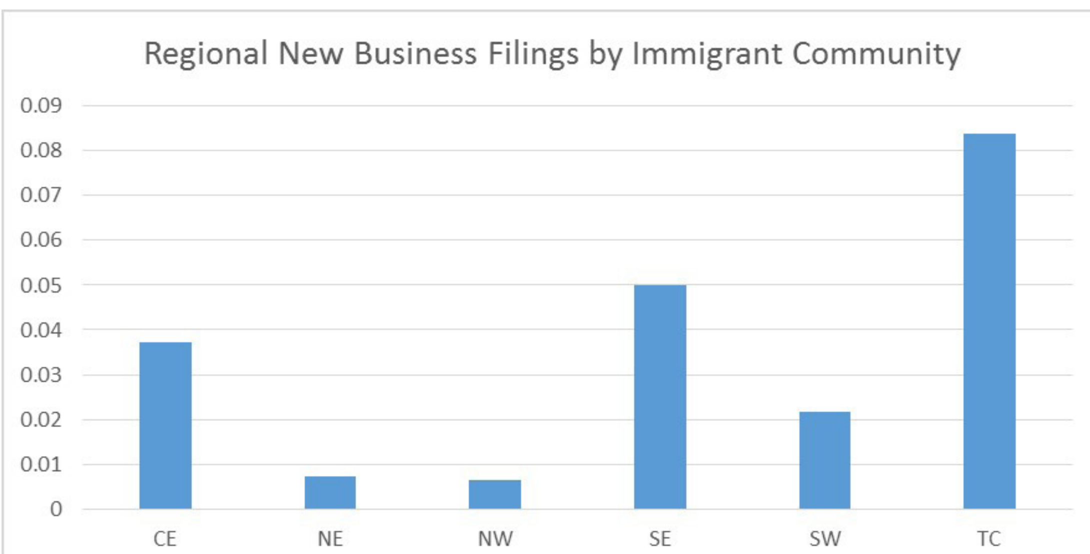
More than 5.5 percent of those new filers completing the MBS from the Southeast Minnesota planning area report being from a community of color. This is a considerably lower percentage than in the Twin Cities, but is higher than all other outstate regions of Minnesota.



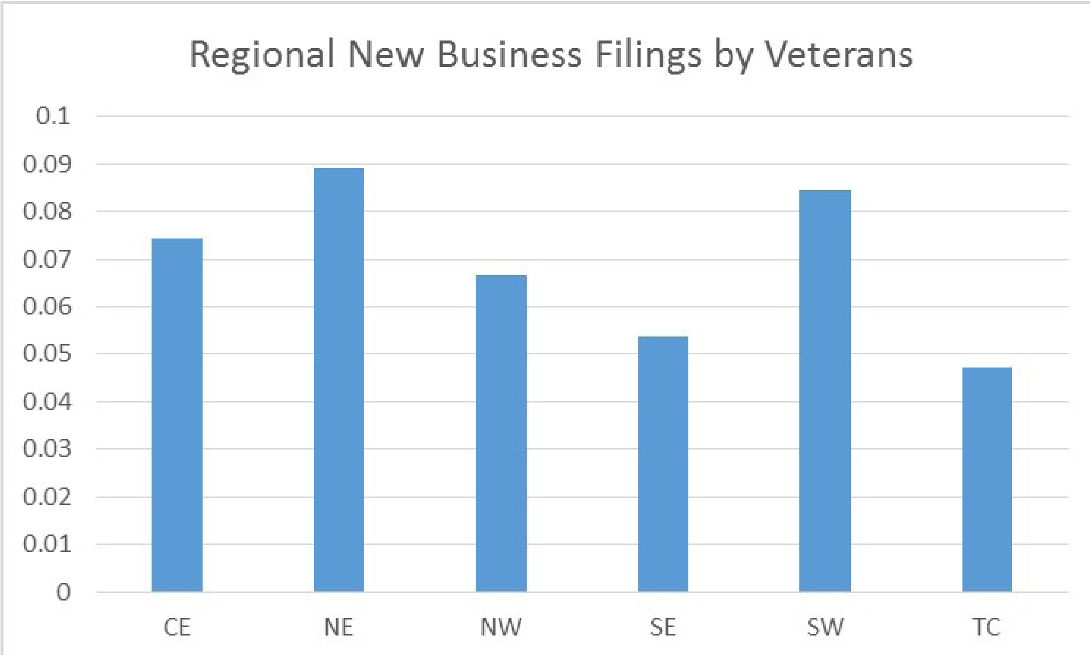
A little over 1 percent of Southeast Minnesota's new filers are from the disability community.



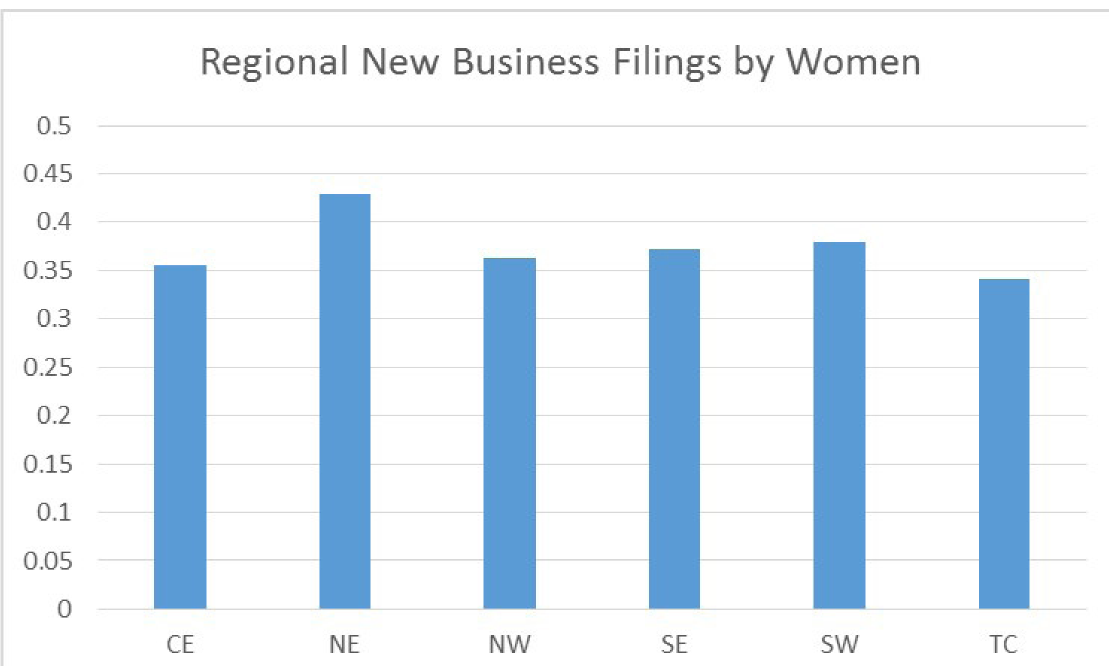
Five percent of new business filings in Southeast Minnesota come from the immigrant community. This is more than double the percentage of immigrant new filings that was reported last quarter.



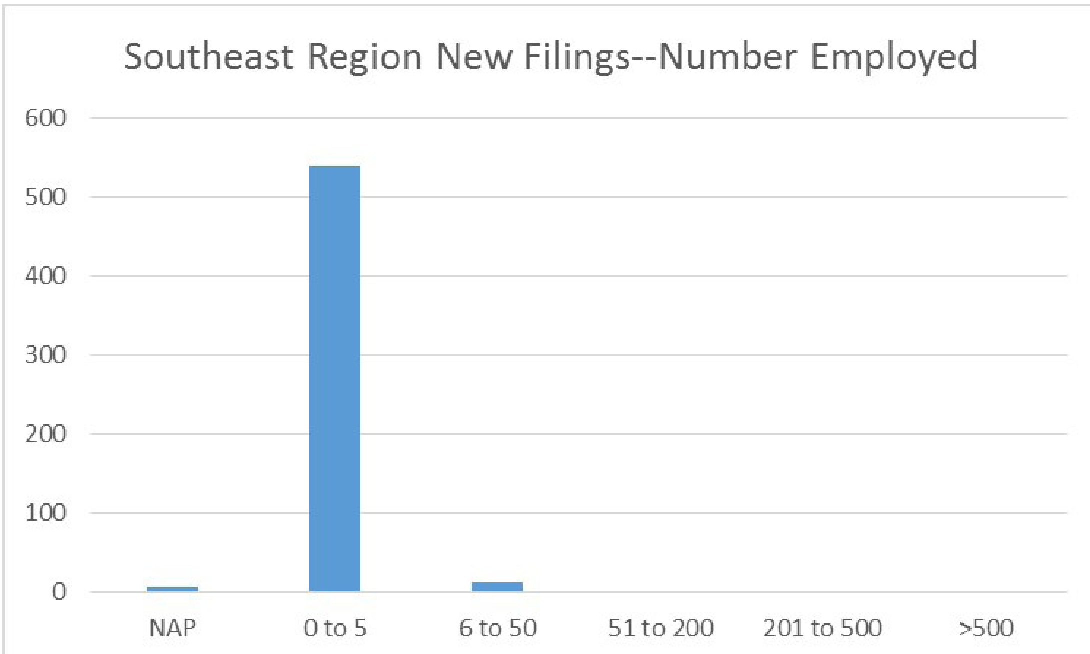
A little over 5 percent of new filings in Southeast Minnesota come from military veterans.



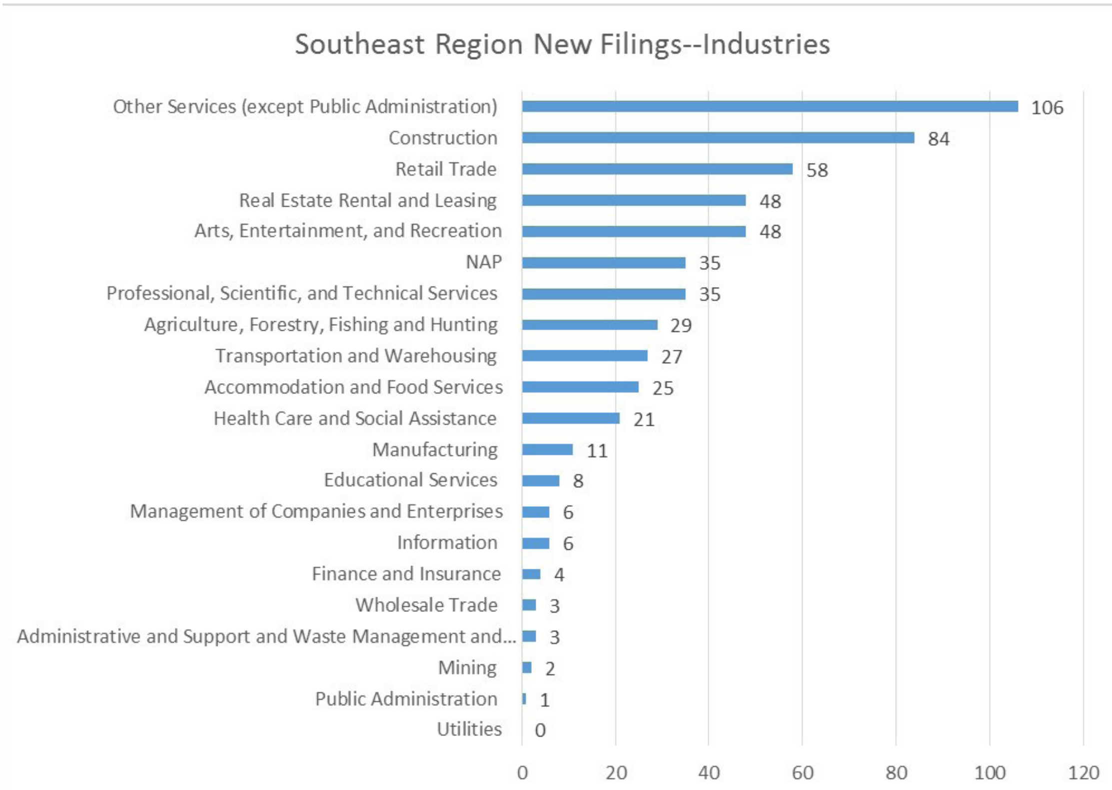
Woman owners represented 37 percent of the new business filings in Southeast Minnesota in the second quarter of 2017.



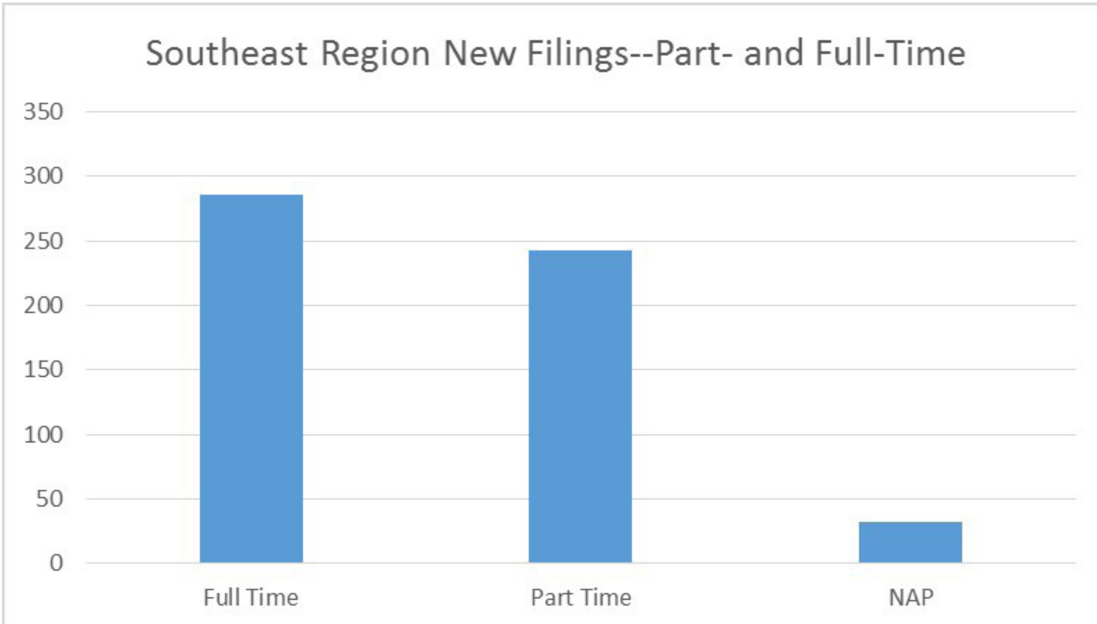
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by “NAP”—no answer provided), 554 responses were tallied to a question asking the new business filer to indicate 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.



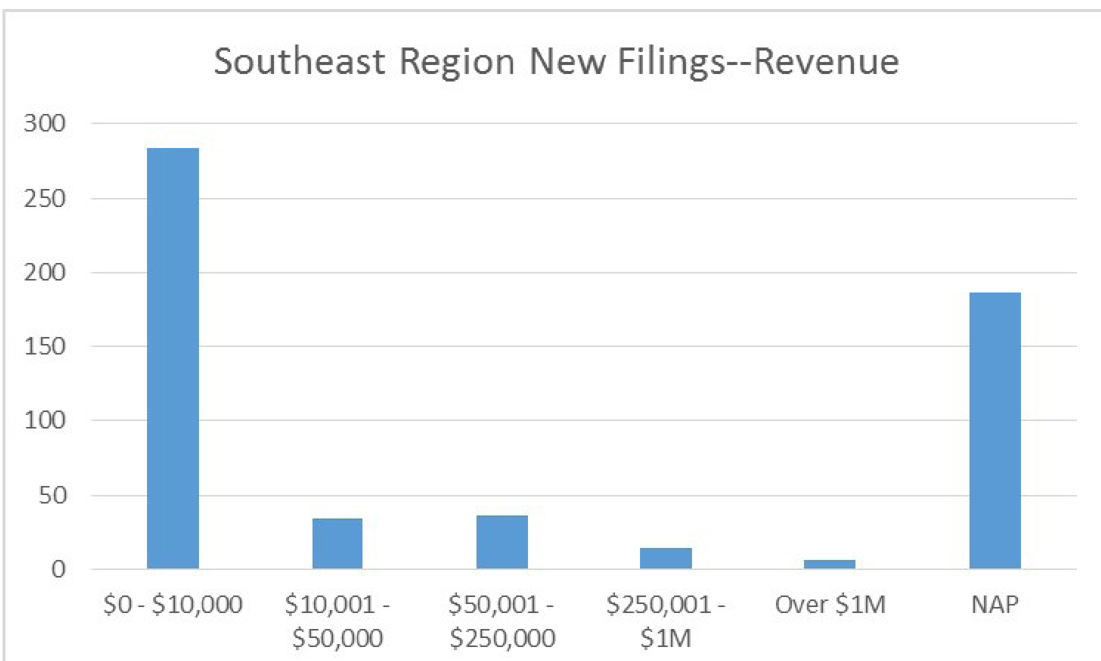
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, construction, retail trade, and "other services" lead the way. Since businesses are often unsure of their industrial classification, the "other services" category is likely to represent a "catch-all" category for service-related businesses who were unable to specify their industry. Real estate, rental and leasing and arts, entertainment, and recreation are also well represented in the sample. Thirty-five new firms did not provide an answer to this survey item (see "NAP")



Forty-six percent of those submitting a new business filing in Southeast Minnesota in the second quarter of 2017 are part-time ventures.



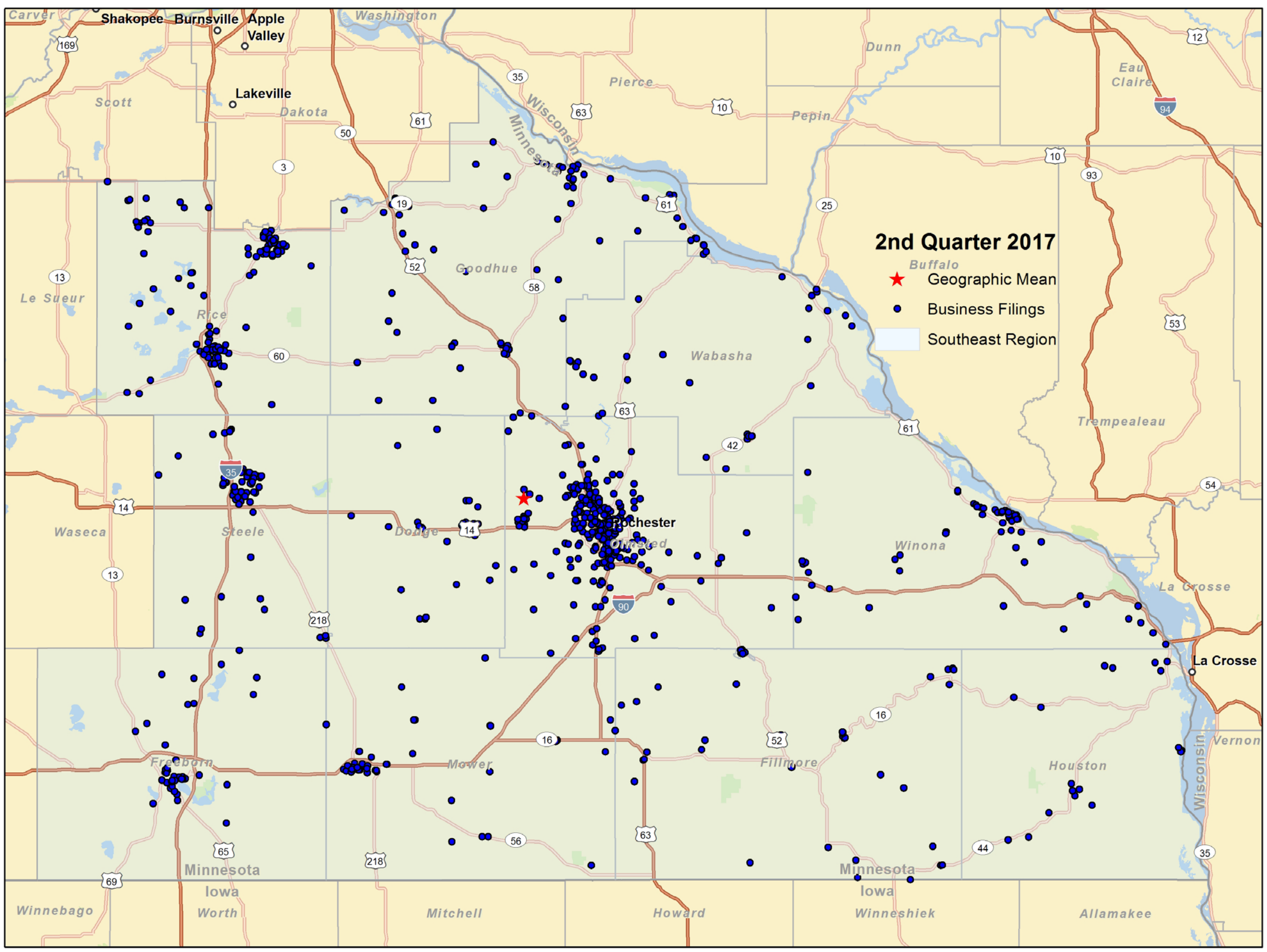
One hundred eighty-six new filers in Southeast Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues less than $10,000. Fifty-six firms report annual revenues in excess of $50,000.



MAPS

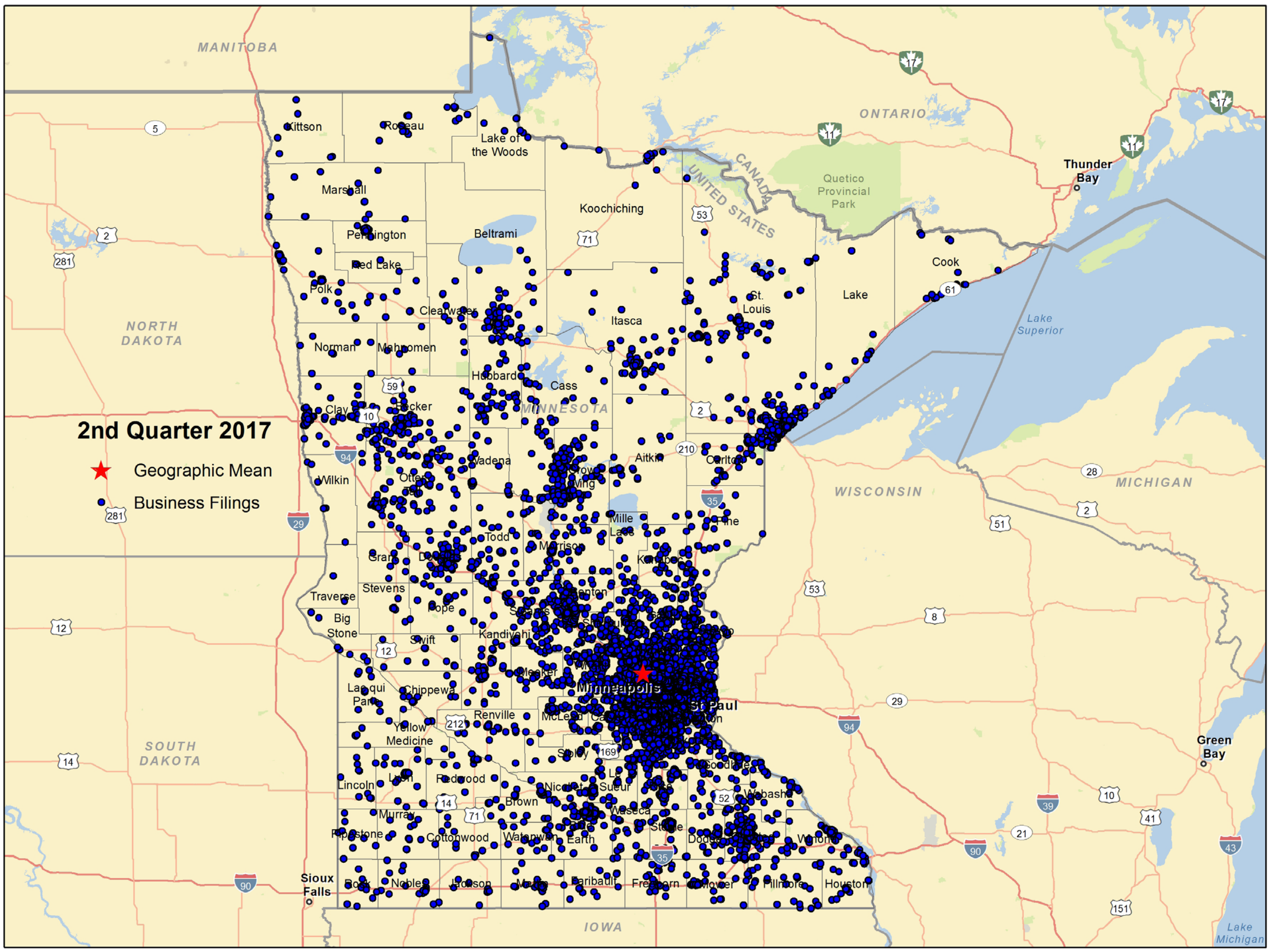
The first map shown below is a visual representation of new business filings around the Southeast Minnesota planning area in the second quarter of 2017. The densest areas of new business formation are in the Rochester metro. Owatonna, Faribault, Northfield, Albert Lea, Austin, and Red Wing also generated multiple new business filings. Well-traveled roadways are also a predictor of new business formation in Southeast Minnesota.

Southeast Minnesota Planning Area--New Business Formation--Quarter 2: 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 2: 2017

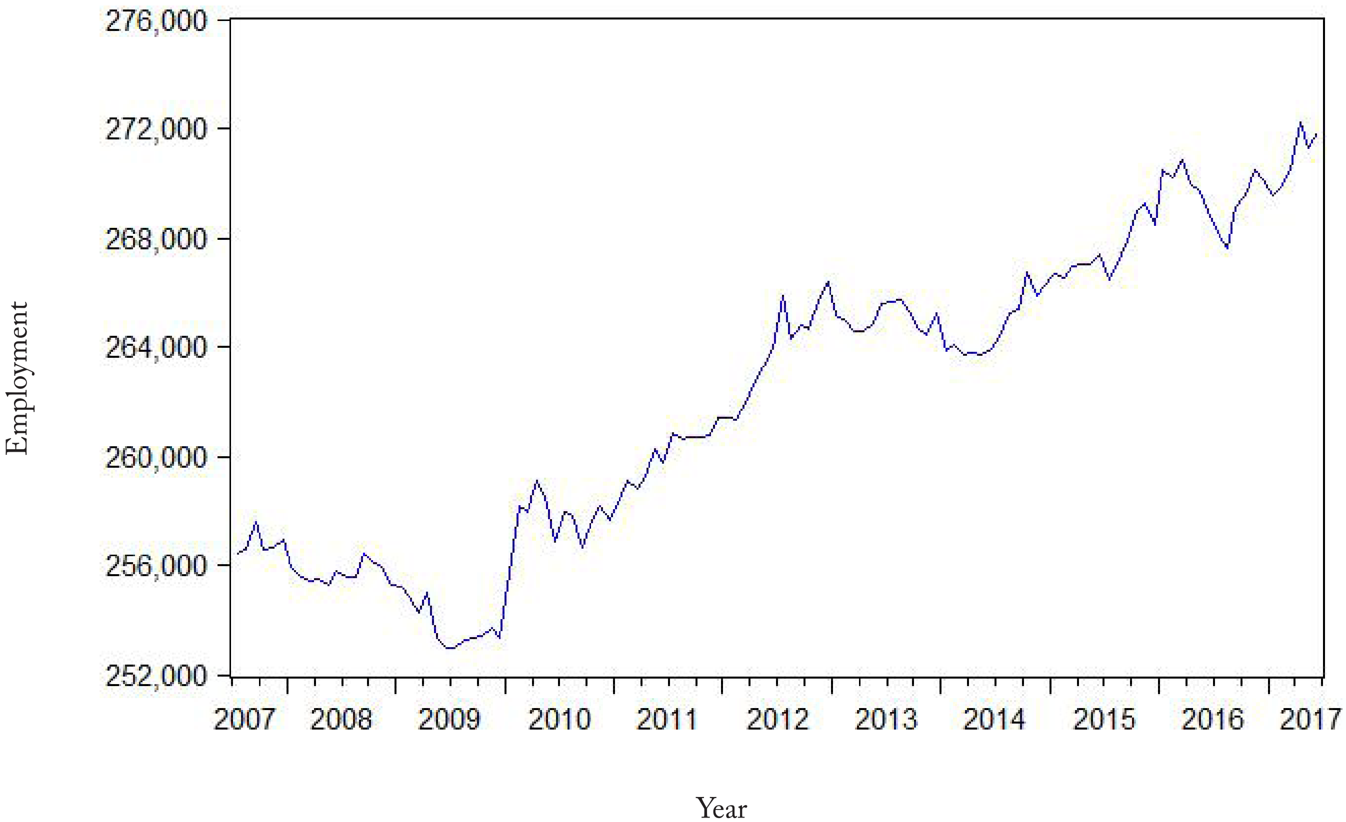


SOUTHEAST MINNESOTA LABOR MARKET CONDITIONS

Employment of those living in the Southeast Minnesota planning area rose by 1 percent over the past year. As shown in the accompanying graph, the 12-month moving average of total employment has been trending upward (with some brief interruptions) since the end of the Great Recession.

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—Southeast Minnesota Planning Area (12-month moving average)



Month	June 2016	January 2017	February 2017	March 2017	April 2017	May 2017	June 2017
Employment (Not seasonally adjusted)	270,971	266,494	266,280	268,565	271,373	271,675	273,794

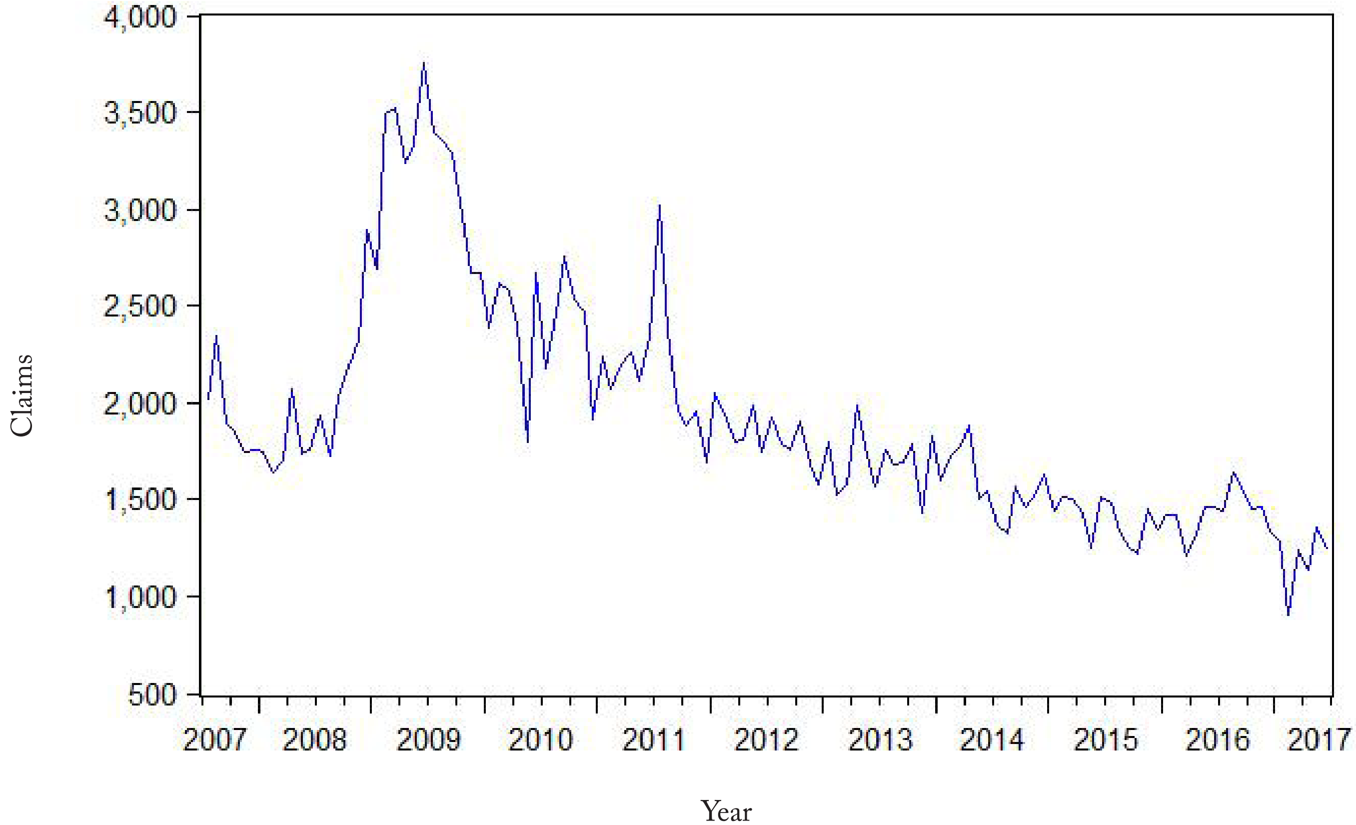
The seasonally adjusted unemployment rate in Southeast Minnesota has levelled out in recent quarters. The non-seasonally adjusted unemployment rate stands at 3.4 percent, lower than the 3.6 percent rate observed one year ago.

Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area

Month	June 2016	January 2017	February 2017	March 2017	April 2017	May 2017	June 2017
Unemployment Rate (Not seasonally adjusted)	3.6%	4.5%	4.3%	3.9%	3.2%	3%	3.4%

New claims for unemployment insurance in June 2017 were 13.8 percent lower than one year earlier. On a seasonally adjusted basis, these claims appear to have shown more volatility in recent quarters.

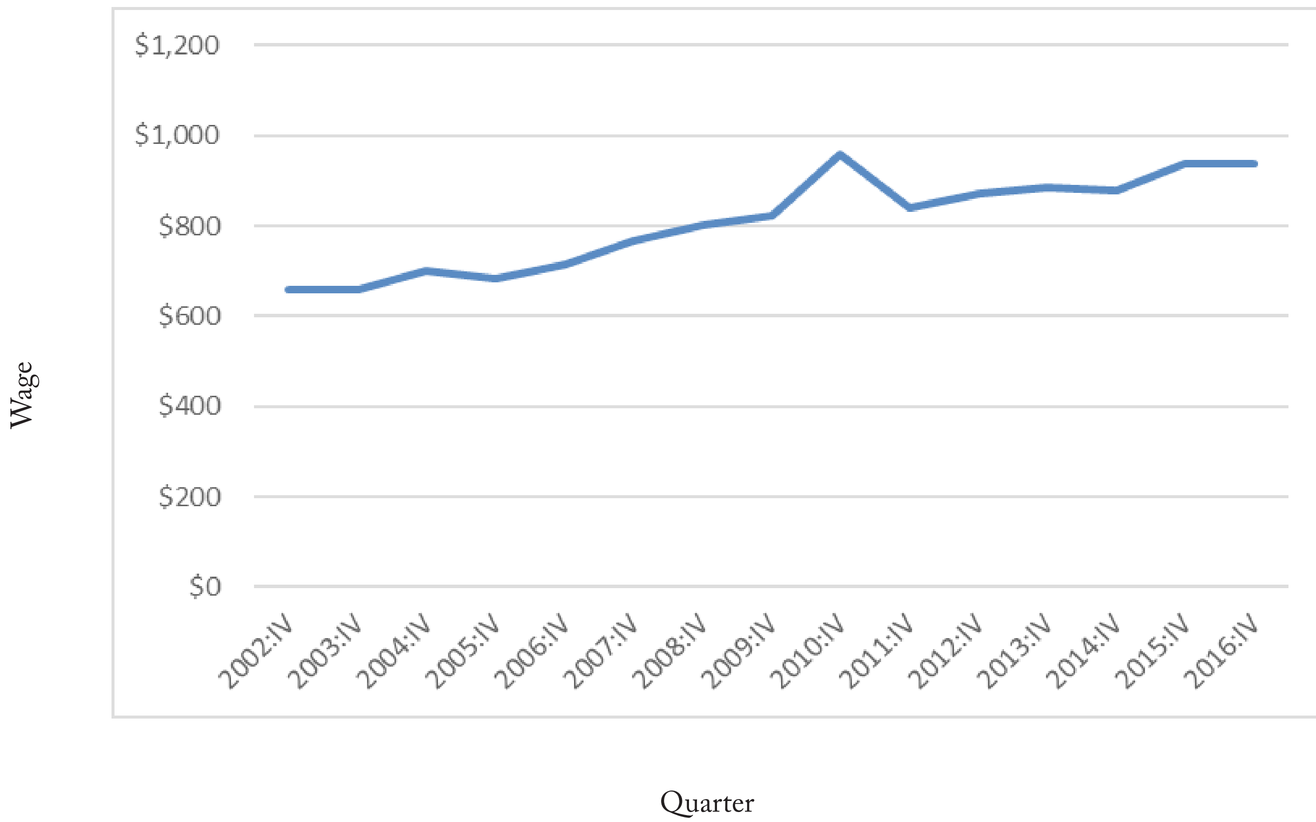
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southeast Minnesota Planning Area



Period	June 2016	January 2017	February 2017	March 2017	April 2017	May 2017	June 2017
Initial claims (Not seasonally adjusted)	1,299	1,685	891	1,086	779	1,086	1,120

Average weekly wages in Southeast Minnesota were slightly lower in last year's fourth quarter than they were one year earlier. This same pattern is observed in all of Minnesota's other planning areas. Wage pressures resulting from labor shortages around the state would seem to call into question whether declining wages are actually being observed in Minnesota's six planning areas. It seems possible that these figures will be revised as more information becomes available.

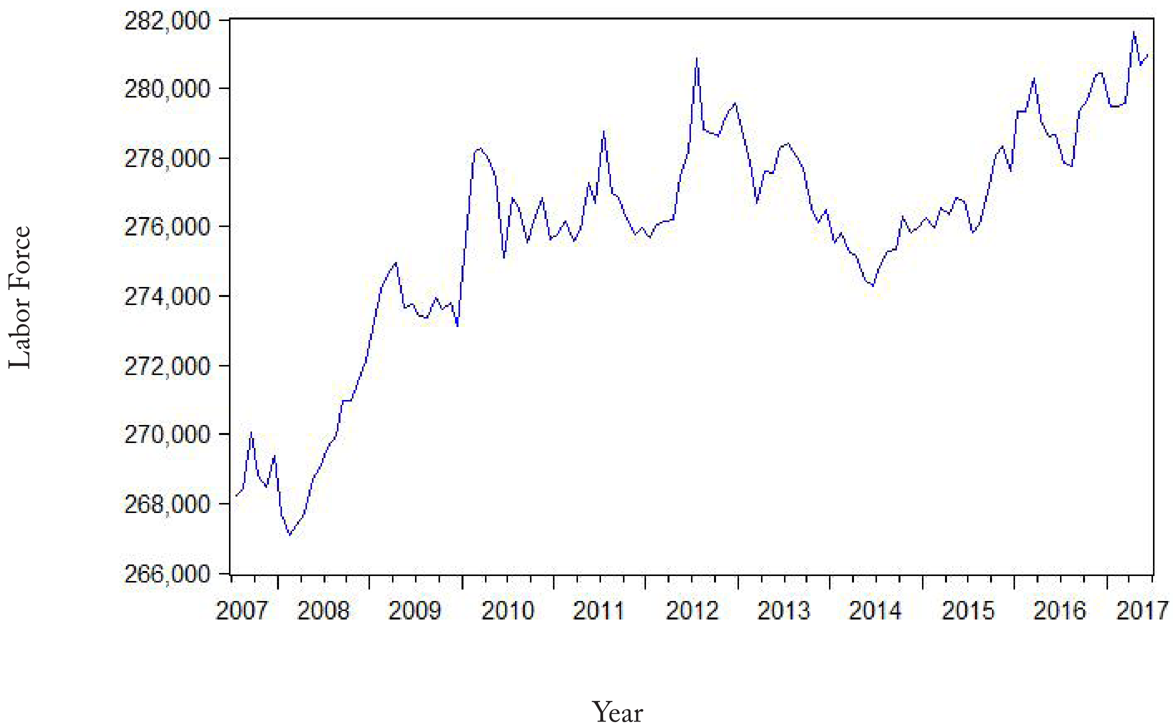
Average Weekly Wages---Southeast Minnesota Planning Area



Quarter	2011:IV	2012:IV	2013:IV	2014:IV	2015:IV	2016:IV
Average Weekly Wage	$840	$873	$887	$877	$939	$938

The Southeast Minnesota labor force increased by 0.8 percent over the last year. The 12 month moving average of the regional labor force has steadily increased since the beginning of 2014 and is now at its highest level of the past decade.

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

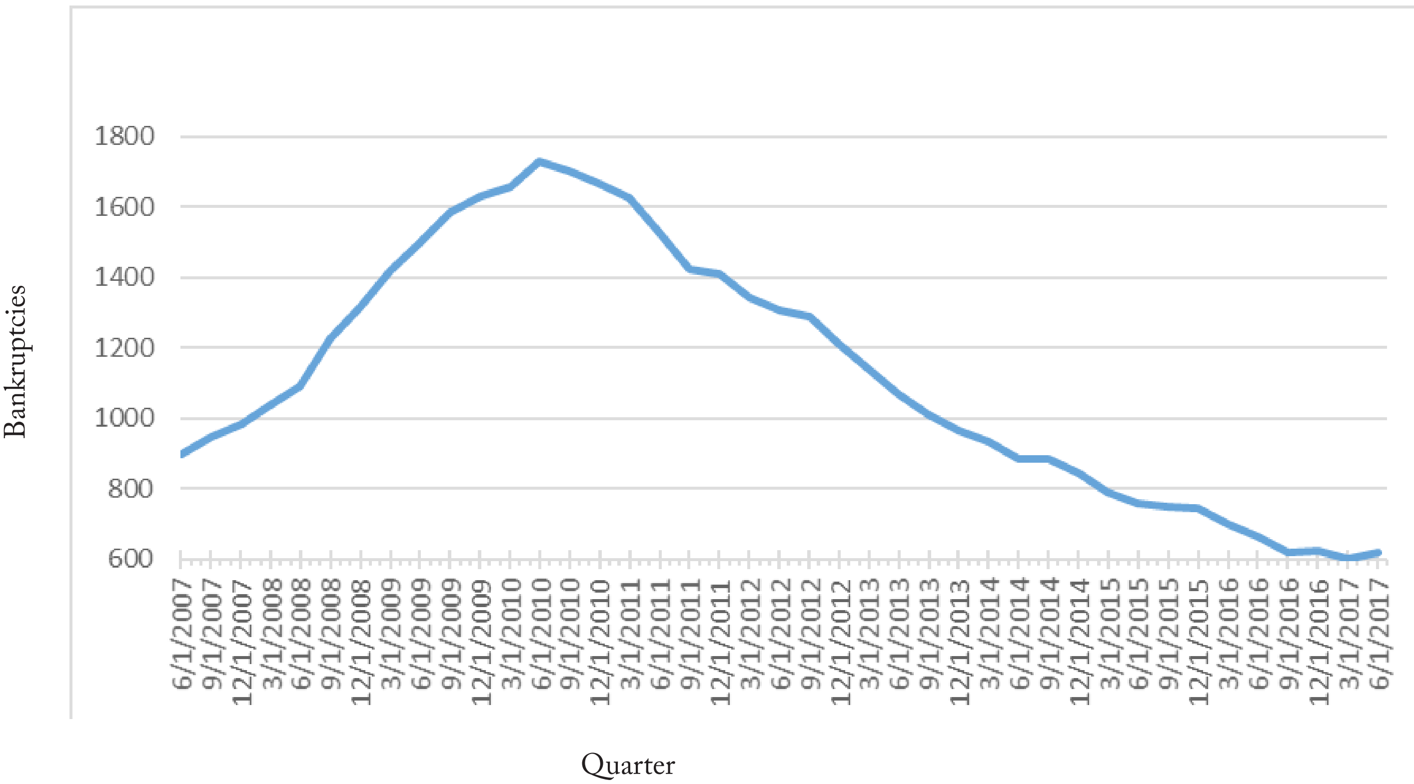


Year (June)	2012	2013	2014	2015	2016	2017
Labor Force (Not seasonally adjusted)	281,302	281,202	276,943	279,224	281,013	283,302

SOUTHEAST MINNESOTA BANKRUPTCIES

The figure below shows the 12-month moving total for Southeast 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 steadily declined until the beginning of this year. With 617 bankruptcies over the past twelve months, bankruptcies in Southeast Minnesota rose slightly from last quarter's annual total of 599.

Southeast Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2012	2013	2014	2015	2016	2017
Annual Bankruptcies (not seasonally adjusted)	1,308	1,068	883	760	662	617

Rochester MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)	
Labor Market							
Employment	June 2017 (m)	123,100	120,775	1.9%	↑	1.0%	
Manufacturing Employment	June 2017 (m)	11,014	11,035	-0.2%	↓	-2.6%	
Educational and Health Employment	June 2017 (m)	49,685	47,875	3.8%	↑	2.8%	
Average Weekly Work Hours Private Sector	June 2017 (m)	34.1	34.1	0.0%	↔	33.1	
Average Earnings Per Hour Private Sector	June 2017 (m)	$35.56	$33.87	5.0%	↑	3.5%	
Unemployment Rate	June 2017 (m)	3.1%	3.3%	NA	↓	4.1%	
Labor Force	June 2017 (m)	144,170	142,206	1.4%	↑	0.0%	
Initial Jobless Claims	June 2017 (m)	452	449	0.7%	↑	NA	
Business Formation							
Total New Business Filings	Second Quarter 2017 (q)	443	444	-0.2%	↓	379	(since 2000)
New Business Incorporations	Second Quarter 2017 (q)	27	32	-15.6%	↓	54	(since 2000)
New Limited Liability Companies	Second Quarter 2017 (q)	277	268	3.4%	↑	179	(since 2000)
New Assumed Names	Second Quarter 2017 (q)	119	122	-2.5%	↓	129	(since 2000)
New Non-profits	Second Quarter 2017 (q)	20	22	-9.1%	↓	18	(since 2000)
Rochester Residential Building Permit Valuation, in thousands	June 2017 (m)	37,555	28,113	33.6%	↑	NA	

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

Southeast Minnesota contains the Rochester MSA, an area that derives much of its employment from the educational and health sector. This sector continues to be a pillar of economic vitality for Rochester (and for Southeast Minnesota). Year-over-year overall employment in the Rochester area increased by 1.9 percent in June 2017 and employment in the key education/health sector rose by 3.8 percent (which is above the 2.8 percent long-term annualized growth of employment in this sector). Note that the share of employment in Rochester's educational and health sector has increased from 29.9 percent in July 1999 to 40.5 percent today. The overall number of new business filings decreased (as did new incorporations, assumed names, and non-profits), but the value of residential building permits rose in the Rochester area during the most recent reporting period. Average hourly earnings were higher, but weekly work hours were flat. The unemployment rate was lower and the labor force grew.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Jun 2017	Mar 2017	Jun 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,947,200	2,929,300	2,884,600	0.6%	2.2%
Average weekly hours worked, private sector	34.2	33.8	34.3	1.2%	-0.3%
Unemployment rate, seasonally adjusted	3.7%	3.8%	3.9%	NA	NA
Earnings per hour, private sector	$27.91	$28.28	$26.64	-1.3%	4.8%
Philadelphia Fed Coincident Indicator, MN	198.59	196.51	192.04	1.1%	3.4%
Philadelphia Fed Leading Indicator, MN	1.66	2.96	1.10	-43.9 %	50.9%
Minnesota Business Conditions Index	68.0	61.8	51.6	10%	31.8%
Price of milk received by farmers (cwt)	$17.50	$17.50	$15.00	0%	16.7%
Enplanements, MSP airport, thousands	1,735.4	1,731.6	1,726.5	0.2%	0.5%
NATIONAL Indicators	Jun 2017	Mar 2017	Jun 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	146,406	145,823	144,166	0.4%	1.6%
Industrial production, index, SA	105.2	103.8	103.1	1.3%	2.0%
Real retail sales, SA ($)	194,230	194,046	191,965	0.1%	1.2%
Real personal income less transfers ($, bill.)	12,049.7	12,015.4	11,920.9	0.3%	1.1%
Real personal consumption expenditures ($, bill.)	11,849.8	11,816.1	11,575.3	0.3%	2.4%
Unemployment rate, SA	4.4%	4.5%	4.9%	NA	NA
New building permits, SA, thousands	25,160	22,864	22,644	10.0%	11.1%
Standard & Poor's 500 stock price index	2,434.0	2,366.9	2,083.9	2.8%	16.8%
Oil, price per barrel in Cushing, OK	$45.18	$49.33	$48.76	-8.4%	-7.3%

Across the state, nearly 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, and a lower seasonally adjusted unemployment rate over the past twelve months. Coincident 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 32 percent. Milk prices are higher than one year ago and enplanements at the Minneapolis-St. Paul airport increased by 0.5 percent over the last twelve months. Average weekly work hours in the state's private sector are reported lower by 0.3% over the past twelve months. This is the only indicator with a negative year-over-year reading in the state portion of the indicators table.

The national economic indicators found in 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. Lower oil prices in the second quarter have favorably impacted the discretionary income of households, but they also have harmed the economic well-being of those employed in the energy sector (which has been struggling in recent years).

The Southeast 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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U.S. Department of Agriculture: Milk Prices.

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