

3-2018

Central Minnesota Economic and Business Conditions Report First Quarter 2018


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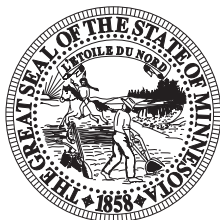
Banaian, King and MacDonald, Richard A., "Central Minnesota Economic and Business Conditions Report - First Quarter 2018" (2018). Central Minnesota Economic and Business Conditions Report. 17. http://repository.stcloudstate.edu/qebcr_c_mn/17

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Central Minnesota Economic and Business Conditions Report First Quarter 2018

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Central Minnesota Planning Area consists of 13 counties: Benton, Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, Stearns, and Wright.



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TABLE OF CONTENTS

Executive Summary.....	1
Central Minnesota Leading Economic Indicators Index	2
Central Minnesota Business Filings.....	4
Minnesota Business Snapshot Survey Results.....	9
Maps.....	15
Central Minnesota Labor Market Conditions	17
Central Minnesota Bankruptcies.....	22
Economic Indicators	23
Sources	26

EXECUTIVE SUMMARY

The Central Minnesota planning area is expected to experience steady economic growth over the next several months according to predictions of the Central Minnesota Index of Leading Economic Indicators (LEI). The leading index rose by 0.94 points in the most recent period, with four components producing positive readings. Decreased St. Cloud area residential building permits are the only component to weigh on this quarter's leading index. An uptick in national durable goods orders, lower regional initial jobless claims, an increase in the Minnesota Business Conditions Index, and an improvement in new filings of incorporation all helped drive the index higher.

There were 1,699 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the first quarter of 2018 — representing a 7.6 percent increase from one year ago. 196 new regional business incorporations were tallied in the first quarter, 21.7 percent more than year ago levels. New limited liability company (LLC) filings in Central Minnesota increased 9.6 percent relative to the first quarter of 2017. New assumed names totaled 451 over the recent quarter—a decrease of 2.6 percent compared to the same period in 2017. Current quarter new filings for Central Minnesota non-profit were 19.3 percent higher than one year ago.

Sixty-seven percent of new business filers in the Central Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's first quarter. Results of this voluntary survey indicate that 5.4 percent of new filers come from communities of color. Approximately 7.1 percent of new filings were made by military veterans. About 2.1 percent of new filers come from the disability community and 3.2 percent of new filings were made by the immigrant community. Thirty-seven percent of new business filings in Central Minnesota in this year's first quarter were initiated by women. MBS results also show that most new business filers in Central Minnesota have between 0 and \$10,000 in annual gross revenues (although 110 new filers have revenues in excess of \$50,000). The most popular industries for new businesses in Central Minnesota are construction, retail trade, real estate/rental/leasing and other services. Employment levels at most new firms are between 0 and 5 workers, and 41 percent of those starting a new business consider this a part-time activity.

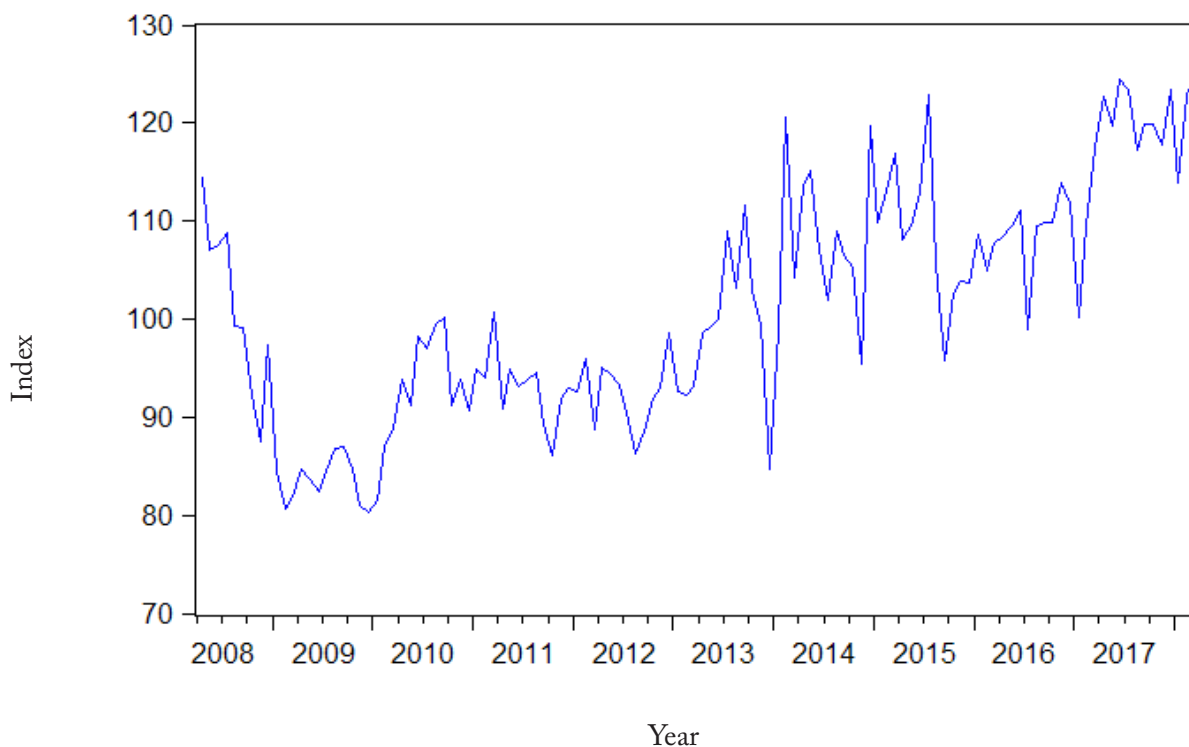
Central Minnesota employment was 4.4 percent higher in March 2018 than it was one year earlier and the March regional unemployment rate was 4.8%—considerably lower than one year ago. Initial claims for unemployment insurance were 16.2 percent lower in March than they were in the same month last year. The Central Minnesota labor force rose by 3.7 percent, but the job vacancy rate surged in Central Minnesota. There are now 100.5 job vacancies for every 100 unemployed workers in the region. Regional bankruptcies were essentially unchanged from one year ago.

Economic performance in the St. Cloud area was strong. The future outlook from a survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University was generally improved from one year earlier. Total new business filings in the St. Cloud area were led higher by large increases in new incorporations and LLCs. Employment expanded, the unemployment rate fell, average hours worked rose, initial jobless claims were lower, the labor force increased, and median home sales prices were higher.

CENTRAL MINNESOTA LEADING ECONOMIC INDICATORS INDEX

The SCSU Central 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 0.94 points in the first quarter after rising by 3.01 points one quarter earlier. Compared to one year ago, the LEI is now 6.1 percent higher. Five of Minnesota's six planning areas experienced an increase in their leading index in the first quarter of 2018 as the state's regional economies continue to experience a favorable economic outlook.

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



Components of SCSU Central Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2018	Contribution to LEI, 4th quarter 2017
Minnesota Business Conditions Index	1.41	-0.88
Central Minnesota initial claims for unemployment insurance	1.05	-0.23
Central Minnesota new filings of incorporation	0.82	-0.31
St. Cloud MSA residential building permits	-2.97	3.39
National new order for durable goods, real	0.63	1.04
TOTAL CHANGE	0.94	3.01

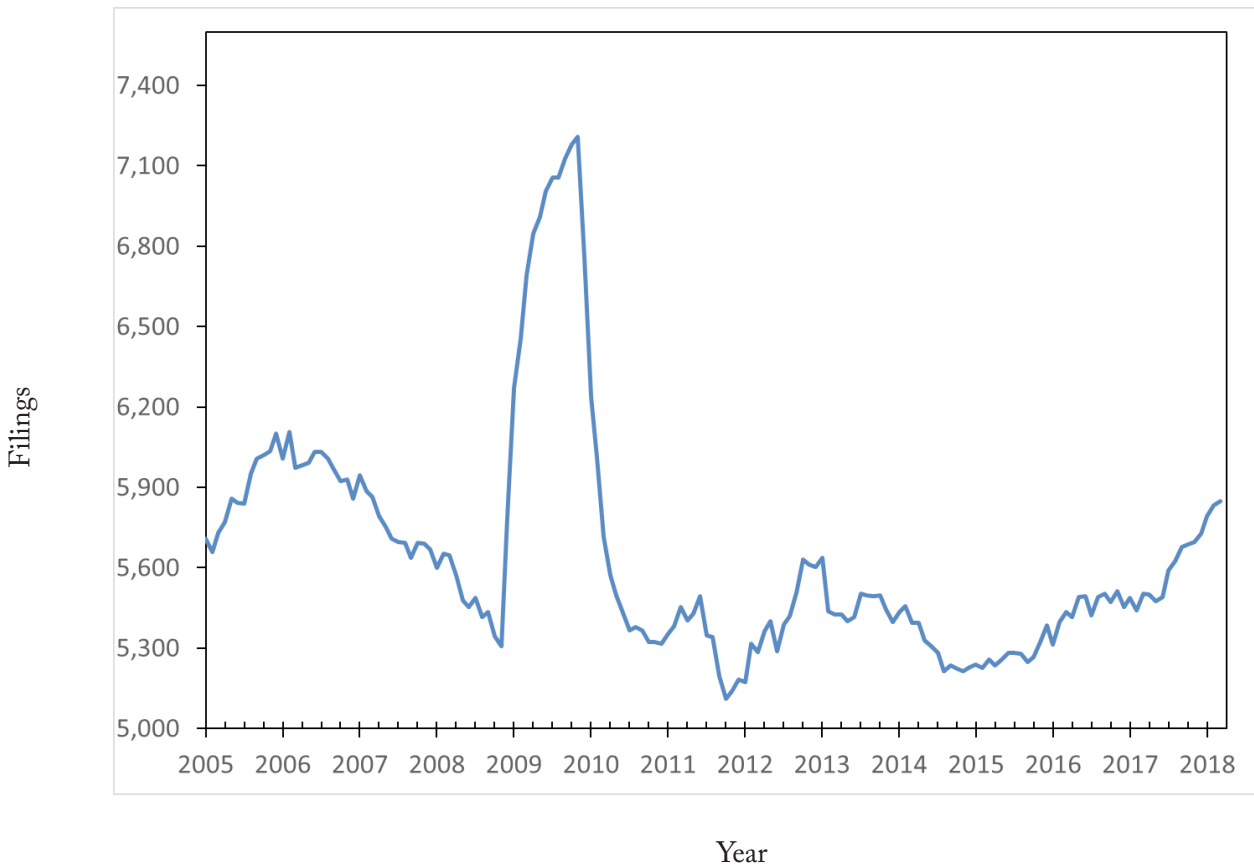
Only one index component—a decrease in St. Cloud area residential building permits—made a negative contribution to this quarter’s LEI. The Minnesota Business Conditions Index (which is a general measure of statewide business conditions) and increased new filings for business incorporation in Central Minnesota helped lift this quarter’s leading index. Since Central Minnesota is an exporter of consumer durables, national durable goods orders are used as a proxy for regional economic performance. This indicator was positive in the current quarter. Also contributing favorably to the first quarter LEI was a smaller number of initial jobless claims in the region.

SCSU Central Minnesota Leading Economic Indicators Index	2018	2017	Percentage change
Minnesota Business Conditions Index March	61.0	61.8	-1.29%
Central Minnesota initial claims for unemployment insurance March	2,078	2,480	-16.21%
Central Minnesota new filings of incorporation First Quarter	1180	1059	11.43%
St. Cloud MSA single family building permits March	15	14	7.14%
National new orders for durable goods, billions of real 1984 dollars, March	256.0	233.8	9.50%
Central Minnesota Leading Economic Indicators Index March (December 1999 = 100)	124.6	117.4	6.09%

CENTRAL MINNESOTA BUSINESS FILINGS

The graphs in this section show 12-month moving totals for the various new business filings in Central Minnesota that are registered with the Office of the Minnesota Secretary of State. There were 1,699 new business filings in Central Minnesota in the first quarter. This represents a 7.6 percent increase from the same period in 2017. As can be seen in the accompanying graph, there was an abrupt increase in new business filings in mid-2008. This resulted from a sharp increase in new LLC filings at that time. This outlier (resembling a shark fin) 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. The 12-month moving total of new business filings has generally trended upward since the end of 2015.

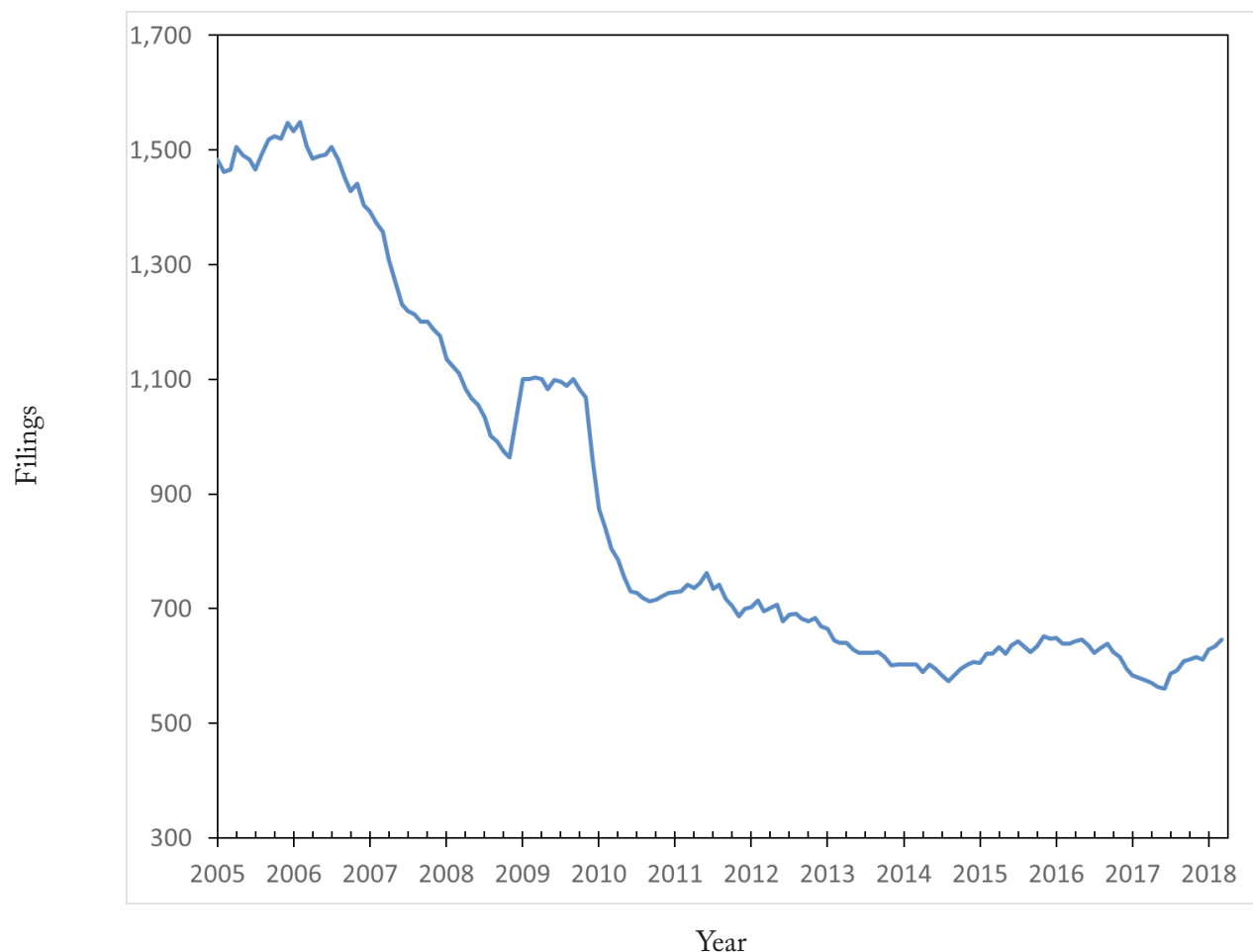
Total New Business Filings—Central Minnesota Planning Area
(12-month moving total)



Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Central Minnesota Total New Business Filings	1,579	1,440	1,378	1,331	1,699	7.6%

After a decade of decline, new business incorporations had levelled out for several quarters at the beginning of 2015. However, this gave way to a declining trend that began midway through 2016. This pattern appears to have now reversed itself as new filings for incorporation have once again started to rise. New incorporations surged by 21.7 percent (to a level of 196) compared to one year earlier in the first quarter of 2018.

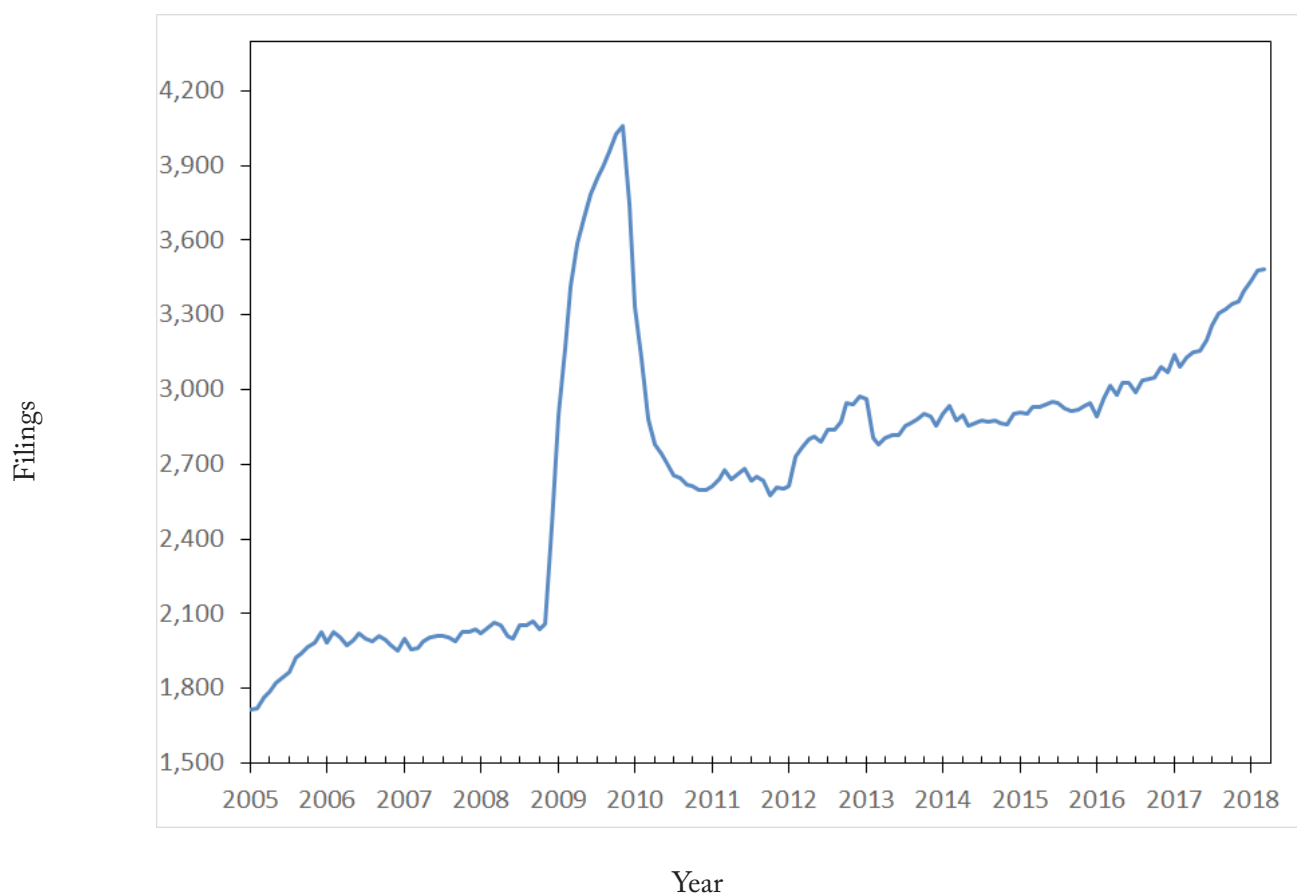
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Central Minnesota New Business Incorporations	161	148	165	136	196	21.7%

There has been a move away from the traditional incorporation form of business organization towards the LLC throughout Minnesota. While new business incorporations remain an important indicator of new business formation in Central Minnesota, LLCs are increasingly useful in evaluating regional economic performance. In the most recent quarter, the number of new LLCs increased by 9.6 percent (to 984) from one year earlier. As can be seen in the accompanying graph, the number of Central Minnesota LLCs has slowly trended upward in recent years.

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



Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Central Minnesota New Limited Liability Companies	898	863	808	830	984	9.6%

New filings for assumed name, which include sole proprietors or organizations that do not have limited liability, fell by 2.6 percent compared to the same quarter in 2017. This series has generally trended downward over the past several quarters.

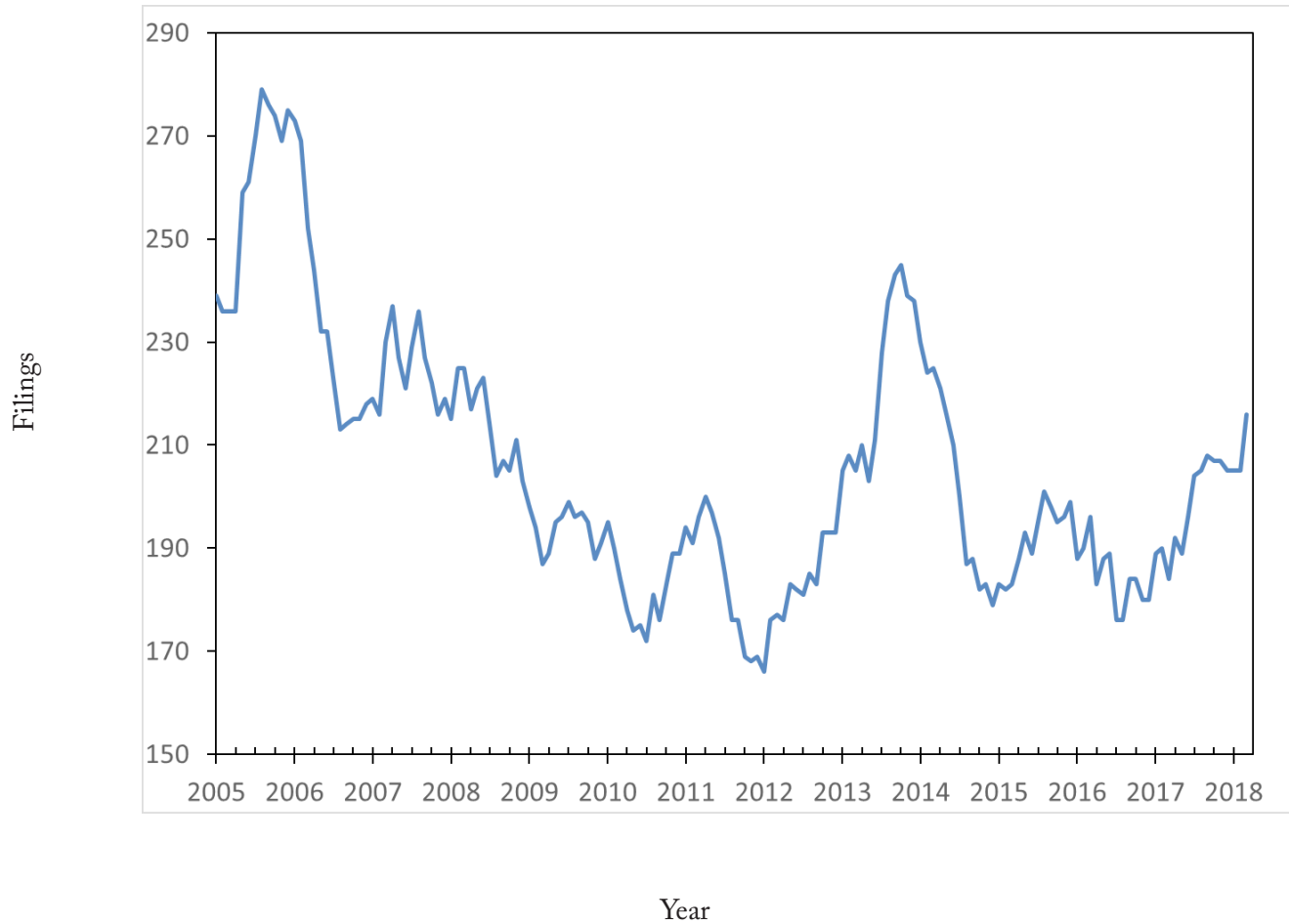
New Assumed Names—Central Minnesota Planning Area (12-month moving total)



Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Central Minnesota New Assumed Names	463	376	348	326	451	-2.6%

There were 68 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the first quarter of 2018. This represented 19.3 percent more filings than one year ago.

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



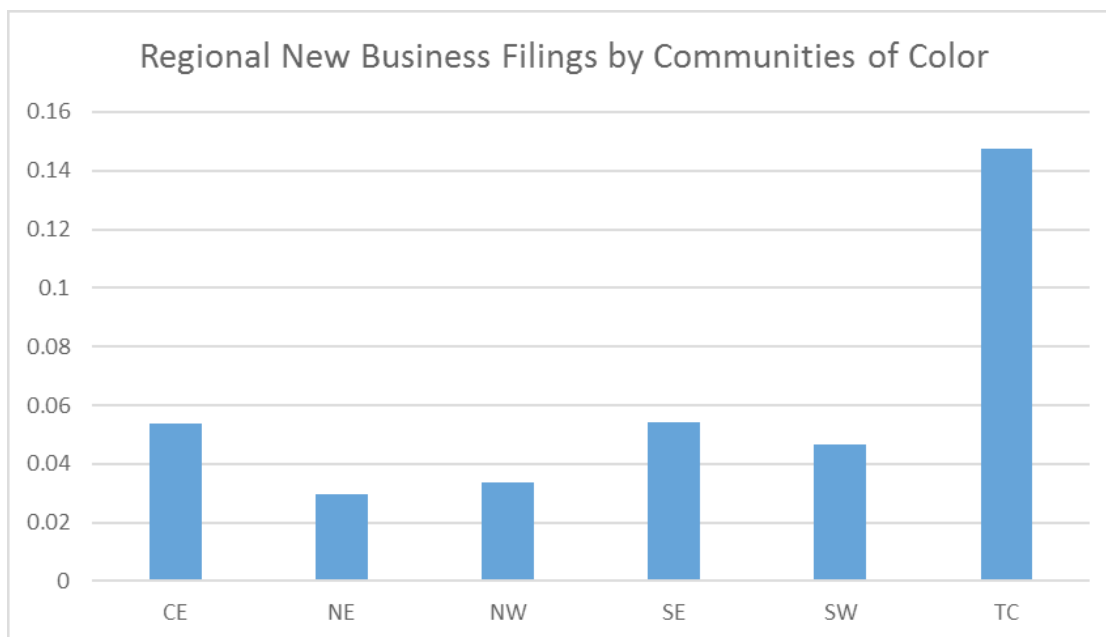
Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Central Minnesota New Non-Profits	57	53	57	38	68	19.3%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

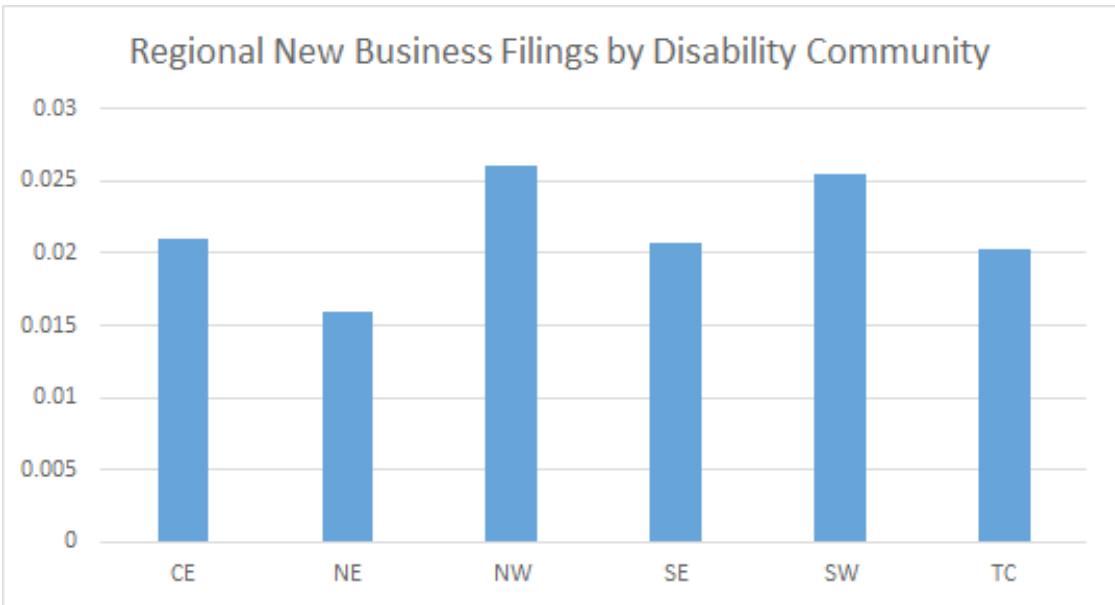
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 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 first quarter of 2018 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 62 percent. This yields thousands of self-reported records in this emerging data set. For Central Minnesota, about 67 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

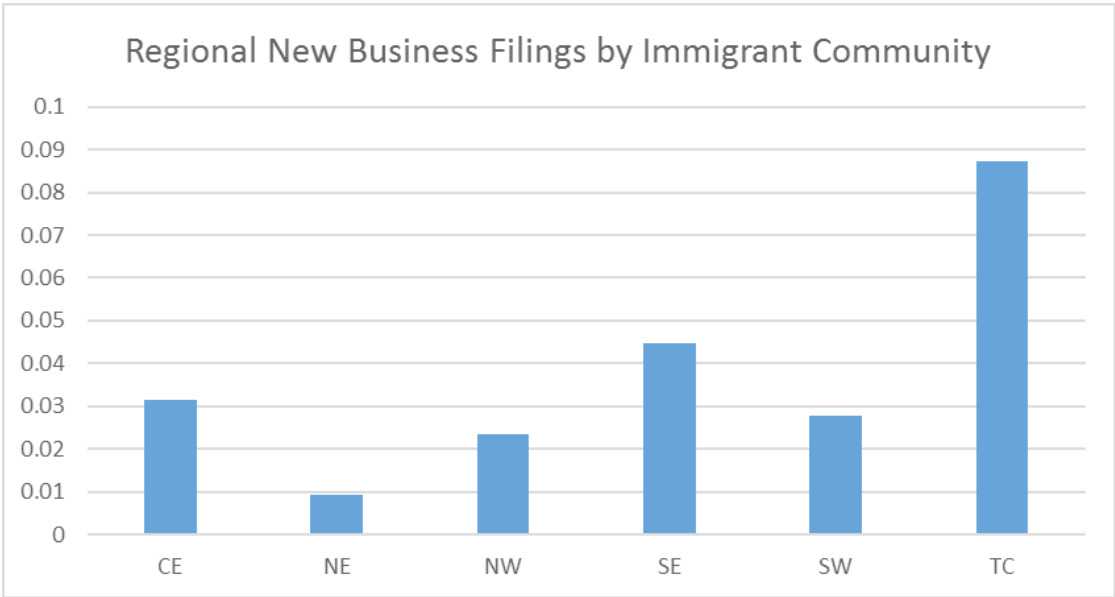
About 5.4 percent of those new filers completing the MBS from the Central Minnesota planning area report being from a community of color. This is a considerably lower percentage than in the Twin Cities, and is approximately the same as is found in the Southeast Minnesota planning area.



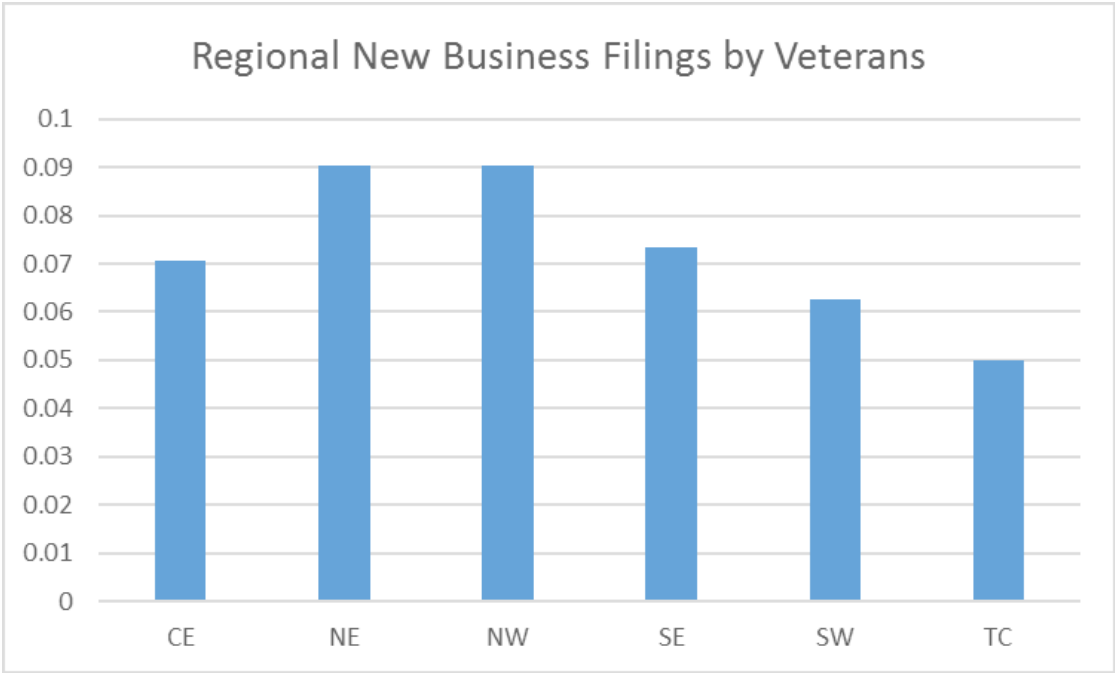
A small percentage of Central Minnesota’s new filers—about 2.1 percent—are from the disability community.



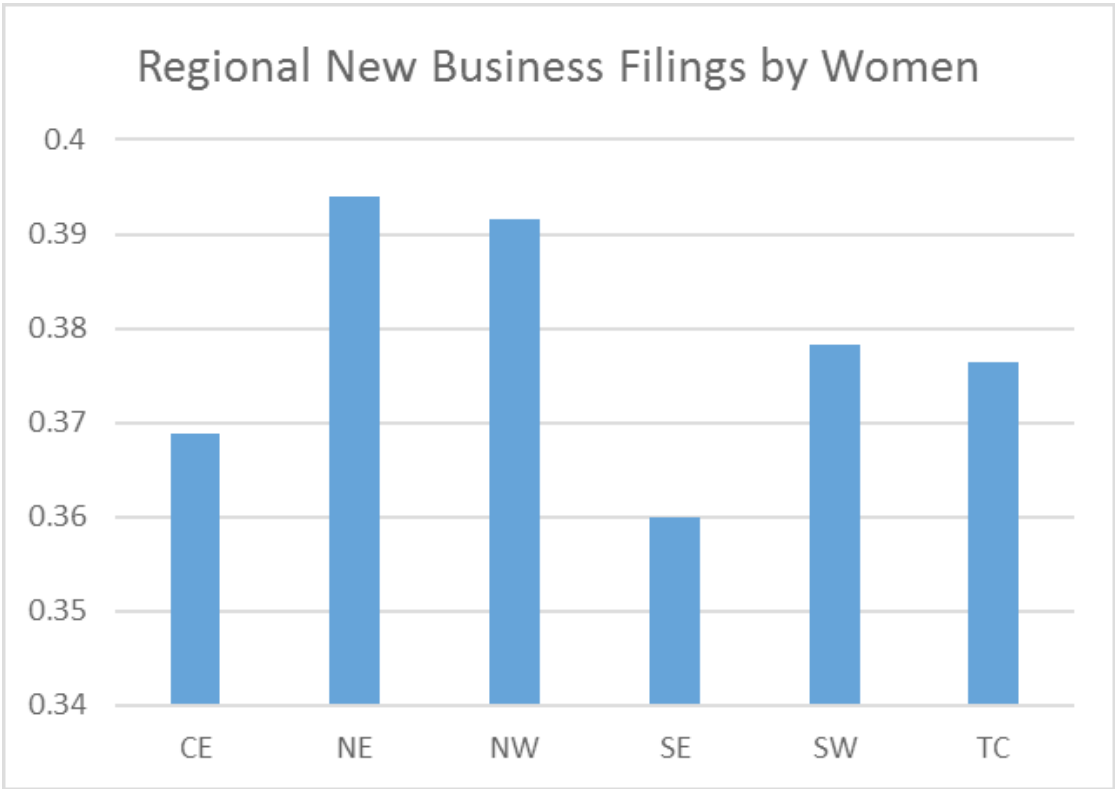
Only 3.1 percent of new business filings in Central Minnesota come from the immigrant community. Similar to what has been seen in recent quarters, the Twin Cities and Southeast planning areas had a higher share of immigrant new filers. As can be seen in the accompanying bar chart, the rate of new business filings by the immigrant community varies substantially across planning areas.



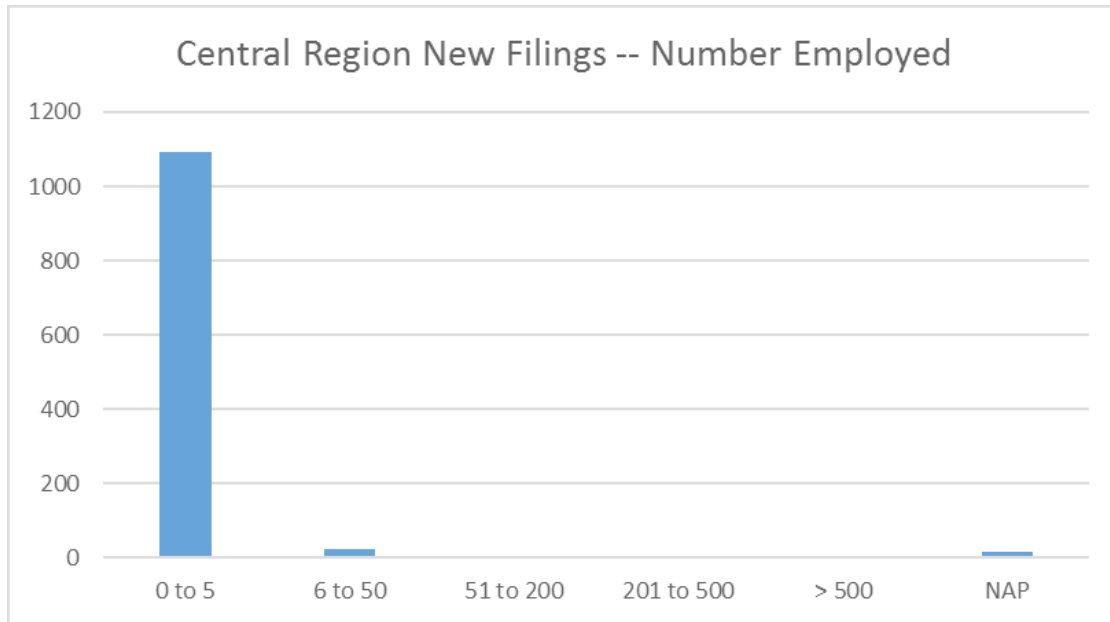
About 7.1 percent of new filings in Central Minnesota come from military veterans.



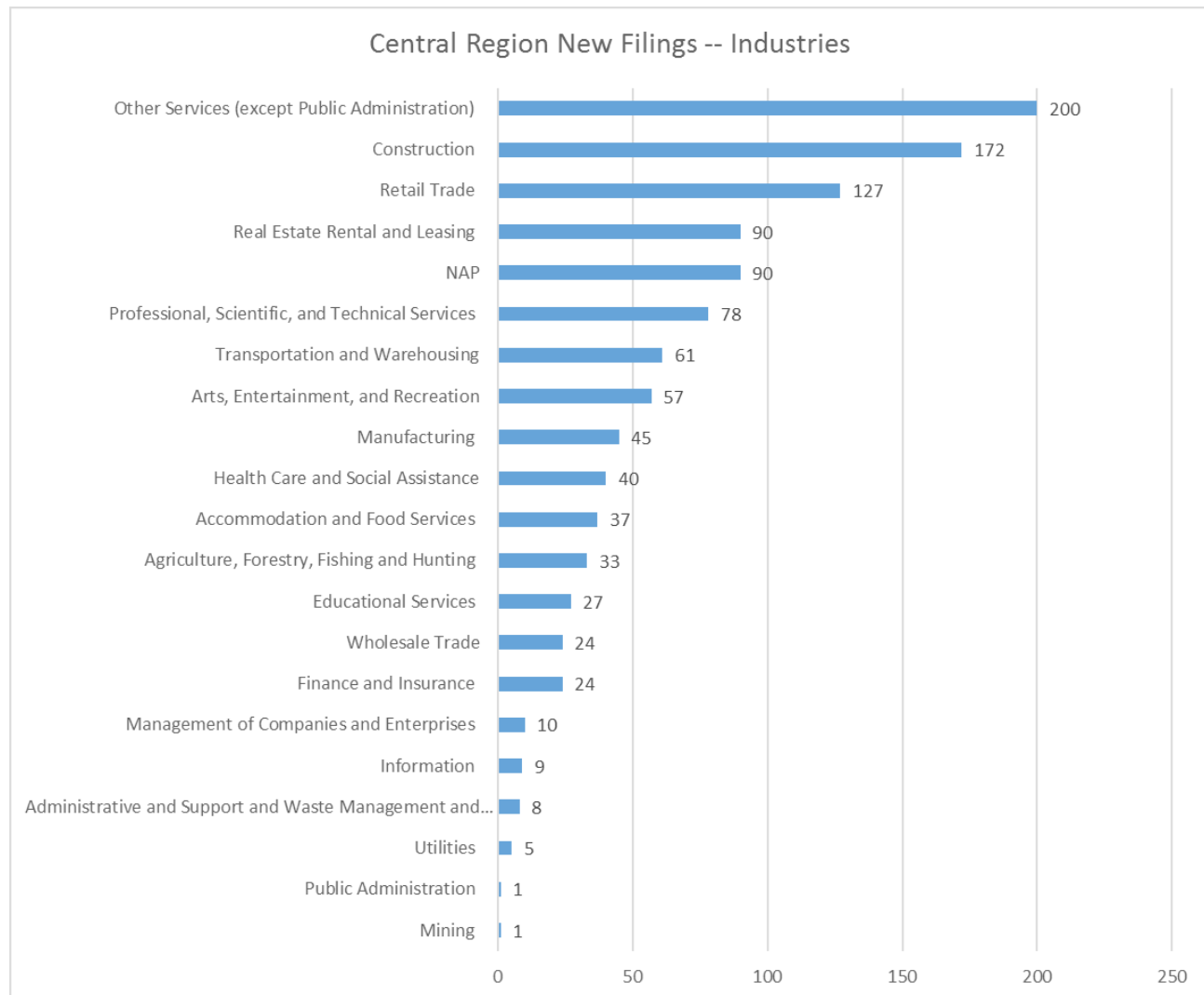
Woman owners represented nearly 37 percent of the new business filings in Central Minnesota in the first quarter of 2018. This is slightly lower than last year’s fourth quarter, when women represented about 38 percent of the sample.



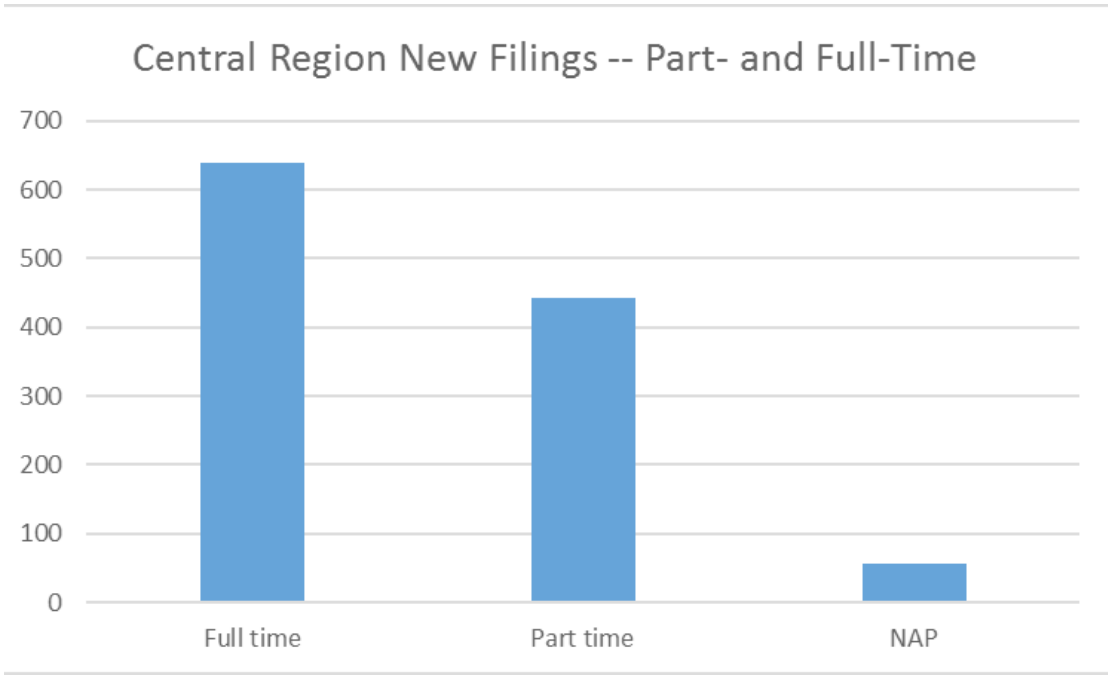
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by “NAP”—no answer provided), more than 1,100 responses were tallied to a question asking the new business filer 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.



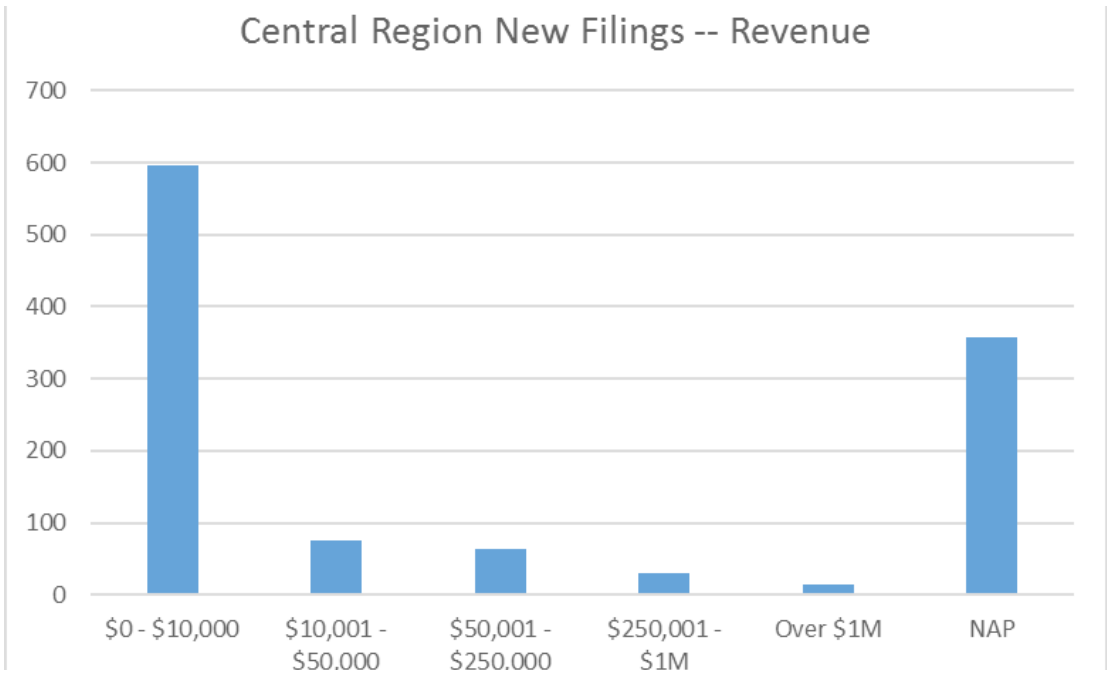
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, construction, retail trade, real estate/rental/leasing and “other services” lead the 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. Professional, scientific, and technical services are also well represented in the sample. Ninety new firms did not provide an answer to this survey item (see “NAP”)



More than 400 of those submitting a new business filing in Central Minnesota are part-time ventures.

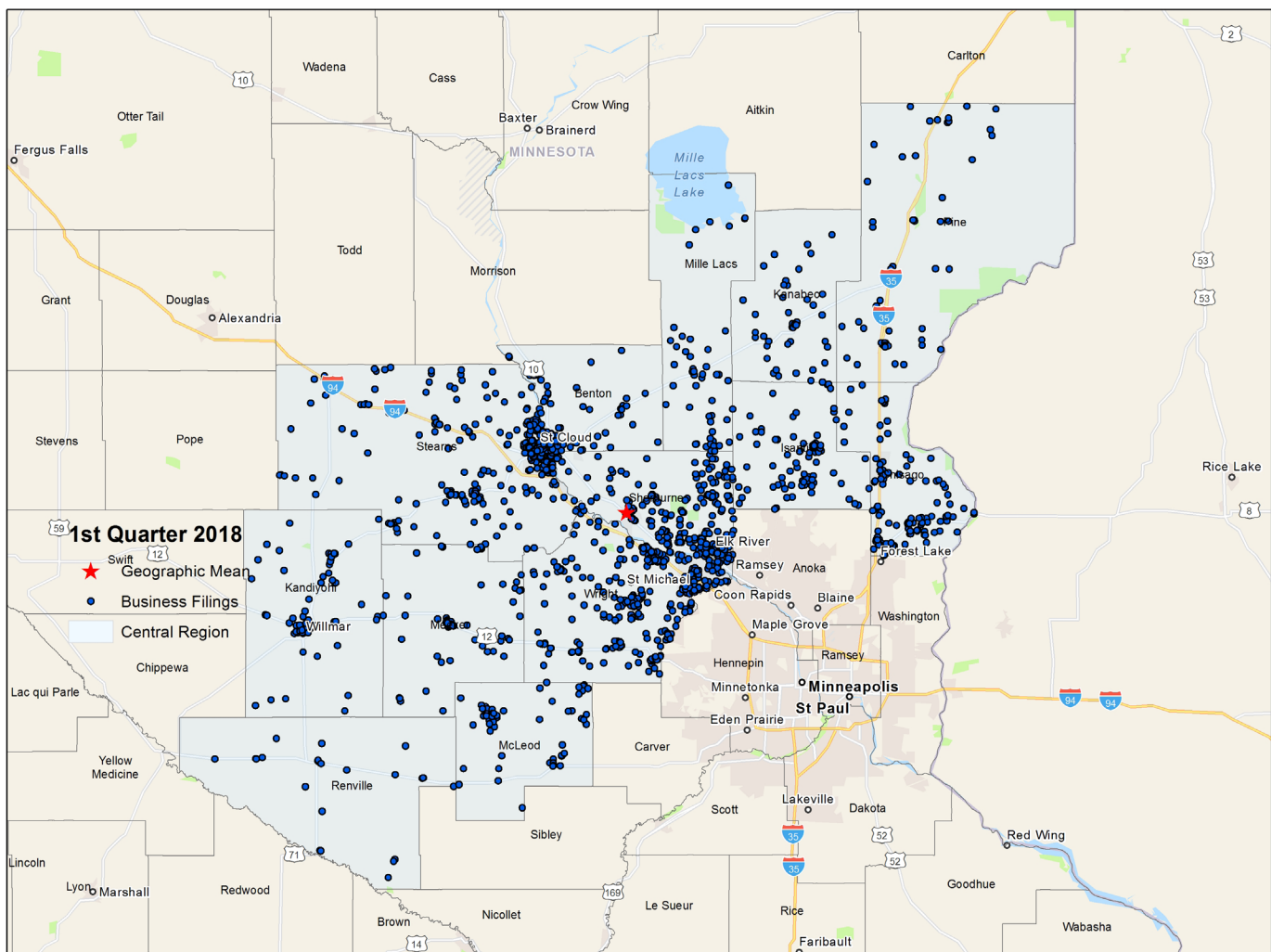


Three hundred fifty-seven new business filers in Central Minnesota did not provide an answer to the MBS item that asked them to report the company’s revenue. Of those businesses that answered the question, the largest share report revenues of less than \$10,000. 110 firms report revenues in excess of \$50,000.



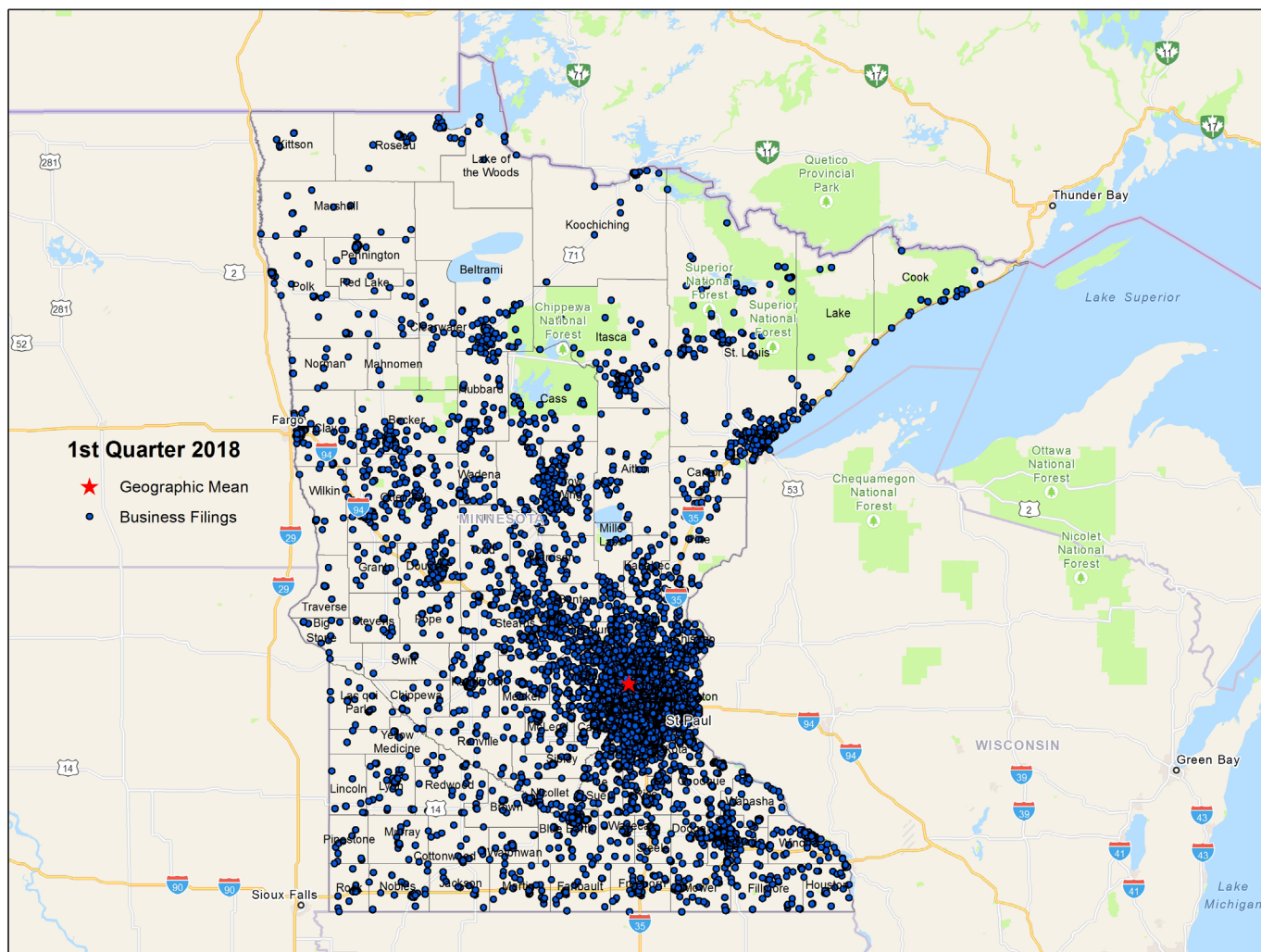
The first map shown below is a visual representation of new business filings around the Central Minnesota planning area in the first quarter of 2018. As usual, the densest areas of new business filings are in the St. Cloud metro as well as along the I-94/US-10 corridor approaching the Twin Cities. The geographic center of new filings lies within that I-94/US-10 corridor. Well-traveled roadways are also a predictor of new business filings in Central Minnesota.

Central Minnesota Planning Area--New Business Formation--Quarter 1: 2018



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, 94 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: 2018`

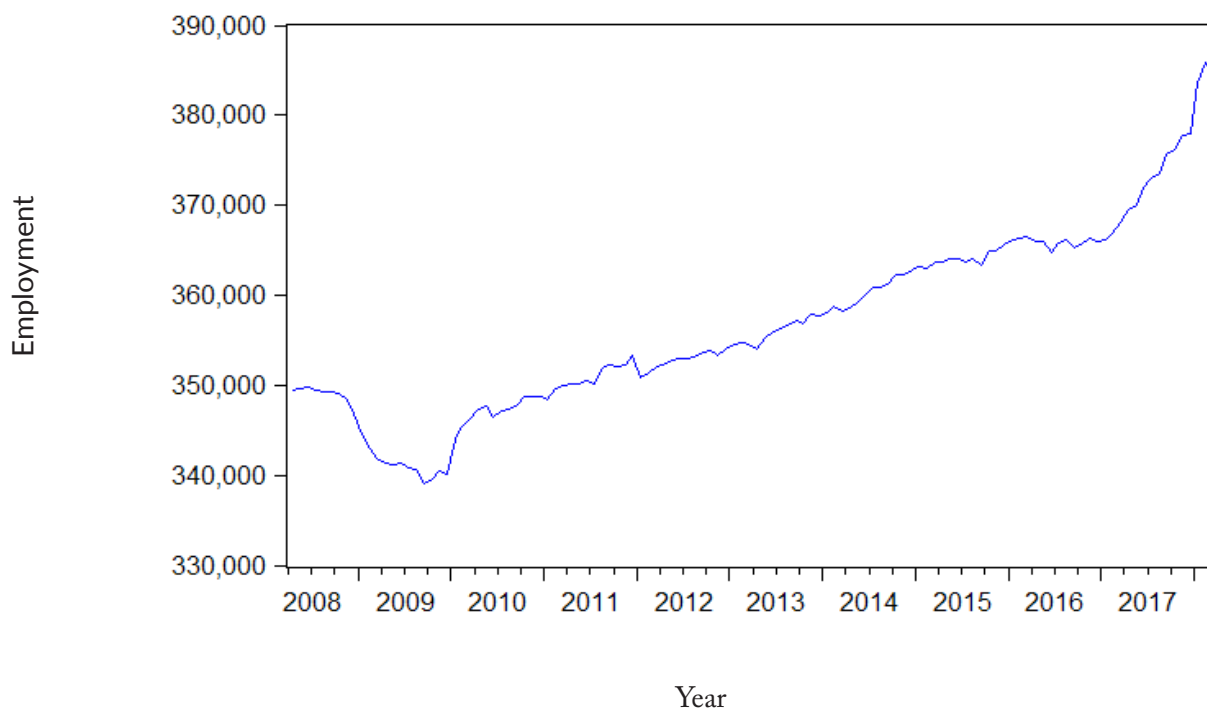


CENTRAL MINNESOTA LABOR MARKET CONDITIONS

Central Minnesota employment rose 4.4 percent over the year ending March 2018. Note that all of Minnesota's six planning areas experienced an employment gain over the past twelve months. As is apparent from the figure below, the 12-month moving average of Central Minnesota employment has trended upward 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.

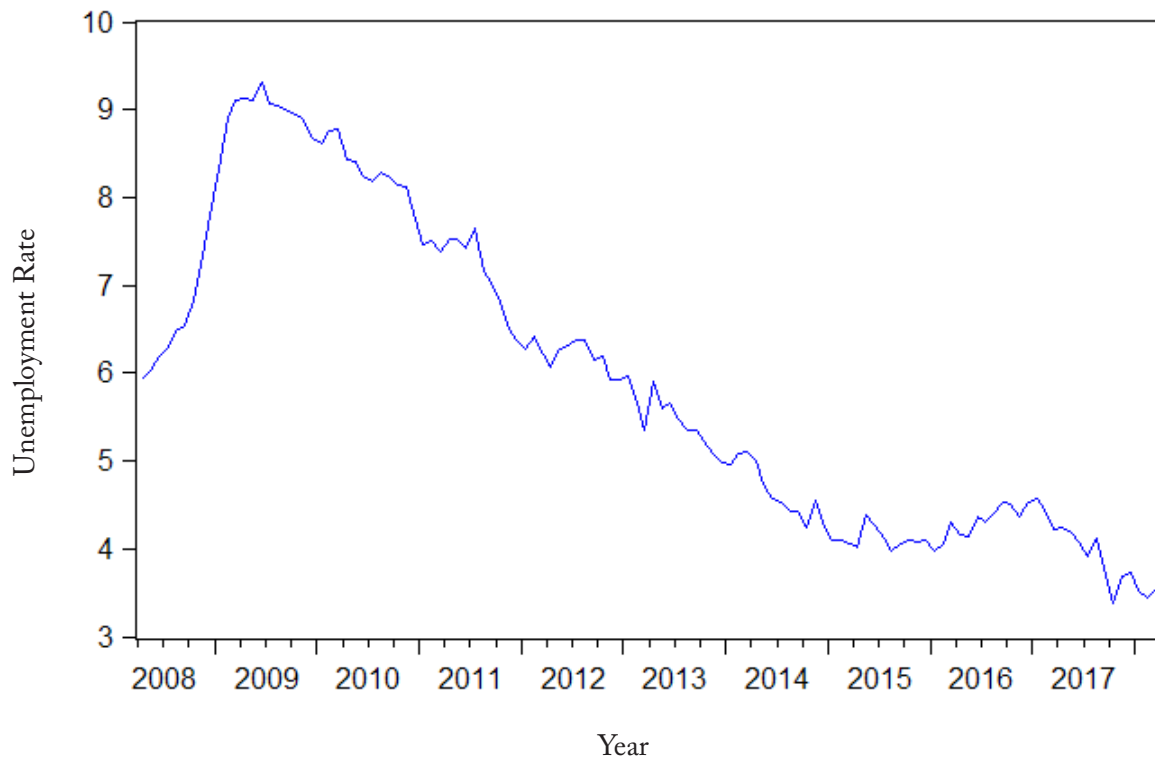
Employment—Central Minnesota Planning Area (12-month moving average)



Month	March 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018
Employment (Not seasonally adjusted)	365,166	379,192	379,283	376,651	378,405	381,062	381,282

Despite a rising labor force, Central Minnesota's unemployment rate was 4.8 percent in March 2018, considerably lower than one year earlier. After rising in 2016, the seasonally adjusted unemployment rate has declined over the past several quarters.

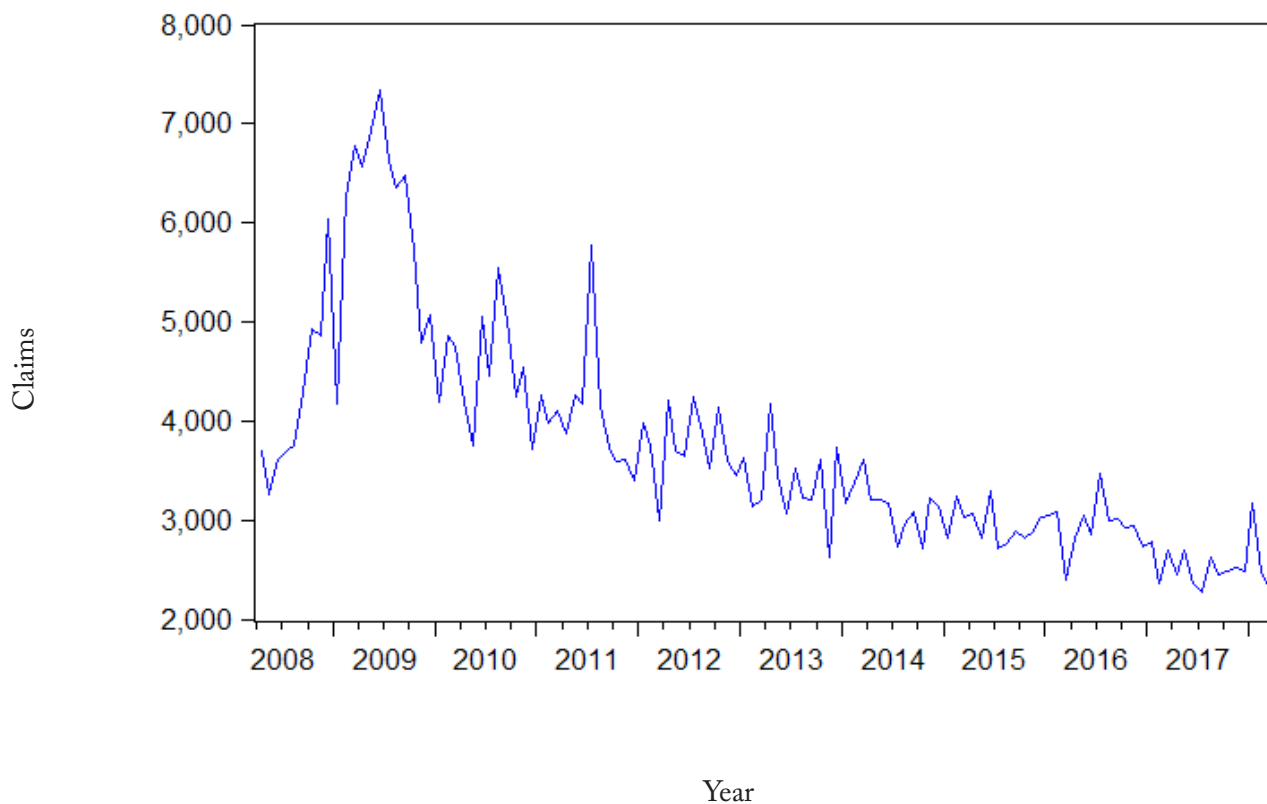
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	March 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018
Unemployment Rate (Not seasonally adjusted)	5.4%	2.5%	2.9%	4.0%	5.1%	4.9%	4.8%

Initial claims for unemployment insurance in the Central Minnesota planning area were 2,078 in March 2018. This represents 16.2 percent fewer claims than one year ago. As can be seen in the accompanying graph, the seasonally adjusted initial jobless claims series has been trending downward since the end of the Great Recession.

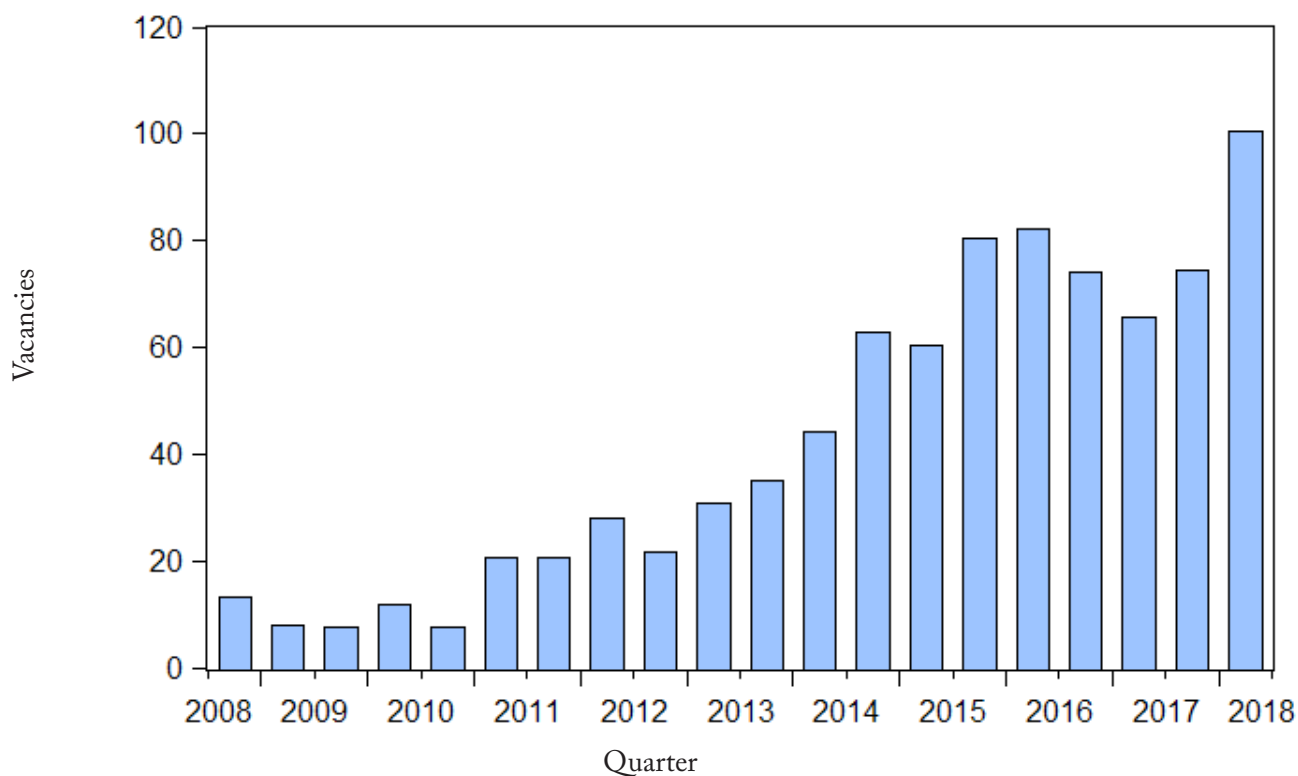
Total Initial Claims for Unemployment Insurance, seasonally adjusted— Central Minnesota Planning Area



Period	March 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018
Initial claims (Not seasonally adjusted)	2,480	1,796	4,970	5,258	4,330	2,218	2,078

Employers report surging job vacancies throughout the country. This is evident throughout Minnesota, where all planning areas are experiencing shortages of qualified workers to fill vacant positions. For every 100 unemployed workers in Central Minnesota, there are 100.5 job vacancies. As can be seen in the figure below, the ratio of job vacancies to unemployed workers has continued to rise since the beginning of the decade.

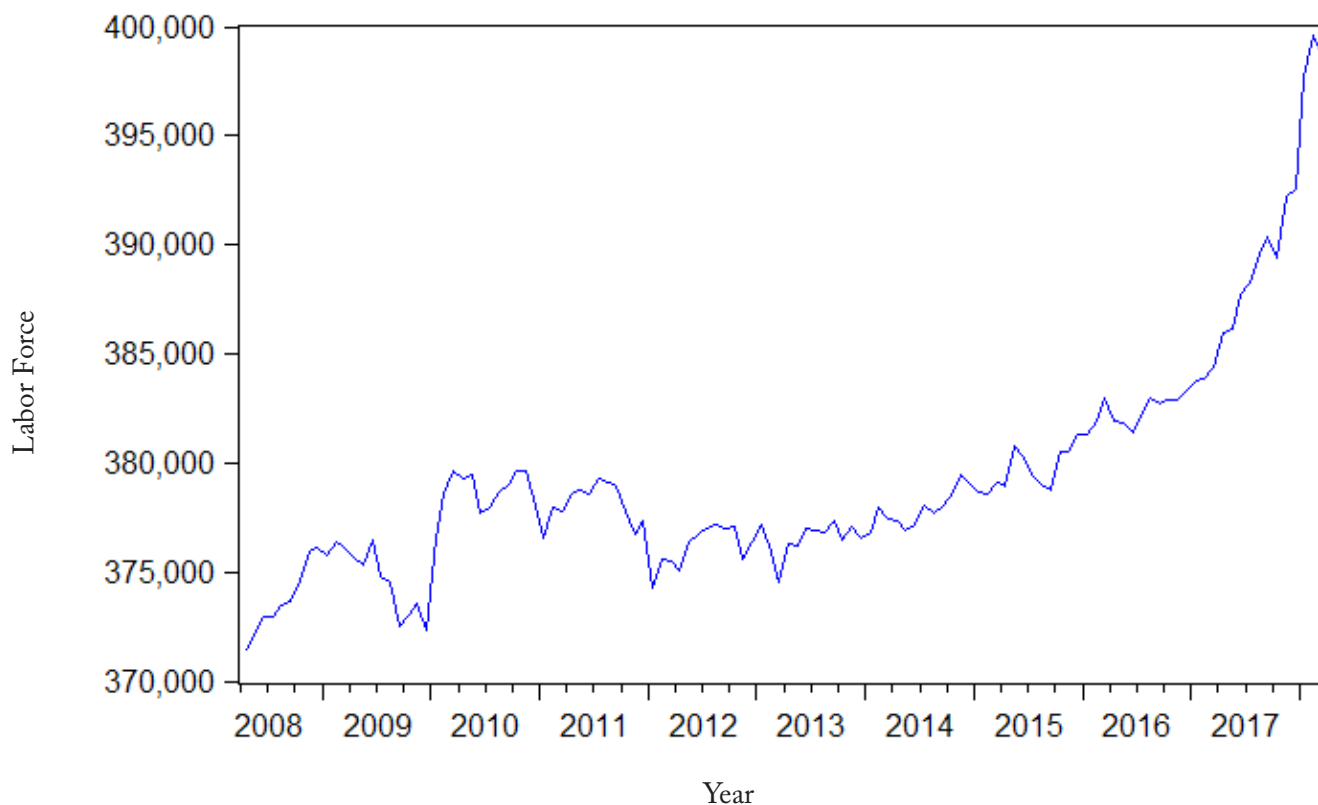
Job Vacancies per 100 Unemployed---Central Minnesota Planning Area



Quarter	2015:II	2015:IV	2016:II	2016:IV	2017:II	2017:IV
Job Vacancies per 100 Unemployed	80.39	82	74.1	65.49	74.24	100.5

The Central Minnesota labor force expanded at a 3.7 percent rate over the year ending in March 2018. As seen in the accompanying graph, the 12-month moving average of the regional labor force has been steadily rising over the past several years. Among Minnesota's six planning areas, the Central region experienced the fastest pace of labor force growth over the past twelve months.

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

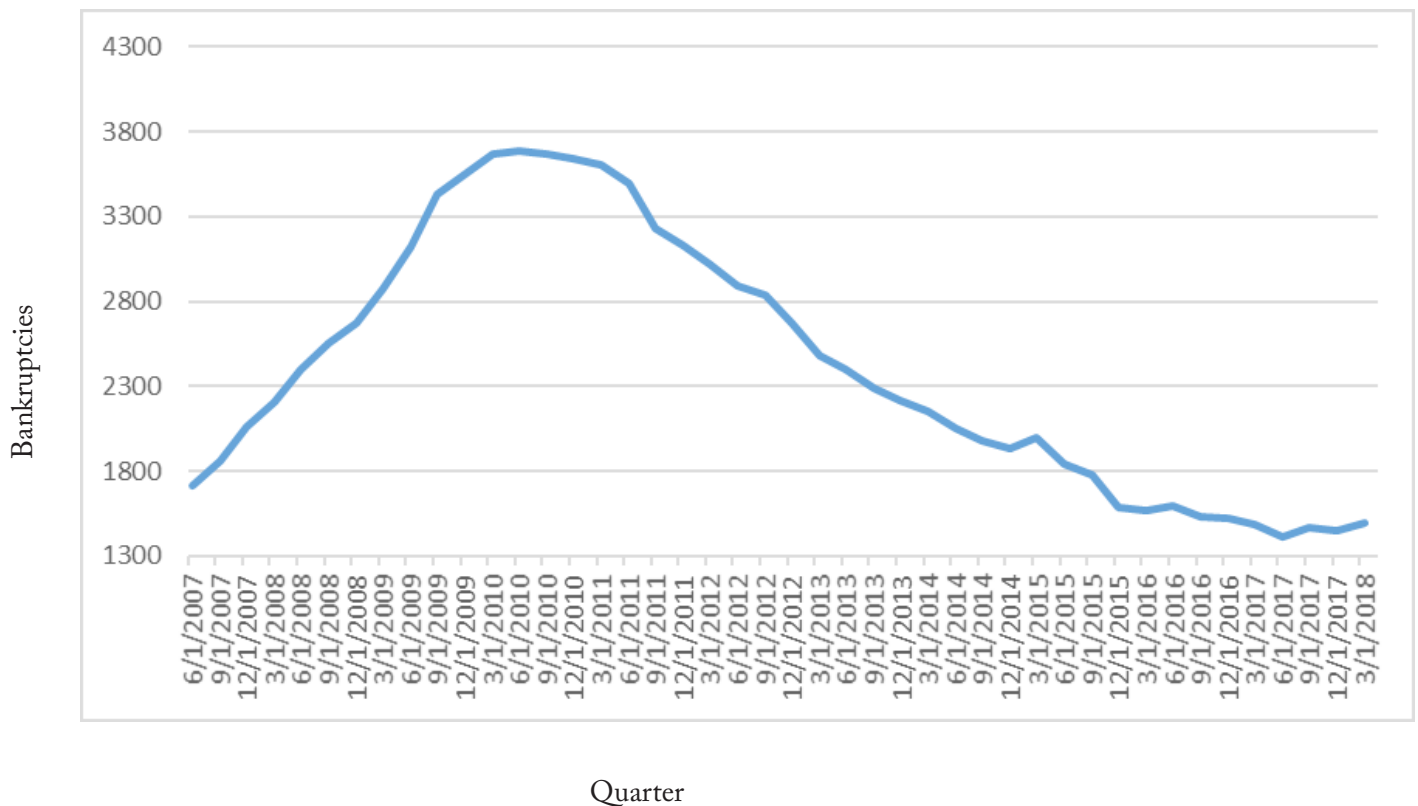


Year (March)	2013	2014	2015	2016	2017	2018
Labor Force (Not seasonally adjusted)	376,321	379,202	380,835	384,657	386,076	400,304

CENTRAL MINNESOTA BANKRUPTCIES

The figure below shows the 12-month moving total for Central 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 peaked out in the second quarter of 2010, and declined slowly until very recently when it has started to inch up. With 1,492 bankruptcies over the past twelve months, the annual level of bankruptcies in Central Minnesota is little changed from one year ago.

Central Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2013	2014	2015	2016	2017	2018
Annual Bankruptcies (Not seasonally adjusted)	2,483	2,154	1,994	1,565	1,487	1,492

ECONOMIC INDICATORS

St. Cloud MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
LABOR MARKET					
Employment	March 2018 (m)	109,480	108,787	0.6% ↑	1.0%
Manufacturing Employment	March 2018 (m)	15,674	14,986	4.6% ↑	-0.4%
Average Weekly Work Hours--Private Sector	March 2018 (m)	33.4	33.0	1.2% ↑	33 (since 2007)
Average Earnings Per Hour--Private Sector	March 2018 (m)	\$26.41	\$26.70	-1.1% ↓	3.2% (since 2007)
Unemployment Rate	March 2018 (m)	4.1%	4.7%	NA ↓	5.8%
Labor Force	March 2018 (m)	114,657	110,603	3.7% ↑	0.8%
SCSU Future Employment Index	February 2018 (q)	50.8	37.3	36.2% ↑	33.6 (since 2005)
SCSU Future Length of Workweek Index	February 2018 (q)	22.2	22.2	0.0% ↔	18.9 (since 2005)
SCSU Future Employee Compensation Index	February 2018 (q)	58.7	68.9	-14.8% ↓	44.6 (since 2005)
SCSU Future Worker Shortage Index	February 2018 (q)	49.2	26.4	86.4% ↑	21 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	March 2018 (m)	557	610	-8.7% ↓	NA
Estimated St. Cloud Times Help Wanted Linage	January 2018 (q)	2,419.7	2,117.9	14.2% ↑	NA
BUSINESS FORMATION					
New Business Filings	First Quarter 2018	459	401	14.5% ↑	372 (since 2000)
Assumed Names	First Quarter 2018	115	133	-13.5% ↓	125 (since 2000)
Business Incorporations	First Quarter 2018	52	35	48.6% ↑	71 (since 2000)
Limited Liability Corporations	First Quarter 2018	271	222	22.1% ↑	163 (since 2000)
Non-Profits	First Quarter 2018	21	11	90.9% ↑	14 (since 2000)

(m) represents a monthly series;

(q) represents a quarterly series

St. Cloud MSA Indicators, Cont'd.

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
BUSINESS ACTIVITY					
SCSU Future Business Activity Index	February 2018 (q)	58.7	57.8	1.6% ↑	54.0 (since 2005)
SCSU Future Capital Expenditures Index	February 2018 (q)	39.7	22.3	78.0% ↑	27.9 (since 2005)
SCSU Future National Business Activity Index	February 2018 (q)	36.5	35.6	2.5% ↑	27.1 (since 2005)
St. Cloud Index of Leading Economic Indicators	January 2018 (m)	103.1	102.7	0.4% ↑	NA
PRICES					
St. Cloud Median Home Sales Prices	March 2018 (m)	\$169,950	\$168,200	1.0% ↑	NA
SCSU Future Prices Received Index	February 2018 (q)	38.1	22.2	71.6% ↓	23.3 (since 2005)
St. Cloud Cost of Living	Annual Average 2017	95.6	NA	NA	NA

(m) represents a monthly series;

(q) represents a quarterly series

Central Minnesota contains the St. Cloud MSA, where quantitative signals of the future economic health of this metropolitan area remain strong. For example, the future outlook from a survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University was largely improved from one year earlier and St. Cloud area filings for new incorporation and LLC surged. Employment (and the labor force) expanded, the unemployment rate fell, average hours worked rose, initial jobless claims declined, and median home sales prices picked up.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Mar 2018	Dec 2017	Mar 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,951,300	2,943,700	2,930,000	0.3%	0.7%
Average weekly hours worked, private sector	33.7	33.9	33.8	-0.6%	-0.3%
Unemployment rate, seasonally adjusted	3.2%	3.3%	3.6%	NA	NA
Earnings per hour, private sector	\$28.87	\$28.67	\$28.28	0.7%	2.1%
Philadelphia Fed Coincident Indicator, MN	135.38	134.22	130.78	0.9%	3.5%
Philadelphia Fed Leading Indicator, MN	1.64	1.13	2.61	45.1 %	-37.2%
Minnesota Business Conditions Index	61.0	56.8	61.8	7.4%	-1.3%
Price of milk received by farmers (cwt)	\$16.10	\$17.20	\$17.50	-6.4%	-8.0%
Enplanements, MSP airport, thousands	1,716.4	1,471.6	1,731.6	16.6%	-0.9%
NATIONAL Indicators	Mar 2018	Dec 2017	Mar 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	148,260	147,625	145,969	0.4%	1.6%
Industrial production, index, SA	107.2	105.8	102.7	1.3%	4.4%
Real retail sales, SA (\$)	198,249	198,828	194,208	-0.3%	2.1%
Real personal income less transfers, billions	12,221.2	12,187.1	12,017.7	0.3%	1.7%
Real personal consumption expenditures, bill.	12,093.9	12,080.5	11,816.1	0.1%	2.4%
Unemployment rate, SA	4.1%	4.1%	4.5%	NA	NA
New building permits, SA, thousands	24,168	18,355	22,864	31.7%	5.7%
Standard & Poor's 500 stock price index	2,702.8	2,664.3	2,366.8	1.4%	14.2%
Oil, price per barrel in Cushing, OK	\$62.72	\$57.88	\$49.33	8.4%	27.1%

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 the Minnesota Business Conditions index is improved over the last three months. However, enplanements at the Minneapolis-St. Paul airport fell over the past year and average weekly work hours were lower. Milk prices continue to fall.

The national economic indicators found in the table are highly favorable. Stock prices have now rebounded and employment has increased. Real income and consumer expenditures have expanded and the national unemployment rate continues to fall. Industrial production rose and national building permits were strong. Oil prices are now 27.1 percent higher than they were one year ago. The adverse impact of rising oil prices on household budgets is at least partially offset by the benefits of higher crude prices enjoyed in the domestic energy sector.

The Central 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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