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Southwest Minnesota Economic and Business Conditions Report Fourth Quarter 2017

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Southwest Minnesota
Economic and Business Conditions Report
Fourth 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.

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EXECUTIVE SUMMARY

Despite a negative reading of the fourth quarter St. Cloud State University Southwest Minnesota Index of Leading Economic Indicators (LEI), economic fundamentals in Southwest Minnesota appear to be sufficiently strong to see a continuation of steady regional economic growth over the next several months. Two of four LEI components were positive in the fourth quarter. An increase in residential building permits in the Mankato MSA and higher new business filings of incorporation and LLC in Southwest Minnesota contributed favorably to the LEI. A weaker rural Minnesota economic outlook and higher initial jobless claims in recent months helped drag down this quarter's leading index.

There were 620 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the fourth quarter of 2017 — representing 2.1 percent more new filings than one year ago. There were 37 new regional business incorporation filings in the fourth quarter, a 33.9 percent decrease from last year's fourth quarter. New LLC filings in Southwest Minnesota rose 1.8 percent from one year earlier and new assumed names climbed to 157—a 12.1 percent increase compared to December 2016. There were 33 new filings for Southwest Minnesota non-profit in the fourth quarter—eight more filings than one year ago.

Fifty-six percent of new business filers in the Southwest Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's fourth quarter. Results of this voluntary survey indicate that 3.8 percent of new filers come from communities of color. Approximately 8.1 percent of new business filings are from veterans. About 1.2 percent of new filers come from the disability community and 1.4 percent of new filings are made by the immigrant community. Forty-two percent of new business filings in Southwest Minnesota in this year's fourth 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 33 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Southwest Minnesota are retail trade, construction, and other services. Employment levels at most new firms are between 0 and 5 workers, and more than half of those starting a new business consider this a part-time activity.

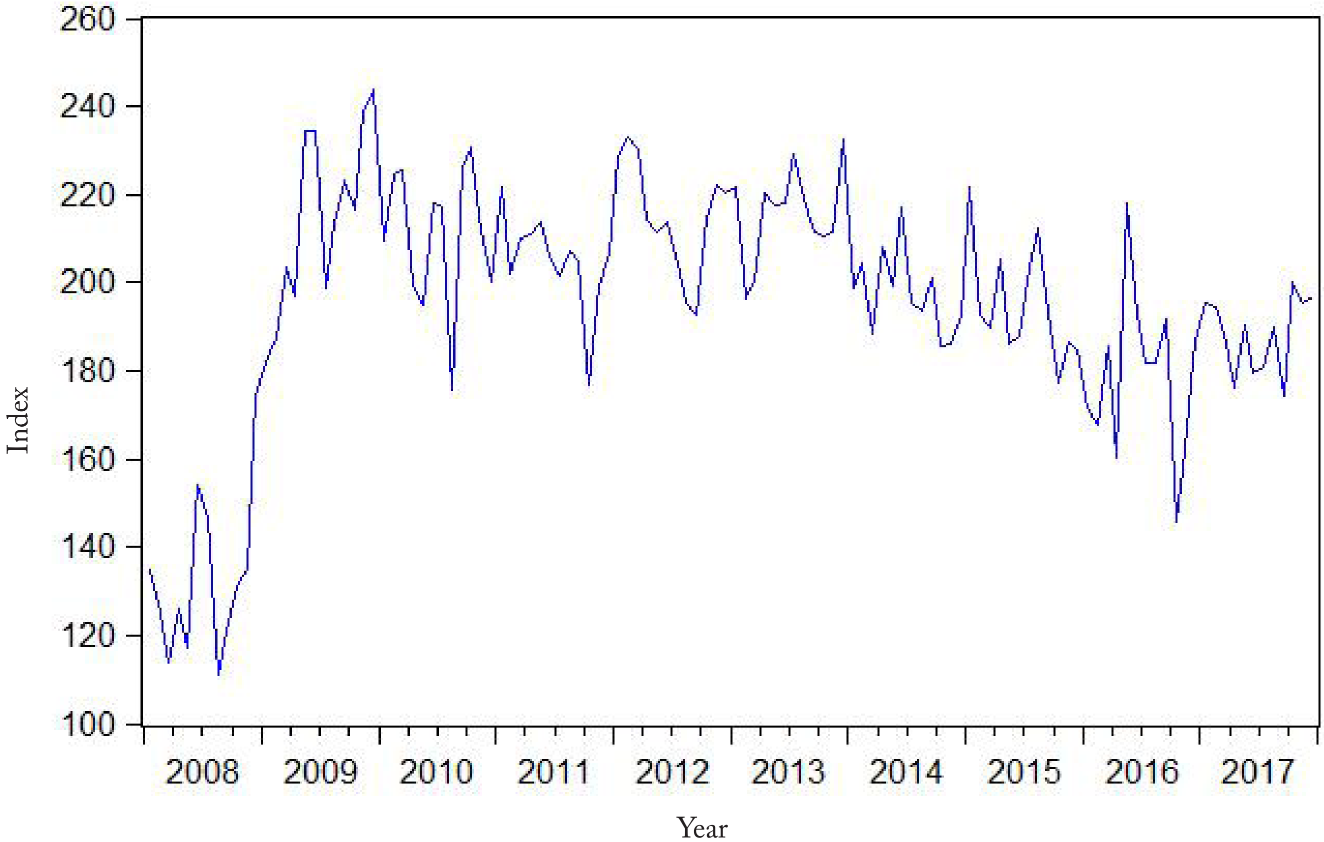
Employment of Southwest Minnesota residents increased by 1.1 percent over the year ending December 2017. The regional unemployment rate was 3.5 percent in December, a decrease from a 4.2 percent reading in December 2016. Initial claims for unemployment insurance were 4.7 percent lower than year-ago levels in December. Due to a statistical anomaly, the region's average weekly wages fell in the third quarter of 2017 compared to one year earlier. The Southwest Minnesota labor force rose 0.4 percent over the year ending December 2017 and bankruptcies continued to fall in the region.

Economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota—was generally favorable in the most recent quarter. Employment rose, the unemployment rate was lower, average hourly earnings rose, the size of the labor force expanded, the value of residential building permits increased, new business filings were higher, and the relative cost of living fell. The only negative factors were a decline in average weekly work hours and a small increase in initial jobless claims in the Mankato/North Mankato MSA.

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. As seen in the accompanying figure, this series has always shown considerable variability from one quarter to the next, so it is no surprise to see it decline by 7.05 points in the fourth quarter (the LEI had risen by 4.64 points in the third quarter after falling by 4.82 points in the second quarter of 2017). Note that the midpoint of the leading index appears to have drifted up in the last half of 2017, and the LEI is now 5.4 percent higher than it was one year ago.

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 2017	Contribution to LEI, 3rd quarter 2017
Rural Mainstreet Index	-3.29	-0.96
Southwest Minnesota initial claims for unemployment insurance	-9.68	5.58
Southwest Minnesota new filings of incorporation and LLCs	2.34	-0.27
Mankato MSA single-family building permits	3.58	0.29
TOTAL CHANGE	**-7.05**	**4.64**

The Southwest Minnesota LEI has four components, two of which increased in the fourth quarter. An increase in the number of residential building permits in the Mankato/North Mankato MSA and a recent rise in new business filings of incorporation and LLC made positive contributions to the leading index in the fourth quarter. However, higher regional initial jobless claims in recent months had a major negative impact on the regional outlook. 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 also had a negative impact on the LEI in the most recent quarter.

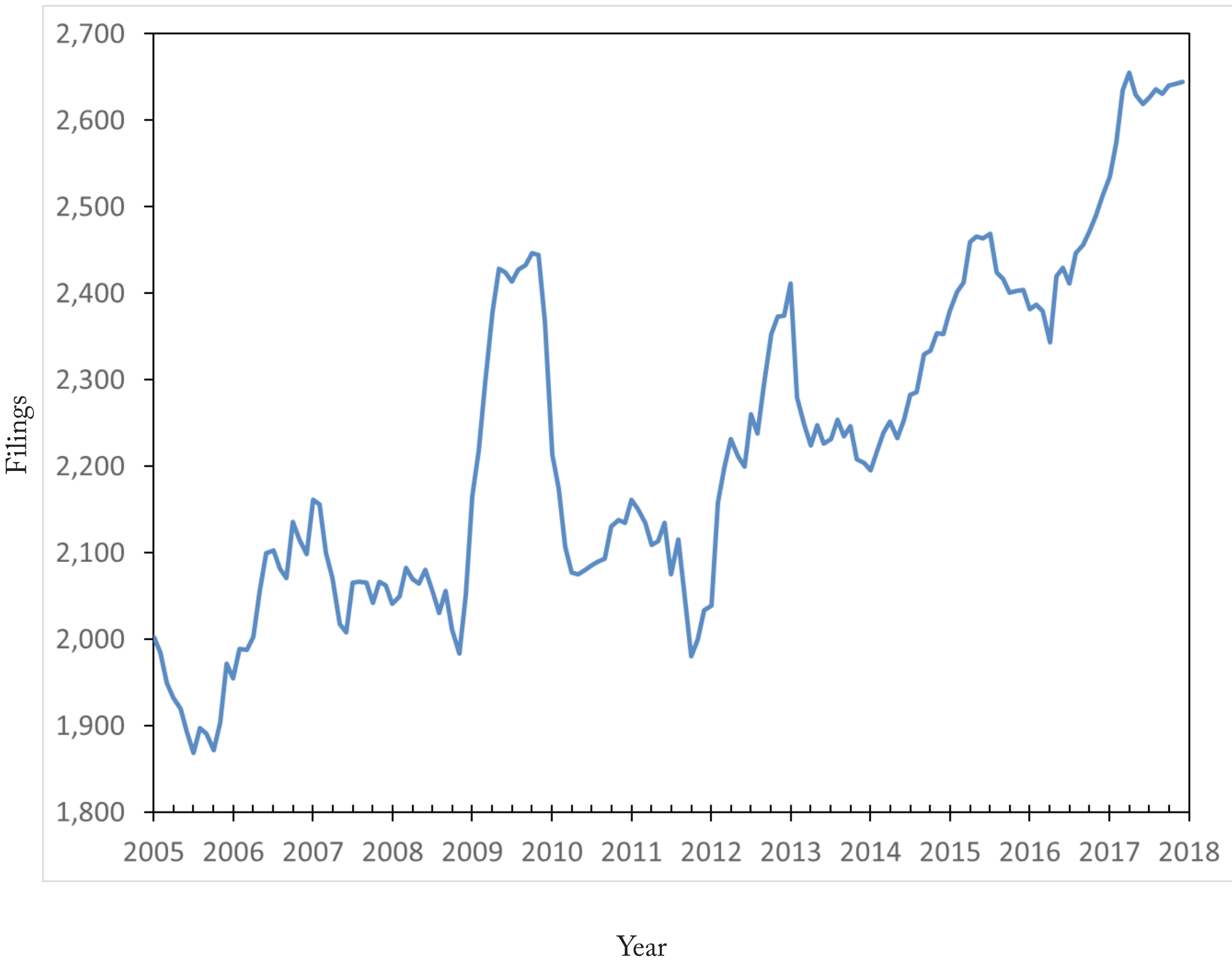
SCSU Southwest Minnesota Leading Economic Indicators Index

	2017	2016	Percentage Change
Rural Mainstreet Index, Creighton University December	45.4	41.7	8.9%
Southwest Minnesota initial claims for unemployment insurance December	2,652	2,784	-4.7%
Southwest Minnesota new filings of incorporation and LLCs Fourth Quarter	430	442	-2.7%
Mankato MSA single-family building permits December	8	4	100.0%
Southwest Minnesota Leading Economic Indicators Index December (December 1999 = 100)	197.1	187.0	5.4%

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 2.1 percent from year earlier levels in the fourth quarter. As seen in the accompanying figure, the 12-month moving total of this series has been trending upward since the end of 2011. 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: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Southwest Minnesota Total New Business Filings	607	787	681	556	620	2.1%

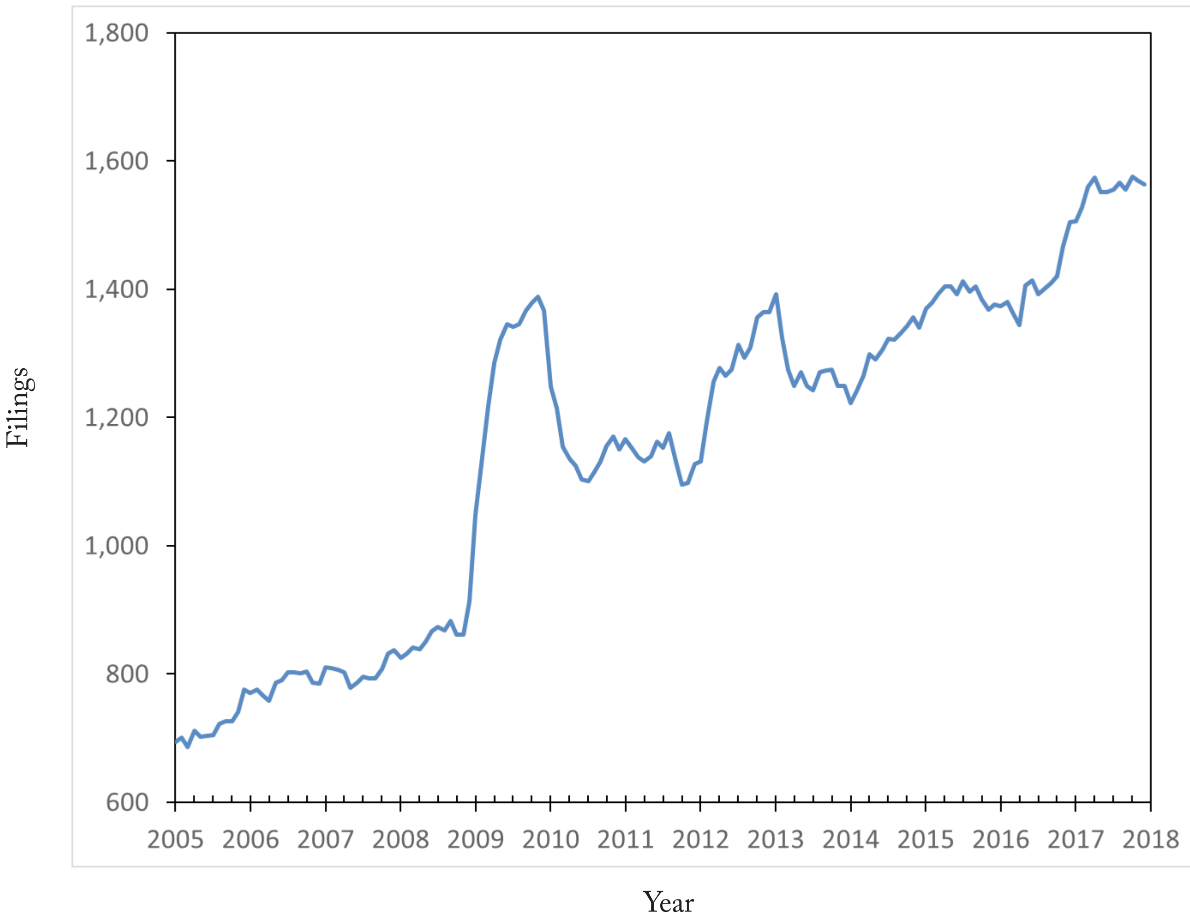
New business incorporations trended downward sharply in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend had resumed until flattening out for several quarters. However, new regional incorporations have now declined since the first quarter of 2017. With only 37 new business incorporations in the fourth quarter of 2017, filings in this category fell by 33.9% from the same period in 2016.

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

Quarter	IV: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Southwest Minnesota New Business Incorporations	56	61	57	36	37	-33.9%

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 is a considerable upward trend in LLCs in Southwest Minnesota. New LLC filings increased by 1.8 percent over one year earlier in the fourth quarter.

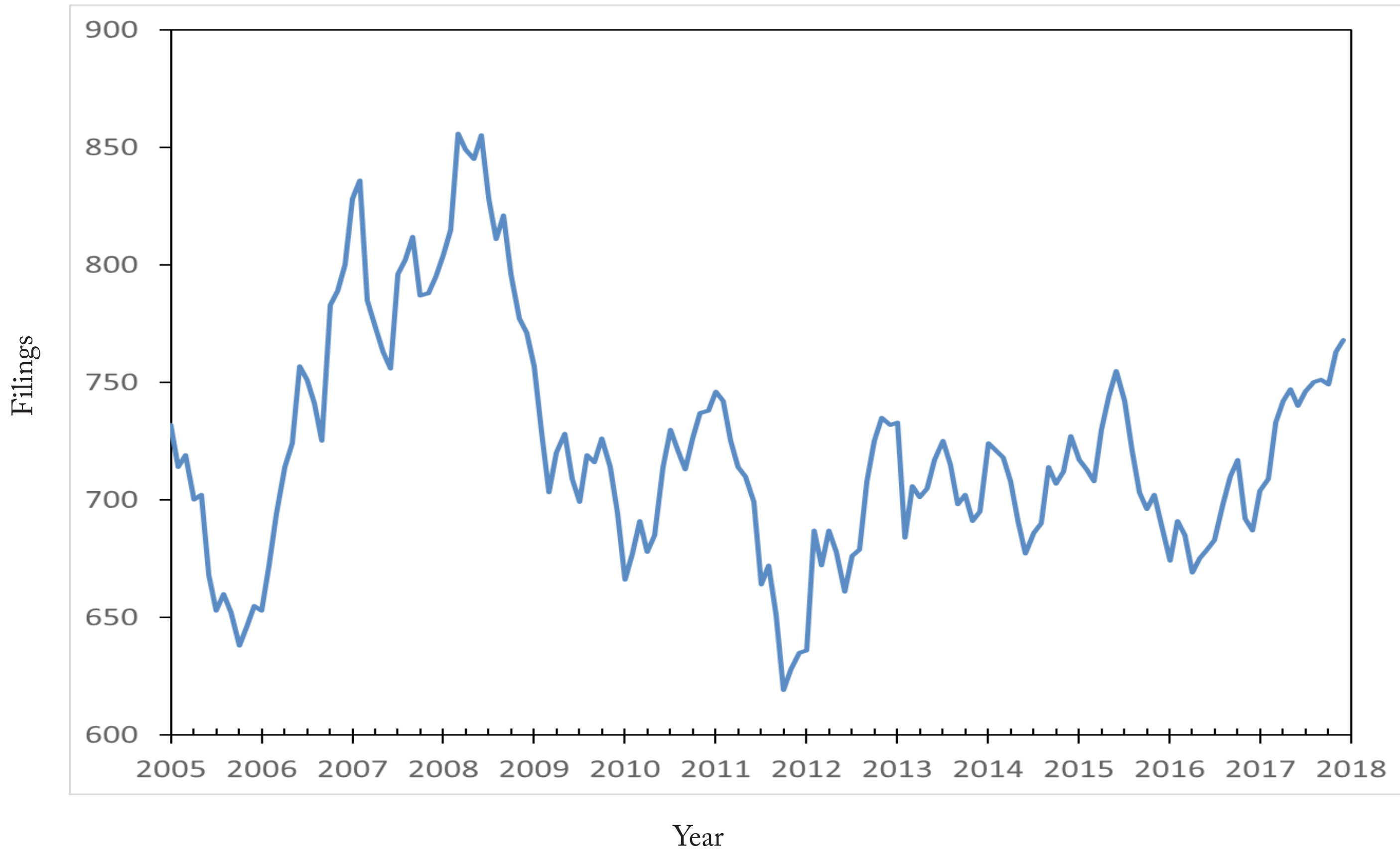
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	386	446	402	322	393	1.8%

Third quarter assumed names rose 12.1% compared to the same period in 2016. As can be seen in the accompanying figure, this series has been trending upward for the last two years. This is a trend that is seen in only one other region in the state—the Northwest Minnesota planning area.

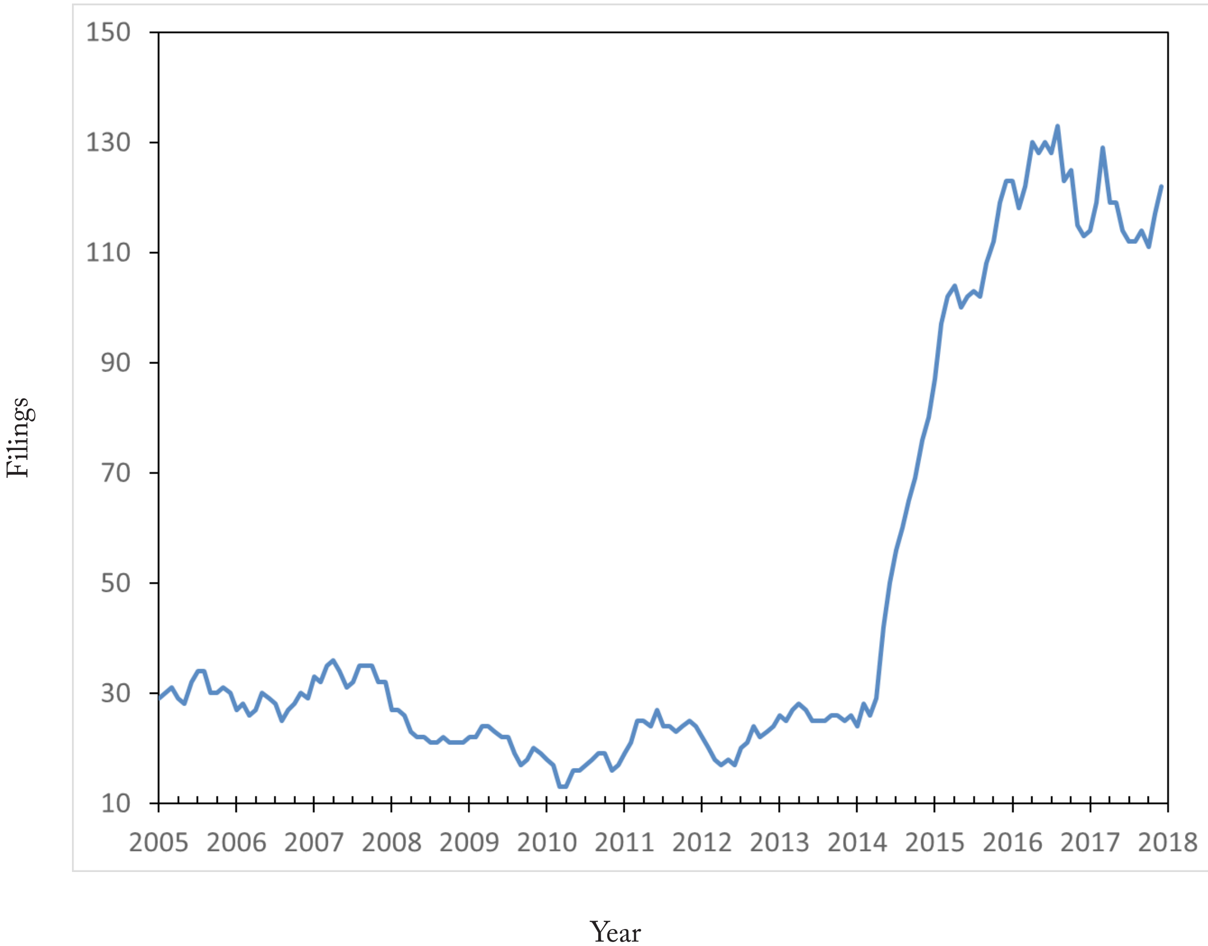
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Southwest Minnesota New Assumed Names	140	236	201	174	157	12.1%

There were 33 newly registered non-profits in the fourth quarter. This is eight more (representing a 32% increase) than the same period one year ago. As can be seen in the graph below, the non-profits series has now levelled out over the past two years.

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



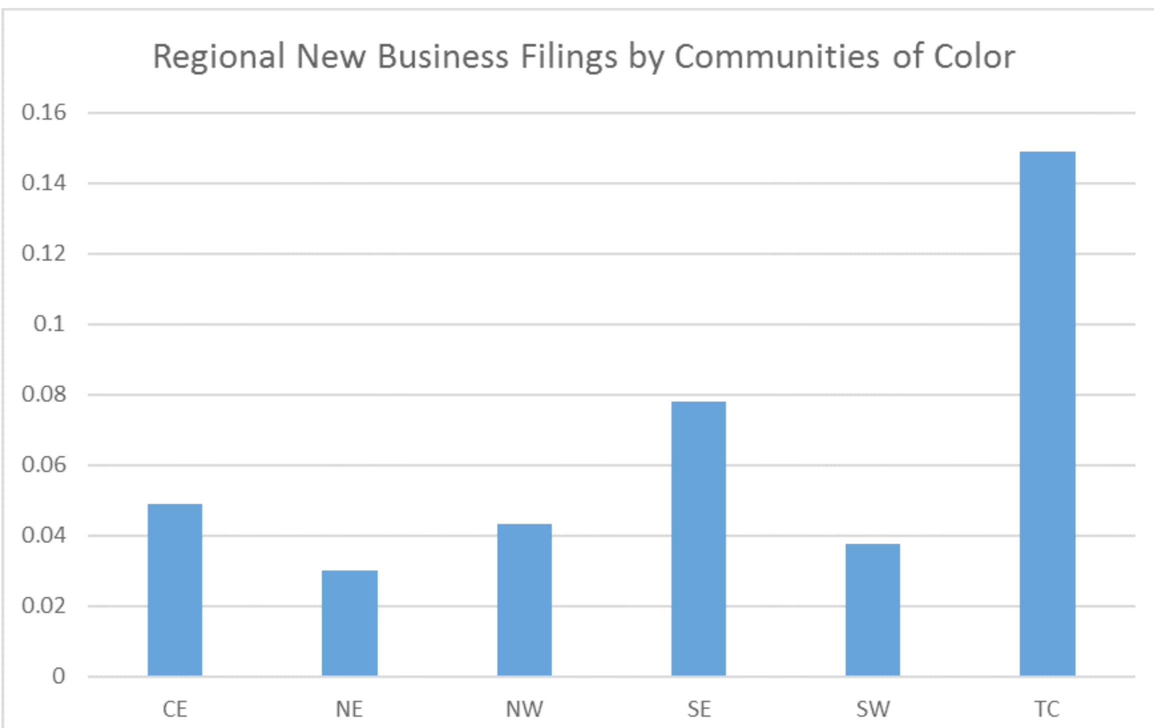
Quarter	IV: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Southwest Minnesota New Non-Profits	25	44	21	24	33	32.0%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

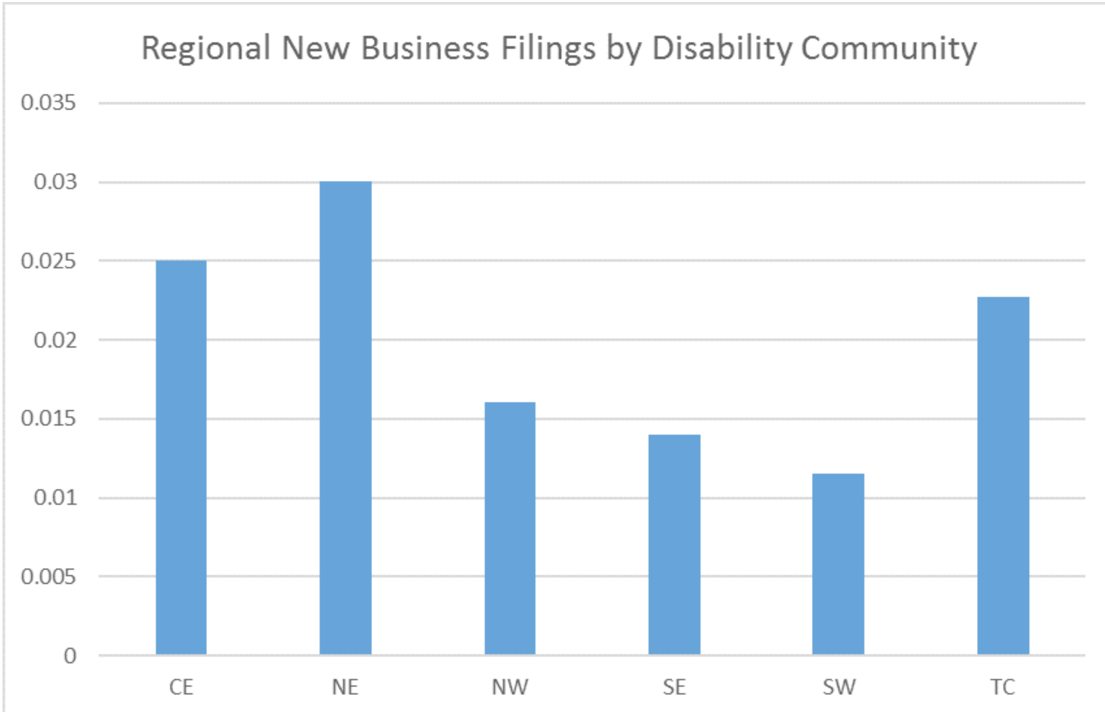
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 fourth quarter of 2017 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 59 percent. This yields thousands of self-reported records in this emerging data set. For Southwest Minnesota, a little over 56 percent (this is the lowest response rate of any of Minnesota's six planning areas) of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

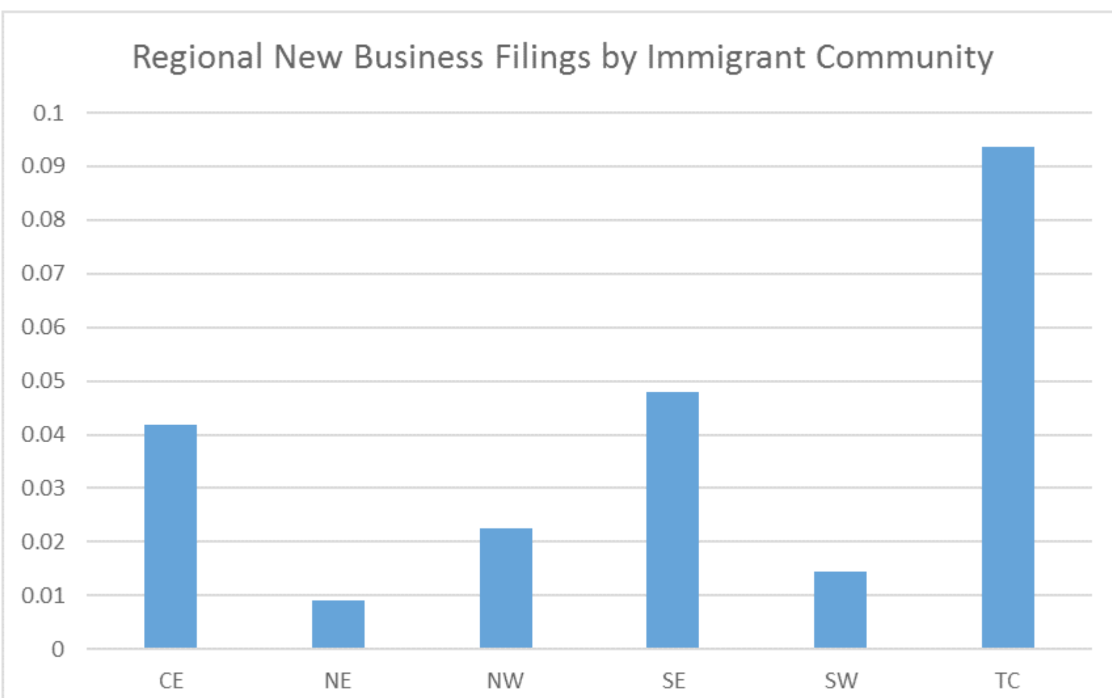
About 3.7 percent of those new filers completing the MBS from the Southwest Minnesota planning area report being from a community of color. This is the second lowest percentage of Minnesota's six planning areas.



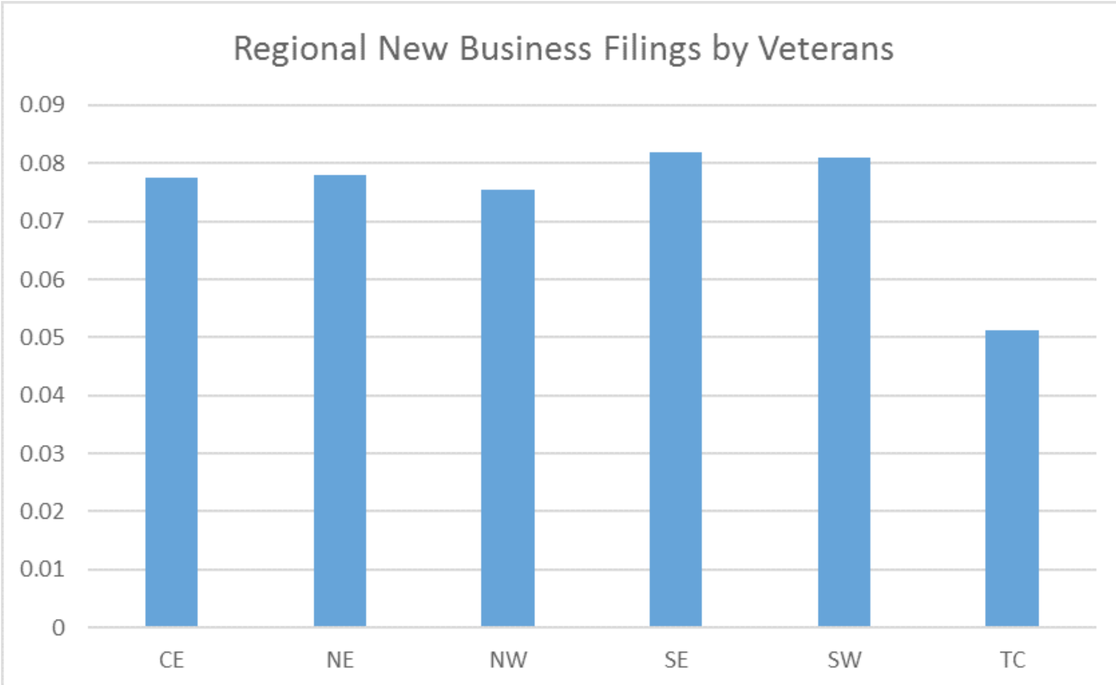
About 1.2 percent of Southwest Minnesota's new filers are from the disability community.



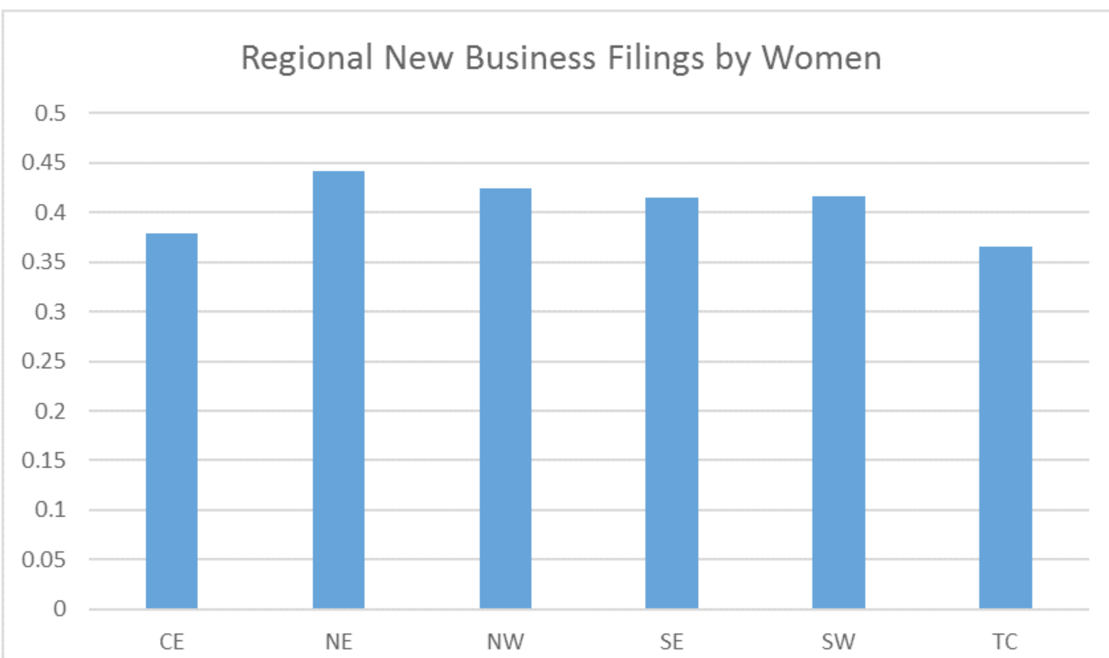
Only 1.4 of new business filings in Southwest Minnesota come from the immigrant community. This is also the second lowest percentage of Minnesota's six planning areas.



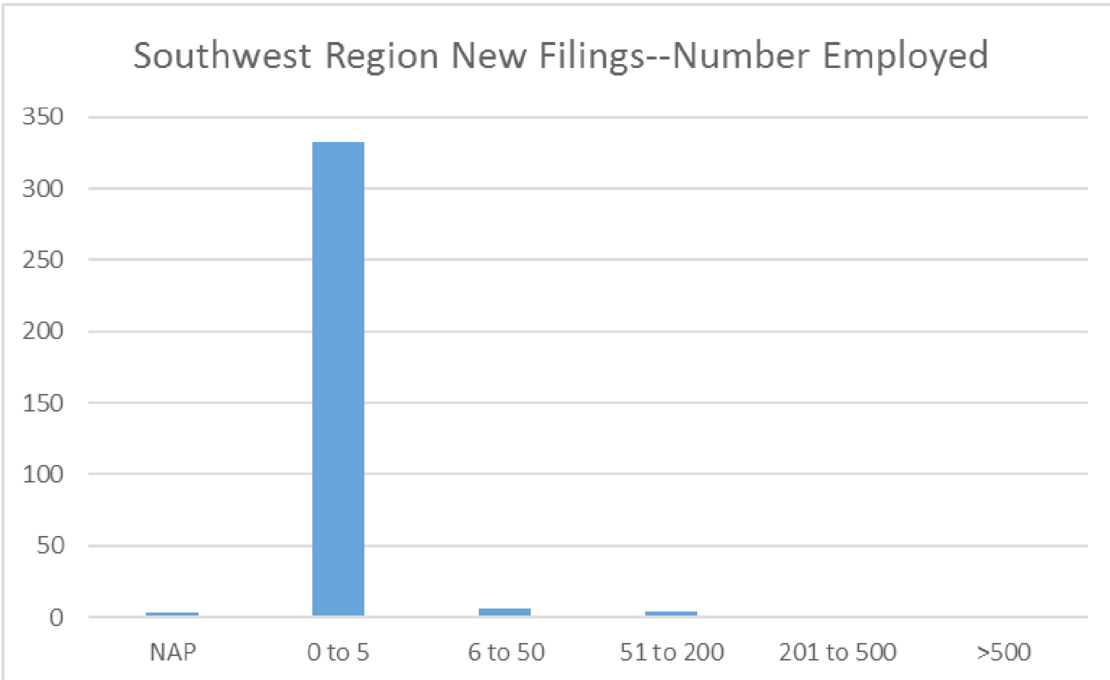
More than 8 percent of new filings in Southwest Minnesota come from military veterans.



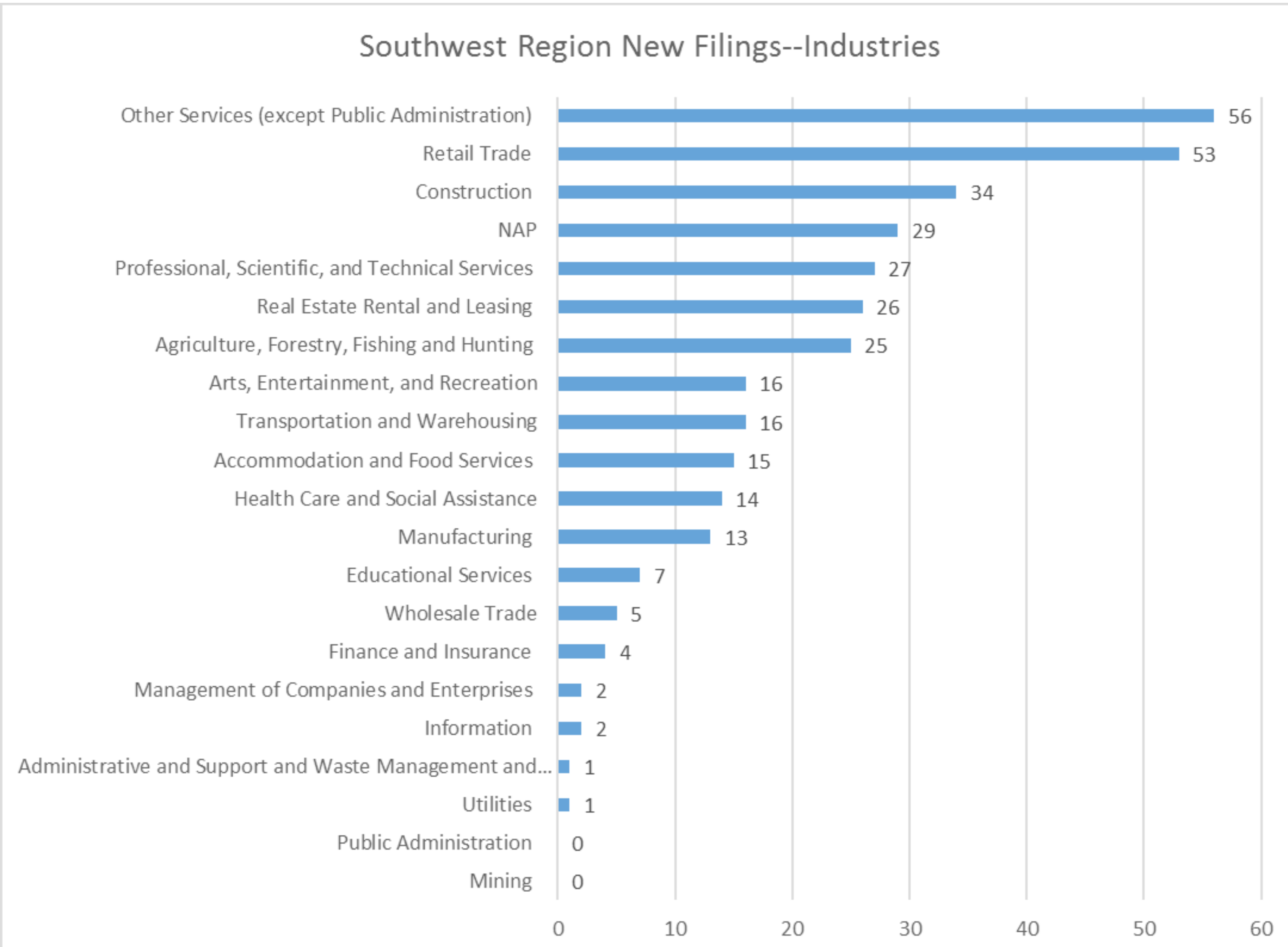
Woman owners represented nearly 42 percent of the new business filings in Southwest Minnesota in the fourth quarter of 2017.



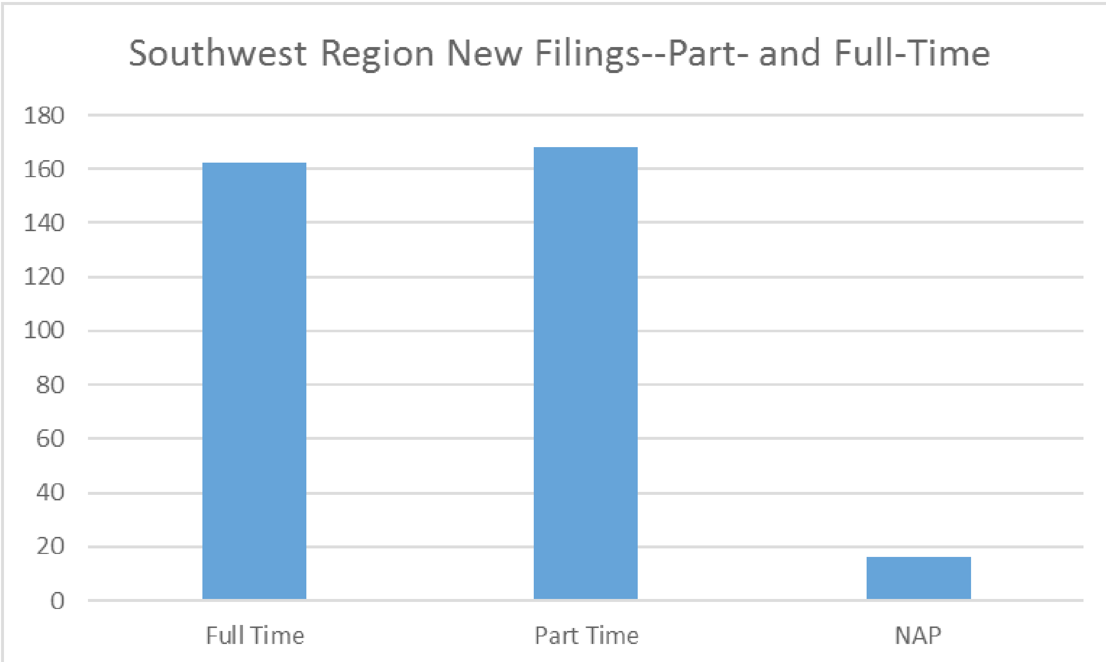
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by "NAP"—no answer provided), 343 responses were tallied to a question asking the new business filer to indicate 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.



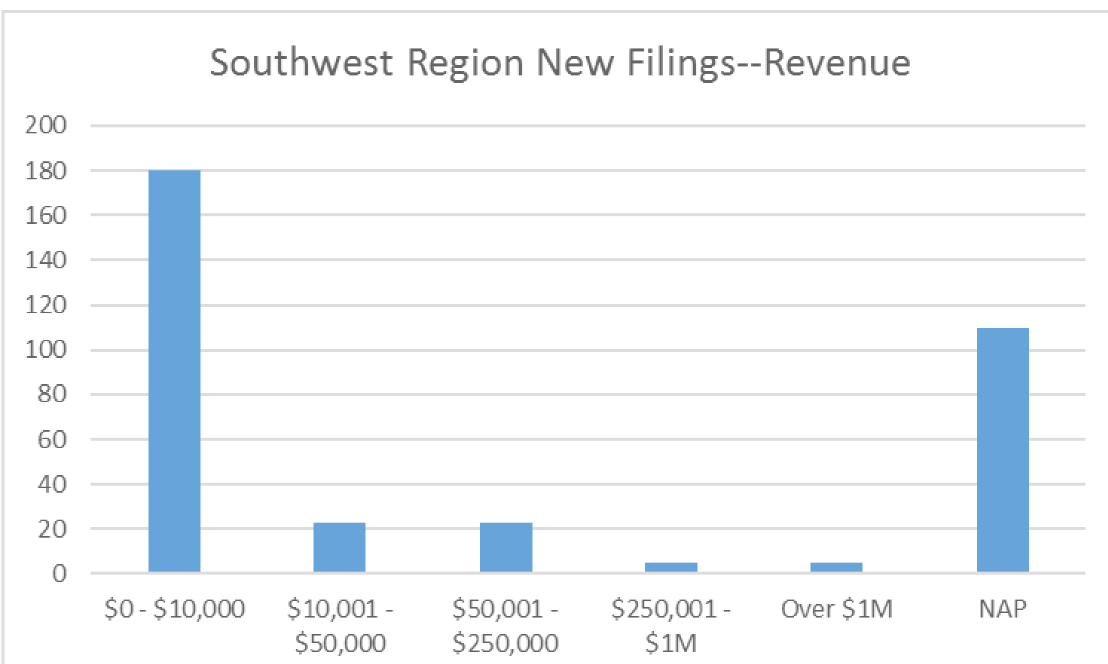
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, retail trade, construction, and "other services" lead the way. Since businesses are often 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. Twenty-nine new firms did not provide an answer to this survey item (see "NAP")



Fifty-one percent of those submitting a new business filing in Southwest Minnesota in the fourth quarter of 2017 are part-time ventures.



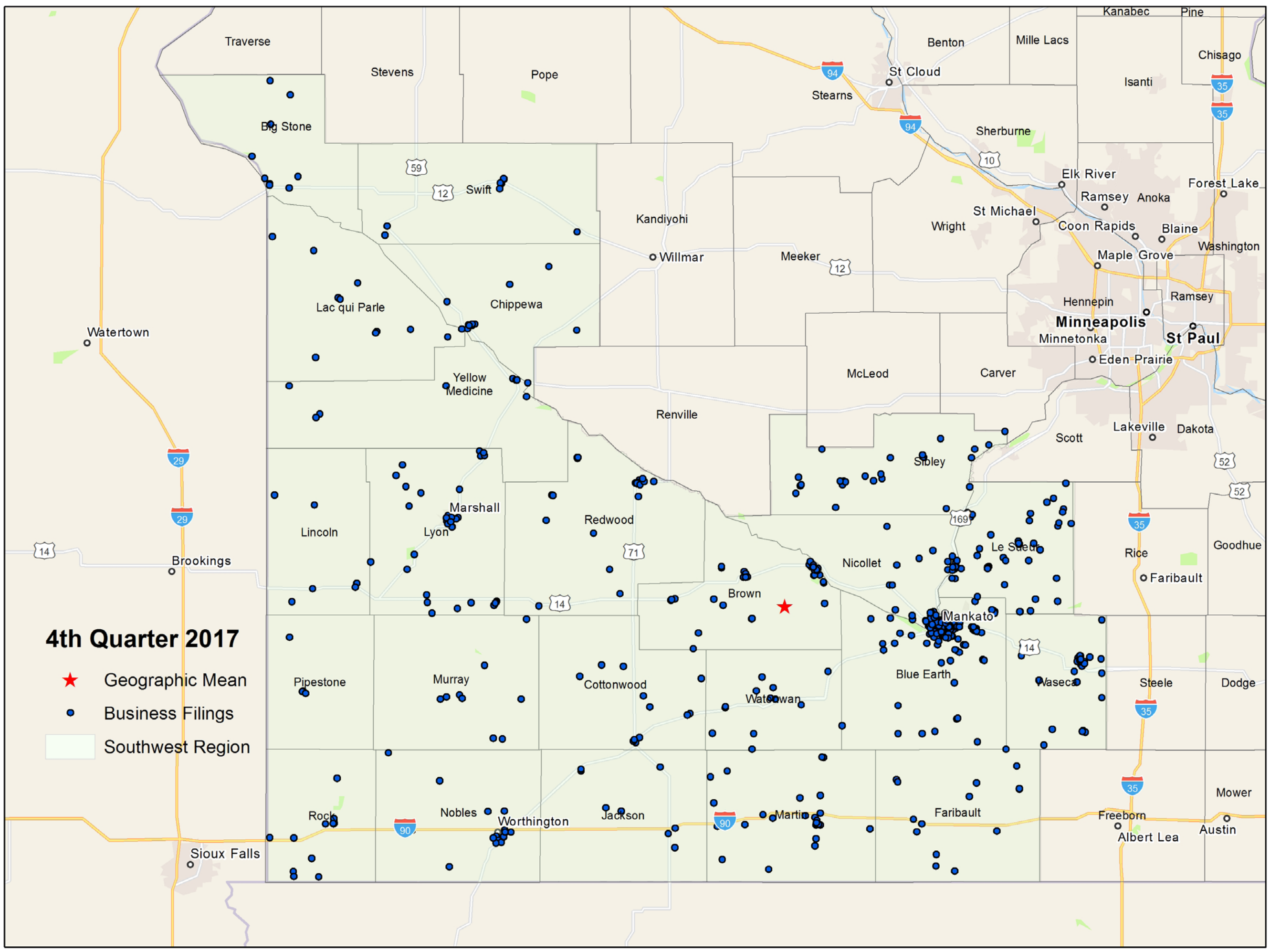
One hundred-ten new filers in Southwest Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues less than $10,000. Thirty-three firms report annual revenues in excess of $50,000.



MAPS

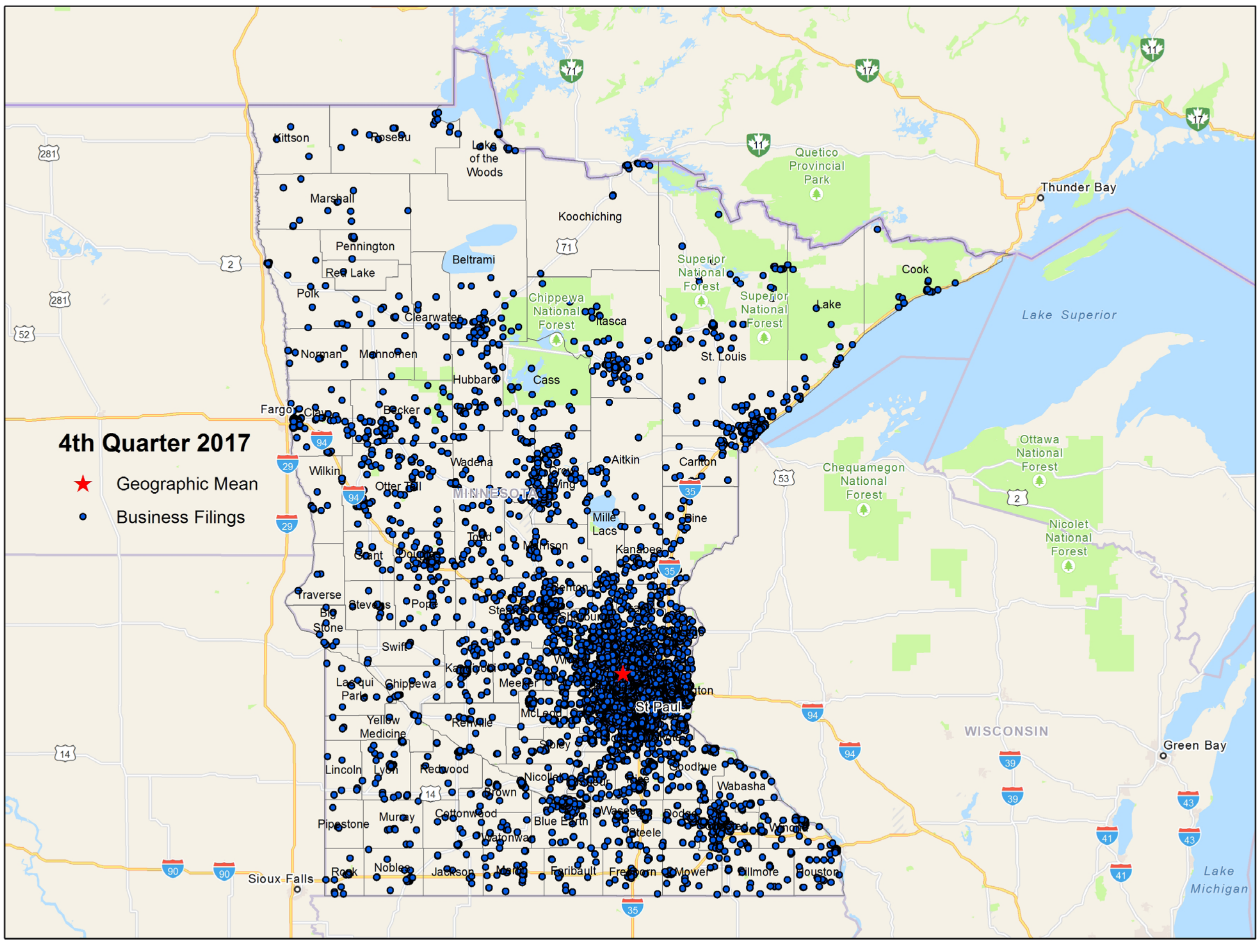
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the fourth quarter of 2017. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, New 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 4: 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. There is also considerable new business formation in the southern part of the state, particularly in Rochester and between the Twin Cities and Mankato. 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 4: 2017

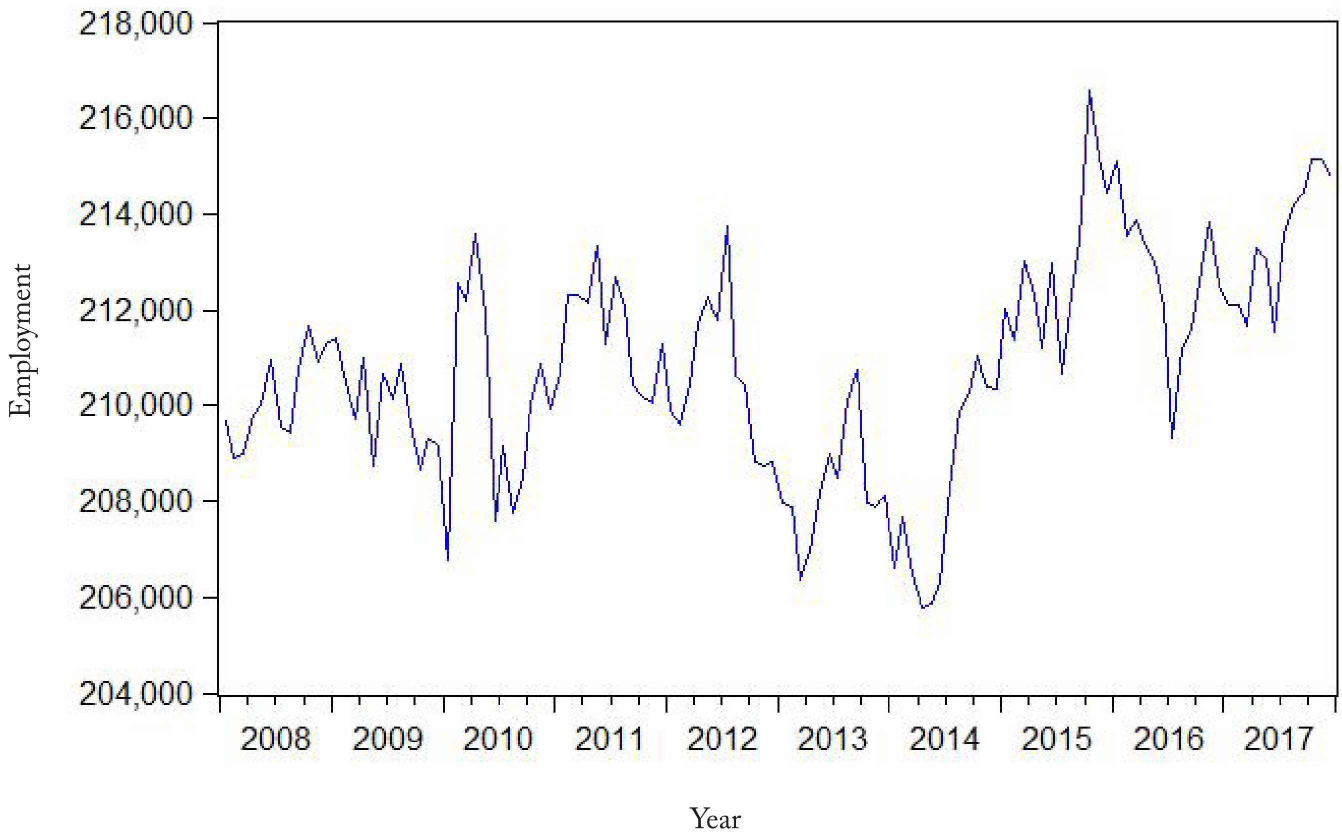


SOUTHWEST MINNESOTA LABOR MARKET CONDITIONS

Employment of residents of the Southwest Minnesota planning area rose by 1.1 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 the trend line flattened out until recent months, at which time it has once again rebounded.

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 2016	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017
Employment (Not seasonally adjusted)	213,181	214,262	212,257	212,839	219,234	217,469	215,513

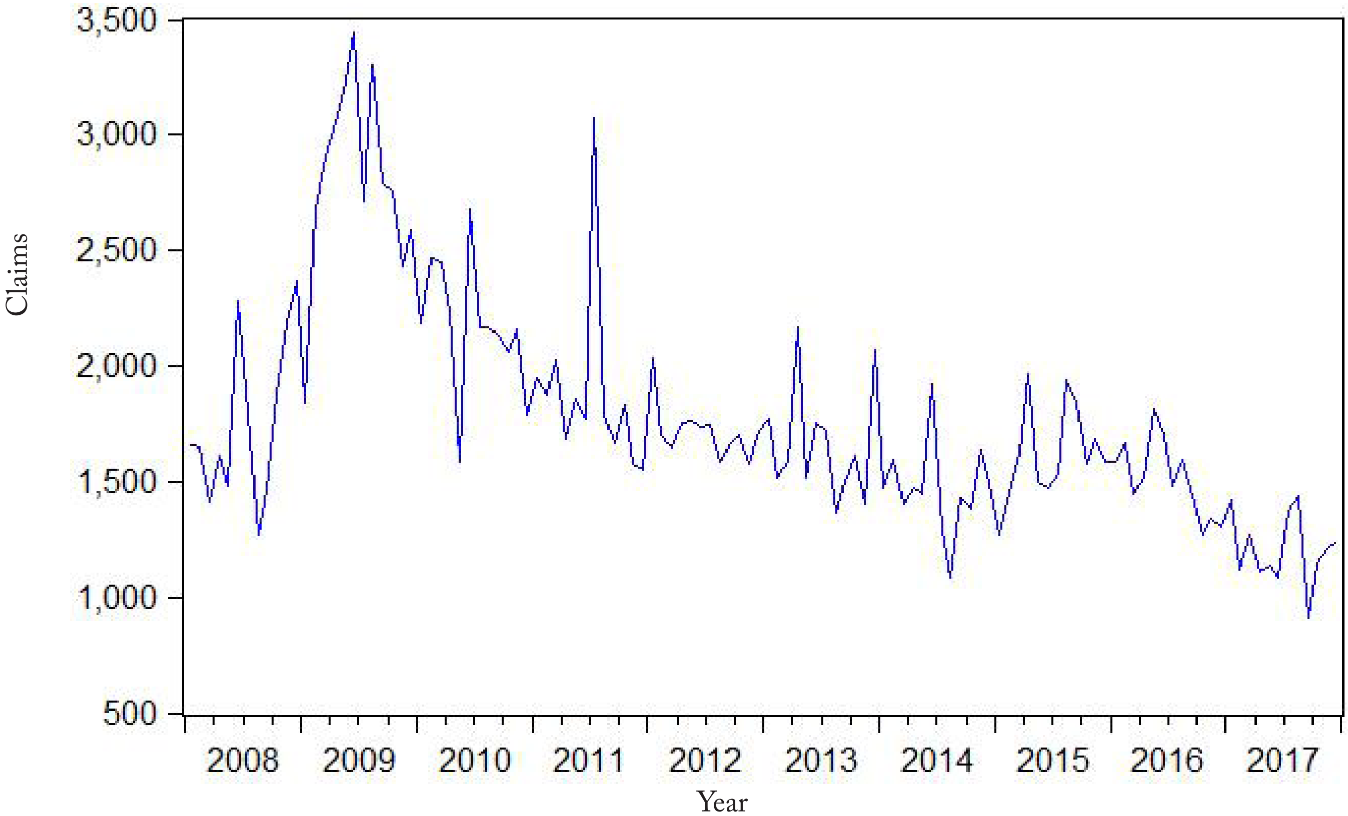
The seasonally adjusted unemployment rate in Southwest Minnesota declined through most of 2017. The non-seasonally adjusted measure now stands at 3.5 percent — a considerable decrease from the 4.2 percent rate recorded in December 2016.

Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area

Month	December 2016	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017
Unemployment rate (not seasonally adjusted)	4.2%	3.3%	3.6%	3.0%	2.2%	2.4%	3.5%

New claims for unemployment insurance in December 2017 were 4.7 percent lower than one year earlier. The accompanying graph shows a seasonally adjusted series of initial jobless claims. After declining since the third quarter of 2015, this series showed some volatility in 2017 and seasonally adjusted claims are now little changed from one year ago.

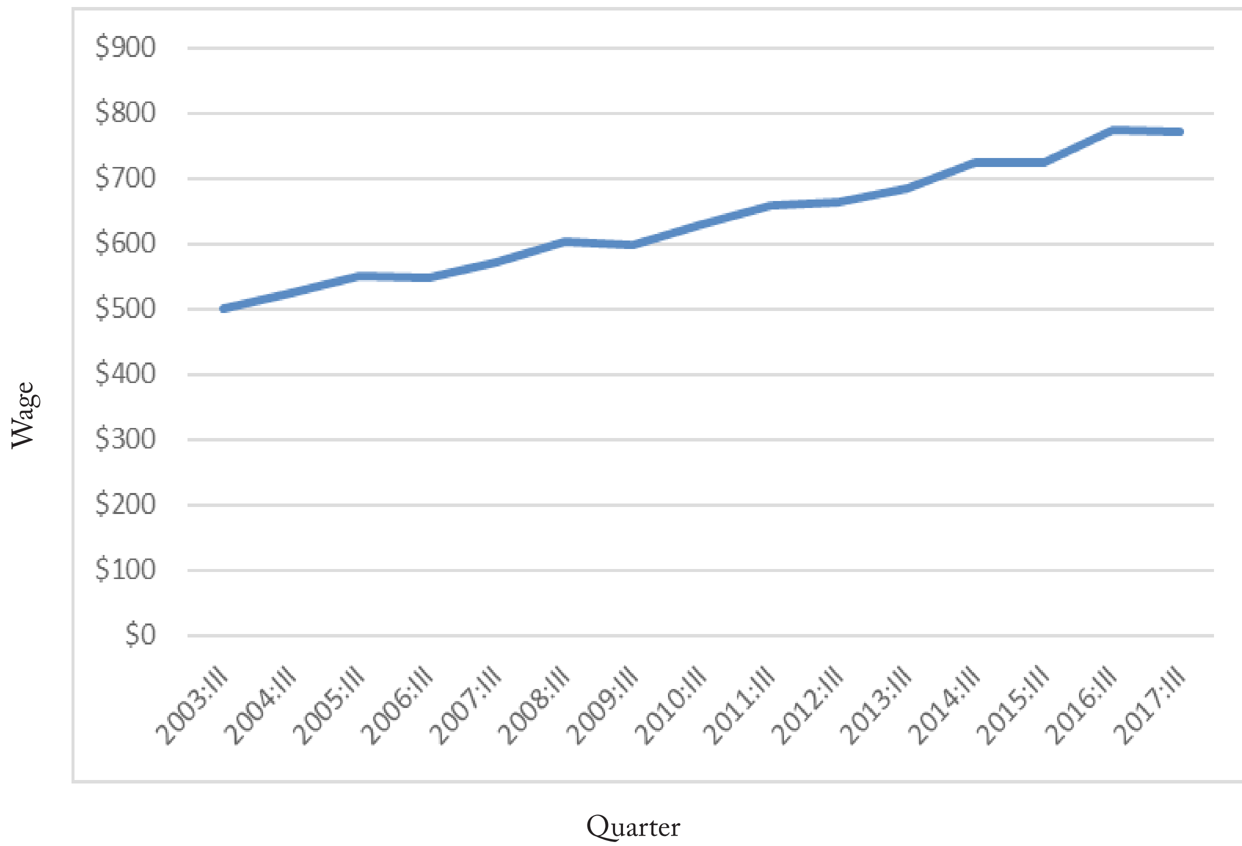
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Period	December 2016	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017
Initial claims (Not seasonally adjusted)	2,784	980	990	711	837	2,102	2,652

Average weekly wages in Southwest Minnesota were lower in the third quarter of 2017 than they were one year earlier. This same data pattern is observed in all of Minnesota's other regions, except the Southeast Minnesota planning area. This reported decline in average weekly wages across the state appears to be related to a different pattern of data collection in 2016 (when there were 14 payment periods in the third quarter) compared to 2017 (when there were only thirteen payment periods). This statistical anomaly runs counter to what is seen in most other regional wage data in Minnesota—earnings appear to be rising across the state.

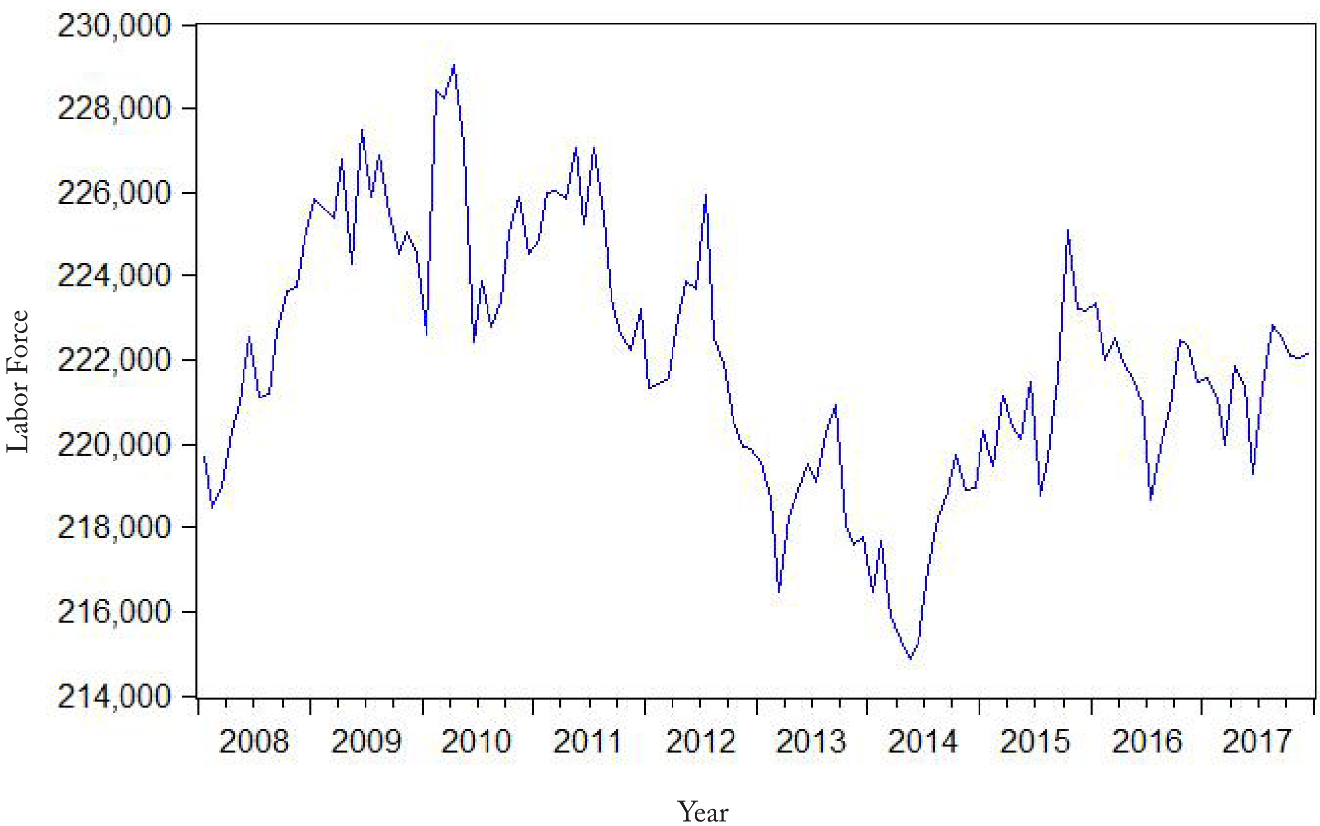
Average Weekly Wage—
Southwest Minnesota Planning Area



Quarter	2012:III	2013:III	2014:III	2015:III	2016:III	2017:III
Average Weekly Wage	$663	$684	$725	$724	$773	$771

The Southwest Minnesota labor force expanded by 0.4 percent over the year ending December 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 but the trend has been relatively flat since the end of 2015.

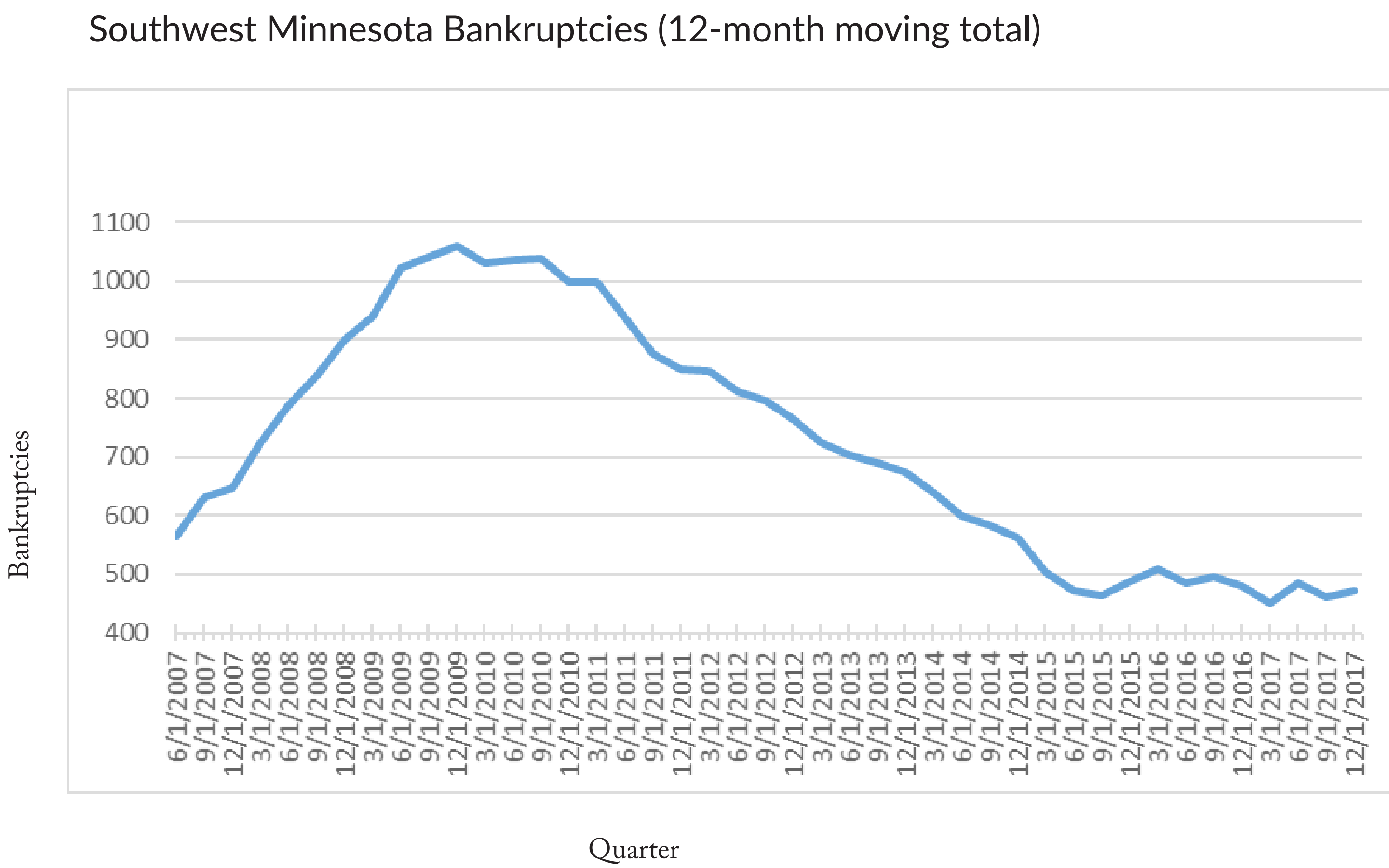
Labor Force—Southwest Minnesota Planning Area (12-month moving average)



Year (December)	2012	2013	2014	2015	2016	2017
Labor Force (not seasonally adjusted)	219,453	217,889	219,472	223,950	222,441	223,230

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 473 bankruptcies over the past twelve months, this series is little changed from its value of mid-2015.



Year (Fourth Quarter)	2012	2013	2014	2015	2016	2017
Annual Bankruptcies (Not seasonally adjusted)	765	674	561	486	481	473

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 2017 (m)	58,865	57,898	1.7% ↑	0.8%
Goods-Producing Employment	December 2017 (m)	10,193	9,741	4.6% ↑	-0.4%
Average Weekly Work Hours--Private Sector	December 2017 (m)	29.6	31.4	-5.7% ↓	32.2 (since 2008)
Average Earnings Per Hour--Private Sector	December 2017 (m)	$25.30	$23.86	6.0% ↑	1.9% (since 2008)
Unemployment Rate	December 2017 (m)	2.5%	3.1%	NA ↓	3.6%
Labor Force	December 2017 (m)	61,052	59,848	2.0% ↑	0.7%
Initial Jobless Claims	December 2017 (m)	510	487	4.7% ↑	NA
Business Formation					
Total New Business Filings	Fourth Quarter (q)	219	192	14.1% ↑	152 (since 2000)
New Business Incorporations	Fourth Quarter (q)	15	13	15.4% ↑	24 (since 2000)
New Limited Liability Companies	Fourth Quarter (q)	155	130	19.2% ↑	77 (since 2000)
New Assumed Names	Fourth Quarter (q)	45	39	15.4% ↑	46 (since 2000)
New Non-Profits	Fourth Quarter (q)	4	10	-60.0% ↓	6 (since 2000)
Mankato-North Mankato Residential Building Permit Valuation	December 2017 (m)	2,461	576	327.3% ↑	NA
Mankato-North Mankato Cost of Living Index	Third Quarter 2017 (q)	92.8	93.0	-0.2% ↓	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 and the labor force rose over the year ending December 2017. Other indicators of positive economic performance included a lower relative cost of living, a lower unemployment rate, higher average hourly earnings, increased valuation of residential building permits, and a rise in new business filings. However, average weekly work hours fell and the number of initial jobless claims rose.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Dec 2017	Sep 2017	Dec 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,958,700	2,955,500	2,921,400	0.1%	1.3%
Average weekly hours worked, private sector	33.9	34.1	33.9	-0.6%	0.0%
Unemployment rate, seasonally adjusted	3.1%	3.7%	4.0%	NA	NA
Earnings per hour, private sector	$28.59	$28.58	$27.85	0%	2.7%
Philadelphia Fed Coincident Indicator, MN	203.74	199.43	194.23	2.2%	4.9%
Philadelphia Fed Leading Indicator, MN	2.68	1.91	1.44	40.3 %	86.1%
Minnesota Business Conditions Index	56.8	59.4	52.3	-4.4%	8.6%
Price of milk received by farmers (cwt)	$17.10	$17.90	$19.60	-4.5%	-12.8%
Enplanements, MSP airport, thousands	1,471.6	1,522.7	1,456.8	-3.4%	1.0%
NATIONAL Indicators	Dec 2017	Sep 2017	Dec 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	147,610	146,963	145,437	0.4%	1.5%
Industrial production, index, SA	107.5	104.8	103.8	2.6%	3.6%
Real retail sales, SA ($)	199,780	197,348	193,475	1.2%	3.3%
Real personal income less transfers, billions	12,153.6	12,066.3	11,840.1	0.7%	2.6%
Real personal consumption expenditures, bill.	12,071.4	11,962.1	11,740.1	0.9%	2.8%
Unemployment rate, SA	4.1%	4.2%	4.7%	NA	NA
New building permits, SA, thousands	18,355	20,470	17,581	-10.3%	4.4%
Standard & Poor's 500 stock price index	2,664.3	2,492.8	2,246.6	6.9%	18.6%
Oil, price per barrel in Cushing, OK	$57.88	$49.82	$51.97	16.2%	11.4%

For the state as a whole, most 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 compared to last quarter as well as one year ago. Coincident and leading Indicators from the Federal Reserve Bank of Philadelphia are each higher than last quarter and last year, and the Minnesota Business Conditions index is higher than one year ago. Enplanements at the Minneapolis-St. Paul airport increased over the past year. However, average weekly work hours were unchanged from December 2016 and milk prices continue to fall.

The national economic indicators found in the table are also highly favorable. Over the past quarter as well as the past year, stock prices rose (recent declines in the stock market are not reflected in this table), employment increased, real income and consumer expenditures expanded, and retail sales picked up. The national unemployment rate also fell. Industrial production also rose. National building permits were lower than in September 2017 but were higher than one year earlier. Consumers also saw higher oil prices last quarter. Oil prices are now 11.4 percent higher than they were one year ago.

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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