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Southwest Minnesota Economic and Business Conditions Report Second Quarter 2018

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Southwest Minnesota
Economic and Business Conditions Report
Second 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 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 Research Institute
St. Cloud State University

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EXECUTIVE SUMMARY

The St. Cloud State University Southwest Minnesota Index of Leading Economic Indicators (LEI) continued to bounce around as the second quarter LEI turned negative after recording a strong positive value in the first quarter of the year. Despite the negative reading in the second quarter, economic fundamentals in this part of the state appear to point to continued steady growth over the next several months. Two of four LEI components were positive in the second quarter as a stronger outlook for rural Minnesota and higher Mankato area residential building permits led the way. The most significant negative component of this quarter's leading index was a rise in initial jobless claims in the region.

There were 706 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the second quarter of 2018 — representing 3.7 percent more new filings than one year ago. There were 46 new regional business incorporation filings in the second quarter, a 19.3 percent decrease from last year's second quarter. New LLC filings in Southwest Minnesota rose 8.2 percent from one year earlier, but new assumed name filings contracted to 193—a 4 percent year-over-year decline. There were 32 new filings for Southwest Minnesota non-profit in the second quarter—eleven more filings than one year ago.

Sixty percent of new business filers in the Southwest Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's second quarter. Results of this voluntary survey indicate that 4.5 percent of new filers come from communities of color. Approximately 4.9 percent of new business filings are from veterans. About 0.5 percent of new filers come from the disability community and 3.8 percent of new filings are made by the immigrant community. Thirty-three percent of new business filings in Southwest Minnesota in this year's second 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 44 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Southwest Minnesota are retail trade, construction, real estate/rental/leasing, and other services. Employment levels at most new firms are between 0 and 5 workers, and 47 percent of those starting a new business consider this a part-time activity.

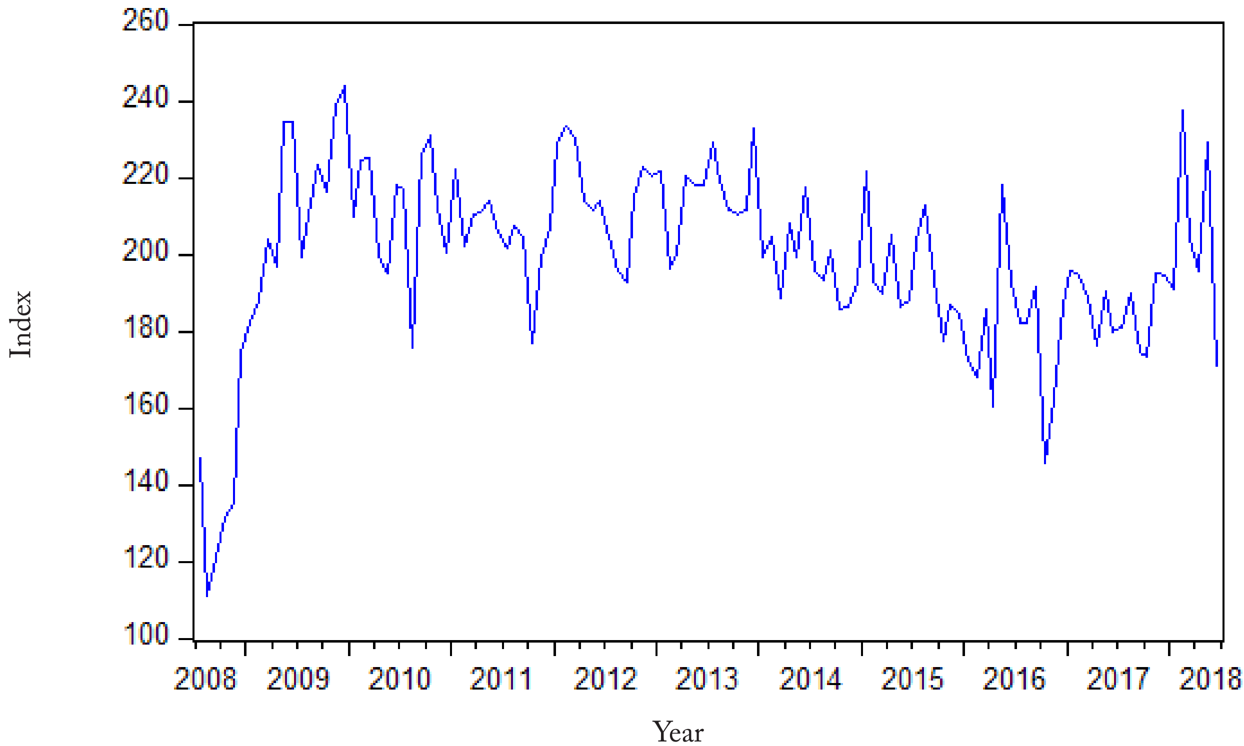
Employment of Southwest Minnesota residents increased by 2.8 percent over the year ending June 2018. The regional unemployment rate was 2.9 percent in June, a decrease from a 3.5 percent reading in June 2017. Initial claims for unemployment insurance were 25.6 percent higher than year-ago levels in June. Average weekly wages in this part of the state totaled $808, which is 4.3 percent higher than what was seen one year earlier. The Southwest Minnesota labor force rose 2.2 percent over the year ending June 2018. Regional bankruptcies declined over the last 12 months.

Economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota—was strong in the most recent quarter. Employment rose, the unemployment rate was lower, average hourly earnings surged, the labor force expanded, new business filings were higher, average weekly work hours increased, and the value of building permits rose. The only data measures that clouded the outlook in this metropolitan area were a slight rise in initial jobless claims and a small increase in the relative cost of living.

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, but it has tended to drift upward since the end of 2016. However, it has tended to bounce around in recent quarters, so it is hard to identify a strong signal to forecast regional economic performance from one quarter to the next. With a current reading of -2.96, the LEI has once again declined in the Southwest Minnesota planning area. However, economic fundamentals tend to be fairly strong in this region of the state, so there is little need to be overly concerned about this quarter's negative LEI value. It is worth noting that the LEI is 13.9 percent above its value of 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, 2nd quarter 2018	Contribution to LEI, 1st quarter 2018
Rural Mainstreet Index	0.24	6.23
Southwest Minnesota initial claims for unemployment insurance	-2.88	0.91
Southwest Minnesota new filings of incorporation and LLCs	-1.74	0.64
Mankato MSA single-family building permits	1.42	-5.28
TOTAL CHANGE	**-2.96**	**2.50**

The Southwest Minnesota LEI has four components, two of which increased in the second 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. In addition, an increase in the number of residential building permits in the Mankato/North Mankato area also had a favorable impact on the regional outlook. A rise in initial jobless claims in the region and recent sluggishness of new business filings made negative contributions to the leading index.

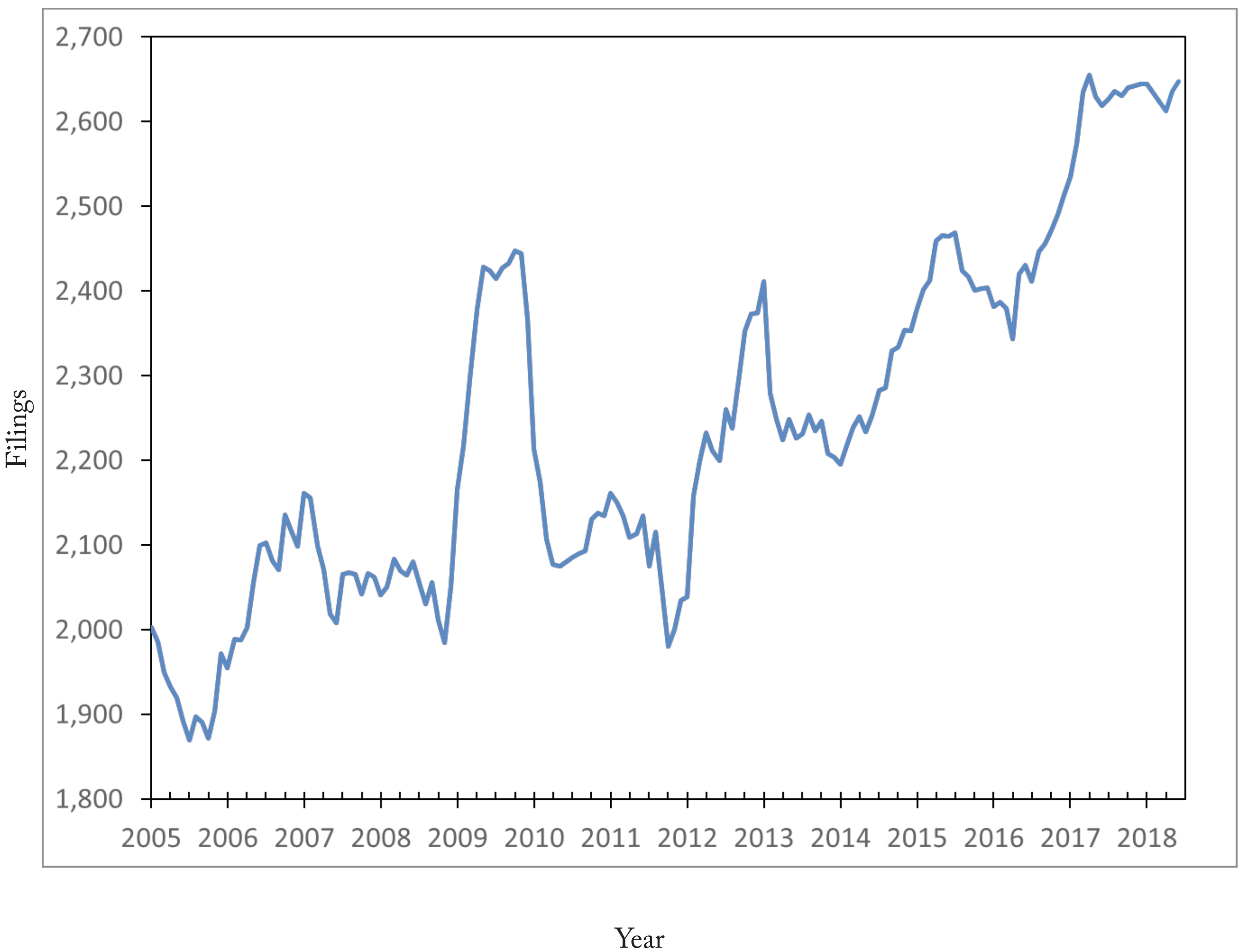
SCSU Southwest Minnesota Leading Economic Indicators Index

	2018	2017	Percentage Change
Rural Mainstreet Index, Creighton University June	55.3	51.7	7.0%
Southwest Minnesota initial claims for unemployment insurance June	1,088	866	25.6%
Southwest Minnesota new filings of incorporation and LLCs Second Quarter	481	459	4.8%
Mankato MSA single-family building permits June	18	14	28.6%
Southwest Minnesota Leading Economic Indicators Index June (December 1999 = 100)	204.5	179.5	13.9%

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 3.7 percent from year earlier levels in the second quarter. Only the Northeast planning area (in which new filings actually decreased) experienced weaker performance of this data measure in the second quarter. As seen in the accompanying figure, the 12-month moving total of this series has leveled out over the past year. 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.

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



Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Southwest Minnesota Total New Business Filings	681	556	620	766	706	3.7%

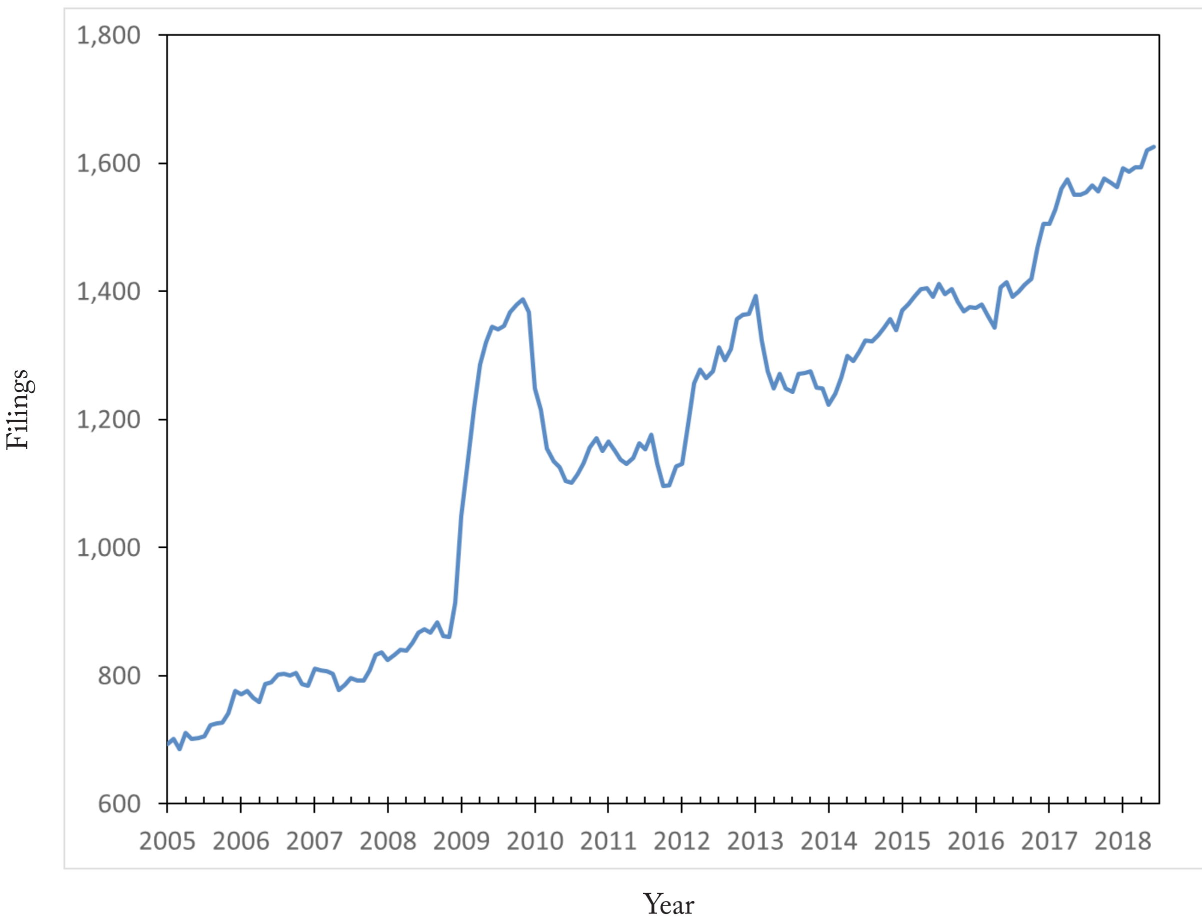
New business incorporations trended downward sharply in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend had resumed until flattening out for several quarters. However, new regional incorporations have now declined since the first quarter of 2017. With only 44 new business incorporations in the second quarter of 2018, filings in this category fell by 19.3% from the same period in 2017.

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

Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Southwest Minnesota New Business Incorporations	57	36	37	43	46	-19.3%

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 8.2 percent over one year earlier in the second quarter.

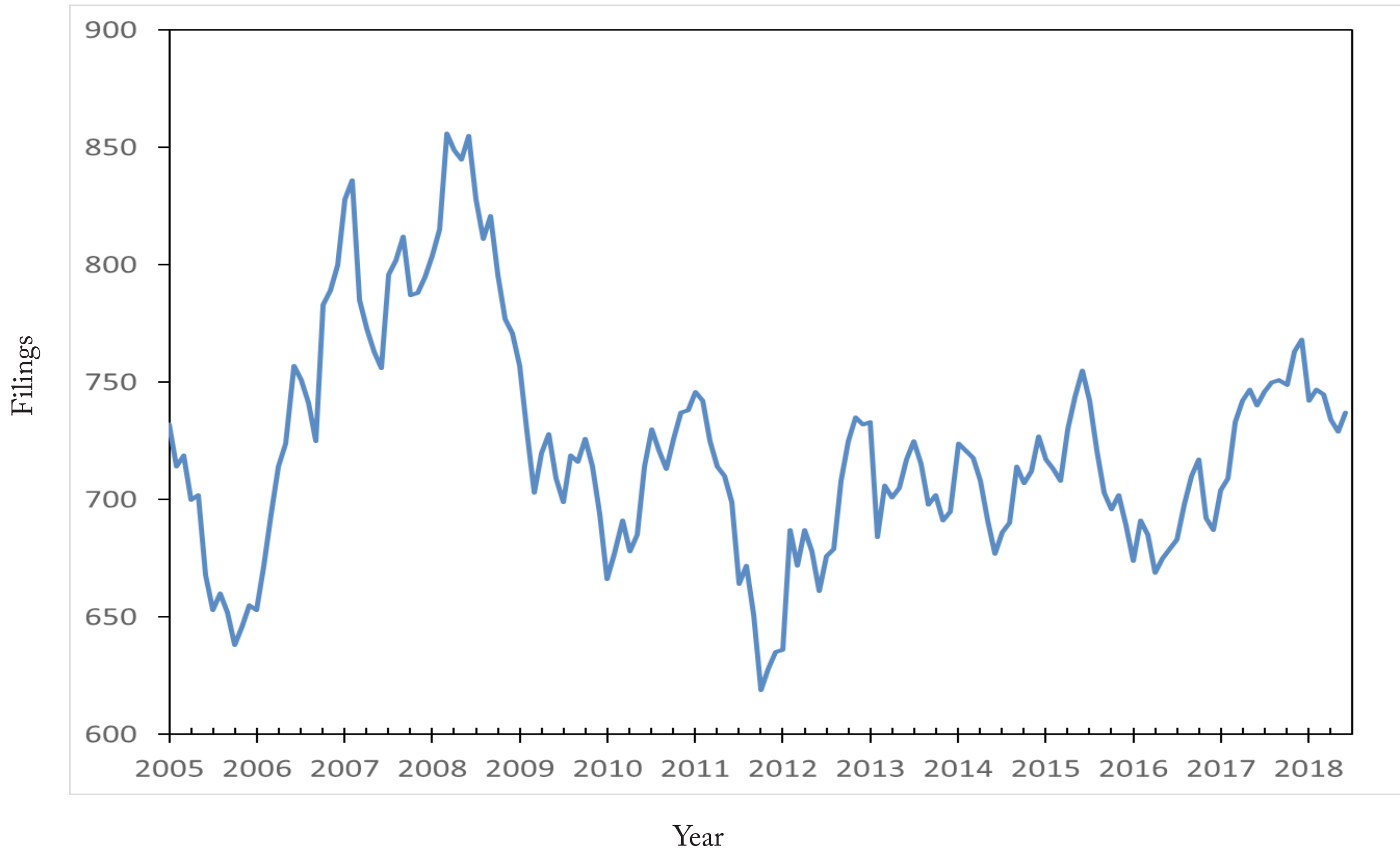
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	402	322	393	476	435	8.2%

Second quarter assumed names fell 4% compared to the same period in 2017. As can be seen in the accompanying figure, this series had been trending upward for several quarters, but has now been declining in the first half of 2018.

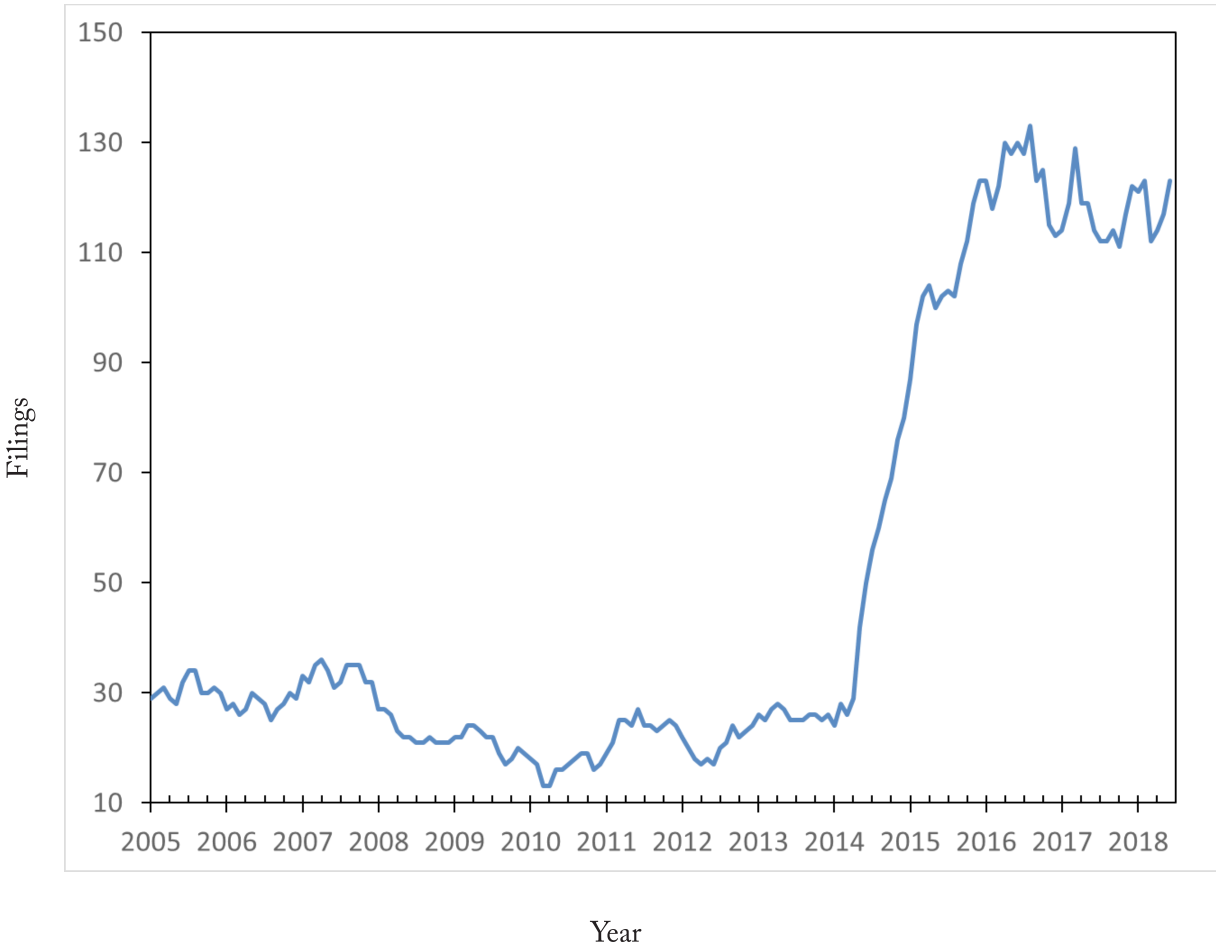
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Southwest Minnesota New Assumed Names	201	174	157	213	193	-4.0%

There were 32 newly registered non-profits in the second quarter. This is 11 more (representing a 52.4% increase) than the same period one year ago. As can be seen in the graph below, the non-profits series has now levelled out after a considerable increase from 2014-2016.

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



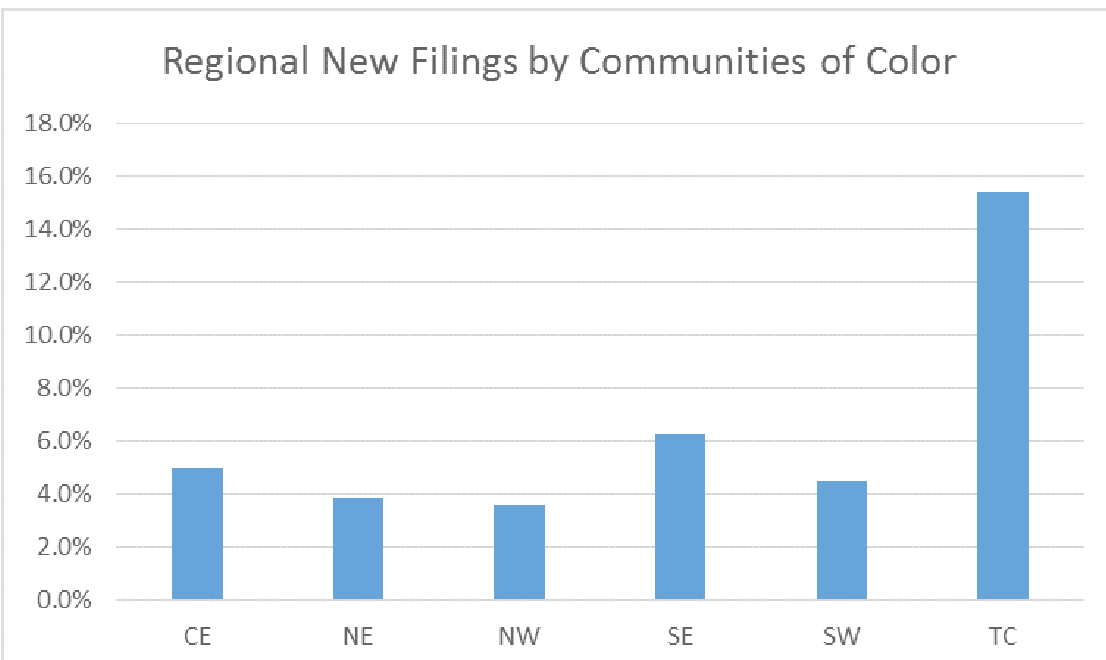
Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Southwest Minnesota New Non-Profits	21	24	33	34	32	52.4%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

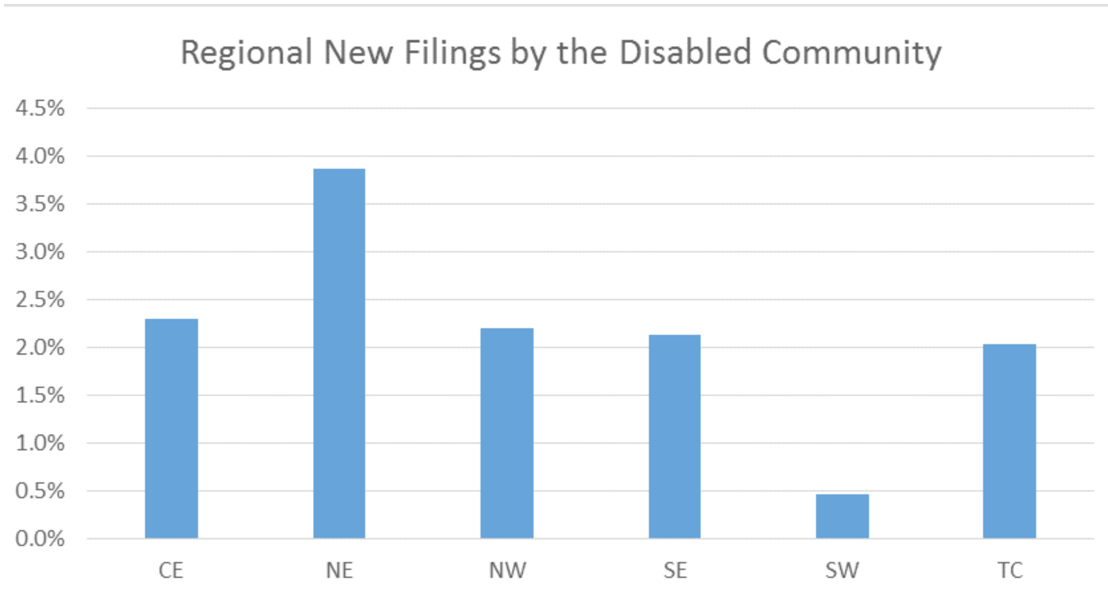
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 2018 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 Southwest Minnesota, a little over 60 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

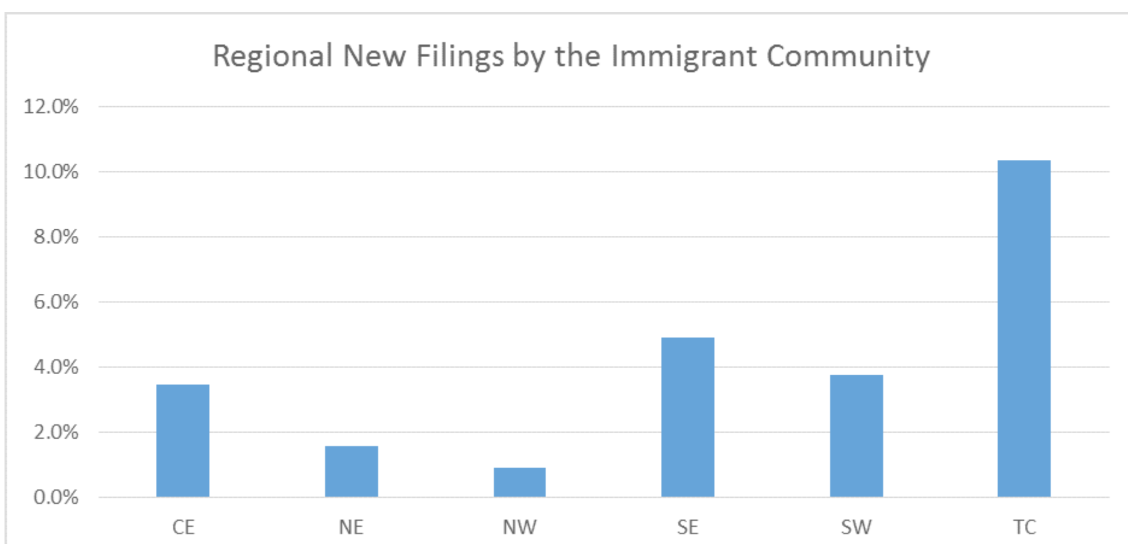
About 4.5 percent of those new filers completing the MBS from the Southwest Minnesota planning area report being from a community of color.



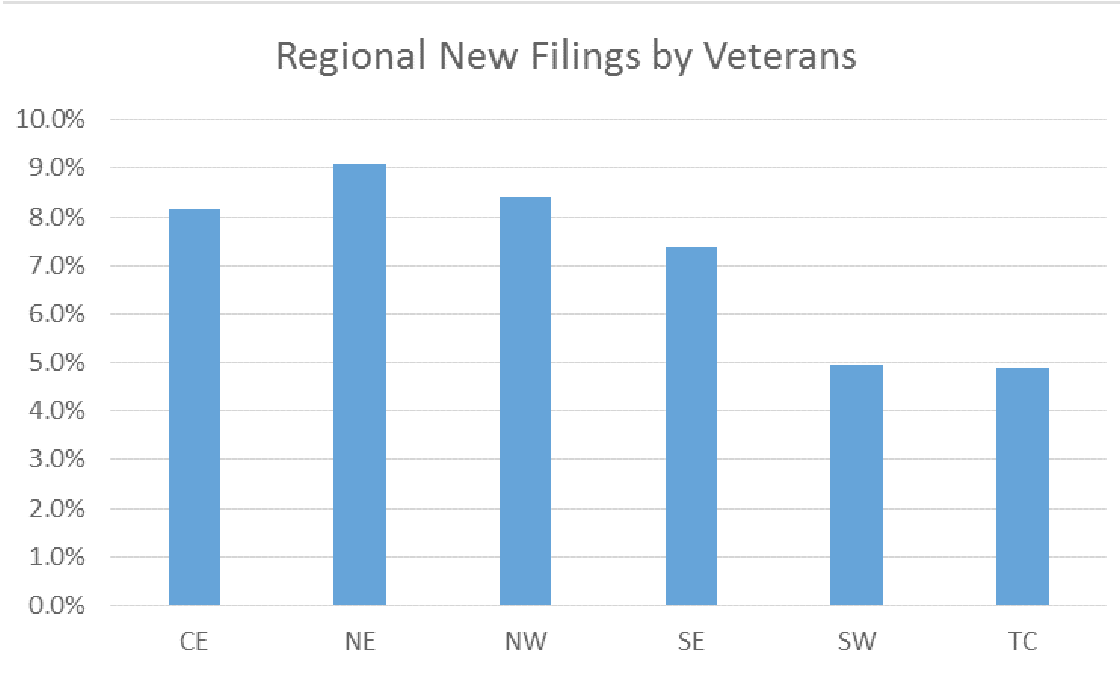
Only 0.5 percent of Southwest Minnesota's new filers are from the disability community.



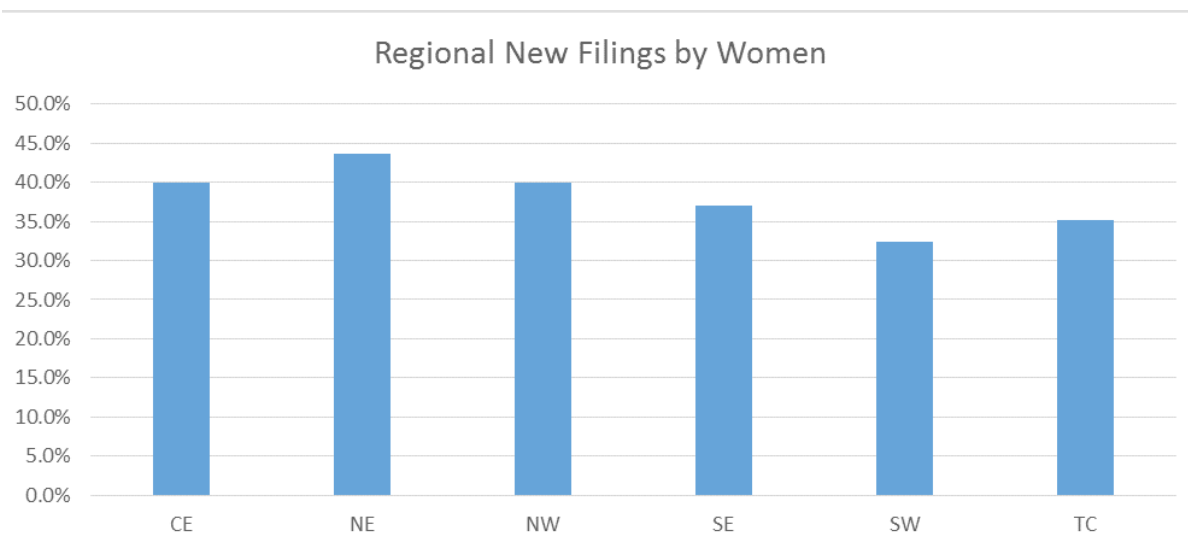
About 3.8 percent of new business filings in Southwest Minnesota come from the immigrant community. While this is considerably below what is observed in the Twin Cities, this is the third highest share of immigrant new business filers in the state. This is the first time that this data measure has exceeded what was reported for the Central Minnesota planning area.



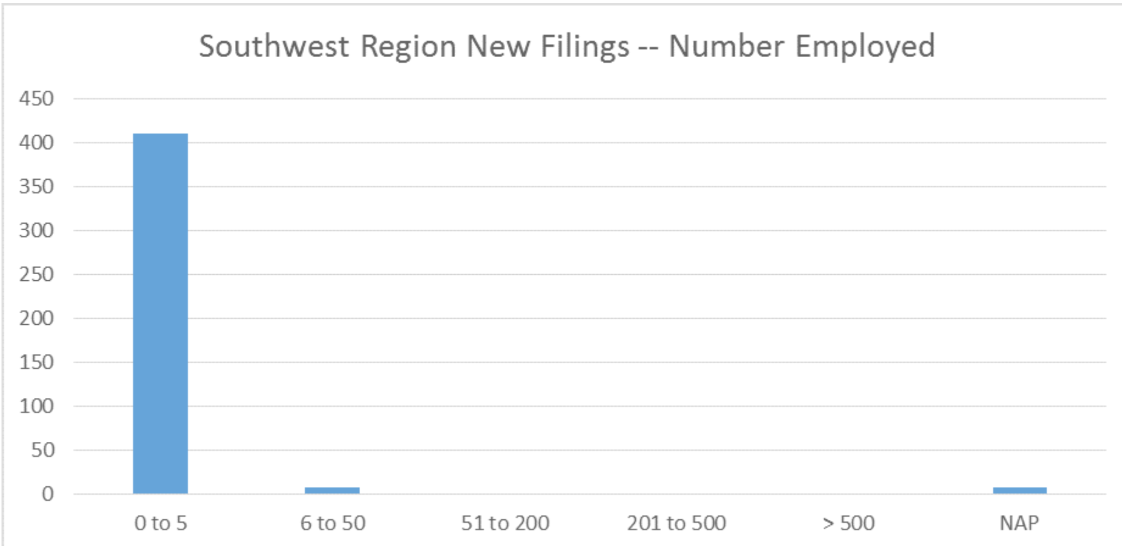
About 4.9 percent of new filings in Southwest Minnesota come from military veterans.



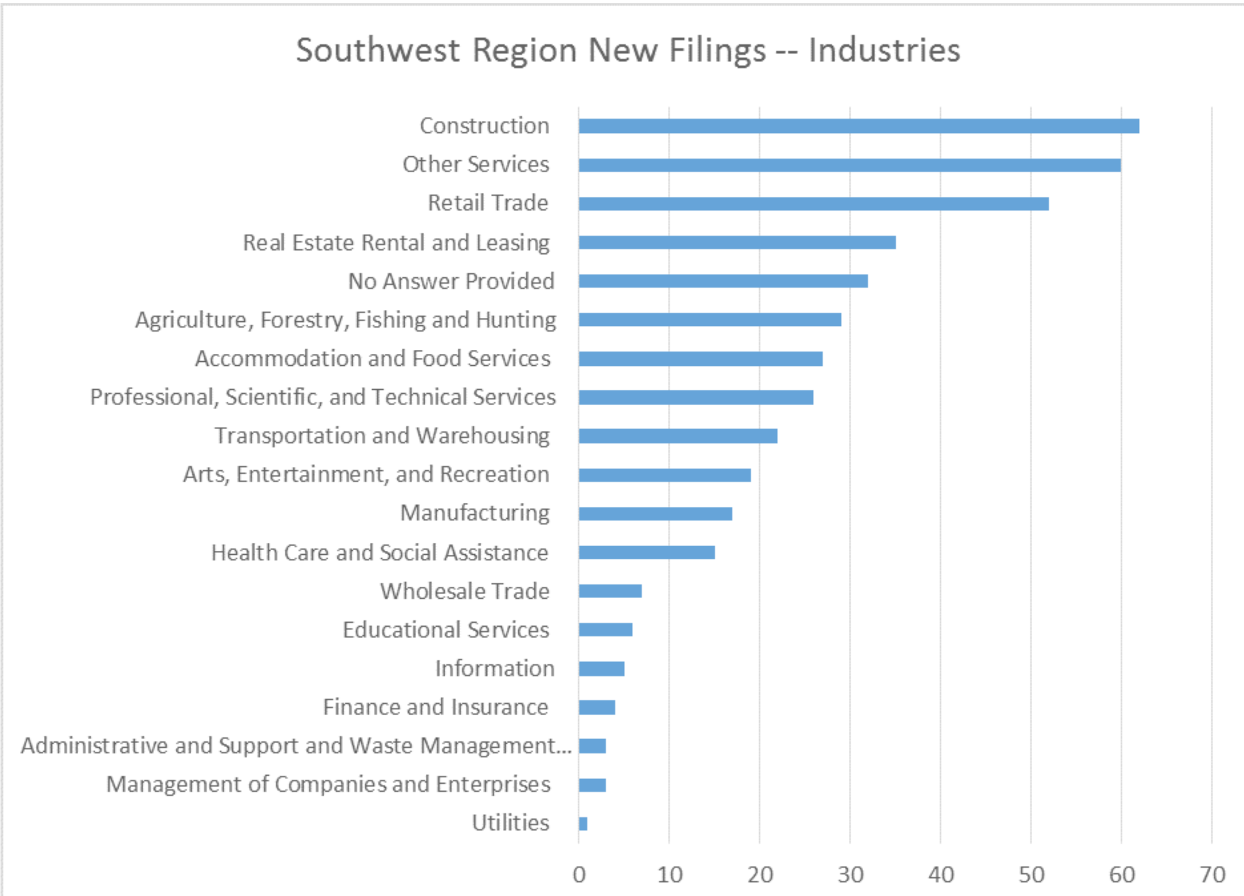
Woman owners represented less than one-third of new business filings in Southwest Minnesota in the second quarter of 2018. This is the lowest percentage of female new business filers in the state.



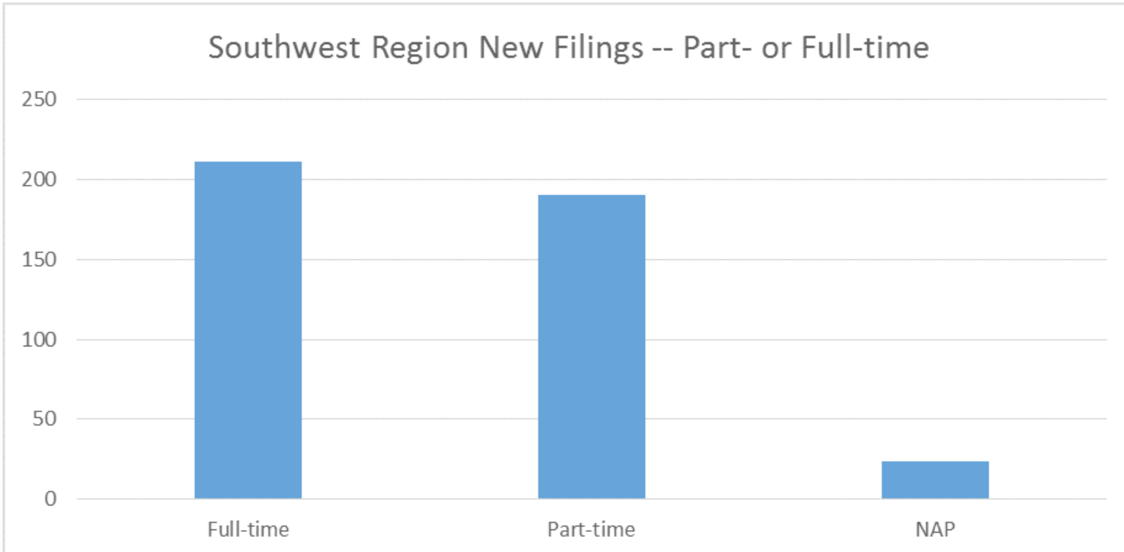
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by "NAP"—no answer provided), 417 responses were tallied to a question asking the new business filer to indicate 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.



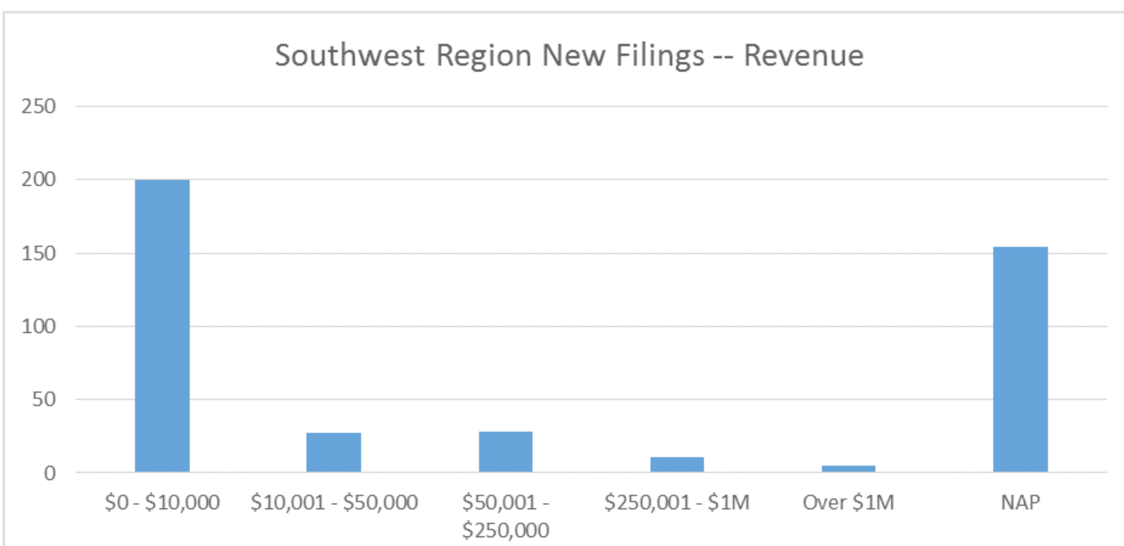
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, retail trade, construction, real estate/rental/leasing, and "other services" lead the 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. Thirty-two new firms did not provide an answer to this survey item.



47.3 percent of those submitting a new business filing in Southwest Minnesota in the second quarter of 2018 are part-time ventures.



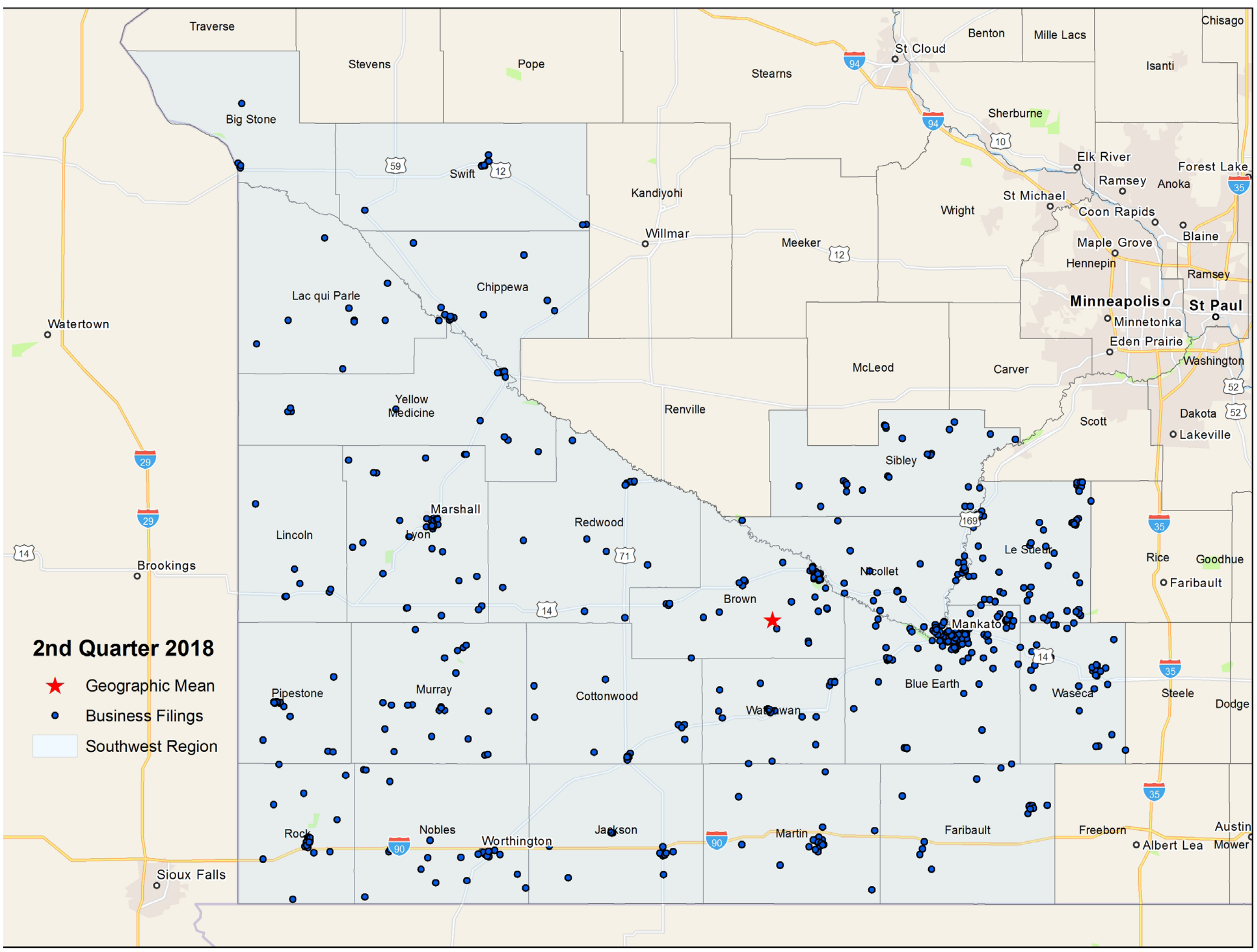
154 new filers in Southwest Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues less than $10,000. Forty-four firms report annual revenues in excess of $50,000.



MAPS

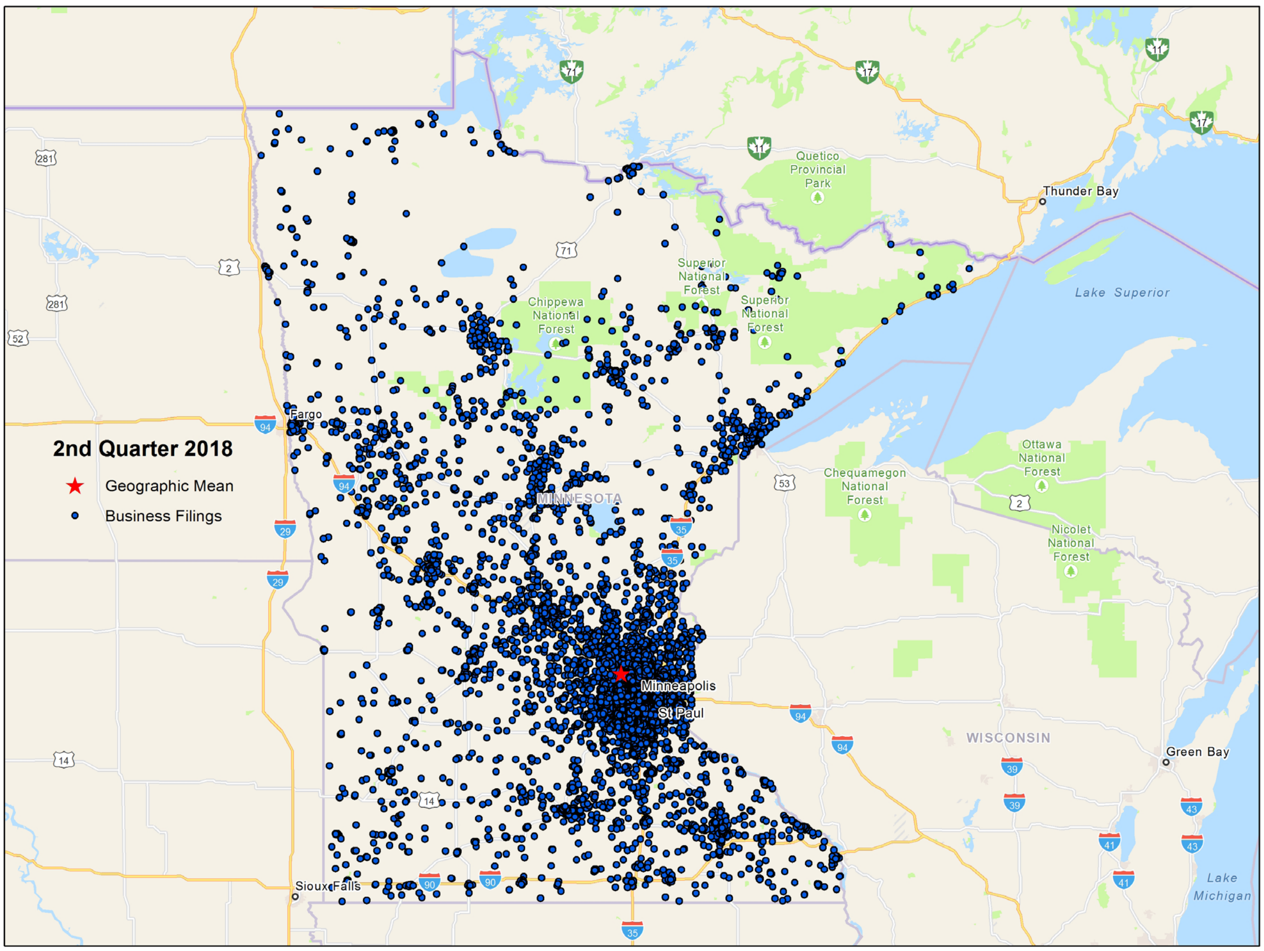
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the second quarter of 2018. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, New 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 2: 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 2: 2018

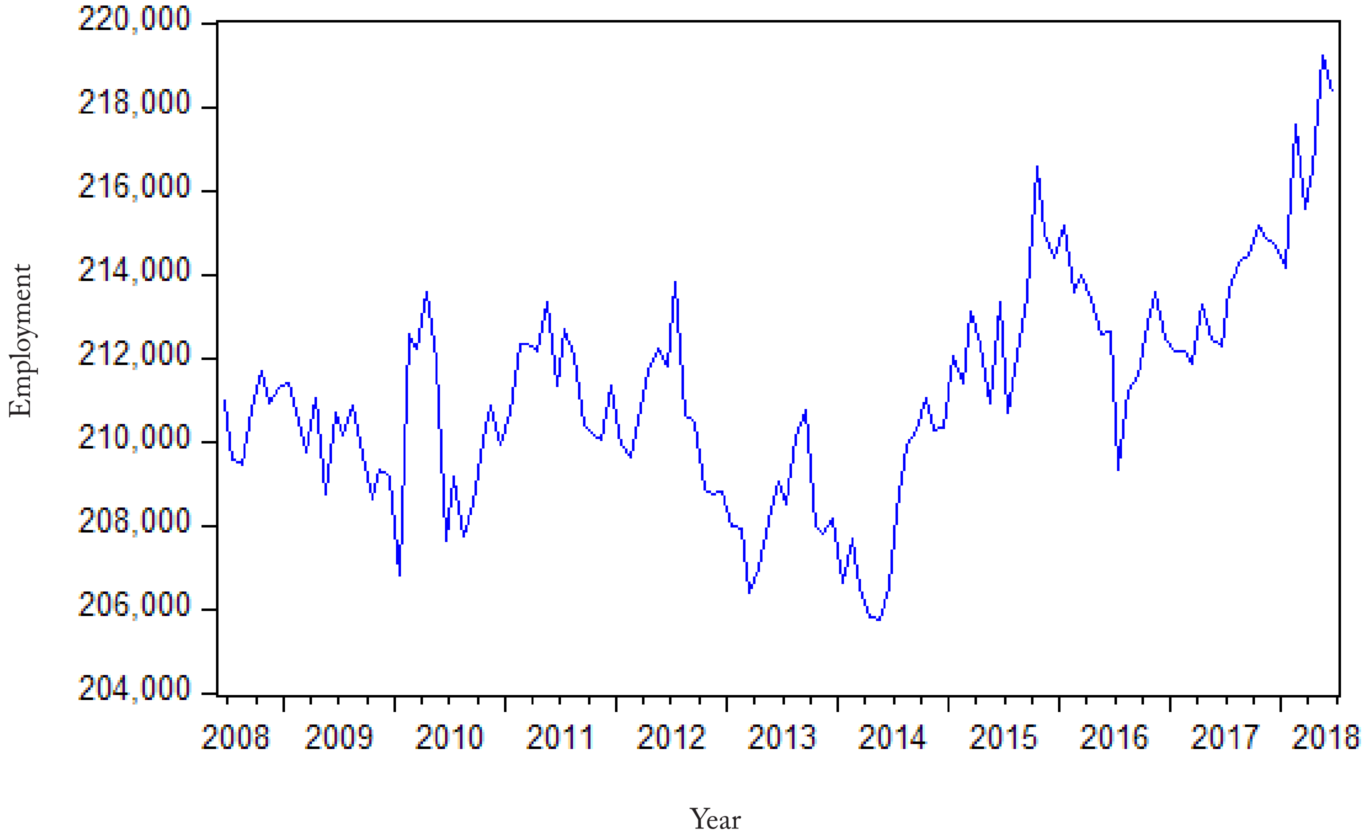


SOUTHWEST MINNESOTA LABOR MARKET CONDITIONS

Employment of residents of the Southwest Minnesota planning area rose by 2.8 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, and has primarily increased since that time.

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.

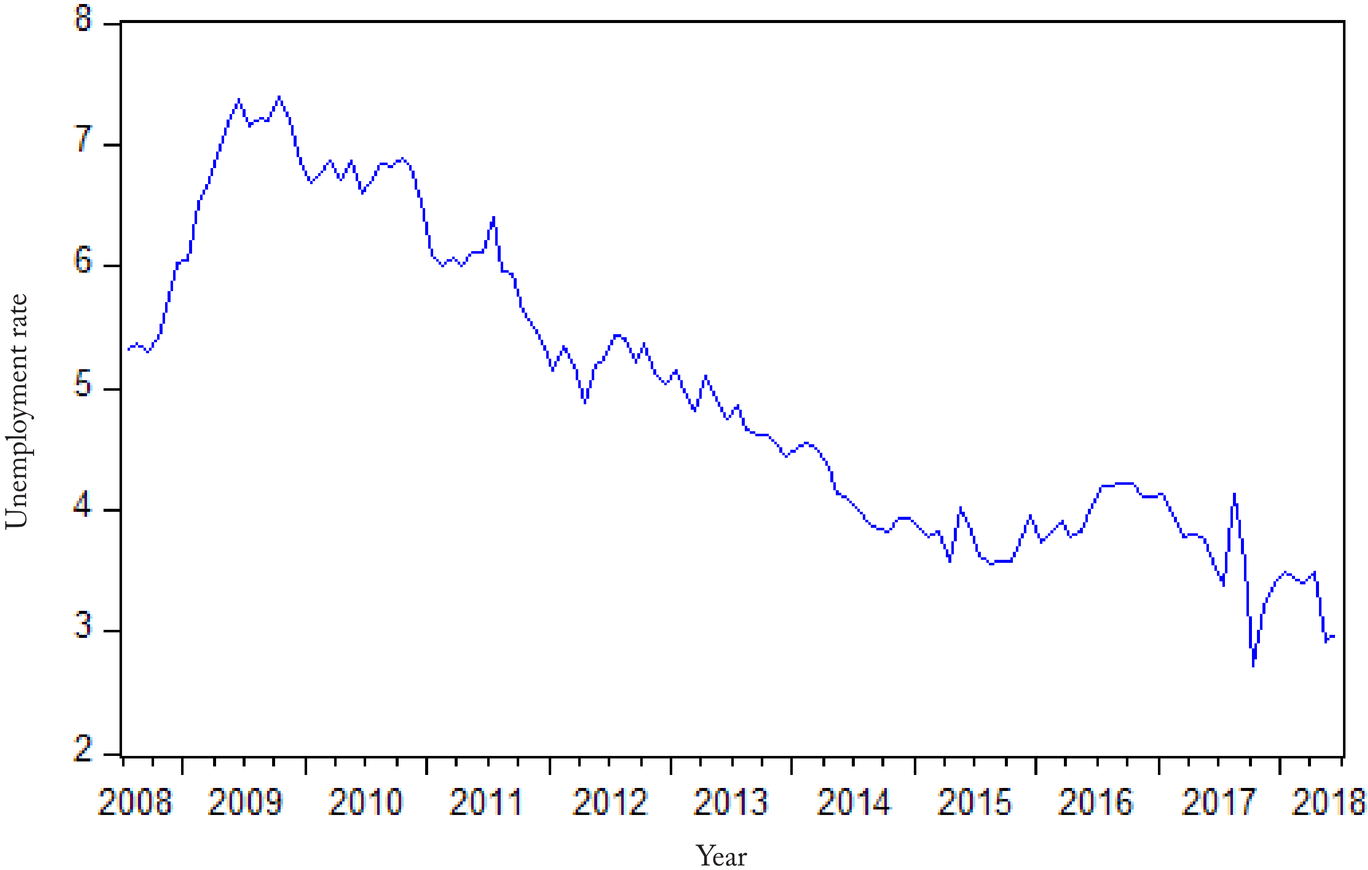
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	June 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
Employment (Not seasonally adjusted)	212,870	212,796	214,066	214,462	216,702	219,747	218,848

The seasonally adjusted unemployment rate in Southwest Minnesota has generally declined since the end of the Great Recession. In recent quarters, this series has shown more variability as the region approaches full employment. The non-seasonally adjusted measure now stands at 2.9 percent — down from the 3.5 percent rate recorded in June 2017.

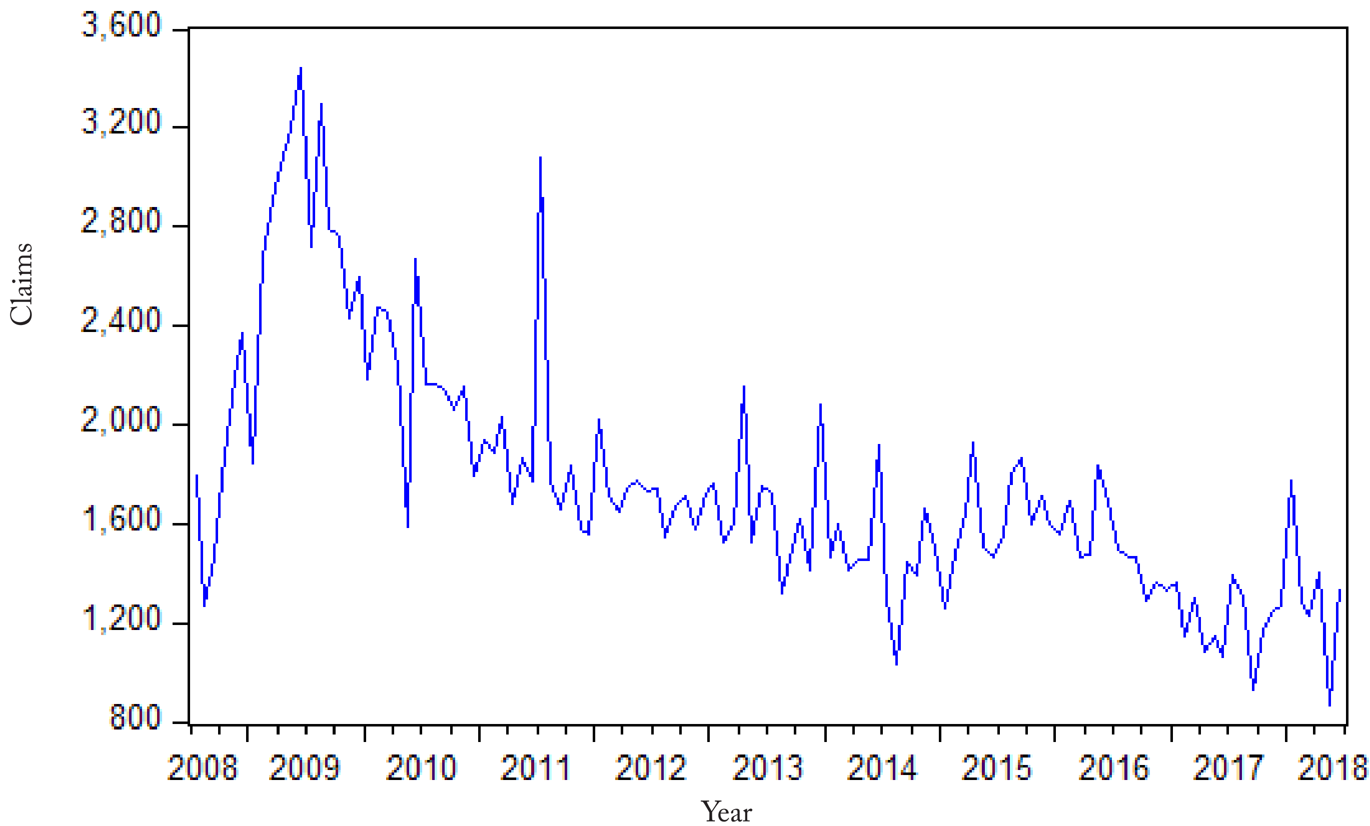
Unemployment Rate, seasonally adjusted— Southwest Minnesota Planning Area



Month	June 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
Unemployment rate (not seasonally adjusted)	3.5%	4.7%	4.4%	4.3%	3.4%	2.5%	2.9%

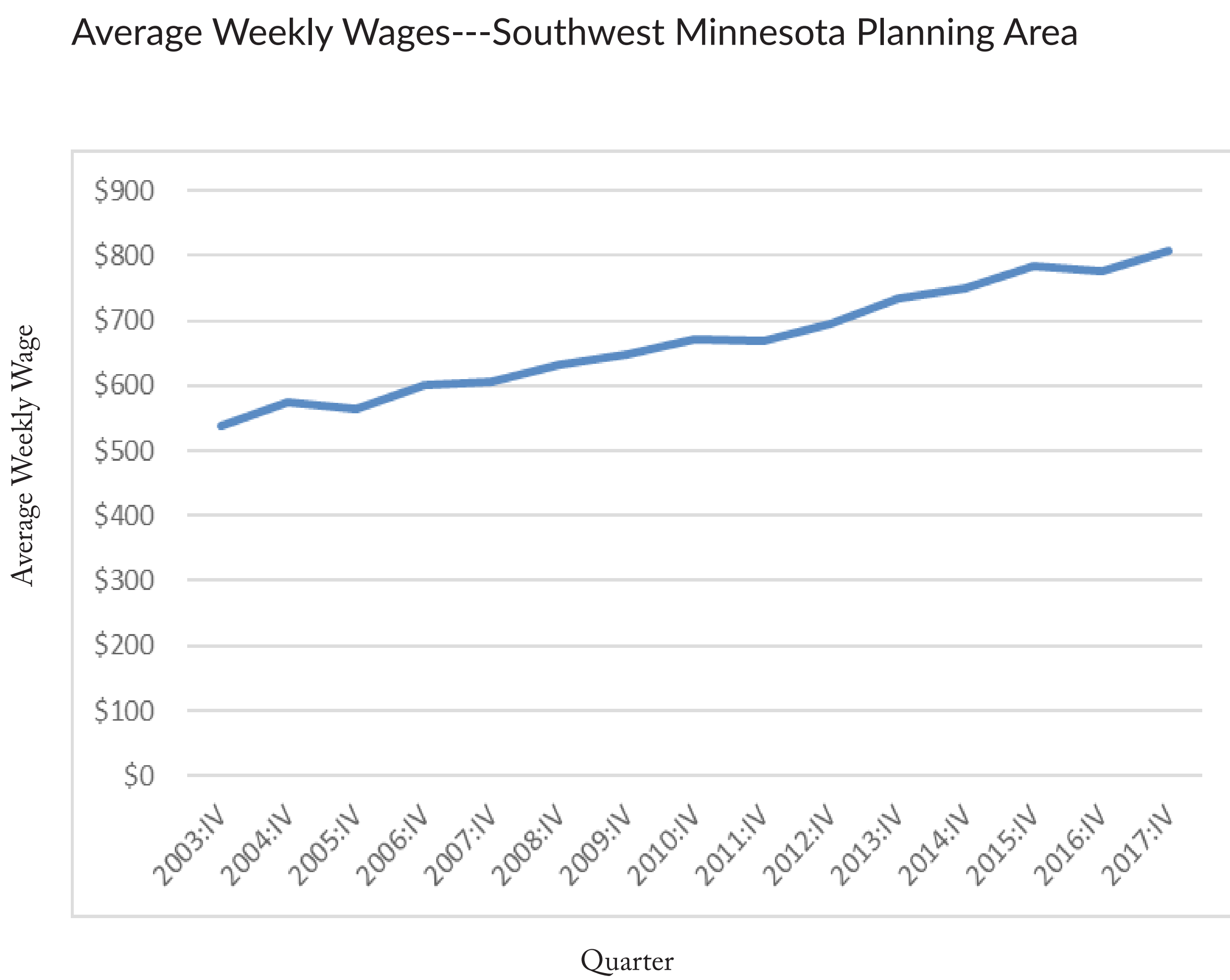
New claims for unemployment insurance in June 2018 were 25.6 percent higher than one year earlier. This is the only planning area to experience rising initial jobless claims in Minnesota, which is worth keeping an eye on in the coming months. The accompanying graph shows a seasonally adjusted series of initial jobless claims. After declining over the entire decade, this series showed some volatility in 2017 and has begun to flatten out.

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



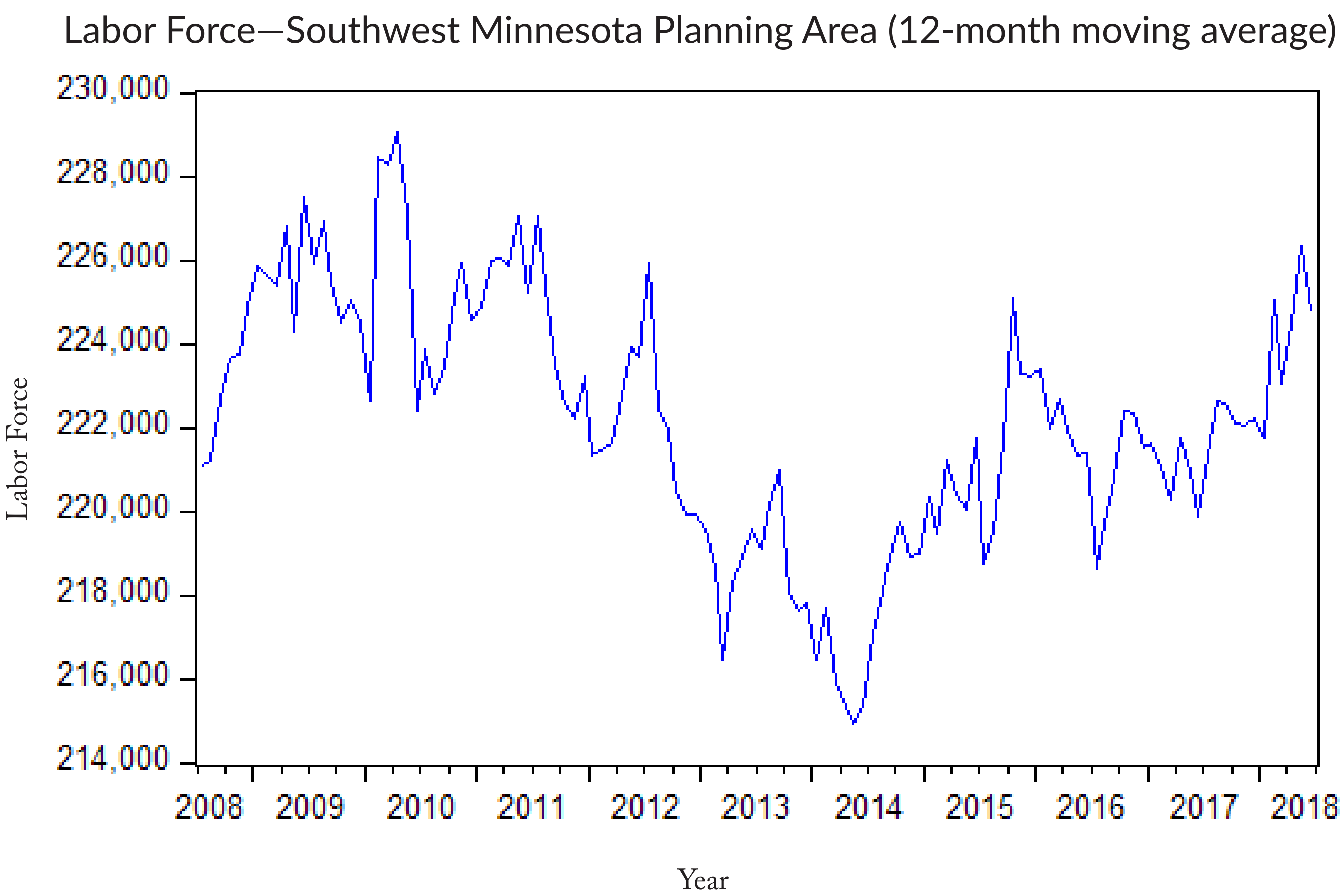
Period	June 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
Initial claims (Not seasonally adjusted)	866	2,378	981	965	920	783	1,088

Labor shortages have been reported across the state. To attract and retain workers, employers have had to increase employee compensation. One measure of employee compensation is average weekly wages. Over the most recent reporting period, average weekly wages in Southwest Minnesota increased 4.3 percent to $808. This planning area has the second lowest weekly wage in Minnesota. Only Northwest Minnesota (with an average weekly wage of $794) has lower wages. Note that the Twin Cities has the highest average weekly wage (with $1,224).



Quarter	2012:IV	2013:IV	2014:IV	2015:IV	2016:IV	2017:IV
Average Weekly Wage	$695	$735	$751	$783	$775	$808

The Southwest Minnesota labor force expanded by 2.2 percent over the year ending June 2018. As can be seen in the accompanying figure, the 12-month moving average of the planning area's labor force has trended upward over the last four years.

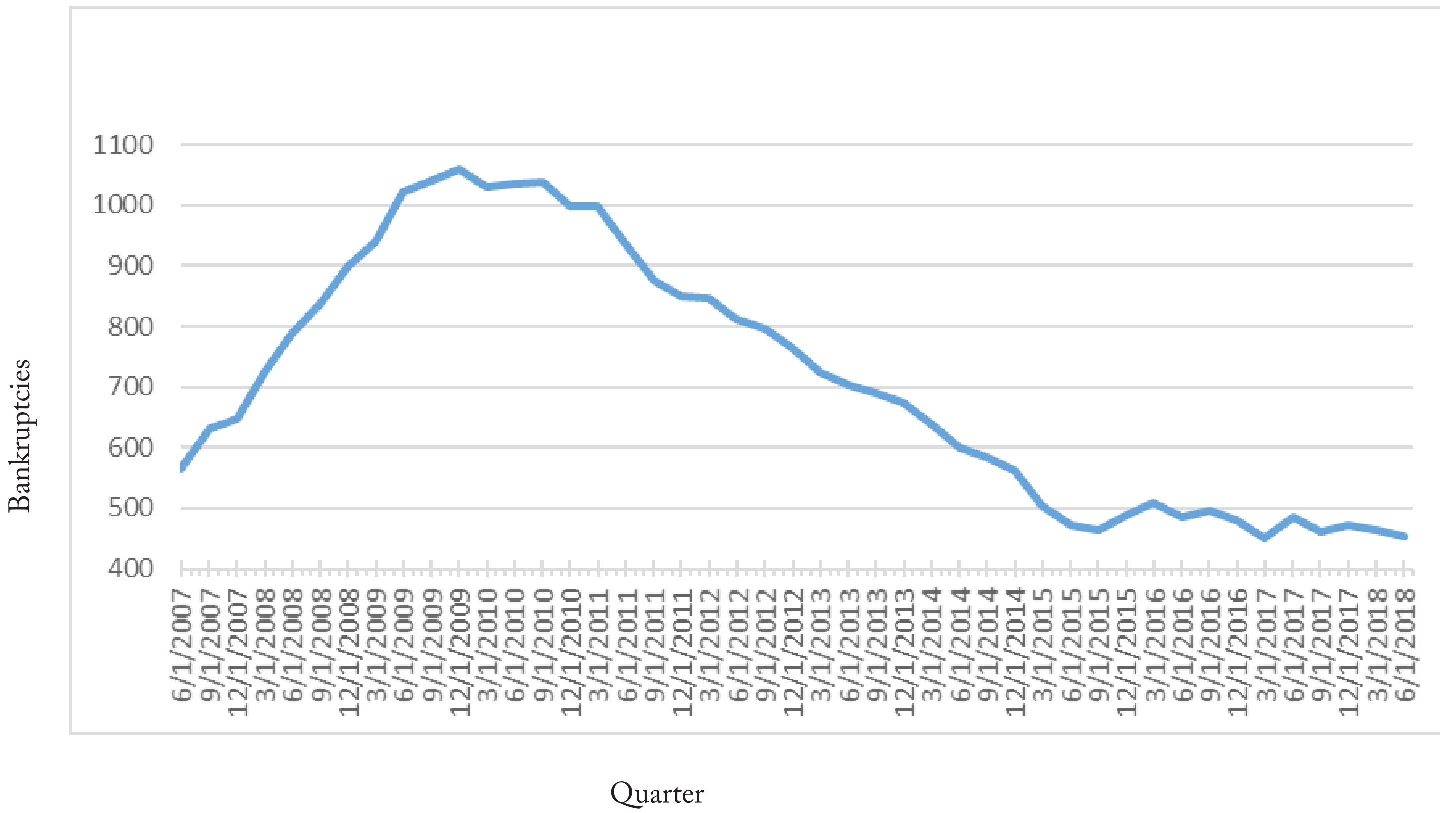


Year (June)	2013	2014	2015	2065	2017	2018
Labor Force (not seasonally adjusted)	221,890	217,235	223,172	222,432	220,632	225,448

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. This series had been slowly inching up in recent quarters, but it took a pause in the second quarter. With 454 bankruptcies over the past twelve months, Southwest Minnesota bankruptcies experienced a 6.6 percent decline from one year ago.

Southwest Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2013	2014	2015	2016	2017	2018
Annual Bankruptcies (Not seasonally adjusted)	704	600	472	484	486	454

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	June 2018 (m)	59,372	56,837	4.5% ↑	1.0%
Goods-Producing Employment	June 2018 (m)	10,806	10,417	3.7% ↑	-0.2%
Average Weekly Work Hours--Private Sector	June 2018 (m)	31.5	31.1	1.2% ↑	32.8 (since 2008)
Average Earnings Per Hour--Private Sector	June 2018 (m)	$26.24	$23.70	10.7% ↑	1.8% (since 2008)
Unemployment Rate	June 2018 (m)	2.6%	3.3%	NA ↓	4.0%
Labor Force	June 2018 (m)	62,297	59,504	4.7% ↑	0.8%
Initial Jobless Claims	June 2018 (m)	181	183	-1.1% ↑	NA
Business Formation					
Total New Business Filings	Second Quarter 2018 (q)	217	211	2.8% ↑	162 (since 2000)
New Business Incorporations	Second Quarter 2018 (q)	17	22	-22.7% ↓	25 (since 2000)
New Limited Liability Companies	Second Quarter 2018 (q)	137	136	0.7% ↑	78 (since 2000)
New Assumed Names	Second Quarter 2018 (q)	51	47	8.5% ↑	51 (since 2000)
New Non-Profits	Second Quarter 2018 (q)	12	6	100.0% ↑	8 (since 2000)
Mankato-North Mankato Residential Building Permit Valuation	June 2018 (m)	4,503	4,145	8.6% ↑	NA
Mankato-North Mankato Cost of Living Index	First Quarter 2018 (q)	93.8	93.2	0.6% ↑	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 increased and the labor force rose over the year ending June 2018. Other indicators of positive economic performance included a lower unemployment rate, higher average hourly earnings (at a 10.7 percent annual rate), increased new business filings, a longer work week, and an increase in the value of residential building permits. The only negative data measures in the Mankato metro are a slight increase in initial jobless claims and a small increase in the area's relative cost of living.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Jun 2018	Mar 2018	Jun 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,962,300	2,948,800	2,929,000	0.5%	1.1%
Average weekly hours worked, private sector	34.1	33.7	34.1	1.2%	0%
Unemployment rate, seasonally adjusted	3.1%	3.2%	3.4%	NA	NA
Earnings per hour, private sector	$28.78	$28.88	$27.94	-0.3%	3.0%
Philadelphia Fed Coincident Indicator, MN	135.96	134.58	131.42	1.0%	3.5%
Philadelphia Fed Leading Indicator, MN	2.30	1.57	1.88	46.5 %	22.3%
Minnesota Business Conditions Index	58.8	61.0	68.0	-3.6%	-13.5%
Price of milk received by farmers (cwt)	$16.20	$16.10	$17.50	0.6%	-7.4%
Enplanements, MSP airport, thousands	1,753.0	1,716.4	1,738.8	2.1%	0.8%
NATIONAL Indicators	Jun 2018	Mar 2018	Jun 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	148,971	148,280	146,538	0.5%	1.7%
Industrial production, index, SA	107.7	106.4	103.8	1.2%	3.8%
Real retail sales, SA ($)	202,022	198,859	194,817	1.6%	3.7%
Real personal income less transfers, billions	13,500.6	13,418.0	13,139.8	0.6%	2.7%
Real personal consumption expenditures, bill.	12,886.2	12,759.8	12,539.3	1.0%	2.8%
Unemployment rate, SA	4.0%	4.1%	4.3%	NA	NA
New building permits, SA, thousands	25,637	24,168	25,160.4	6.1%	1.9%
Standard & Poor's 500 stock price index	2,754.4	2,702.8	2,434.0	1.9%	13.2%
Oil, price per barrel in Cushing, OK	$67.87	$62.73	$45.18	8.2%	50.2%

Most categories of economic performance found in the State and National Indicators table are favorable. For the state as a whole, there was growth in employment, a lower seasonally adjusted unemployment rate, and increased enplanements at the Minneapolis-St. Paul airport. Two of the three indicators series reported in the table are higher. Year-over-year, average hourly earnings rose but weekly work hours were flat. Milk prices continue to fall.

The national economic indicators found in the table are also 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 the number of new building permits rose. Oil prices are now 50 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 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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