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Central Minnesota Economic and Business Conditions Report Fourth Quarter 2018


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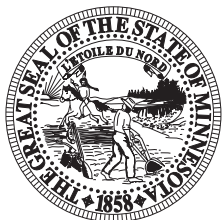
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Central Minnesota Economic and Business Conditions Report Fourth Quarter 2018

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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EXECUTIVE SUMMARY

Economic growth is expected to slow in the Central Minnesota planning area over the next several months according to predictions of the Central Minnesota Index of Leading Economic Indicators (LEI). The leading index fell by 6.62 points in the most recent period, with only one component producing a positive reading. Increased national durable goods orders was the only LEI component to produce a favorable outlook in the fourth quarter. The remaining index components--St. Cloud area residential building permits, the Minnesota Business Conditions Index, new regional filings of incorporation, and initial claims for unemployment insurance all helped drag down the local index.

There were 1,401 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the fourth quarter of 2018 — representing a 5.3 percent increase from one year ago. 160 new regional business incorporations were tallied in the fourth quarter, 16.8 percent more than their year ago level. New limited liability company (LLC) filings in Central Minnesota increased 3.3 percent relative to the fourth quarter of 2017. New assumed names totaled 332 over the recent quarter—an increase of 1.8 percent compared to the same period in 2017. Current quarter new filings for Central Minnesota non-profit were 36.8 percent higher than one year ago.

Sixty-one percent of new business filers in the Central Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in the fourth quarter. Results of this voluntary survey indicate that 6.5 percent of new filers come from communities of color. Approximately 7.1 percent of new filings were made by military veterans. About 2 percent of new filers come from the disability community and 3.8 percent of new filings were made by the immigrant community. Nearly forty percent of new business filings in Central Minnesota in the fourth 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 99 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, professional/scientific/technical, and other services. Employment levels at most new firms are between 0 and 5 workers, and 43.8 percent of those starting a new business consider this a part-time activity.

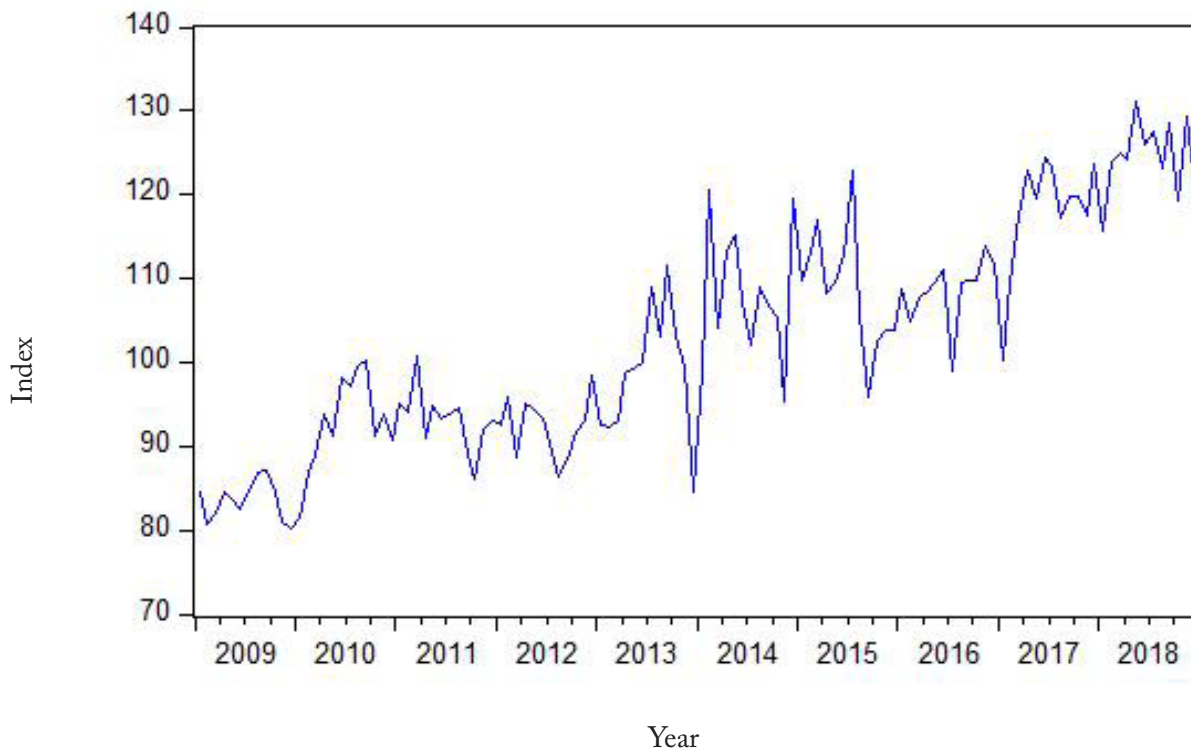
Central Minnesota employment was 1.4 percent higher in December 2018 than it was one year earlier and the December regional unemployment rate was 3.8%--slightly lower than one year ago. Initial claims for unemployment insurance were 0.6 percent higher in December than they were in the same month last year. The Central Minnesota labor force rose by 1.2 percent and average weekly wages rose by 3.7 percent over the past year. Bankruptcies continue to rise in Central Minnesota.

Economic performance in the St. Cloud area was mixed. Most components of a future outlook survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University were weaker than one year earlier. Increases in overall new business filings in the St. Cloud area were flat over the past twelve months. Average hourly earnings and hours worked increased, but the relative cost of living in St. Cloud rose. Employment expanded, the unemployment rate fell, 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 fell 6.62 points in the fourth quarter after rising by 2.01 points in the previous quarter. Compared to one year ago, the LEI is little changed as the overall pattern of the leading index has flattened out in recent quarters. All of Minnesota's six planning areas experienced a decline in their leading index in the fourth quarter of 2018 as the pace of economic growth slowed in all regions of the state.

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, 4th quarter 2018	Contribution to LEI, 3rd quarter 2018
Minnesota Business Conditions Index	-1.54	0.40
Central Minnesota initial claims for unemployment insurance	-1.23	-0.46
Central Minnesota new filings of incorporation	-0.45	0.32
St. Cloud MSA residential building permits	-3.62	1.19
National new orders for durable goods, real	0.22	0.56
TOTAL CHANGE	-6.62	2.01

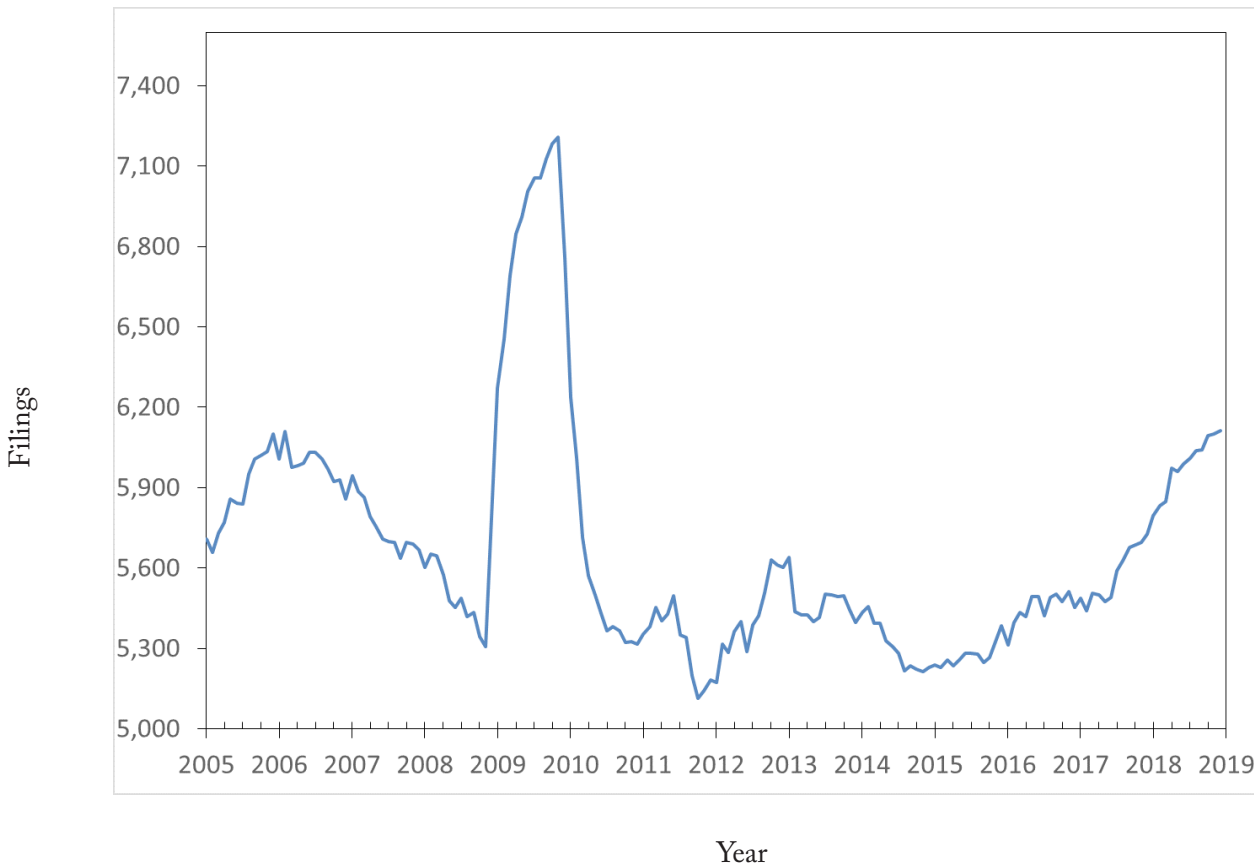
Since Central Minnesota is an exporter of consumer durables, national durable goods orders are used as a proxy for regional economic performance. This indicator was the only positive LEI component in the current quarter. Among the indicators weighing on the leading index were the Minnesota Business Conditions Index (which is a general measure of statewide business conditions) and a decline in St. Cloud area residential building permits. Higher initial jobless claims and a recent slowing of regional new business incorporations also helped drive the LEI lower. The Central Minnesota Leading Economic Indicators Index is currently about 1 percent higher than its value during the same period of 2017.

SCSU Central Minnesota Leading Economic Indicators Index	2018	2017	Percentage change
Minnesota Business Conditions Index December	55.5	56.8	-2.29%
Central Minnesota initial claims for unemployment insurance December	5,288	5,258	0.57%
Central Minnesota new filings of incorporation Fourth Quarter	1,017	967	5.17%
St. Cloud MSA single family building permits December	9	14	-35.71%
National new orders for durable goods, billions of real 1984 dollars, December	263.5	252.3	4.44%
Central Minnesota Leading Economic Indicators Index December (December 1999 = 100)	124.7	123.5	0.94%

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 1,401 new business filings in Central Minnesota in the fourth quarter. This represents a 5.3 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.

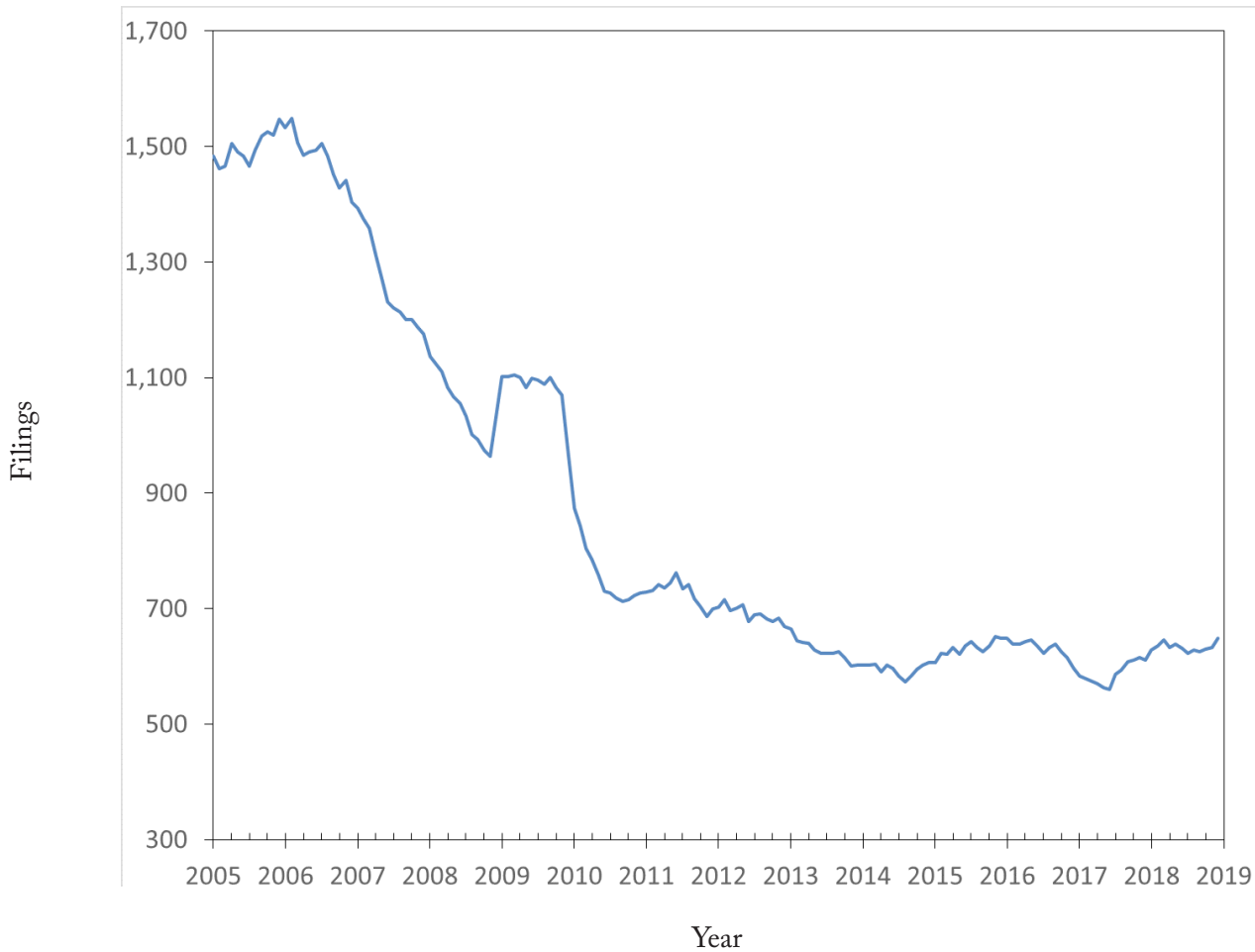
Total New Business Filings—Central Minnesota Planning Area
(12-month moving total)



Quarter	IV: 2017	I: 2018	II: 2018	III: 2018	IV: 2018	2018 Quarter IV: Percent change from prior year
Central Minnesota Total New Business Filings	1,331	1,699	1,580	1,432	1,401	5.3%

After a decade of decline, the 12-month moving total of new business incorporations has essentially levelled out since the beginning of 2015. At a level of 160, this series rose 16.8 percent relative to its level of the fourth quarter of 2017.

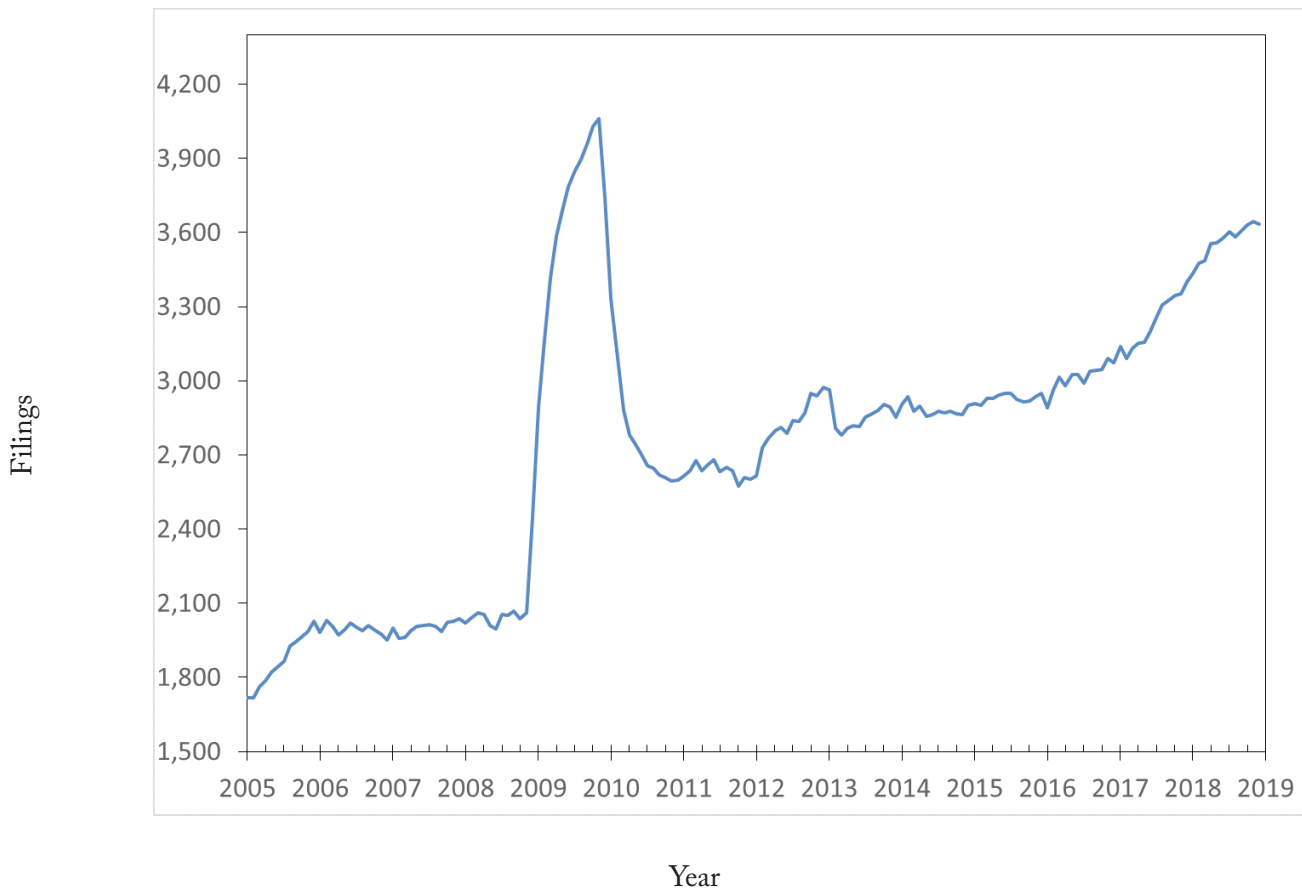
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	IV: 2017	I: 2018	II: 2018	III: 2018	IV: 2018	2018 Quarter IV: Percent change from prior year
Central Minnesota New Business Incorporations	137	196	133	160	160	16.8%

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 3.3 percent (to 857) 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.

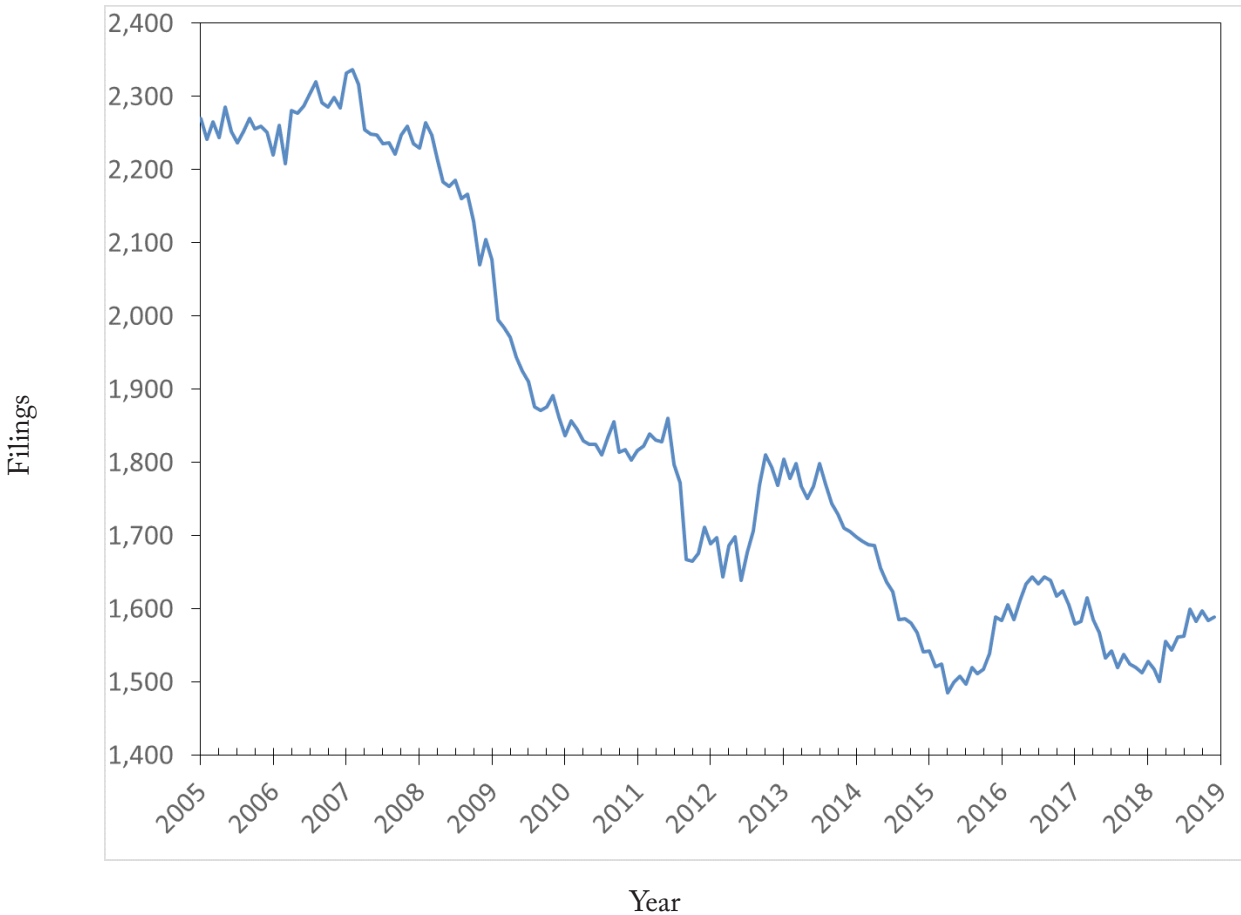
New Limited Liability Companies—Central Minnesota Planning Area (12-month moving total)



Quarter	IV: 2017	I: 2018	II: 2018	III: 2018	IV: 2018	2018 Quarter IV: Percent change from prior year
Central Minnesota New Limited Liability Companies	830	984	957	836	857	3.3%

New filings for assumed name, which include sole proprietors or organizations that do not have limited liability, rose by 1.8 percent compared to the same quarter in 2017. After declining for several quarters, the moving total of this series has moved upward in 2018.

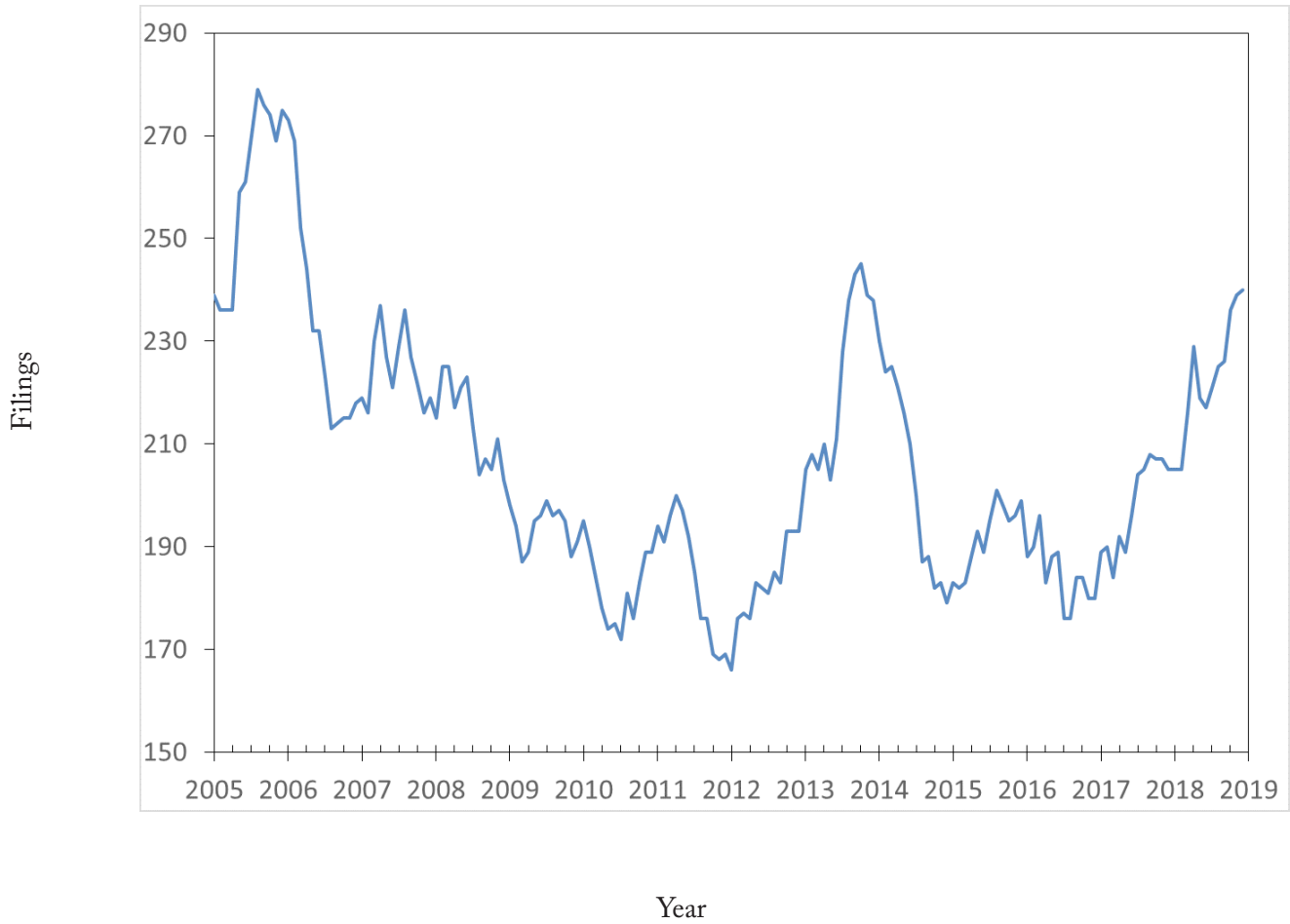
New Assumed Names—Central Minnesota Planning Area (12-month moving total)



Quarter	IV: 2017	I: 2018	II: 2018	III: 2018	IV: 2018	2018 Quarter IV: Percent change from prior year
Central Minnesota New Assumed Names	326	451	436	370	332	1.8%

There were 52 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the fourth quarter of 2018. This represented fourteen more filings than one year ago.

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



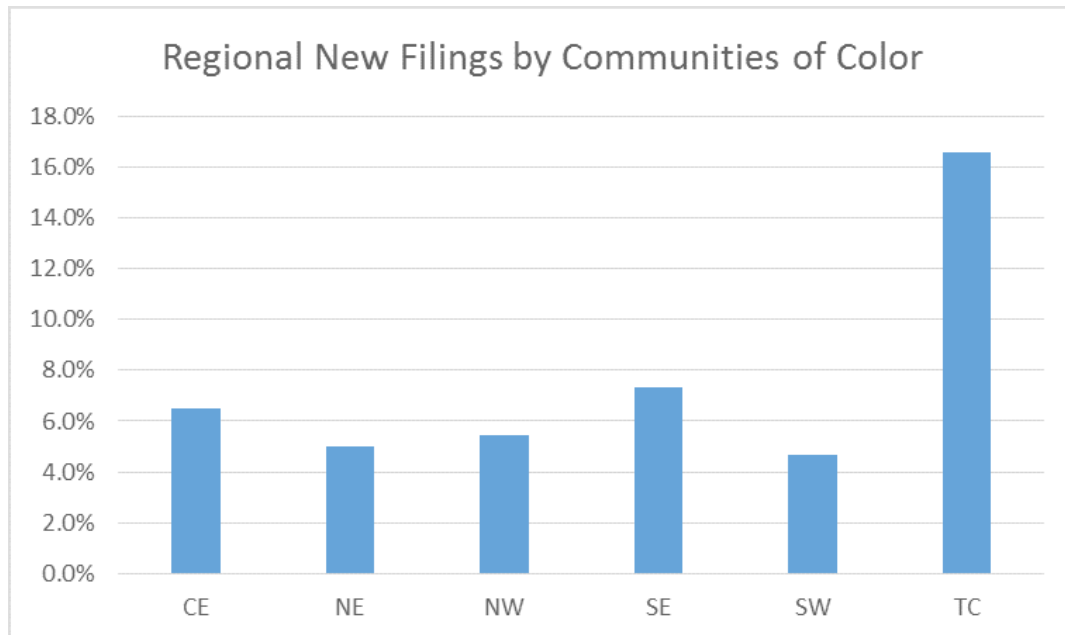
Quarter	IV: 2017	I: 2018	II: 2018	III: 2018	IV: 2018	2018 Quarter IV: Percent change from prior year
Central Minnesota New Non-Profits	38	68	54	66	52	36.8%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

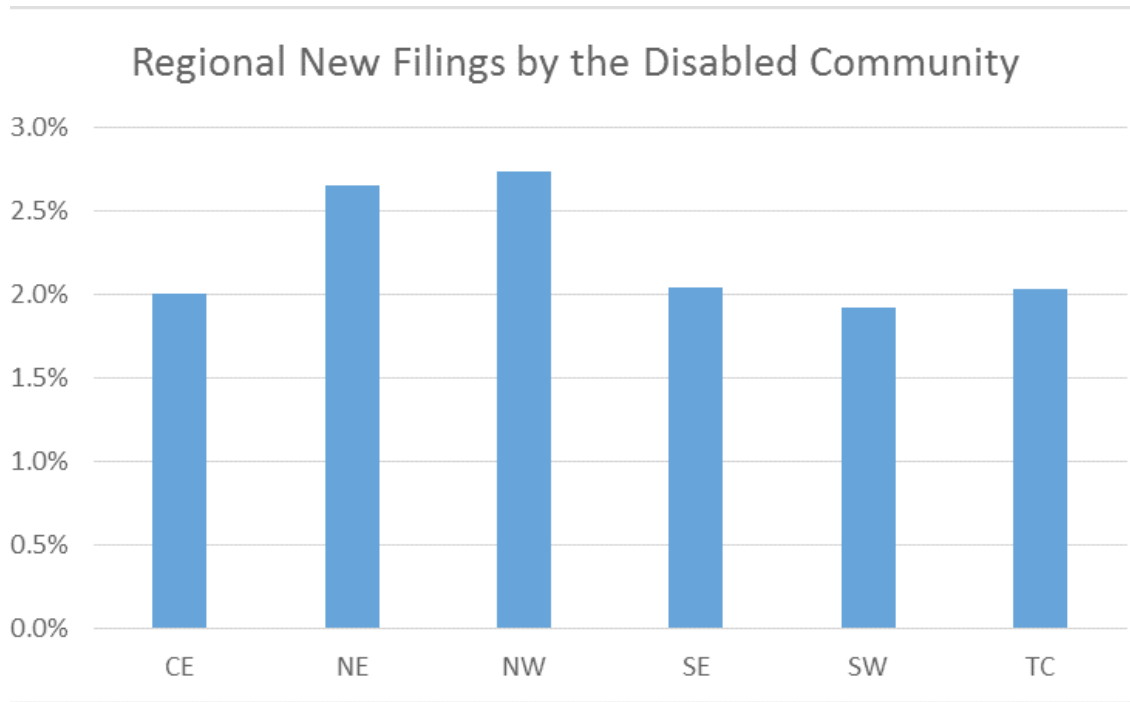
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 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 2018 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 Central Minnesota, about 61 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

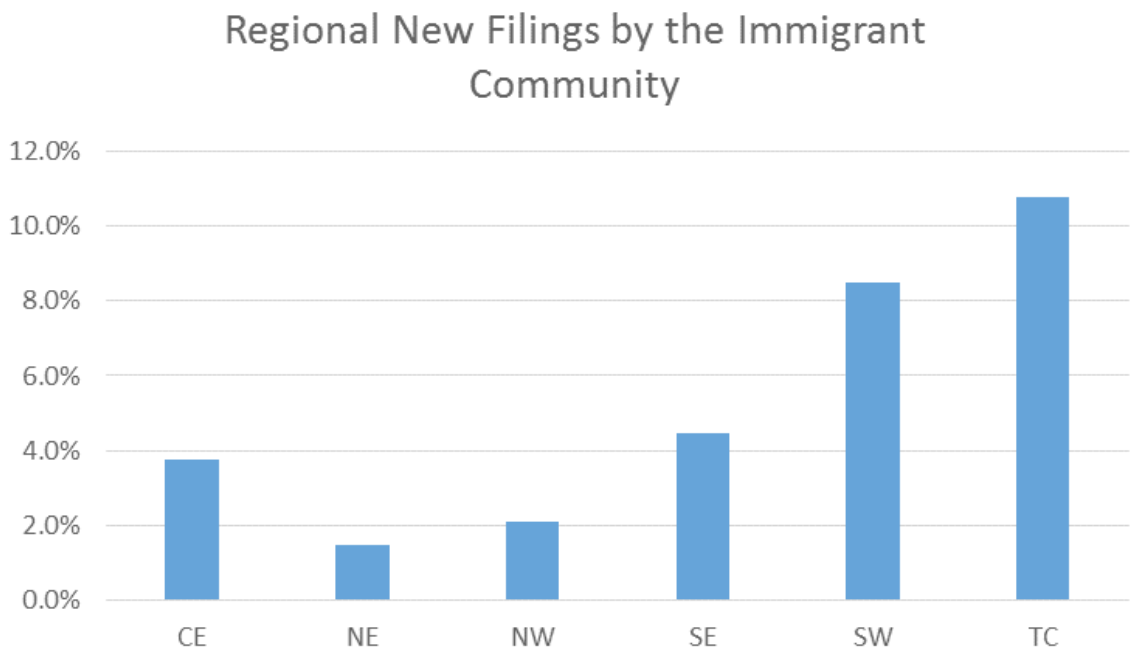
6.5 percent of those new filers completing the MBS from the Central Minnesota planning area report being from a community of color. This is a considerably lower percentage than in the Twin Cities, and is also lower than is found in the Southeast Minnesota planning area.



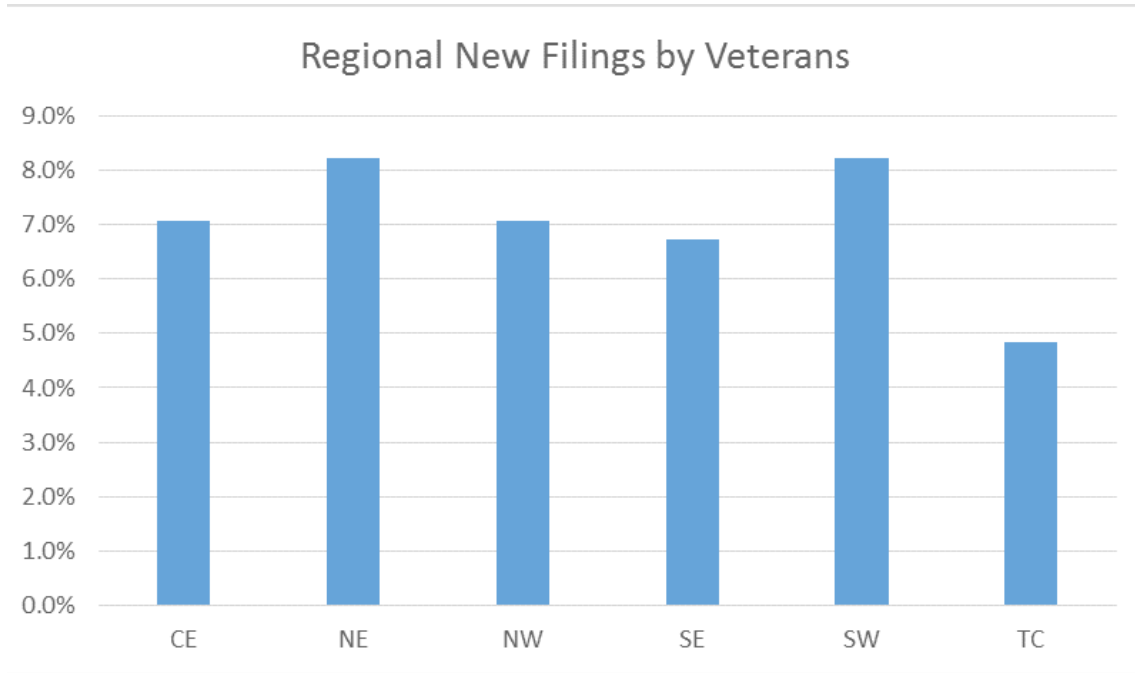
A small percentage of Central Minnesota’s new filers—2 percent—are from the disability community.



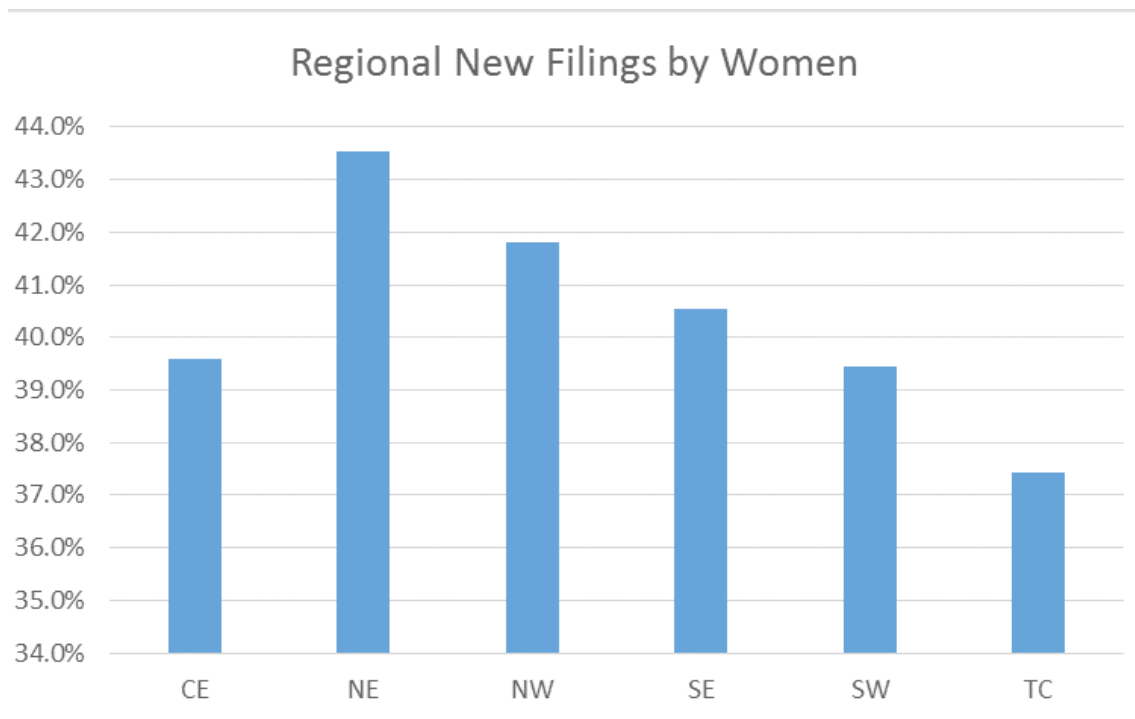
Only 3.8 percent of new business filings in Central Minnesota come from the immigrant community. This is well below what is seen in the Twin Cities and Southwest Minnesota planning areas (where immigrant new filings surged in the fourth quarter of 2018). The Southeast planning area also has a higher share of immigrant new filers than in Central Minnesota.



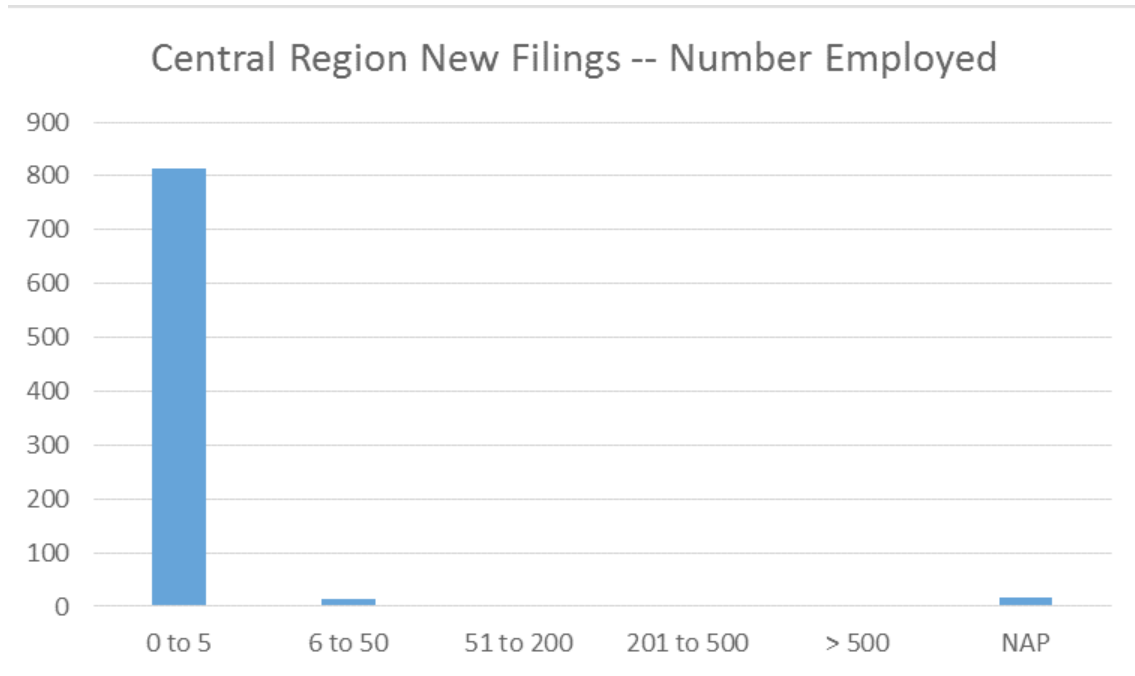
About 7.1 percent of new filings in Central Minnesota come from military veterans.



Woman owners represented 39.6 percent of the new business filings in Central Minnesota in the fourth quarter of 2018. This is higher than the third quarter, when women represented less than 39 percent of the sample. Only the Twin Cities and Southwest planning areas have a smaller share of female new filers.

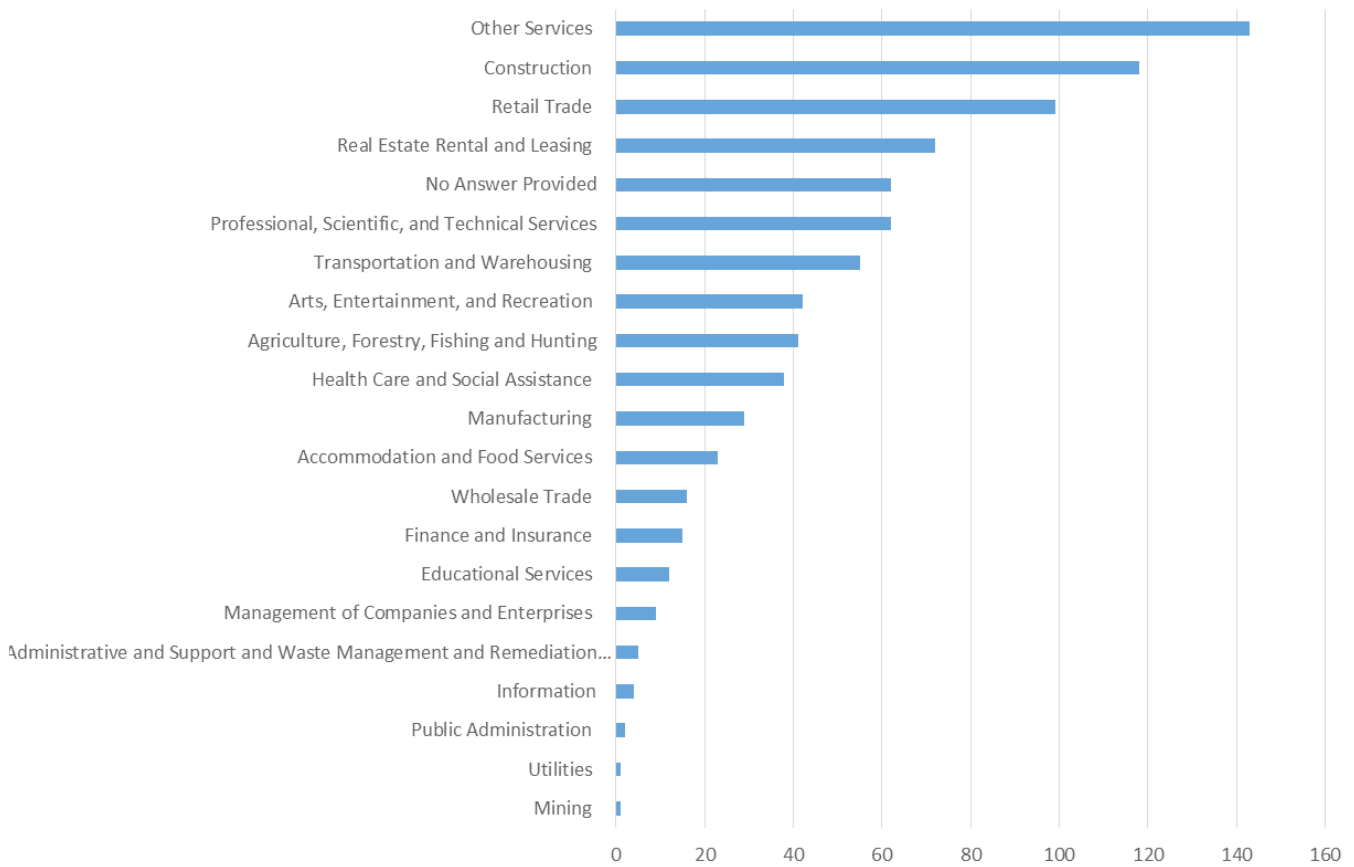


While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by “NAP”—no answer provided), 832 responses were tallied to a question asking the new business filer to indicate 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.

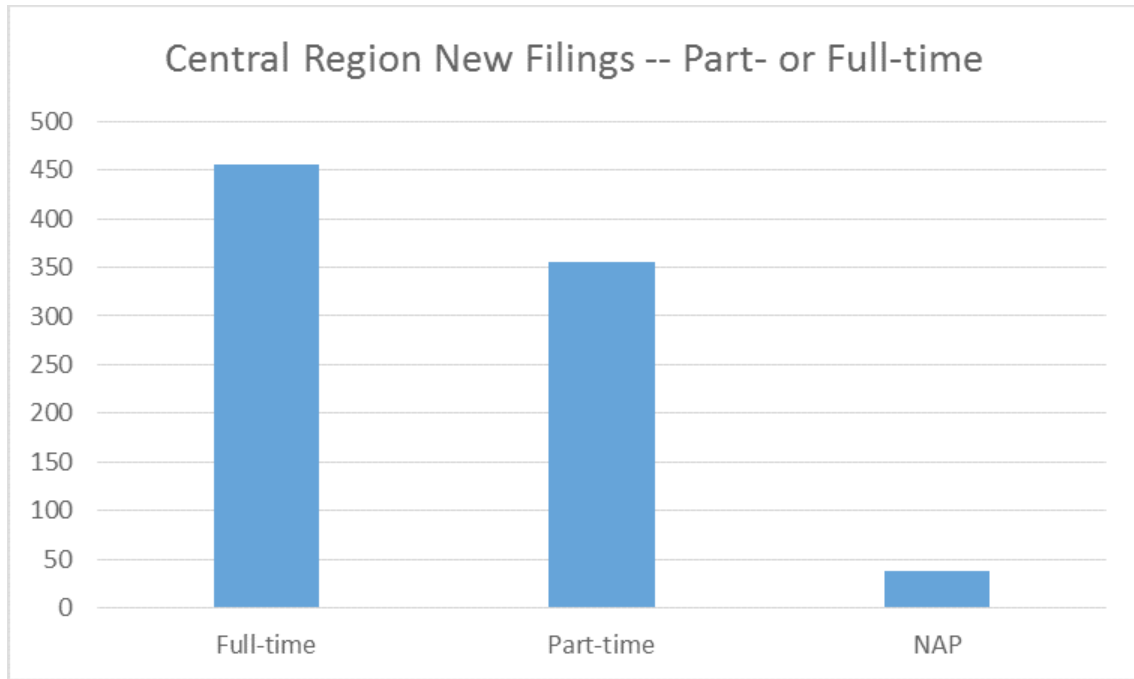


Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, construction, retail trade, real estate/rental/leasing, professional/scientific/technical 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. Sixty-two new firms did not provide an answer to this survey item (see “NAP”)

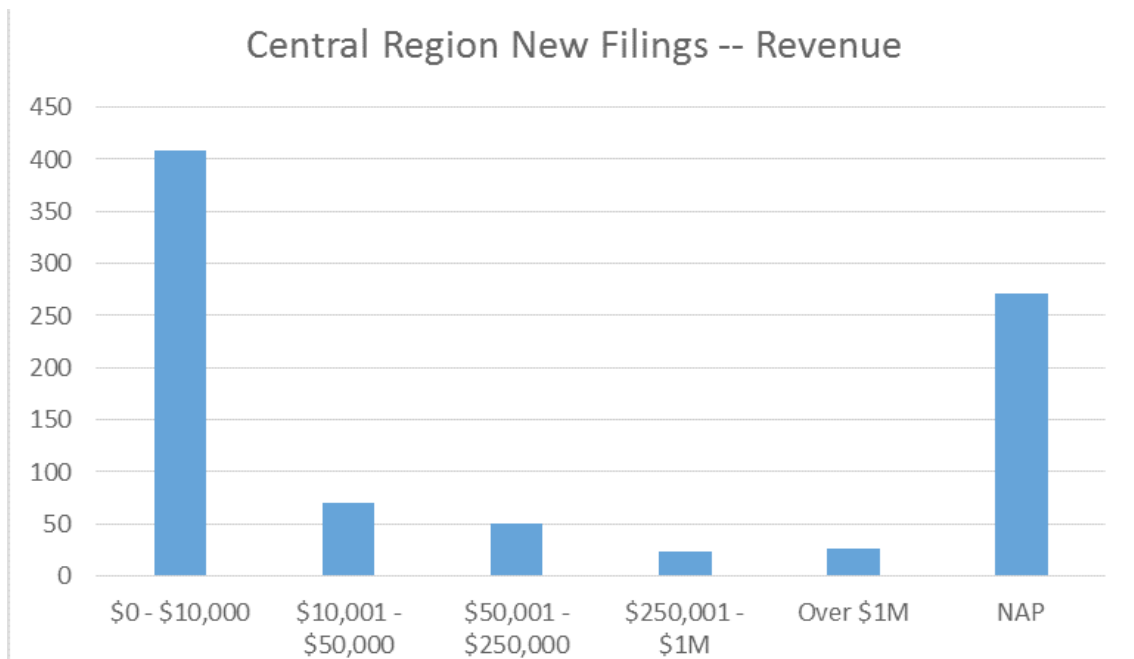
Central Region New Filings -- Industries



Nearly 44 percent of those providing an answer to the MBS survey item on part- and full-time status indicate their new business in Central Minnesota is part time.



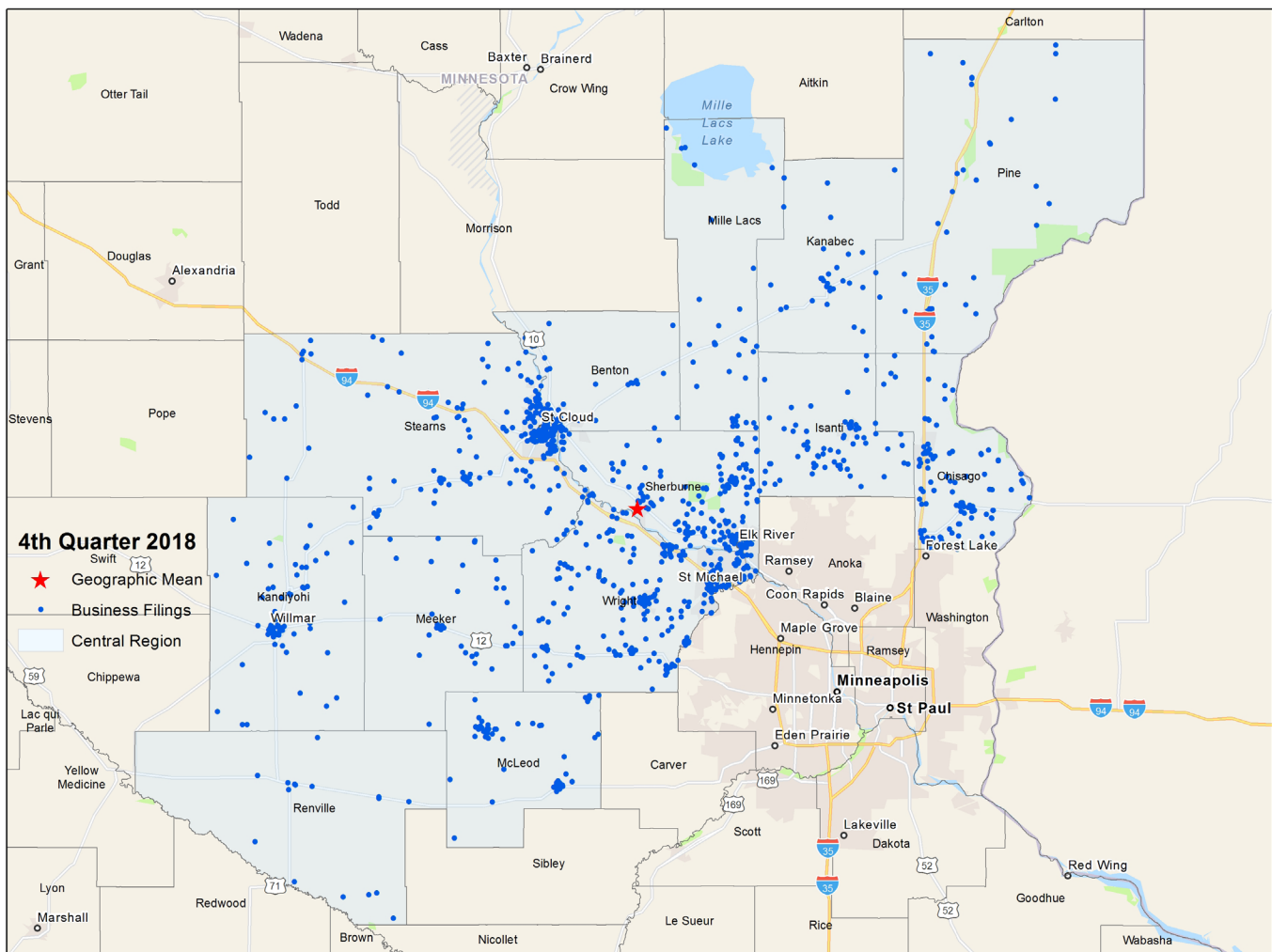
271 new business filers in Central Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues of less than \$10,000. 99 firms report revenues in excess of \$50,000.



MAPS

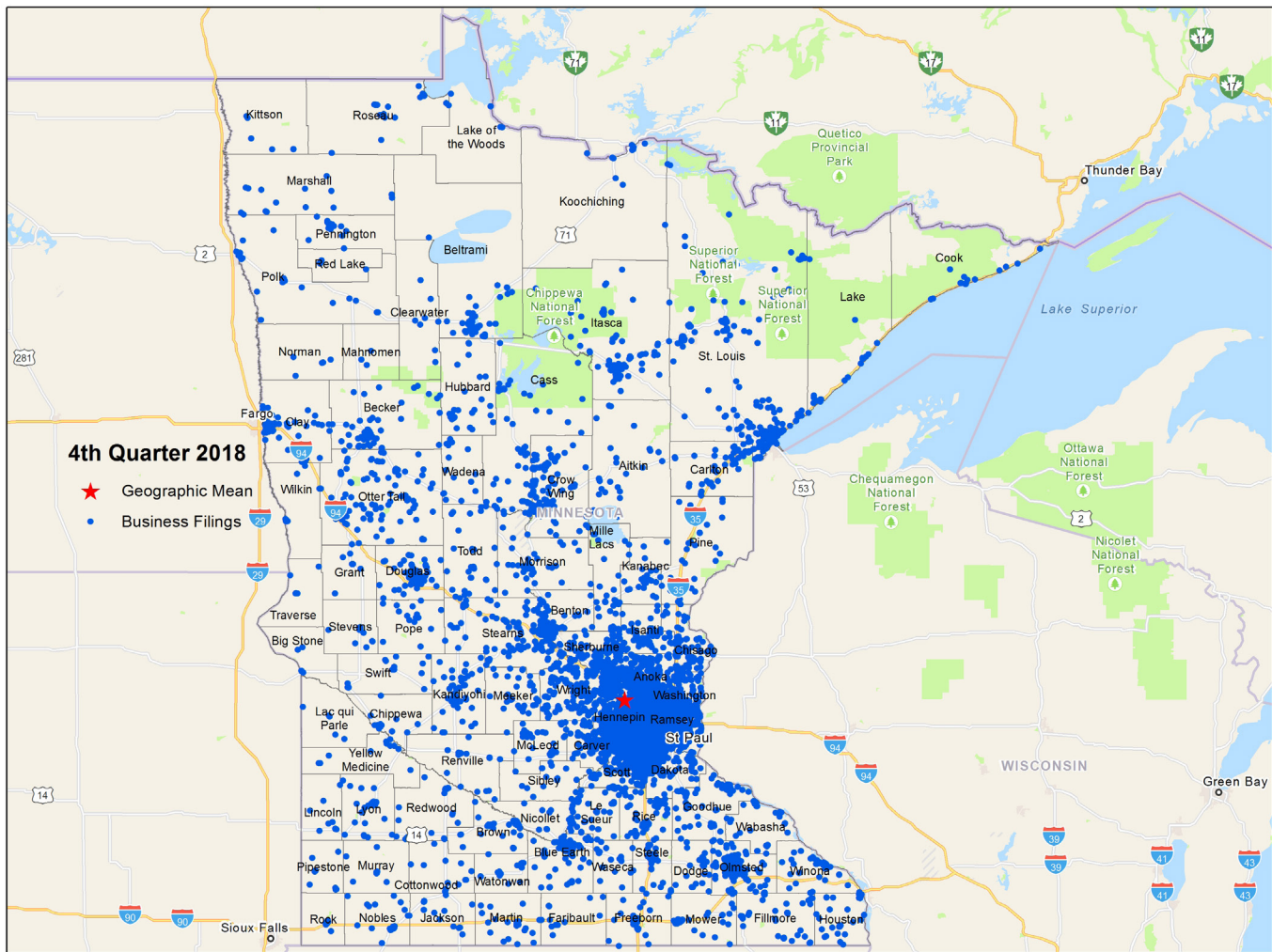
The first map shown below is a visual representation of new business filings around the Central Minnesota planning area in the fourth quarter of 2018. As usual, the densest areas of new business filings are in the St. Cloud metro as well as along the I-94/US-10 corridor approaching the Twin Cities. The 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 4: 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 4: 2018

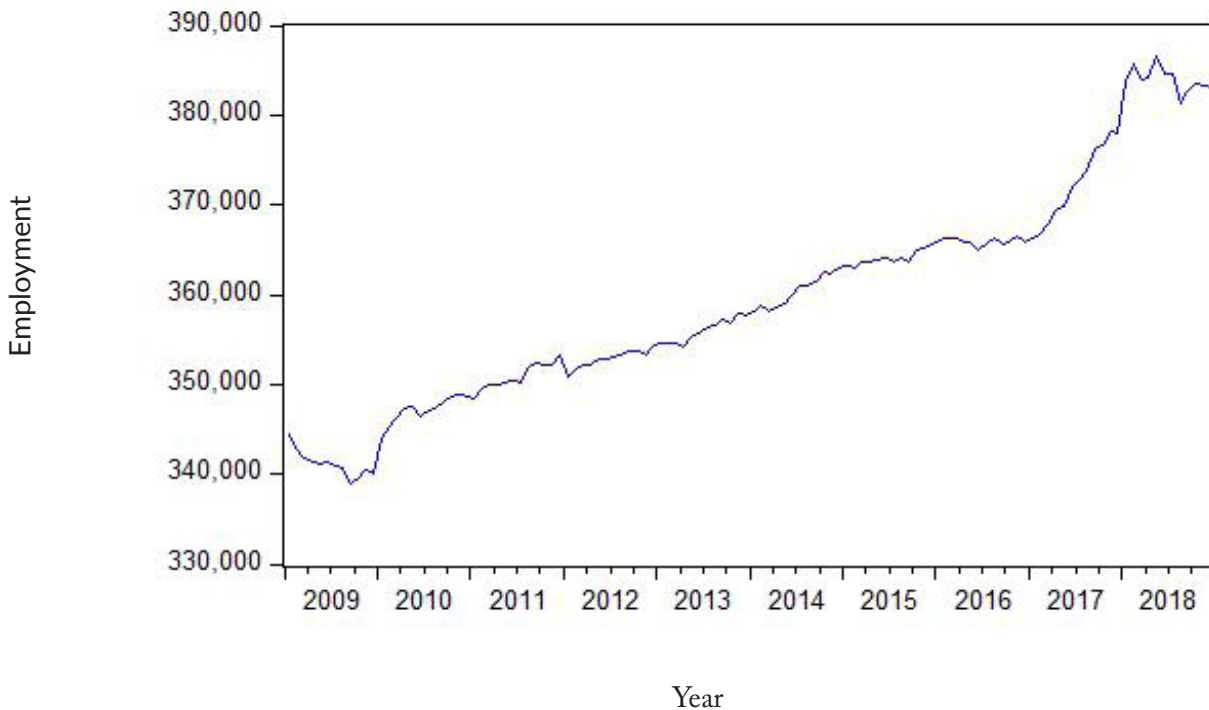


CENTRAL MINNESOTA LABOR MARKET CONDITIONS

Central Minnesota employment rose 1.4 percent over the year ending December 2018. Note that all of Minnesota's six planning areas other than Southeast Minnesota 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 levelled out in 2018 as the region appears to now be effectively experiencing full employment.

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.

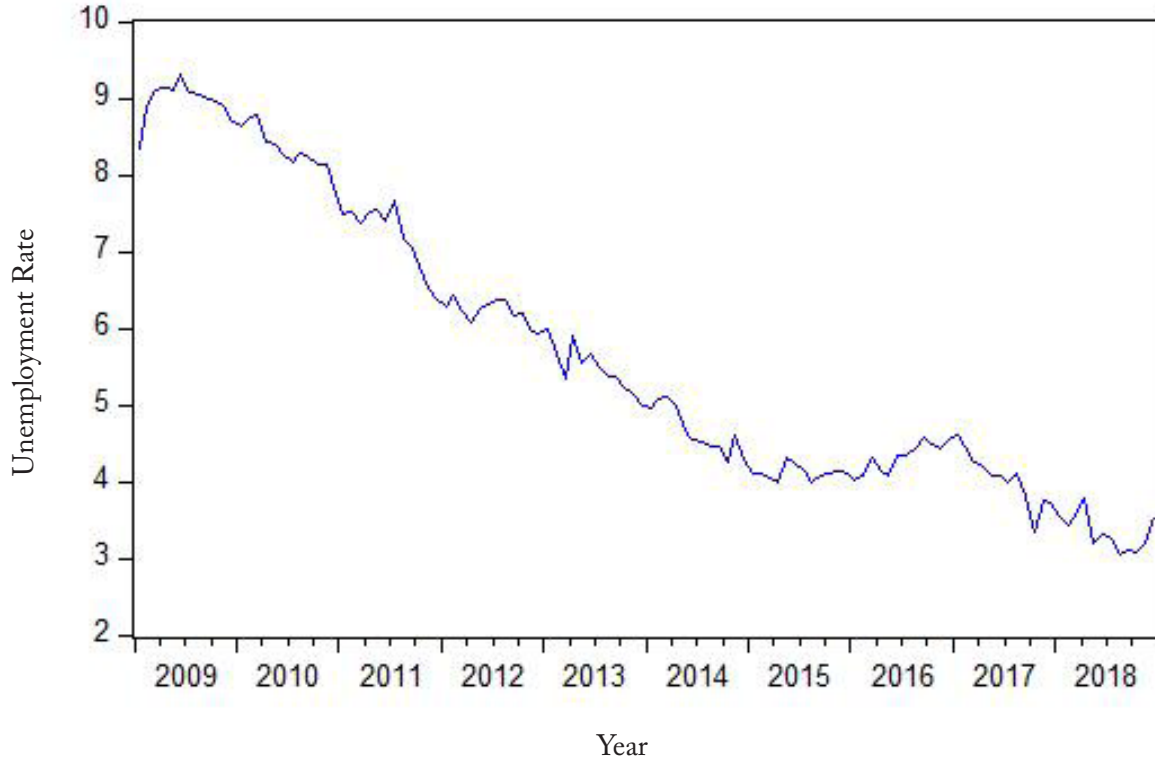
Employment—Central Minnesota Planning Area (12-month moving average)



Month	December 2017	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018
Employment (Not seasonally adjusted)	376,651	388,799	382,756	383,060	386,081	384,341	381,745

Central Minnesota’s unemployment rate was 3.8 percent in December 2018, slightly lower than the 4.0 percent rate tallied one year earlier. As is clear in the graph below, the seasonally adjusted unemployment rate in the Central Minnesota planning area has levelled out in recent quarters.

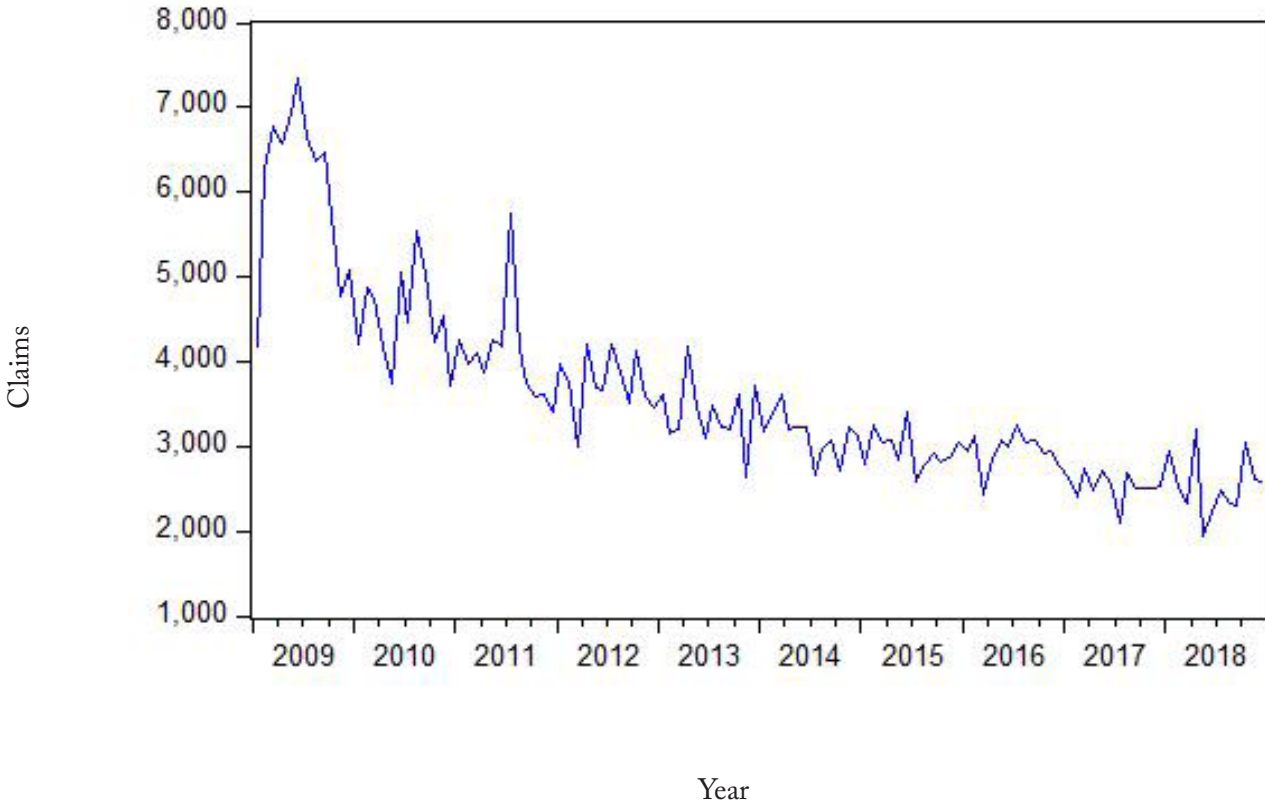
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	December 2017	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018
Unemployment Rate (Not seasonally adjusted)	4.0%	2.7%	2.5%	2.2%	2.2%	2.4%	3.8%

Initial claims for unemployment insurance in the Central Minnesota planning area were 5,288 in December 2018. This represents 0.6 percent more claims than one year ago. As can be seen in the accompanying graph, the seasonally adjusted initial jobless claims series trended downward until the third quarter of 2017, but has levelled out since that time.

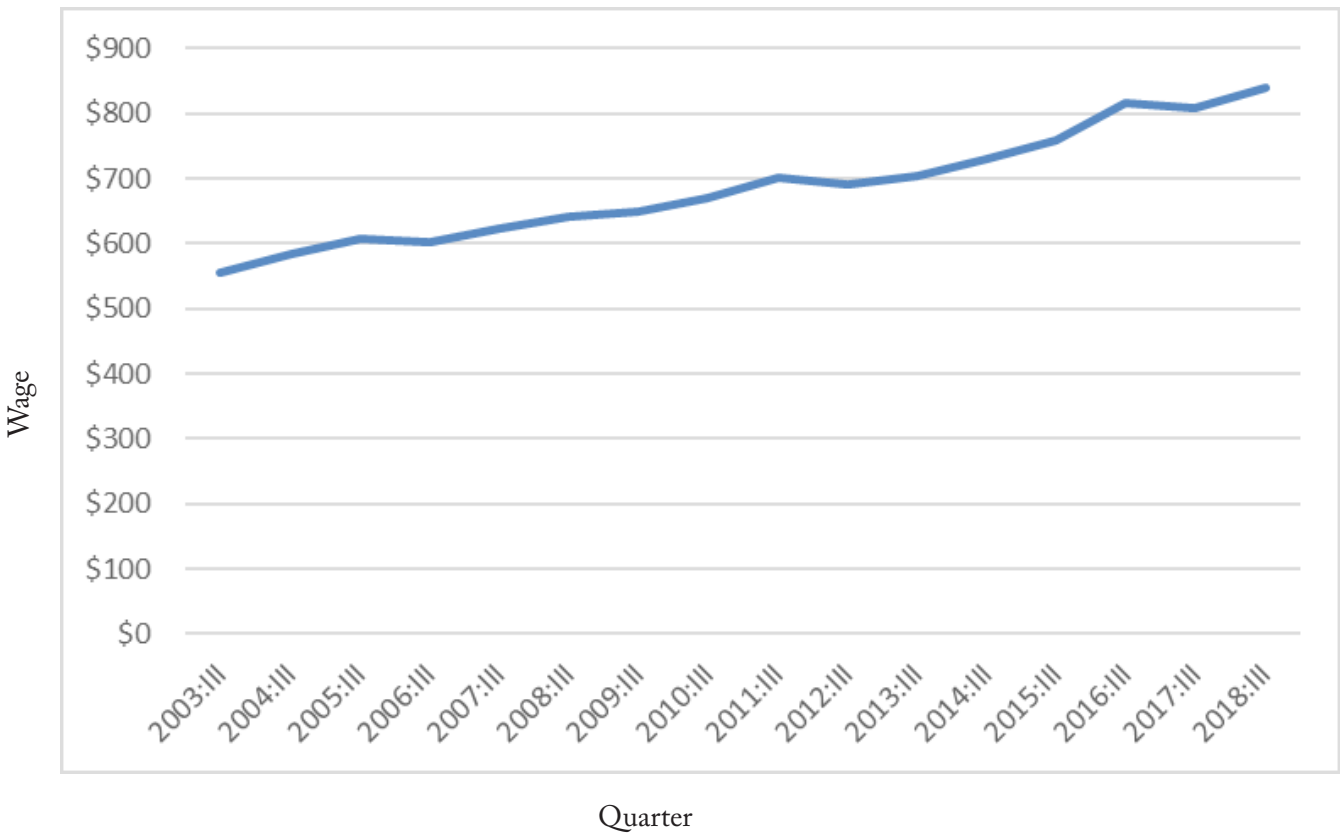
**Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Central Minnesota Planning Area**



Month	December 2017	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018
Initial claims (Not seasonally adjusted)	5,258	1,751	1,307	1,342	2,641	5,197	5,288

With continuing labor shortages being reported across the state, it is no surprise that there is upward pressure on wages. At \$839, the average weekly wage in Central Minnesota in the third quarter of 2018 was 3.7 percent above its level of one year earlier. Wages are increasing throughout Minnesota. Note that the average weekly wage in Central Minnesota is above that observed in the Northwest and Southwest regions of the state. The Twin Cities, Southeast, and Northeast regions of the state have higher wages.

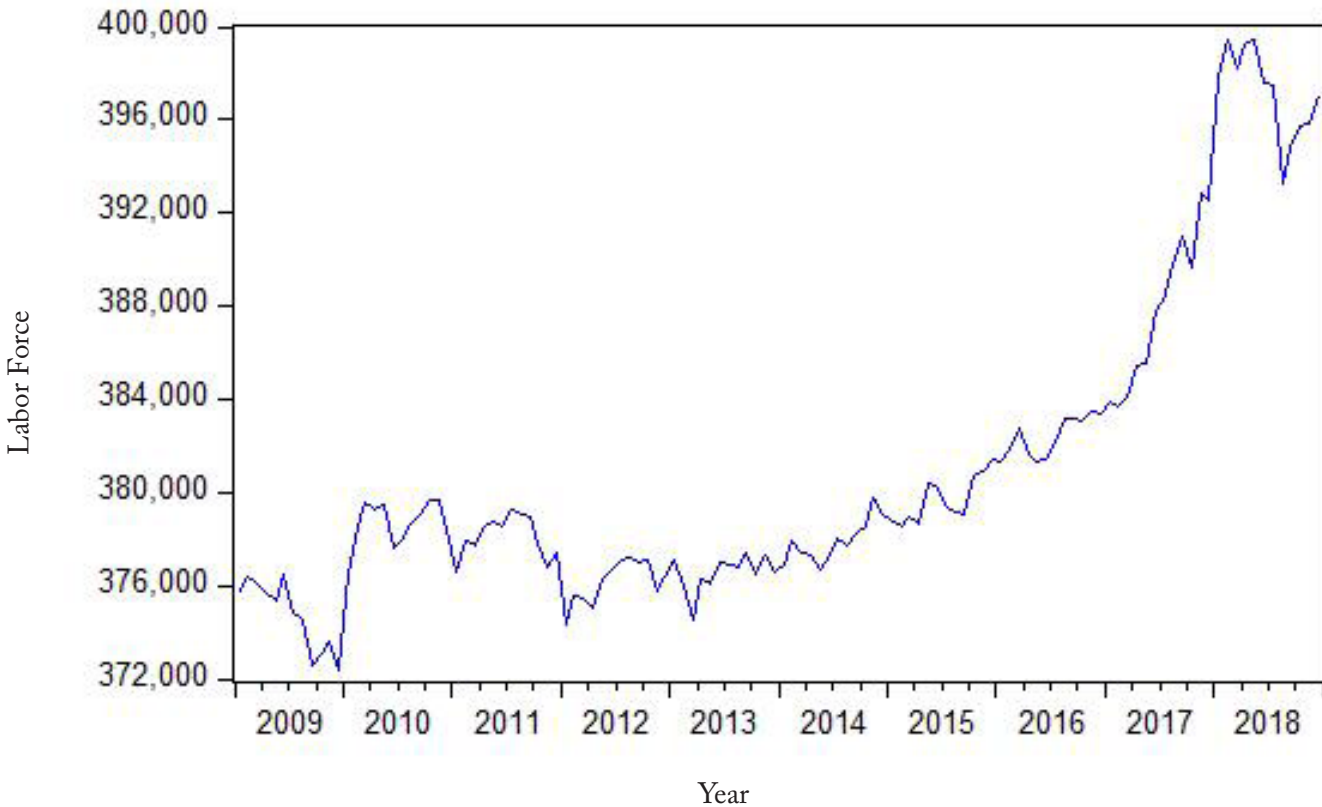
Average Weekly Wages---Central Minnesota Planning Area



Quarter	2013:III	2014:III	2015:III	2016:III	2017:III	2018:IV
Average Weekly Wages	\$704	\$730	\$759	\$816	\$809	\$839

The Central Minnesota labor force expanded at a 1.2 percent rate over the year ending in December 2018. As seen in the accompanying graph, the 12-month moving average of the regional labor force had been steadily rising over the past several years until declining in 2018. Difficulty replacing retiring workers is likely to be an ongoing theme as a growing share of the baby boom generation reaches normal retirement age.

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

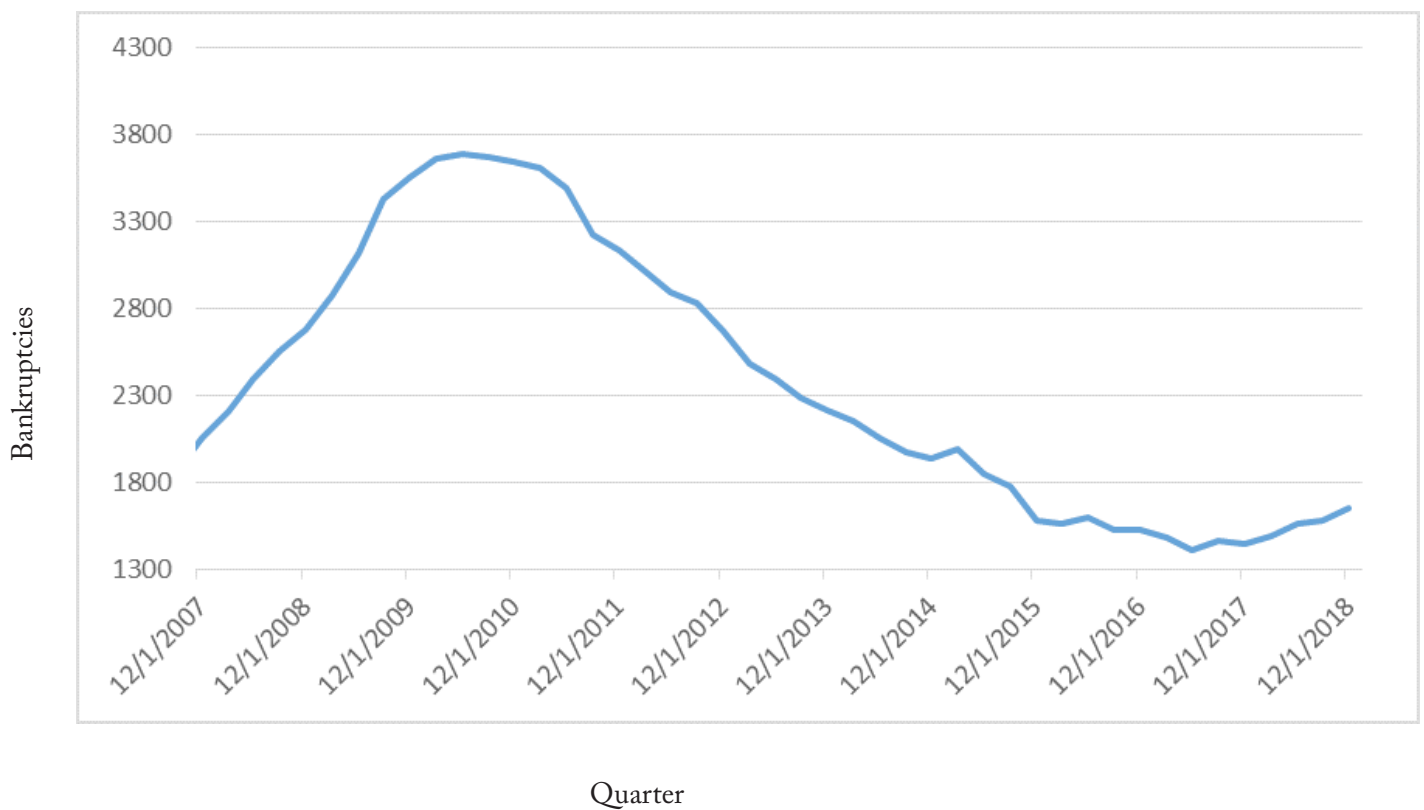


Year (December)	2013	2014	2015	2016	2017	2018
Labor Force (Not seasonally adjusted)	375,847	378,489	380,992	383,107	392,456	397,026

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 rise. With 1,651 bankruptcies over the past twelve months, the annual level of bankruptcies in Central Minnesota is 14 percent higher than one year ago.

Central Minnesota Bankruptcies (12-month moving total)



Year (Fourth Quarter)	2013	2014	2015	2016	2017	2018
Annual Bankruptcies (Not seasonally adjusted)	2,213	1,936	1,584	1,524	1,448	1,651

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	December 2018 (m)	110,192	109,665	0.5% ↑	0.7%
Manufacturing Employment	December 2018 (m)	15,406	14,948	3.1% ↑	-0.7%
Average Weekly Work Hours--Private Sector	December 2018 (m)	33.1	32.7	1.2% ↑	33.3 (since 2007)
Average Earnings Per Hour--Private Sector	December 2018 (m)	\$26.42	\$26.14	1.1% ↑	2.7% (since 2007)
Unemployment Rate	December 2018 (m)	3.4%	3.6%	NA ↓	4.8%
Labor Force	December 2018 (m)	113,242	111,726	1.4% ↑	0.6%
SCSU Future Employment Index	November 2018 (q)	19.6	31.9	-38.6% ↓	22.9 (since 2005)
SCSU Future Length of Workweek Index	November 2018 (q)	-7.2	10.6	-100.0% ↓	3.9 (since 2005)
SCSU Future Employee Compensation Index	November 2018 (q)	53.6	63.8	-16.0% ↓	46.8 (since 2005)
SCSU Future Worker Shortage Index	November 2018 (q)	26.7	36.2	-26.2% ↓	19.7 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	December 2018 (m)	1,229	1,349	-8.9% ↓	NA
BUSINESS FORMATION					
New Business Filings	Fourth Quarter 2018 (q)	361	360	0.3% ↑	334 (since 2000)
Assumed Names	Fourth Quarter 2018 (q)	79	84	-6.0% ↓	105 (since 2000)
Business Incorporations	Fourth Quarter 2018 (q)	33	37	-10.8% ↓	56 (since 2000)
Limited Liability Corporations	Fourth Quarter 2018 (q)	236	229	3.1% ↑	158 (since 2000)
Non-Profits	Fourth Quarter 2018 (q)	13	10	30.0% ↑	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	November 2018 (q)	30.3	40.4	-25.0% ↓	37.6 (since 2005)
SCSU Future Capital Expenditures Index	November 2018 (q)	28.5	19.1	49.2% ↑	23.1 (since 2005)
SCSU Future National Business Activity Index	November 2018 (q)	16.1	34.0	-52.6% ↓	22.3 (since 2005)
St. Cloud Index of Leading Economic Indicators	Fourth Quarter 2018 (q)	111.31	110.09	1.1% ↑	NA
PRICES					
St. Cloud Median Home Sales Prices	December 2018 (m)	\$167,400	\$151,000	10.9% ↑	NA
SCSU Future Prices Received Index	November 2018 (q)	46.4	27.6	68.1% ↑	28.3 (since 2005)
St. Cloud Cost of Living	2018 (annual)	98.8	95.8	3.1% ↑	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 are mixed. For example, most components of a future outlook survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University were weaker than one year earlier and St. Cloud area new business filings were flat. The area's relative cost of living also increased in 2018. However, average hourly earnings and hours worked rose and employment (and the labor force) expanded. In addition, the St. Cloud unemployment rate fell, initial jobless claims declined, and median home sales prices picked up.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Dec 2018	Sep 2018	Dec 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,961,100	2,958,100	2,942,800	0.1%	0.6%
Average weekly hours worked, private sector	34.1	34.4	33.9	-0.9%	0.6%
Unemployment rate, seasonally adjusted	2.9%	2.8%	3.1%	NA	NA
Earnings per hour, private sector	\$29.82	\$29.38	\$28.67	1.5%	4.0%
Philadelphia Fed Coincident Indicator, MN	138.54	137.84	133.48	0.5%	3.8%
Philadelphia Fed Leading Indicator, MN	0.70	1.88	1.08	-62.8%	-35.2%
Minnesota Business Conditions Index	55.5	60.0	56.8	-7.5%	-2.3%
Price of milk received by farmers (cwt)	\$16.30	\$17.50	\$17.10	-6.9%	-4.7%
Enplanements, MSP airport, thousands	1,456.4	1,533.7	1,471.6	-5.0%	-1.0%
NATIONAL Indicators	Dec 2018	Sep 2018	Dec 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	150,275	149,575	147,596	0.5%	1.8%
Industrial production, index, SA	109.9	109.1	105.8	0.7%	3.9%
Real retail sales, SA, millions (\$)	199,183	201,083	199,766	-0.9%	-0.3%
Real personal income less transfers, billions	13,753.9	13,533.7	13,338.5	1.6%	3.1%
Real personal consumption expenditures, bill.	13,014.5	12,965.9	12,735.6	0.4%	2.2%
Unemployment rate, SA	3.9%	3.7%	4.1%	NA	NA
New building permits, thousands of units	95.4	99.4	94.8	-4.0%	0.6%
Standard and Poor's 500 stock price index	2,567.3	2,901.5	2,664.3	-11.5%	-3.6%
Oil, price per barrel in Cushing, OK	\$49.52	\$70.23	\$57.88	-29.5%	-14.4%

Economic performance found in the State and National Indicators table are mixed. For the state as a whole, there was growth in employment and improved earnings over the past year (as well as in the fourth quarter). Minnesota's seasonally adjusted unemployment rate was lower than one year ago, but inched up in the fourth quarter. Only one of the three state indicators series reported in the table were improved over the past twelve months. Milk prices fell and enplanements at the Minneapolis-St. Paul airport are lower than one year ago.

The national economic indicators found in the table are also mixed. While employment, income, industrial production and consumer spending are all improved, other measures suggest slowing national economic growth. For example, the seasonally adjusted national unemployment rate was higher in December than three months earlier and end-of-the year stock prices were lower (although they have rebounded in the first quarter of 2019). Retail sales weakened, building permits were sluggish and oil prices were also lower.

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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