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Northeast Minnesota Economic and Business Conditions Report Third Quarter 2018

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Northeast Minnesota
Economic and Business Conditions Report
Third 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 Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

Office of the Minnesota
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School of Public Affairs
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EXECUTIVE SUMMARY

Stronger economic growth in Northeast Minnesota is expected over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). Three of the five components of the LEI increased as the overall index rose by 6.12 points in the third quarter. A higher number of Duluth metropolitan area residential building permits favorably impacted the leading index as did increased new filings of incorporation and lower initial jobless claims in the region. A decline in a general measure of statewide business conditions and a weaker purchasing managers' manufacturing index weighed on this quarter's leading index. The Northeast Minnesota LEI is now 2.6 percent higher than it was one year ago.

There were 567 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the third quarter of 2018 — representing a 15.5 percent improvement from one year earlier. Forty-two new regional business incorporations were filed in the third quarter—14.3 percent fewer than in the same period of 2017. New limited liability company (LLC) filings in Northeast Minnesota rose 18.9 percent to a level of 327. New assumed name filings increased 18.2 percent and there were 29 new filings for non-profit—5 more filings than in the third quarter of 2017.

Sixty-eight percent of new business filers in the Northeast Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's third quarter. Results of this voluntary survey indicate that 2.8 percent of new filers come from communities of color, while 8.5 percent of new filings come from veterans. 3.6 percent of new filers come from the disability community and only 2.3 percent of new filings are made by the immigrant community. Forty-four percent of new business filings in Northeast Minnesota in this year's third quarter were initiated by women. MBS results also show that most new business filers in Northeast Minnesota have between 0 and $10,000 in annual gross revenues (although 29 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Northeast Minnesota are construction, retail trade, professional/scientific/technical, real estate/rental/leasing, 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.

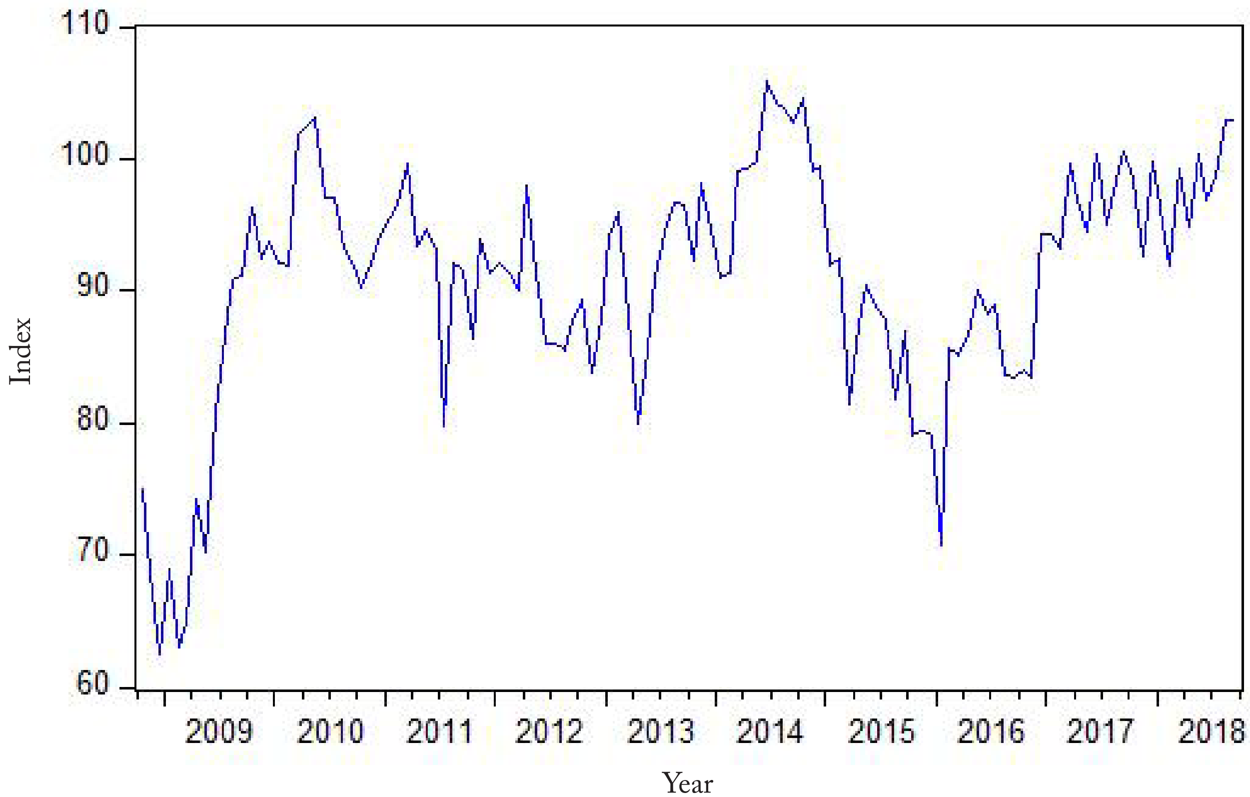
Northeast Minnesota employment was 1.3 percent higher than year ago levels in September. The regional unemployment rate was 2.8% (considerably lower than one year ago) and the labor force was largely unchanged, rising by only 0.2% from one year earlier. September 2018 initial claims for unemployment insurance were 17 percent lower than the same month last year. The job vacancy rate surged as labor shortages continue to plague the region. Annual bankruptcies in Northeast Minnesota declined slightly from one year ago.

Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was mixed. Northeast Minnesota's largest market experienced a 0.8 percent increase in overall employment over the year ending September 2018 and manufacturing sector employment also rose. However, employment in the key education/health sector contracted. Average weekly work hours were flat, but average hourly earnings jumped by 7 percent over the past twelve months. The Duluth area unemployment rate fell to 2.8 percent, but the labor force was little changed. The value of residential building permits in the metropolitan area fell by nearly 20 percent.

NORTHEAST MINNESOTA LEADING ECONOMIC INDICATORS INDEX

The SCSU Northeast Minnesota Leading Economic Indicators Index (LEI) is designed to predict performance of the regional economy with a four-to-six month lead time. After a 2.45 point decrease in the second quarter, this quarter's LEI rose by 6.12 points. The LEI is now 2.6 percent above its September 2017 level. The only region in Minnesota to experience a decline in its leading index in the past three months was Northwest Minnesota. All other planning areas saw their economic outlook improve. As can be seen in the accompanying figure, the LEI had shown a lot of variability in recent quarters, but it has now started to rise.

The SCSU Northeast Minnesota Leading Economic Indicators Index
December 1999=100



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2018	Contribution to LEI, 2nd quarter 2018
Minnesota Business Conditions Index	-1.43	-0.77
Northeast Minnesota initial claims for unemployment insurance	1.26	1.72
Northeast Minnesota new filings of incorporation	1.02	-0.17
Duluth Superior MSA residential building permits	5.61	-3.99
Institute of Supply Management Purchasing Managers Index for manufacturing	-0.34	0.76
TOTAL CHANGE	**6.12**	**-2.45**

New business filings of incorporation in the Northeast Minnesota planning area was one of three index components to register a favorable movement in the third quarter. Lower regional initial jobless claims and a pickup in the number of new residential building permits in the Duluth/Superior MSA also made positive contributions to the region's leading index in 2018:III. Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This LEI component declined in the most recent quarter. A weakening of the Minnesota Business Conditions Index (which is used as an indicator of general statewide business conditions) also weighed on the regional outlook.

SCSU Northeast Minnesota Leading Economic Indicators Index	2018	2017	Percentage change
Minnesota Business Conditions Index September	54.9	59.4	-7.6%
Northeast Minnesota initial claims for unemployment insurance, September	675	813	-17.0%
Northeast Minnesota new filings of incorporation Third Quarter	42	42	0.0%
Duluth-Superior MSA single-family building permits September	15	11	36.4%
Institute for Supply Management Purchasing Managers' Index, manufacturing sector, September	59.8	58.7	1.9%
Northeast Minnesota Leading Economic Indicators Index September (December 1999 = 100)	103.0	100.4	2.6%

NORTHEAST MINNESOTA BUSINESS FILINGS

Total new business filings jumped by 15.5 percent compared to last year's third quarter. The moving total of this series has been generally trending upward since the end of 2011.

Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data.

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

Quarter	III: 2017	IV: 2017	I: 2018	II: 2018	III: 2018	2018 Quarter III: Percent change from prior year
Northeast Minnesota Total New Business Filings	491	507	643	645	567	15.5%

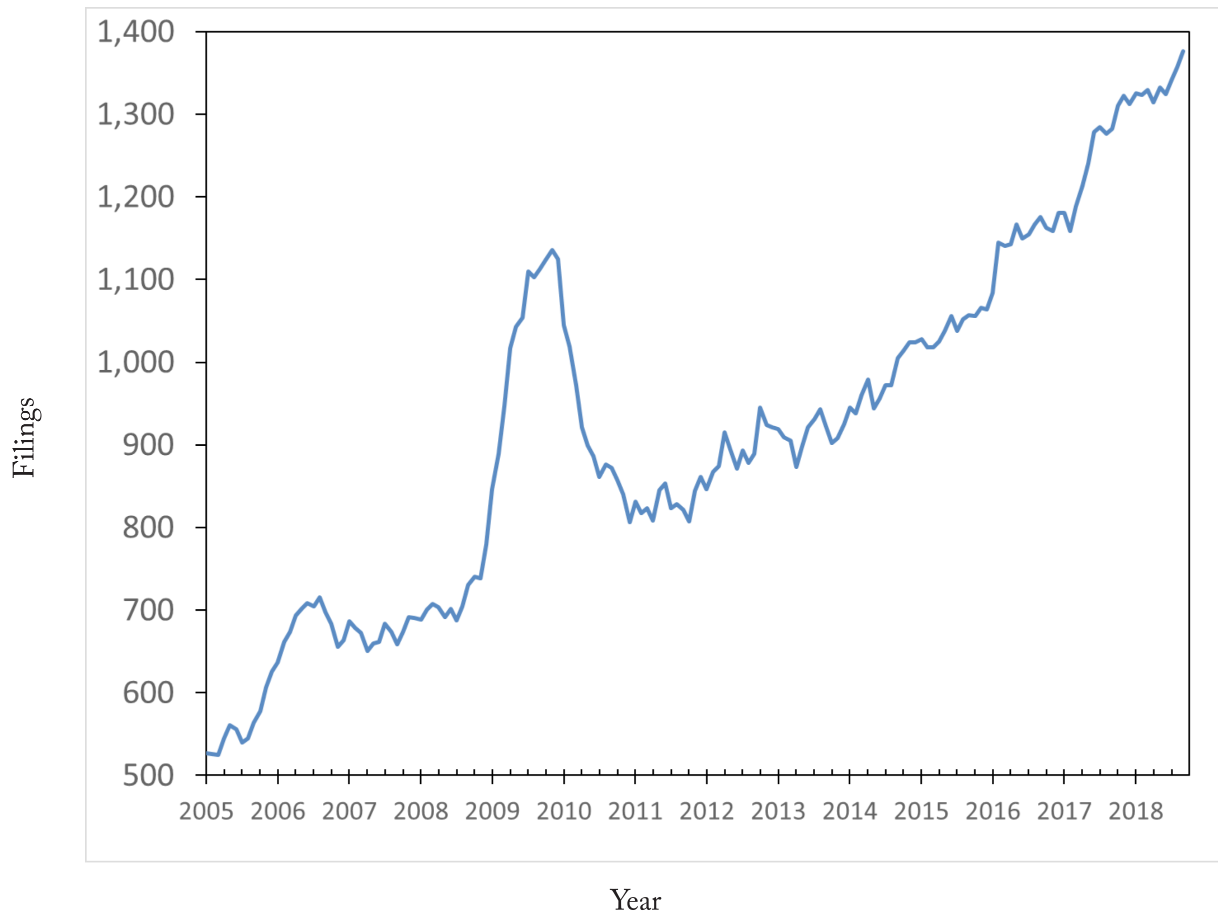
Compared to the third quarter of 2017, new filings of incorporation in Northeast Minnesota were 14.3 percent lower. As can be seen in the graph, the 12-month moving total of Northeast Minnesota new business incorporations has been mostly flat for the past several years.

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

Quarter	III: 2017	IV: 2017	I: 2018	II: 2018	III: 2018	2018 Quarter III: Percent change from prior year
Northeast Minnesota New Business Incorporations	49	42	60	44	42	-14.3%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. This trend continued in the third quarter as new LLC filings surged by 18.9 percent compared to the same period one year earlier. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was 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.

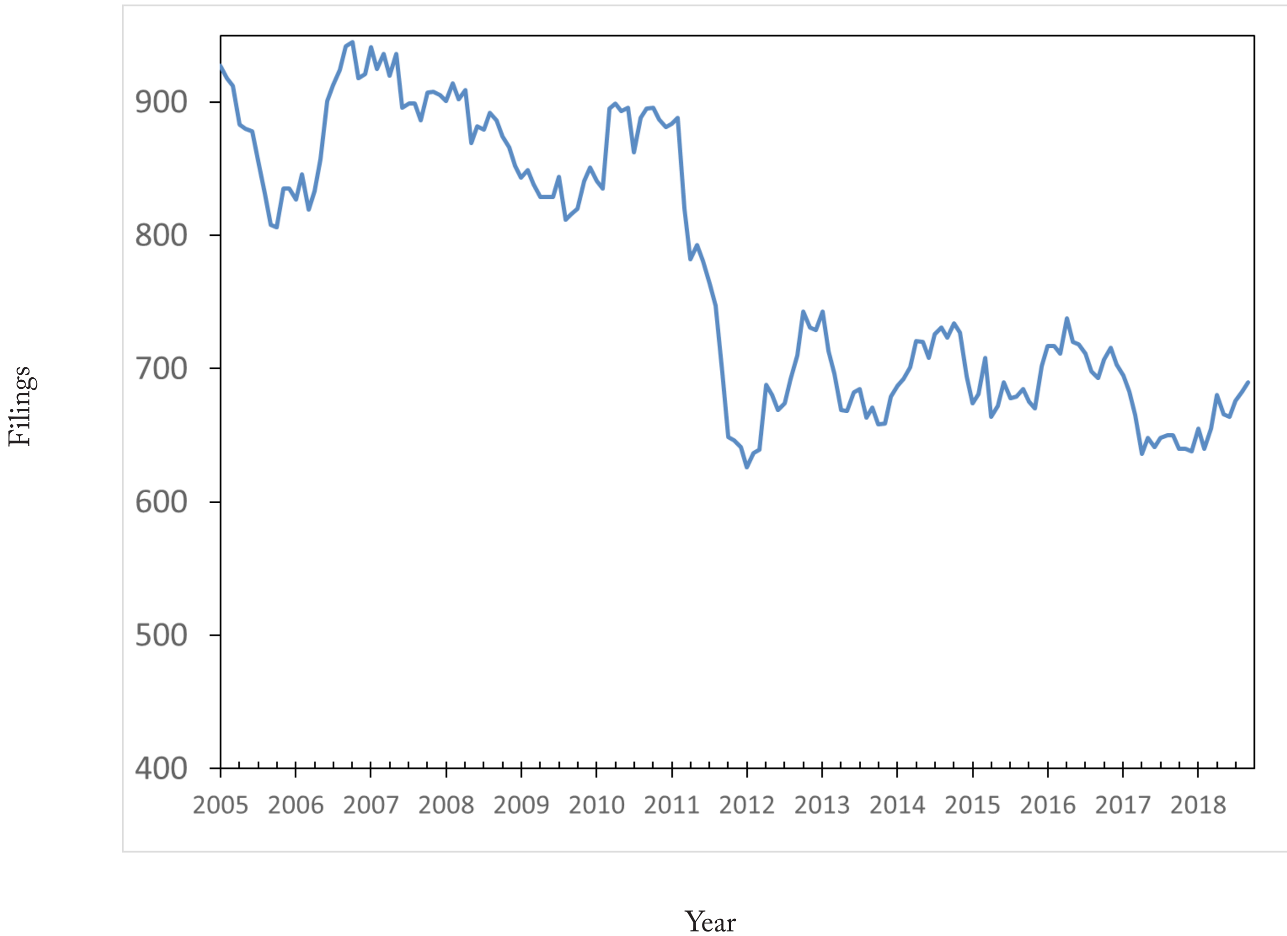
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2017	IV: 2017	I: 2018	II: 2018	III: 2018	2018 Quarter III: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	275	300	362	387	327	18.9%

Compared to the third quarter of 2017, assumed names rose by 18.2 percent in Northeast Minnesota. As can be seen in the accompanying figure, this series had leveled out in 2017, but has now risen in the first three quarters of this year. Assumed name filings still remain well below their level of the mid-2000s.

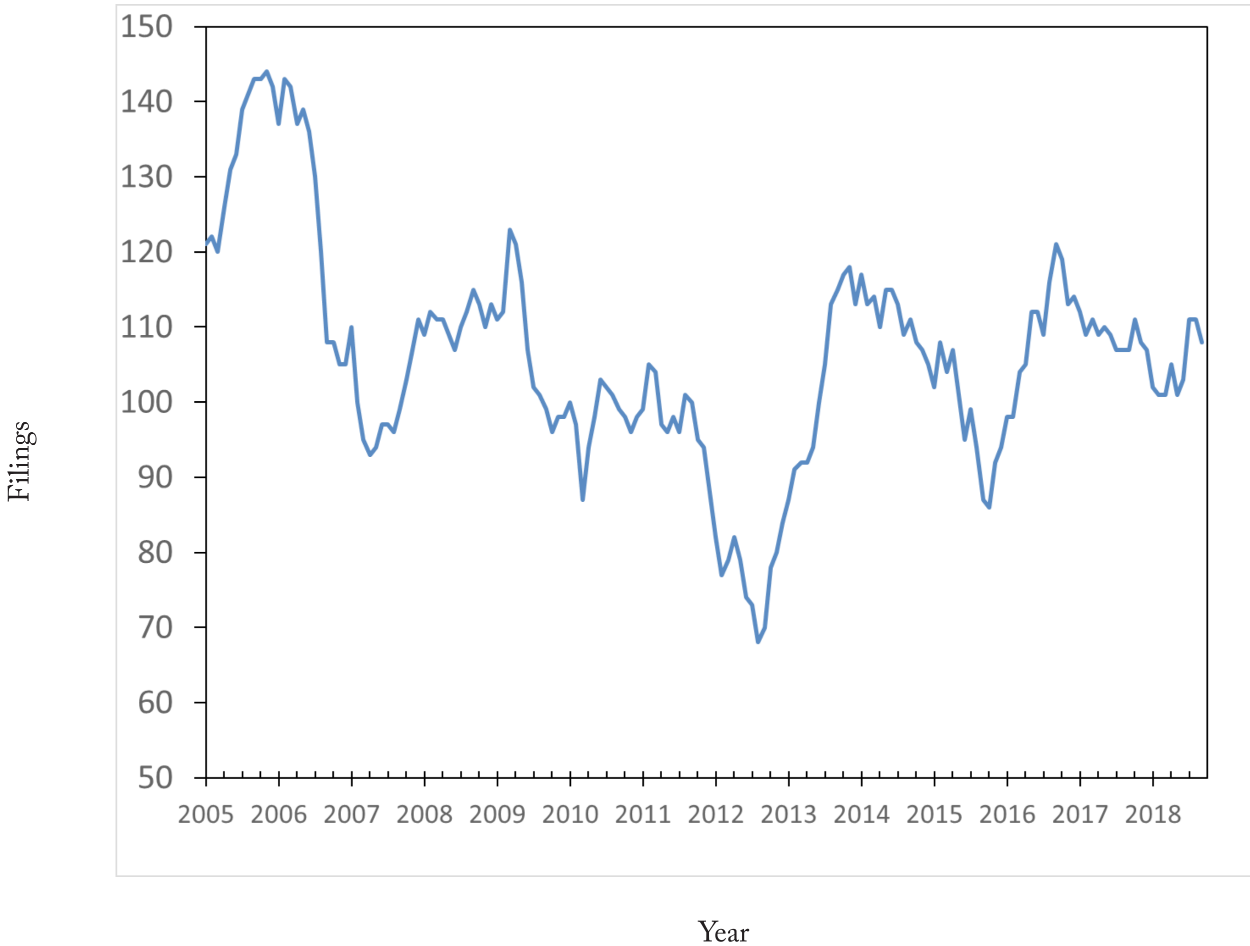
New Assumed Names—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2017	IV: 2017	I: 2018	II: 2018	III: 2018	2018 Quarter III: Percent change from prior year
Northeast Minnesota New Assumed Names	143	143	194	184	169	18.2%

There were 29 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the third quarter of 2018. This is five more filings than one year earlier.

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



Quarter	III: 2017	IV: 2017	I: 2018	II: 2018	III: 2018	2018 Quarter III: Percent change from prior year
Northeast Minnesota New Non-Profits	24	22	27	30	29	20.8%

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 third 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 Northeast Minnesota, about 68 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.
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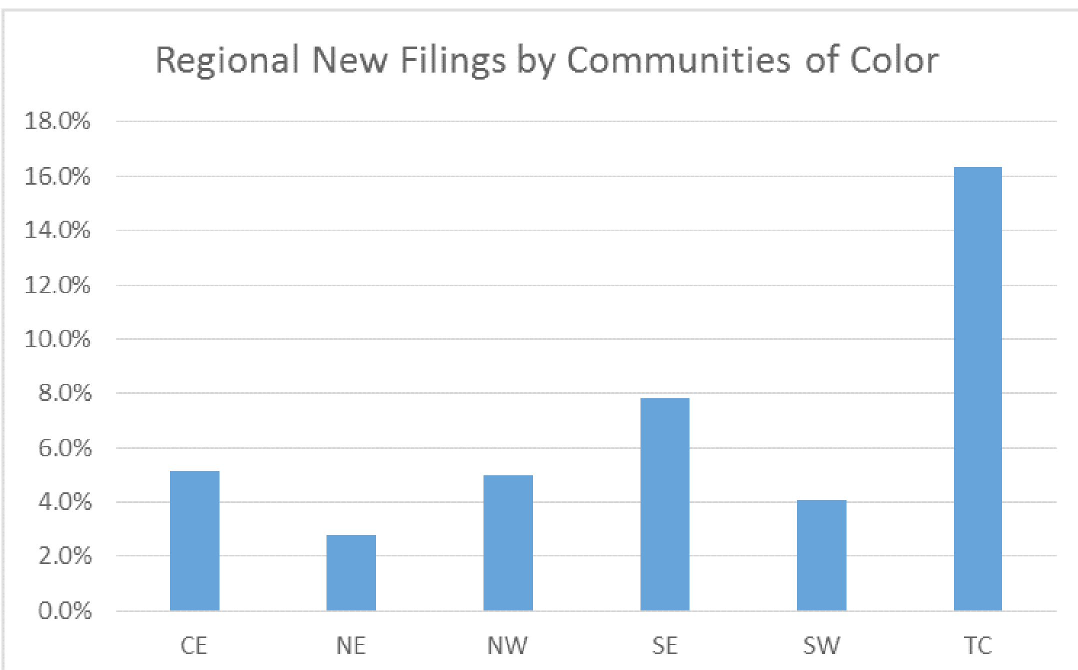
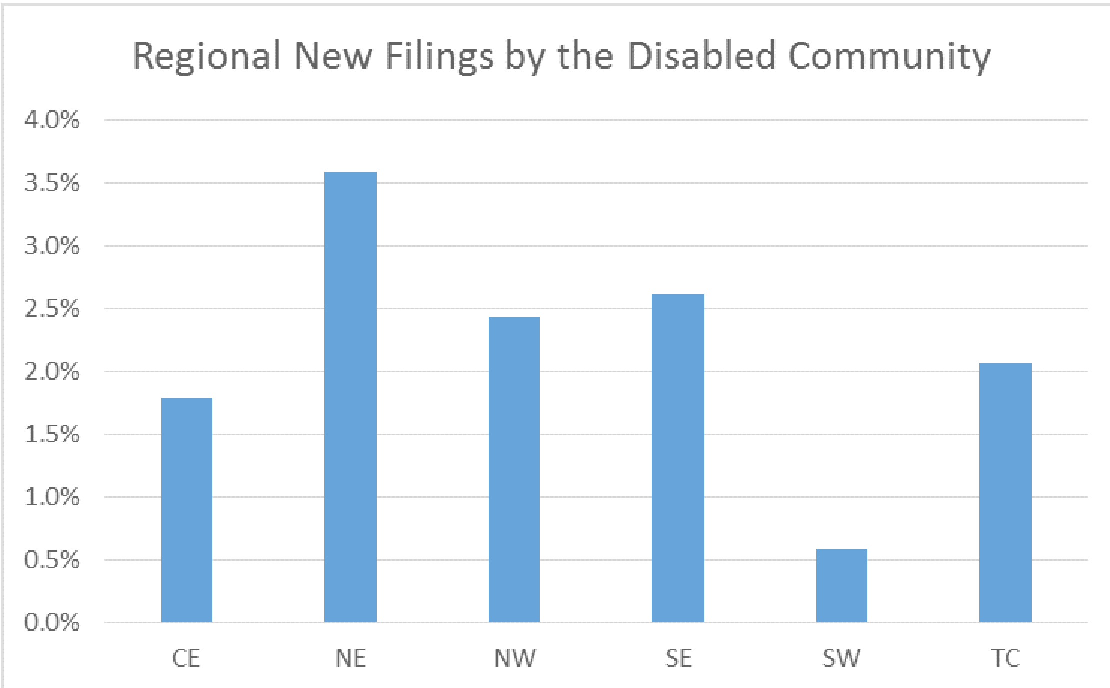
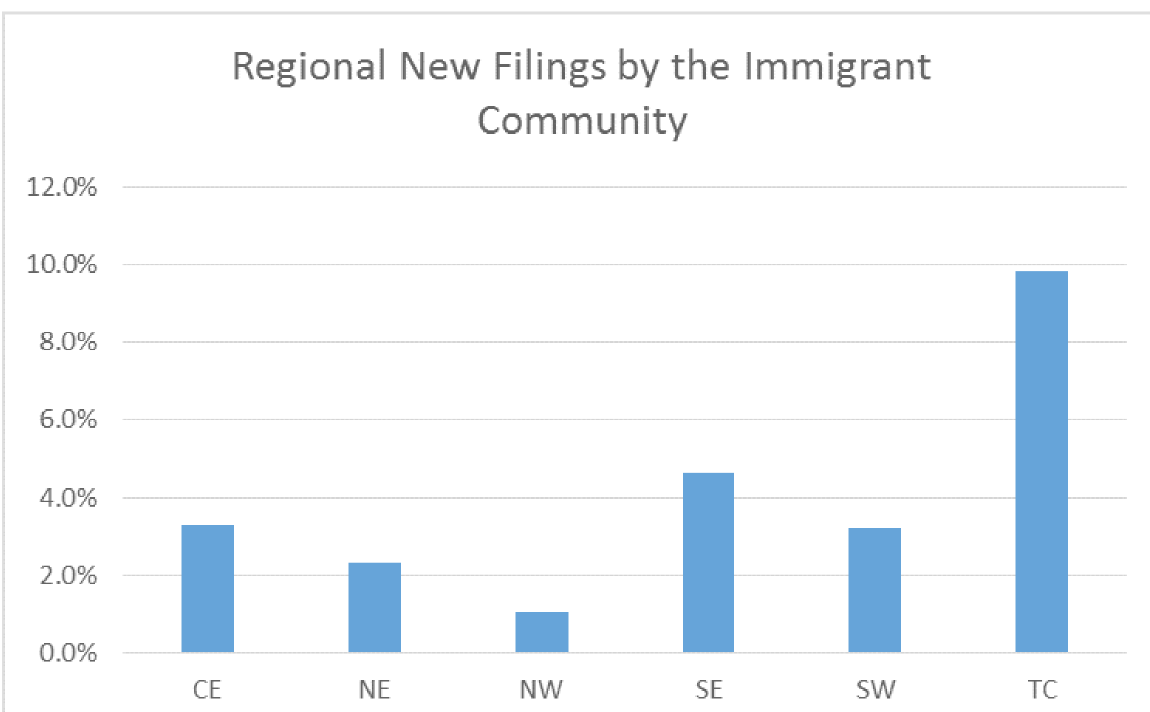
2.8 percent of those new filers completing the MBS from the Northeast Minnesota planning area report being from a community of color. This is the lowest percentage of Minnesota's six planning areas.



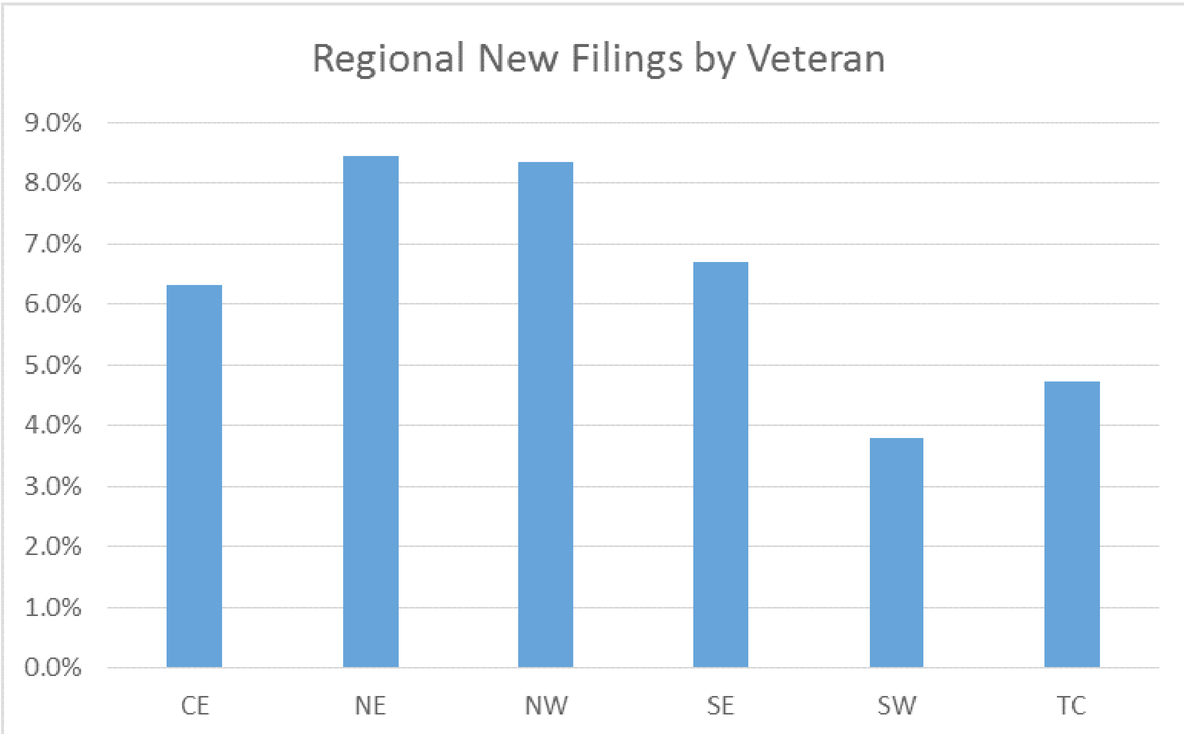
About 3.6 percent of Northeast Minnesota's new filers are from the disability community. This is the highest percentage of any of Minnesota's six planning areas.



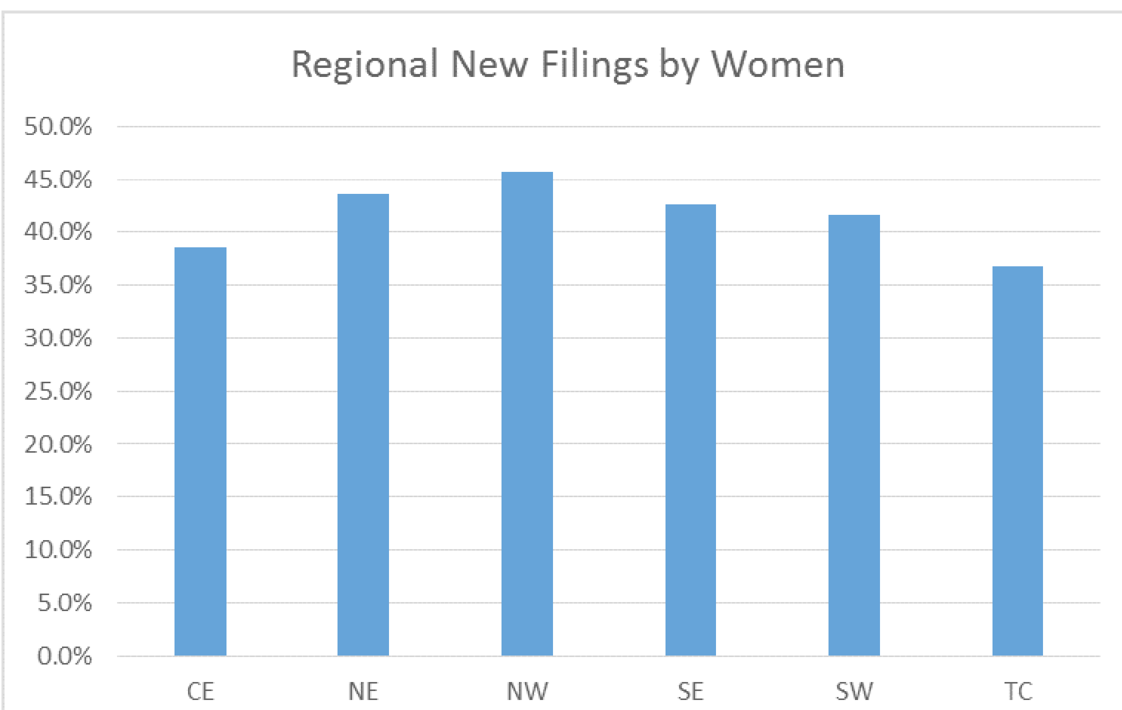
Very few (2.3 percent) new business filings in Northeast Minnesota come from the immigrant community. The percentage of immigrant new business filings in the Northeast portion of the state is well below what is seen in most of the other planning areas.



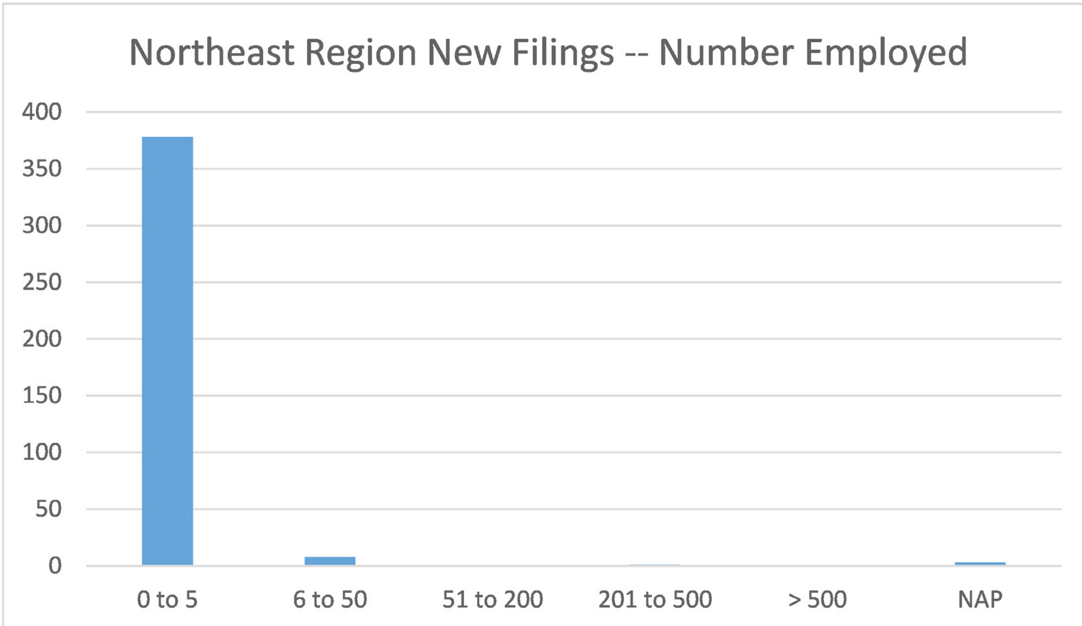
8.5 percent of all new filings in Northeast Minnesota came from military veterans in the third quarter of 2018. Since the inception of the Minnesota Business Snapshot survey in 2016, the Northeast region has consistently had the greatest share of new filings by veterans.



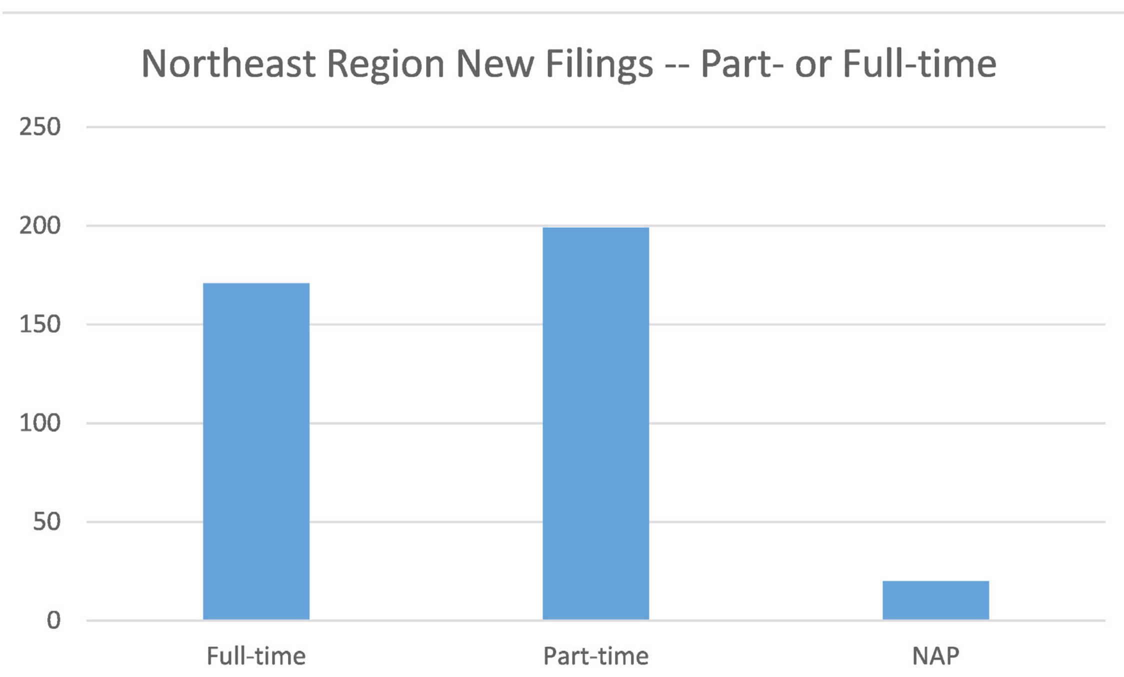
Woman owners represented 43.6 percent of the new business filings in Northeast Minnesota in the third quarter of 2018. This is the second highest percentage of Minnesota's six planning areas.



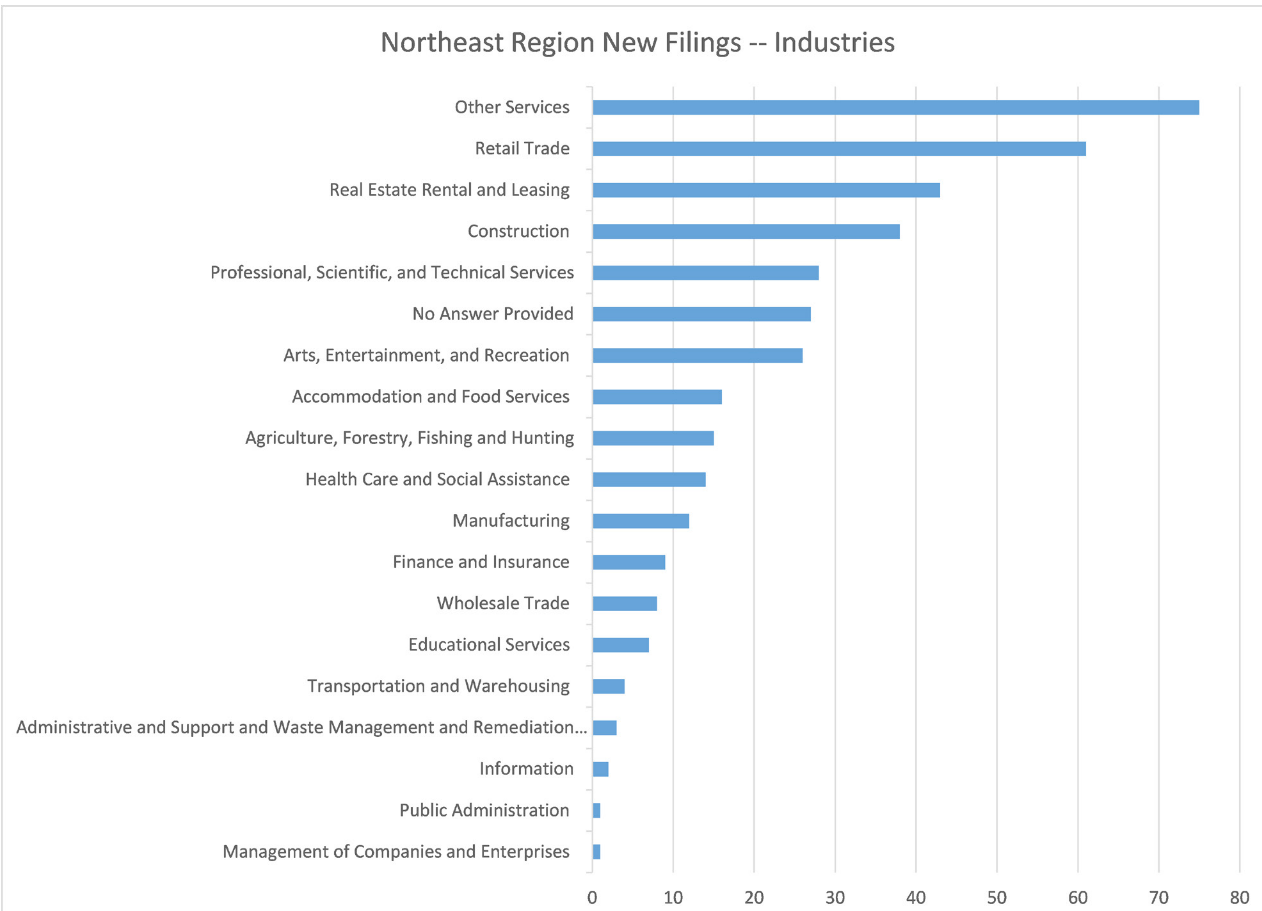
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by "NAP"—no answer provided), 387 responses were tallied to a question asking the new business filer to indicate 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.



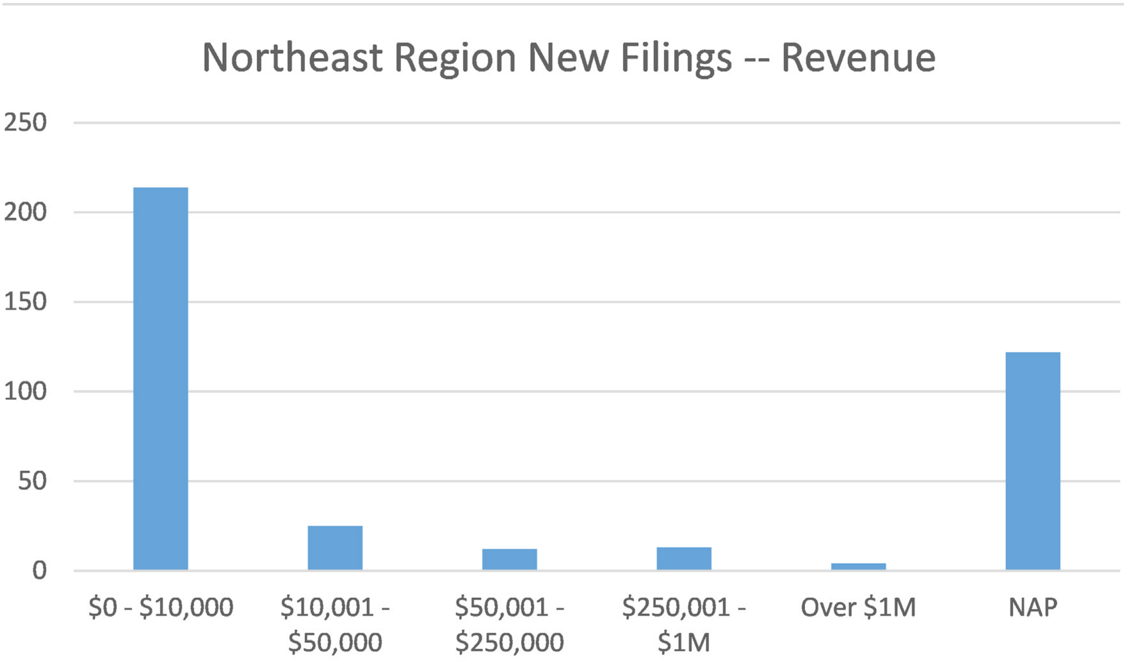
More than half of those submitting a new business filing in Northeast Minnesota are part-time ventures.



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, real estate/rental/leasing, retail trade, professional/scientific/technical, 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-seven new firms did not provide an answer to this survey item (see "NAP").



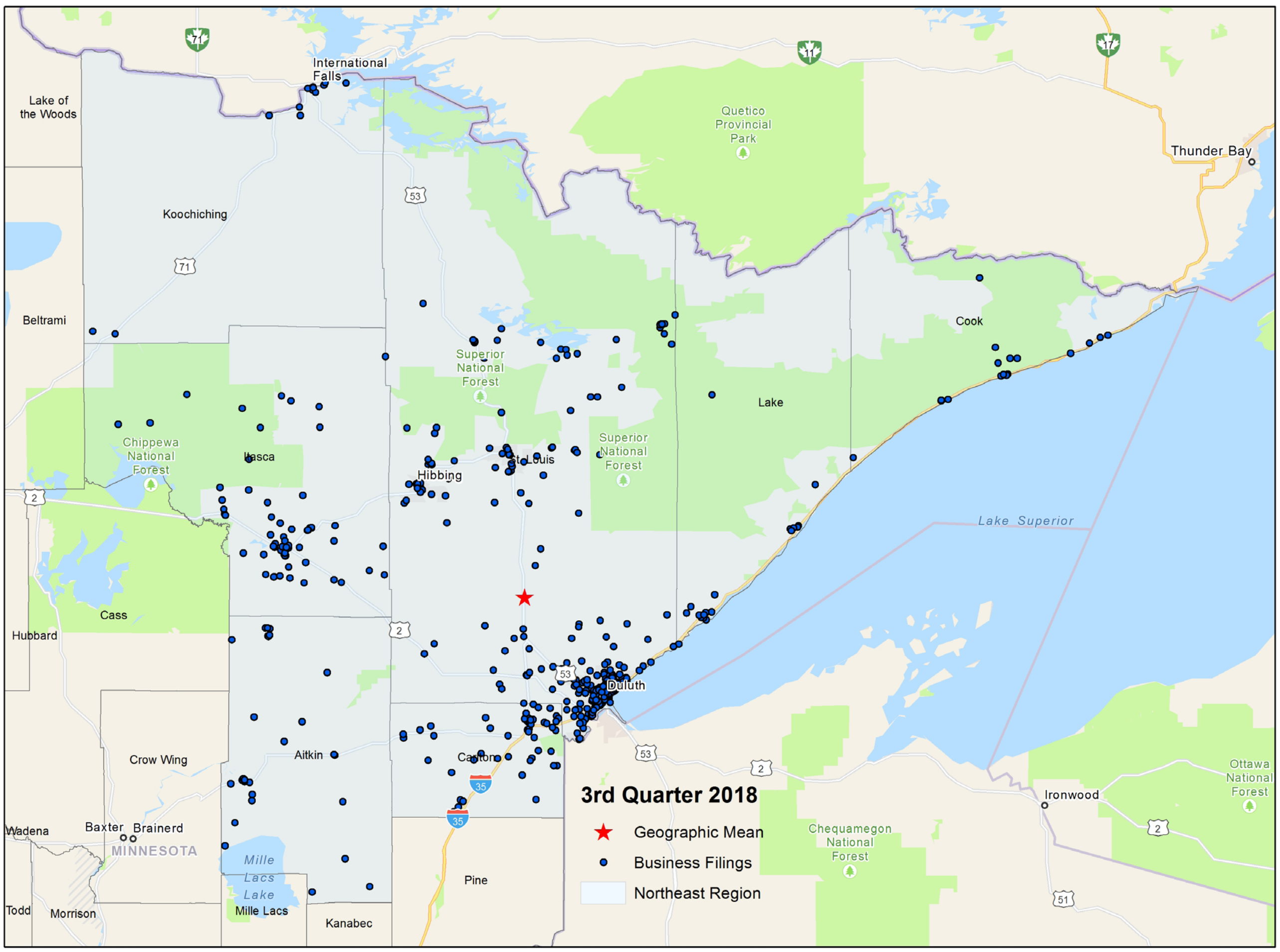
122 new business filers in Northeast Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues of less than $10,000. Twenty-nine new firms report revenues in excess of $50,000.



MAPS

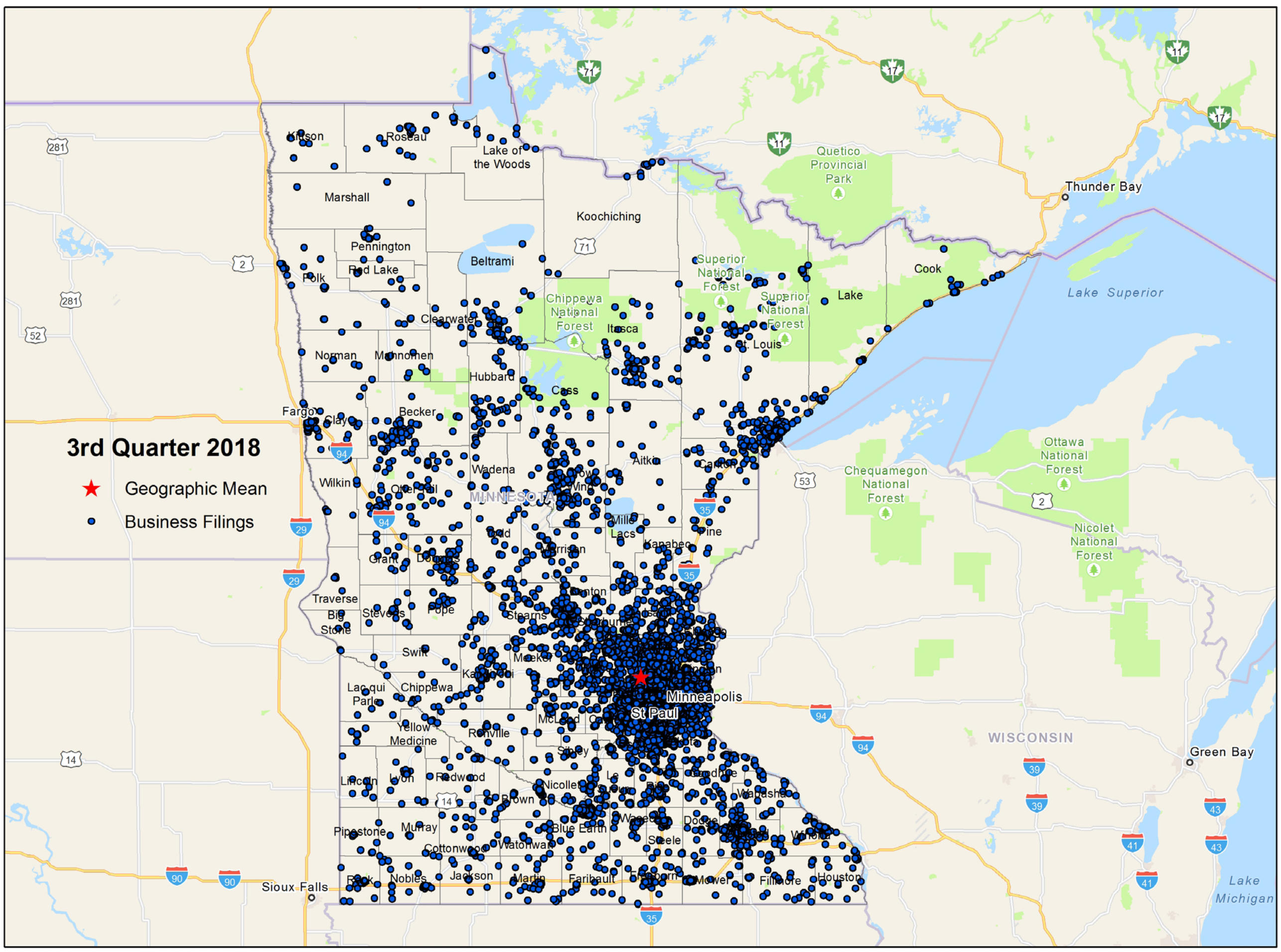
The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in the third quarter of 2018. The densest areas of new business formation are in the Duluth metro as well as along the region's well-traveled roadways. There was a noticeable cluster of new business formation along Highway 169 (in the Virginia-Hibbing-Grand Rapids corridor), in Ely, International Falls, and along Highway 61.

Northeast Minnesota Planning Area--New Business Formation--Quarter 3: 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 3: 2018

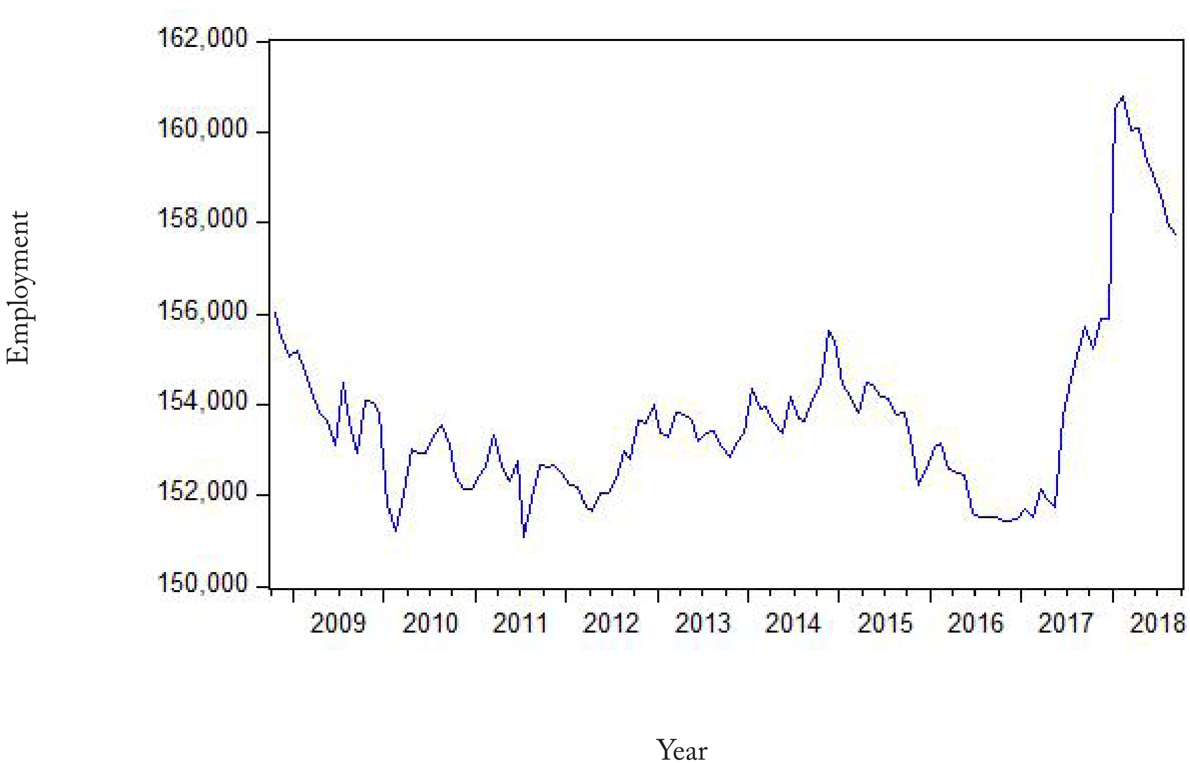


NORTHEAST MINNESOTA LABOR MARKET CONDITIONS

September 2018 employment in the Northeast Minnesota planning area was 1.3 percent higher than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment had been rising rapidly since the beginning of 2017. However, the seasonally adjusted level of employment in Northeast Minnesota appears to have turned down in the last two quarters.

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.

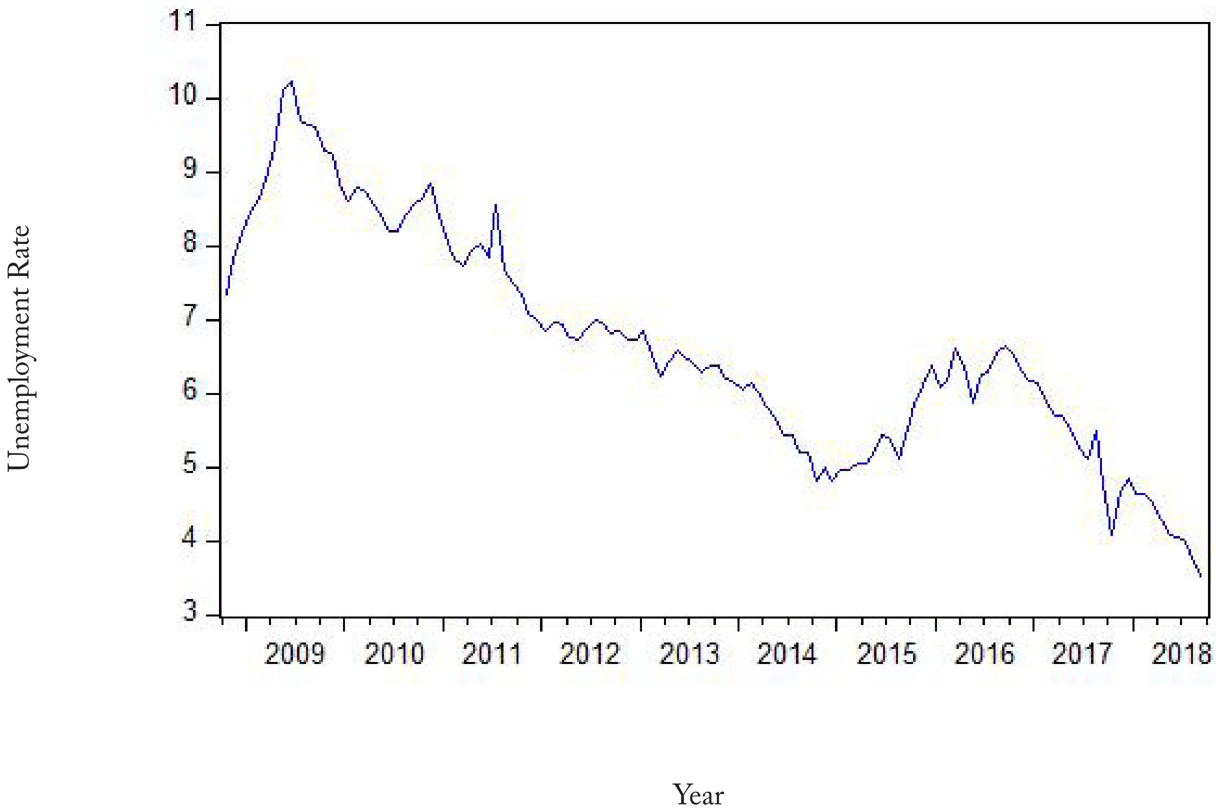
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	September 2017	April 2018	May 2018	June 2018	July 2018	August 2018	September 2018
Employment (Not seasonally adjusted)	157,394	159,078	160,298	160,787	161,042	159,117	159,385

After a sharp increase in the seasonally adjusted unemployment rate in last year's fourth quarter, this series resumed its downward trend in the first quarter of 2018. At 2.8 percent, the non-seasonally adjusted rate is considerably lower than one year earlier (when it was 3.8 percent). Note, however, that the unemployment rate in Northeast Minnesota is the highest regional rate in Minnesota.

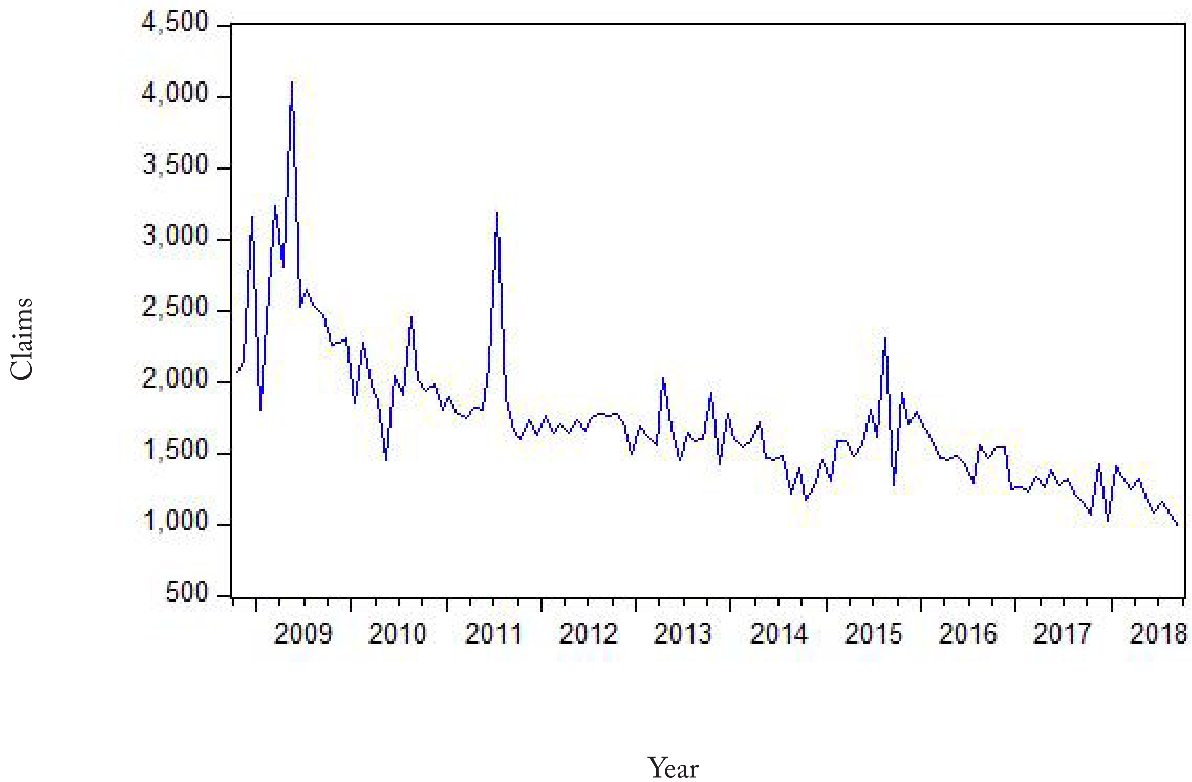
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	September 2017	April 2018	May 2018	June 2018	July 2018	August 2018	September 2018
Unemployment Rate (Not seasonally adjusted)	3.8%	4.6%	3.7%	4.0%	3.7%	3.3%	2.8%

On a seasonally adjusted basis, initial jobless claims in the Northeast region have declined since the beginning of 2018. This quarter's initial jobless claims fell by 17% compared to one year earlier.

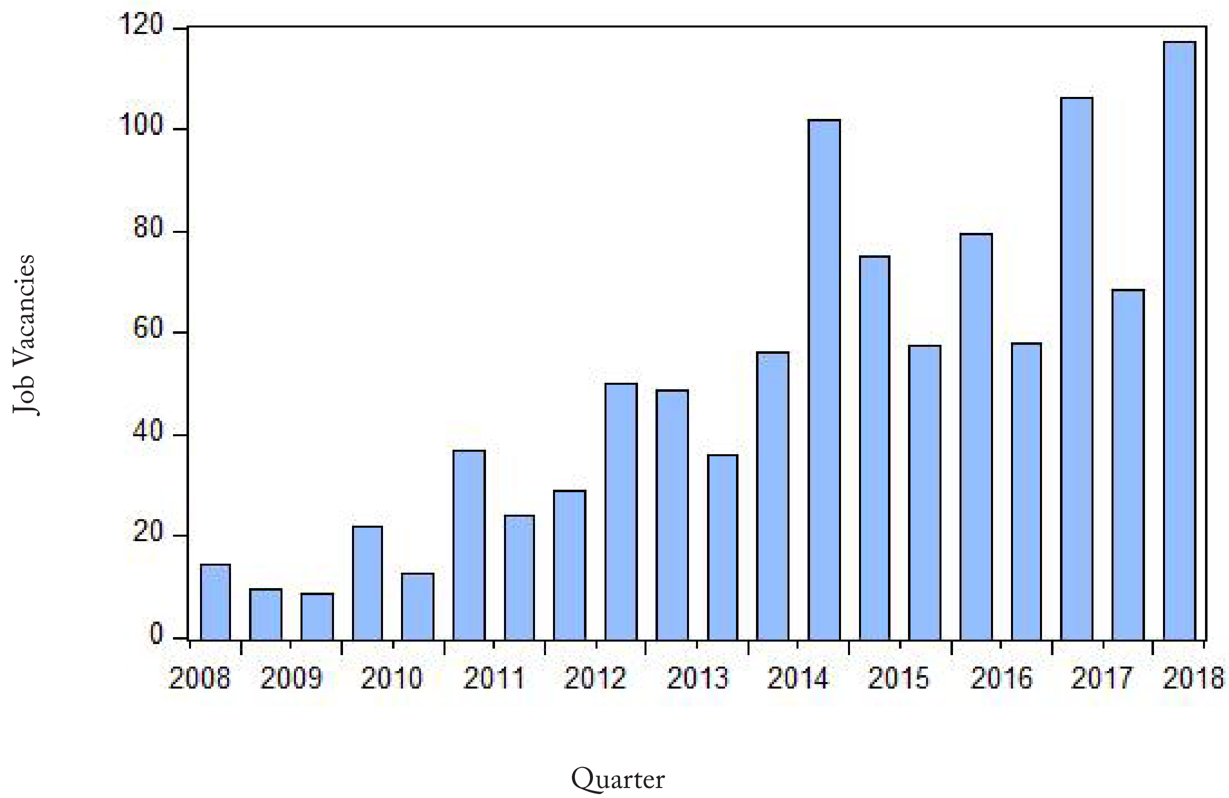
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Period	September 2017	April 2018	May 2018	June 2018	July 2018	August 2018	September 2018
Initial claims (Not seasonally adjusted)	813	1,071	1,004	873	829	739	675

As labor shortages continue to plague all of Minnesota's six planning areas, the number of job vacancies per 100 unemployed has remained elevated in the Northeast region of the state. With approximately 125 job vacancies for every 100 unemployed workers, there is little hope that companies in Northeast Minnesota will see their difficulties attracting qualified workers moderate any time soon.

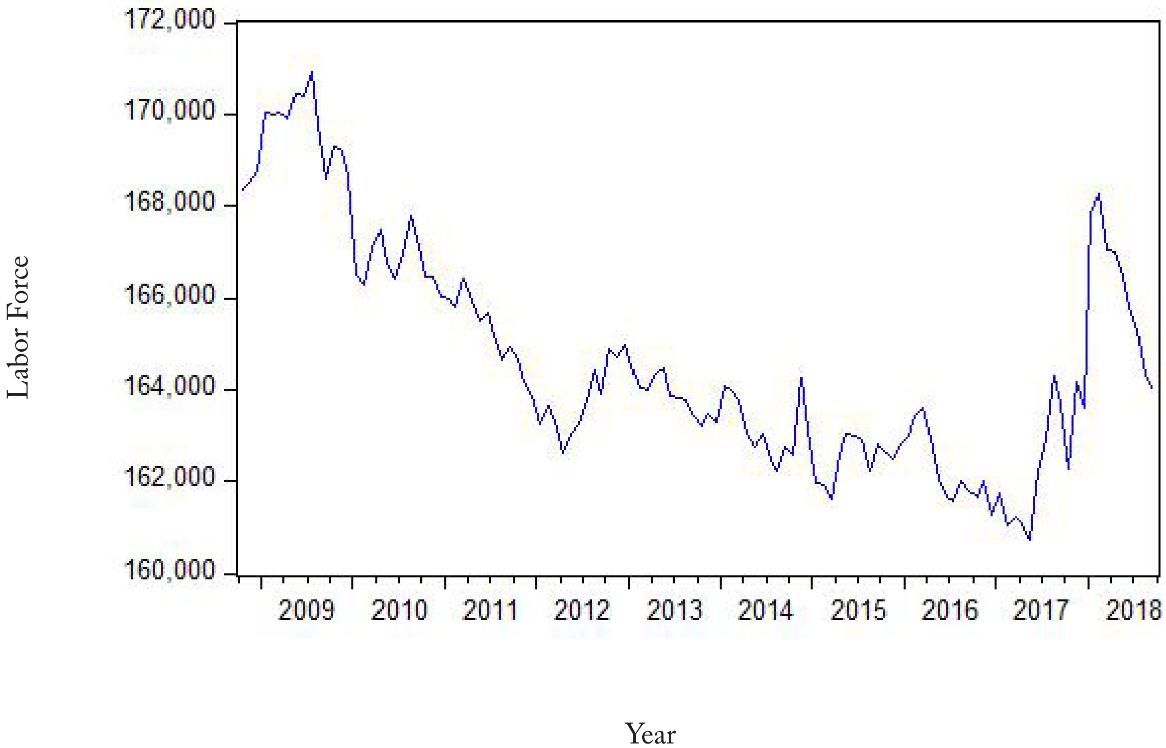
Job Vacancies per 100 Unemployed ---Northeast Minnesota Planning Area



Quarter	2015:IV	2016:II	2016:IV	2017:II	2017:IV	2018:II
Job Vacancies per 100 Unemployed	59	80.62	64.64	110.53	79.33	124.9

The Northeast Minnesota labor force was little changed over the past year (rising by just 0.2 percent). Using a 12-month moving average to account for seasonality, the regional labor force numbers appear to have actually declined in 2018.

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

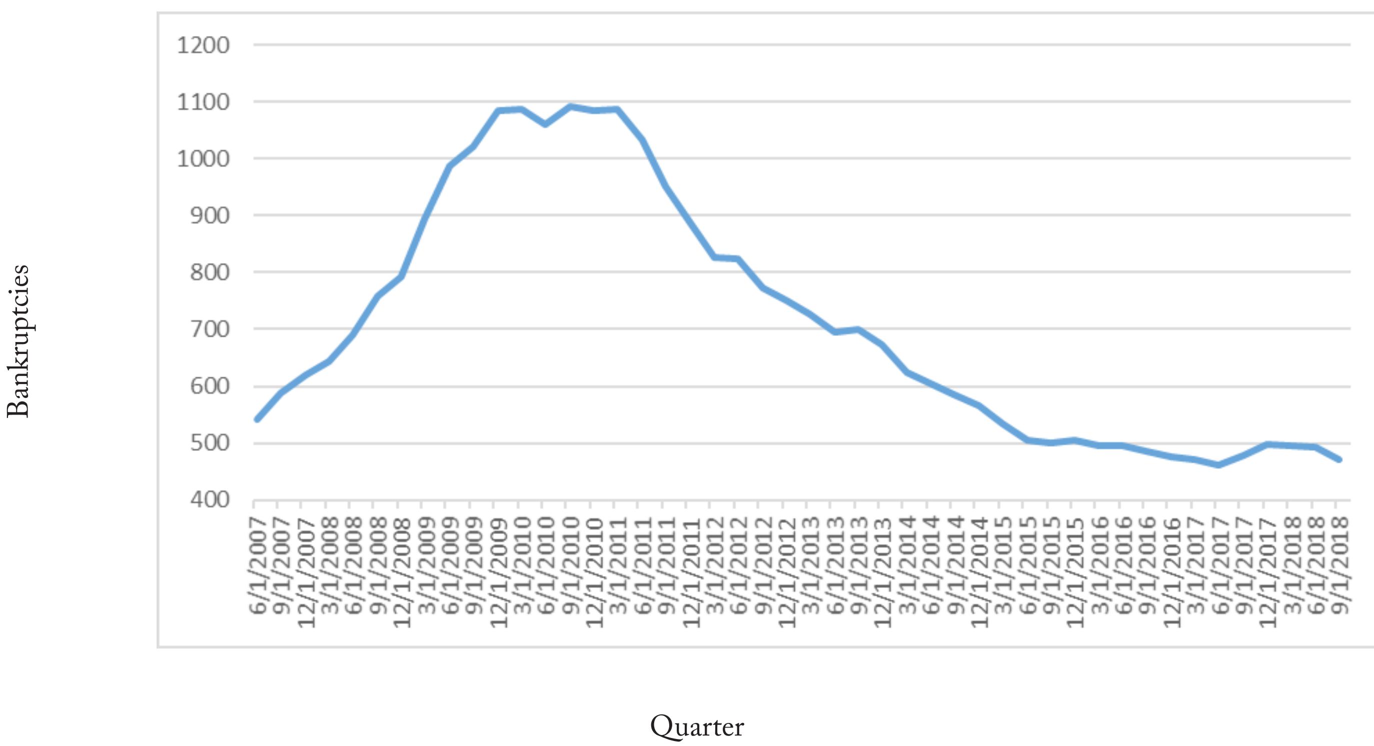


Year (September)	2013	2014	2015	2016	2017	2018
Labor Force (Not seasonally adjusted)	163,624	162,848	162,847	161,828	163,675	163,951

NORTHEAST MINNESOTA BANKRUPTCIES

The figure below shows the 12-month moving total for Northeast 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 third quarter of 2009, then leveled out for a few quarters. The series had gradually declined since the beginning of 2011, until the middle months of 2017, when it slowly started to inch up. However, this pattern was reversed in the third quarter, as the planning area's bankruptcies declined slightly.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (Third Quarter)	2013	2014	2015	2016	2017	2018
Annual Bankruptcies (Not seasonally adjusted)	699	585	501	486	479	470

ECONOMIC INDICATORS

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)
Employment	September 2018 (m)	139,465	138,332	0.8%	↑	0.3%
Manufacturing Employment	September 2018 (m)	7,751	7,590	2.1%	↑	-1.3%
Educational and Health Sector Employment	September 2018 (m)	31,863	32,345	-1.5%	↓	2.5%
Average Weekly Work Hours--Private Sector	September 2018 (m)	33.1	33.1	0%	↔	32.8 (since 2007)
Average Earnings Per Hour--Private Sector	September 2018 (m)	$25.53	$23.85	7.0%	↑	2.9% (since 2007)
Unemployment Rate	September 2018 (m)	2.8%	3.8%	NA	↓	5.2%
Labor Force	September 2018 (m)	163,951	163,675	0.2%	↑	0.1%
Duluth-Superior Residential Building Permit Valuation	September 2018 (m)	2,800	3,478	-19.5%	↓	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mixed in the recent quarter. Overall employment rose by 0.8 percent over the year ending September 2018 and employment also increased in the manufacturing sector. However, the key education/health sector saw a decline in employment, and average weekly work hours were flat. The labor force was little changed and the value of residential building permits fell by nearly 20 percent. On a positive note, average hourly earnings jumped 7 percent and the unemployment rate fell to 2.8 percent.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Sep 2018	Jun 2018	Sep 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,974,700	2,965,600	2,934,600	0.3%	1.4%
Average weekly hours worked, private sector	34.4	34.1	34.1	0.9%	0.9%
Unemployment rate, seasonally adjusted	2.8%	3.1%	3.3%	NA	NA
Earnings per hour, private sector	$29.38	$28.77	$28.58	2.1%	2.8%
Philadelphia Fed Coincident Indicator, MN	137.84	135.96	132.59	1.4%	4.0%
Philadelphia Fed Leading Indicator, MN	1.98	2.32	2.02	-14.7%	-2.0%
Minnesota Business Conditions Index	60.0	58.8	59.4	2.0%	1.0%
Price of milk received by farmers (cwt)	$17.50	$16.20	$18.00	8.0%	-2.8%
Enplanements, MSP airport, thousands	1,533.7	1,753.0	1,522.7	-12.5%	0.7%
NATIONAL Indicators	Sep 2018	Jun 2018	Sep 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	149,500	148,931	146,963	0.4%	1.7%
Industrial production, index, SA	109.0	107.5	103.2	1.4%	5.6%
Real retail sales, SA ($)	201,436	201,377	197,691	0%	1.9%
Real personal income less transfers, billions	13,548.8	13,487.6	13,229.5	0.5%	2.4%
Real personal consumption expenditures, bill.	13,006.0	12,884.1	12,628.4	0.9%	3.0%
Unemployment rate, SA	3.7%	4.0%	4.2%	NA	NA
New building permits, SA, thousands	99.4	121.6	103.3	-18.3%	-3.8%
Standard & Poor's 500 stock price index	2,901.5	2,793.6	2,492.8	3.9%	16.4%
Oil, price per barrel in Cushing, OK	$70.23	$70.98	$49.82	-1.1%	41.0%

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 compared to September 2017. Two of the three indicators series reported in the table are higher. Year-over-year, average hourly earnings and weekly work hours rose. Milk prices are lower than one year ago, but were higher than three months earlier.

The national economic indicators found in the table are also highly favorable. Stock prices rebounded through the end of September (although the fourth quarter has not been charitable to stockholders) and employment has increased. Real income and consumer expenditures have expanded and the national unemployment rate continues to fall. Industrial production rose but the number of new building permits declined. Oil prices were higher in September than one year earlier, but have recently declined in the fourth quarter.

The Northeast 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.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Nicholas Gross Kotschevar. Professor David Wall of the SCSU Geography Department provided GIS assistance.

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Federal Reserve Board of Governors: Industrial Production.

Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.

Metropolitan Airports Commission: MSP Enplanements.

Minnesota Department of Employment and Economic Development (and U.S. Department of Labor Bureau of Labor Statistics): Average Hourly Earnings, Average Weekly Work Hours, Employment, Initial Claims for Unemployment Insurance, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.

Office of the Minnesota Secretary of State: Assumed Names, Business Incorporations, Limited Liability Companies, Non-Profits.

Standard & Poor's: Standard & Poor's 500 Stock Price Index.

Thomson Reuters and University of Michigan, Index of Consumer Sentiment

U.S. Bankruptcy Courts: Bankruptcies

U.S. Bureau of Census: Durable Goods Orders, Housing Permits, Residential Building Permits, Retail Sales.

U.S. Department of Agriculture: Milk Prices.

U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income, Real Wages and Salaries.

U.S. Energy Information Administration: Oil Prices.