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Twin Cities Area Economic and Business Conditions Report Fourth Quarter 2018

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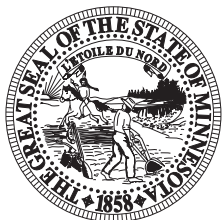
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Twin Cities Area Economic and Business Conditions Report Fourth Quarter 2018

This issue is part of a series for the six planning areas of Minnesota: Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Twin Cities Planning Area consists of seven counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.



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EXECUTIVE SUMMARY

A slowing of economic growth is expected in the Twin Cities planning area according to the predictions of the Twin Cities Index of Leading Economic Indicators (LEI). The Twin Cities LEI decreased 7.97 points in the fourth quarter of 2018 as all five index components registered negative values. A decrease in the Minnesota Business Conditions Index (a general measure of statewide business conditions), higher initial jobless claims in the region, and a decline in the Federal Reserve Bank of Philadelphia Minnesota Leading Economic Indicators Index series helped drive the Twin Cities LEI lower. Fewer residential building permits in the Twin Cities metropolitan area and a reduction in the number of new filings of incorporation and LLC in the region also unfavorably impacted the Twin Cities outlook.

There were 10,321 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the fourth quarter of 2018—representing a 1.4 percent decrease from one year ago. 1,361 new regional business incorporations were tallied in the Twin Cities in the fourth quarter—4.6 percent fewer than year ago levels. Fourth quarter new LLC filings rose to 6,741 in the seven-county metro area—a 0.7 percent increase compared to the fourth quarter of 2017. New assumed names were 7.7 percent lower in the fourth quarter and there were 22 more new non-profit filings in the Twin Cities than one year ago.

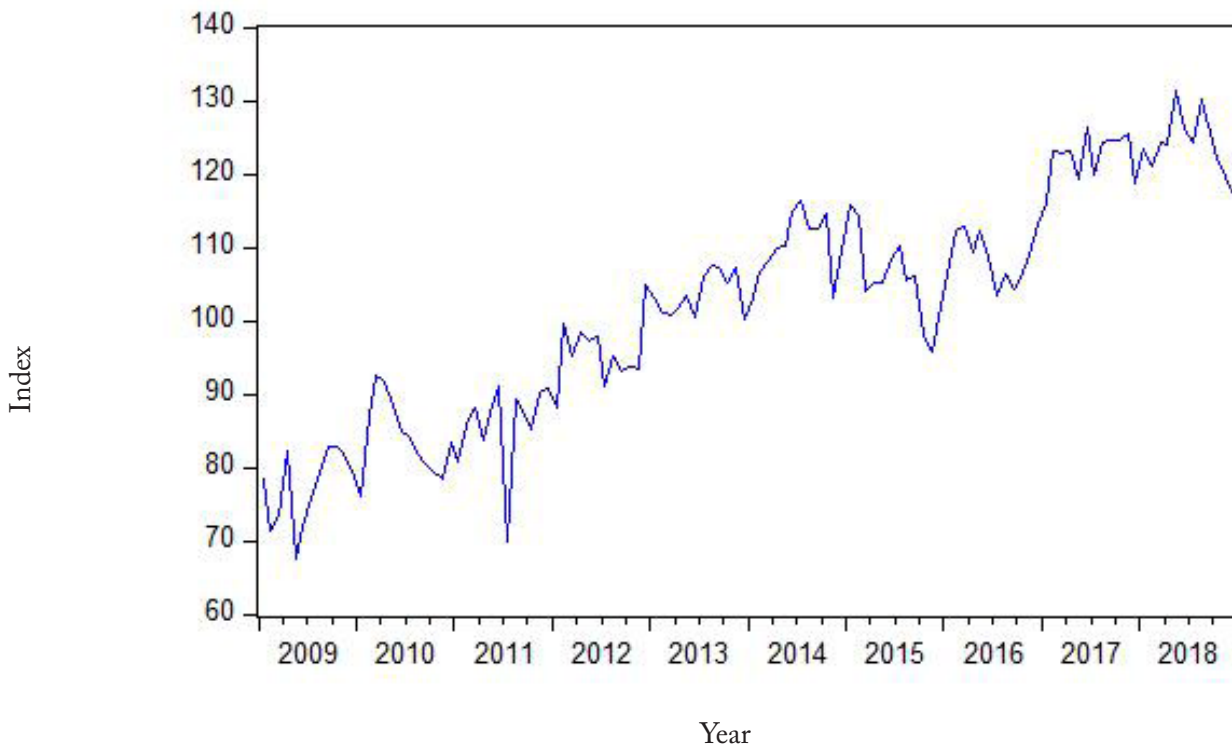
Fifty-nine percent of new business filers in the Twin Cities planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in the fourth quarter. Results of this voluntary survey indicate that 16.6 percent of new filers come from communities of color. 4.8 percent of new filings are veterans. 2 percent of new filers come from the disability community and 10.8 percent of new filings are made by the immigrant community. Approximately thirty-seven percent of new business filings in the Twin Cities planning area in the fourth quarter were initiated by women. MBS results also show that most new business filers in the Twin Cities have between 0 and \$10,000 in annual gross revenues (although 579 new filers have revenues in excess of \$50,000). The most popular industries for new businesses in the Twin Cities are professional/scientific/technical, retail trade, real estate/rental/leasing, construction, and other services. Employment levels at most new firms are between 0 and 5 workers, and 44.5 percent of those starting a new business consider this a part-time activity.

Twin Cities planning area employment increased by 1.1 percent over the year ending December 2018. At 2.6 percent, the planning area's unemployment rate was slightly lower than one year earlier. Initial claims for unemployment insurance were 3.4 percent lower than year ago levels and average weekly wages rose by 4.2 percent over the most recent year. The planning area's labor force rose by 0.9 percent over the year ending December 2018. Average hourly earnings and average weekly work hours rose for private sector workers in the 16-county Minneapolis-St. Paul MSA over the year ending December 2018 and the relative cost of living rose in both Minneapolis and St. Paul. There was a 16.9 percent decline in the value of new residential building permits in the Minneapolis-St. Paul MSA over the year ending December 2018. The number of annual bankruptcies fell by 2.2 percent in the Twin Cities.

TWIN CITIES LEADING ECONOMIC INDICATORS INDEX

The SCSU Twin Cities Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. After revised increases in the first three quarters of 2018, the Twin Cities LEI contracted in the final quarter of the year. The leading index fell by 7.97 points in the fourth quarter as each of Minnesota's six planning areas showed weakness over the last three months of 2018. The Twin Cities index is now 1.6 percent below its value of one year ago

SCSU Twin Cities Index of Leading Economic Indicators (December 1999 = 100)



Components of SCSU Twin Cities Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2018	Contribution to LEI, 3rd quarter 2018
Minnesota Business Conditions Index	-2.38	0.62
Twin Cities initial claims for unemployment insurance	-1.04	-0.46
Twin Cities new filings of incorporation and LLCs	-1.18	0.15
Mpls.-St. Paul MSA residential building permits	-2.21	0.41
Philadelphia Fed Minnesota leading indicators	-1.15	-0.25
TOTAL CHANGE	-7.97	0.47

The Twin Cities LEI contains five components—two reflecting state business conditions and three for local conditions (the LEI is an index equal to 100 in December 1999). The Federal Reserve Bank of Philadelphia (which creates a leading economic indicator series for each of the 50 states) reported a value for its Minnesota Leading Indicators series that made a negative contribution to the LEI this quarter. In addition, the Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—had a relatively large unfavorable impact on this quarter’s leading index. The regional initial jobless claims series also caused a small drag on the leading index in the fourth quarter. The Twin Cities LEI was also unfavorably impacted by decreased single-family residential permits across the Minneapolis-St. Paul MSA as well as lower new regional business filings of incorporation and LLC.

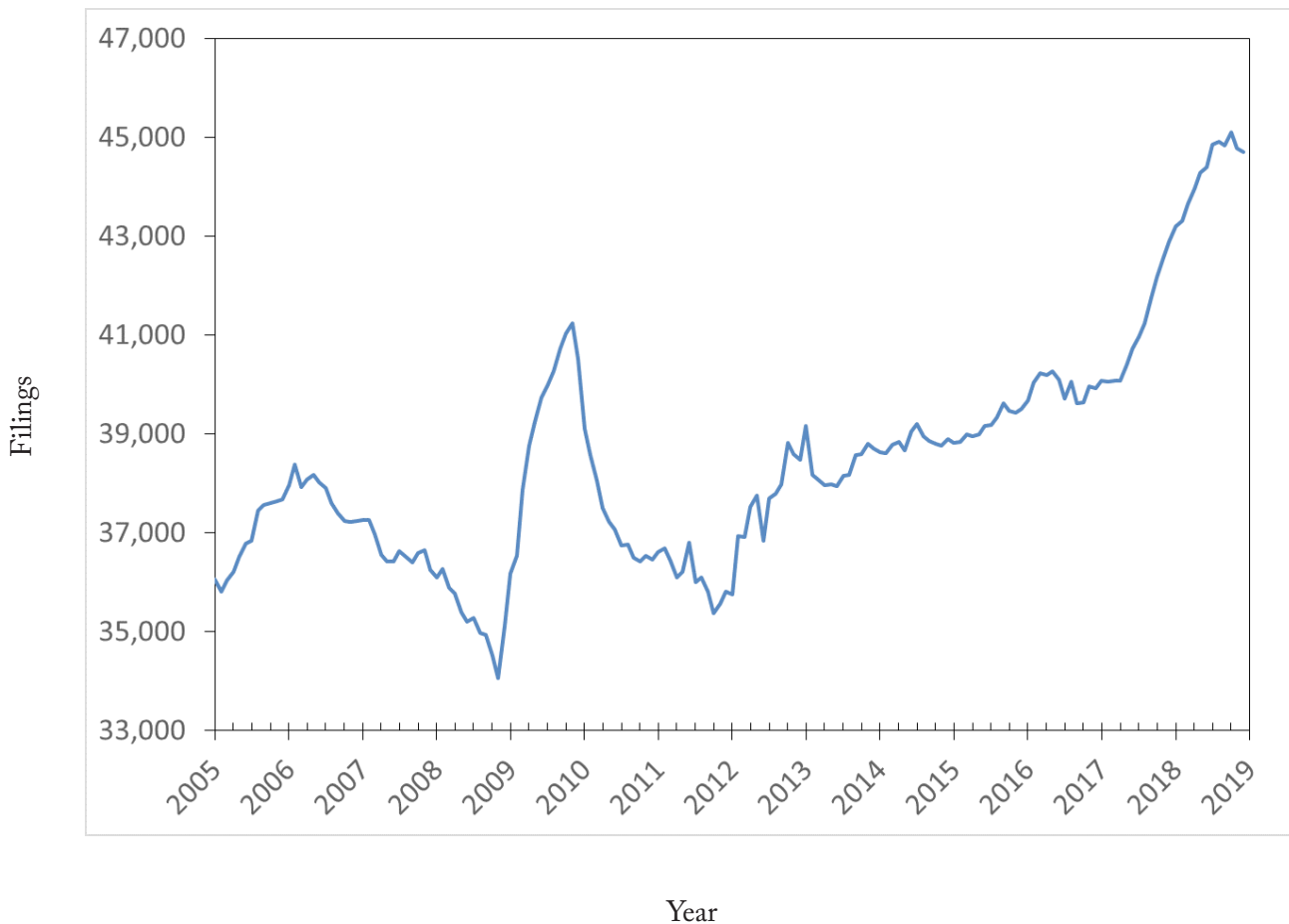
SCSU Twin Cities Leading Economic Indicators Index	2018	2017	Percentage Change
Minnesota Business Conditions Index December	55.5	56.8	-2.3%
Twin Cities initial claims for unemployment insurance December	9,538	9,873	-3.4%
Twin Cities new filings of incorporation and LLCs Fourth Quarter	8,102	8,131	-0.4%
Twin Cities MSA single-family building permits, December	519	550	-5.6%
Index of Leading Economic Indicators Philadelphia Federal Reserve, December	0.70	1.13	-38.1%
Twin Cities Leading Economic Indicators Index December (December 1999 = 100)	116.8	118.8	-1.6%

TWIN CITIES BUSINESS FILINGS

Total new business filings in the Twin Cities planning area have generally trended upward since the second half of 2011. This upward trend receded in the fourth quarter, as new filings fell 1.4 percent to 10,321 compared to one year earlier. The abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier (resembling a shark fin) is related to considerably higher filings in the construction industry due to legal and regulatory issues, and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

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

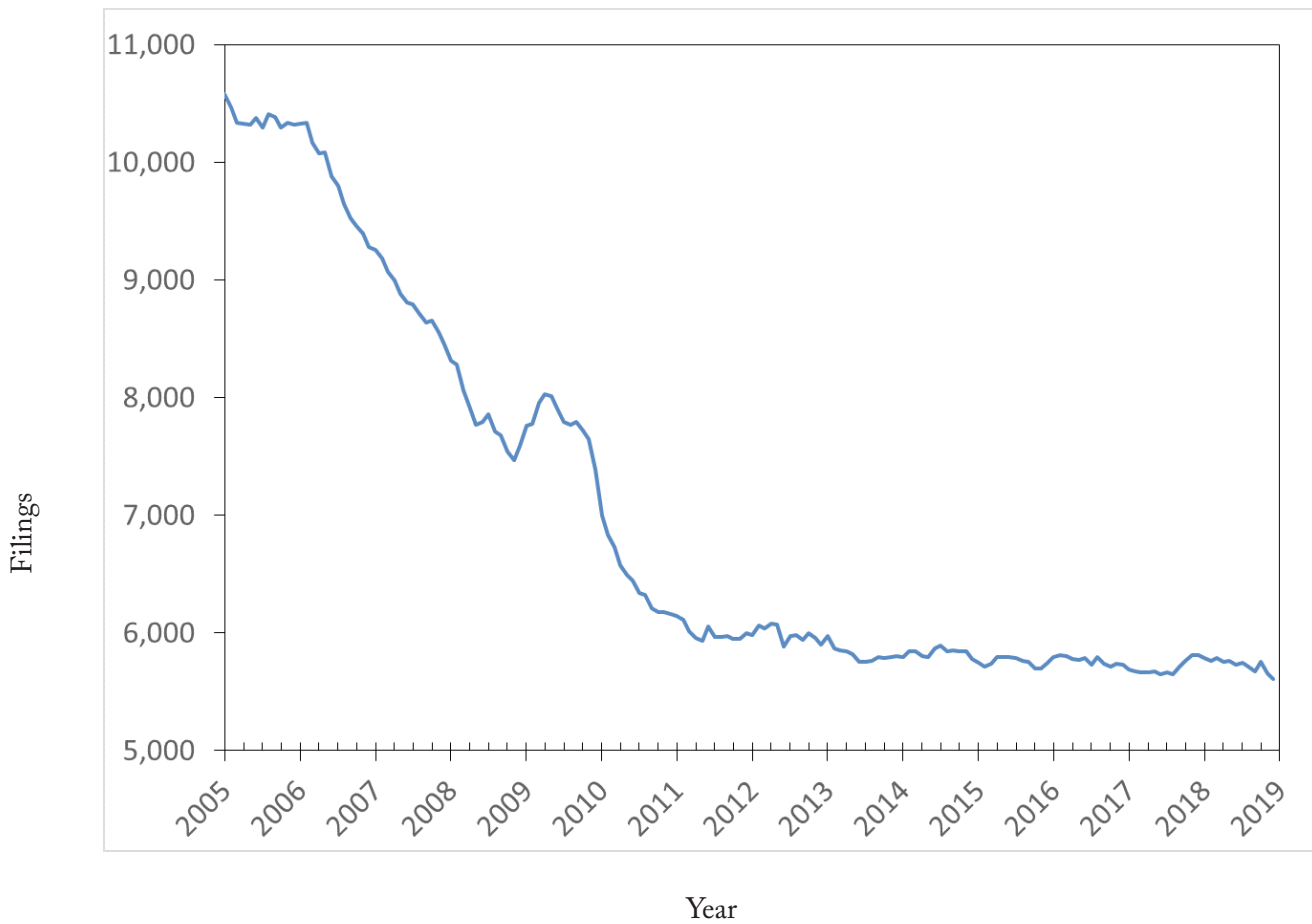
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2017	I: 2018	II: 2018	III: 2018	IV: 2018	2018 Quarter IV: Percent change from prior year
Twin Cities Total New Business Filings	10,466	12,132	11,578	10,658	10,321	-1.4%

New business incorporations trended downward in the Twin Cities from 2005 to 2011, and then flattened out. At a level of 1,361, fourth quarter new filings of incorporation were 4.6 percent lower than one year earlier.

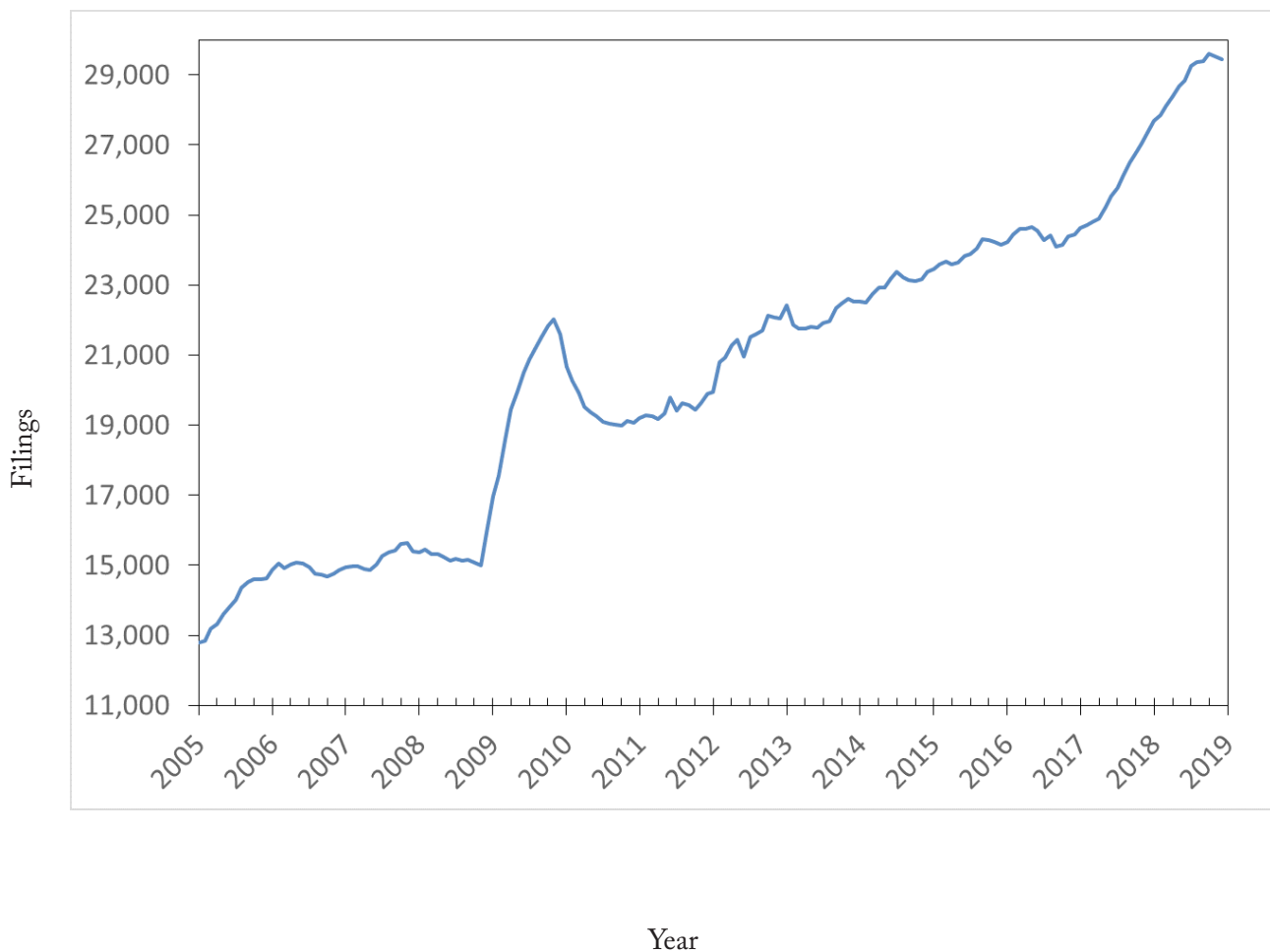
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2017	I: 2018	II: 2018	III: 2018	IV: 2018	2018 Quarter IV: Percent change from prior year
Twin Cities New Business Incorporations	1,426	1,523	1,421	1,303	1,361	-4.6%

There has been a move in the Twin Cities (and the rest of the state) away from the traditional incorporation form of business organization toward LLCs. While new business incorporations remain an important indicator of new business formation in the Twin Cities, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in the Twin Cities. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2005. At a level of 6,741, new filings for LLC in the fourth quarter of 2018 were 0.7 percent higher than one year earlier.

New Limited Liability Companies—Twin Cities 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
Twin Cities New Limited Liability Companies	6,696	7,943	7,682	7,082	6,741	0.7%

Assumed names, which include sole proprietors or organizations that do not have limited liability, fell by 7.7 percent in the fourth quarter relative to the same period in 2017.

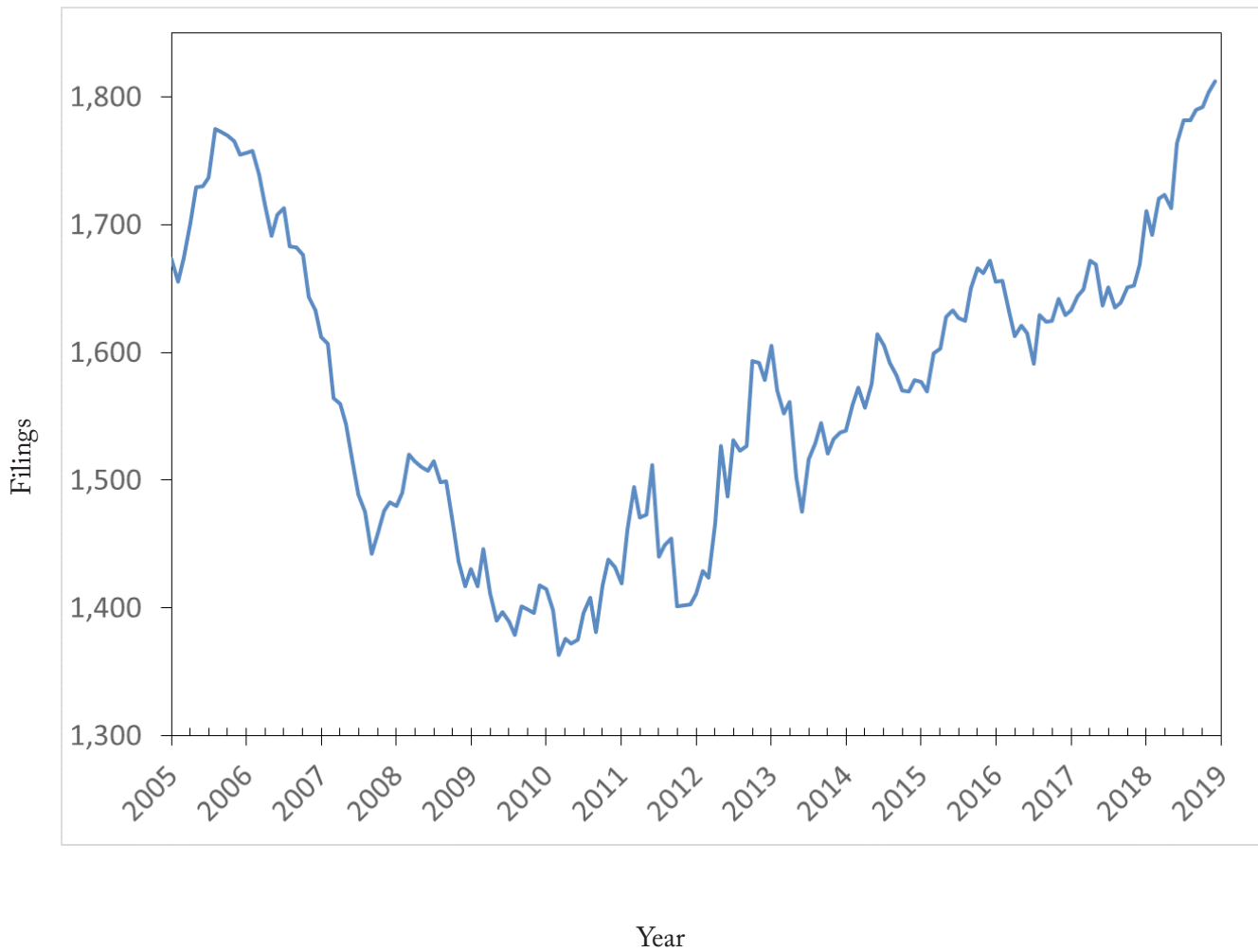
New Assumed Names—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2017	I: 2018	II: 2018	III: 2018	IV: 2018	2018 Quarter IV: Percent change from prior year
Twin Cities New Assumed Names	1,916	2,178	2,029	1,845	1,769	-7.7%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State has slowly increased to a level last seen in the mid-2000s. With 450 new non-profits registered in the fourth quarter, new filings in this sector rose by 5.1 percent compared to one year earlier.

New Non-Profits—Twin Cities Planning Area (12-month moving total)



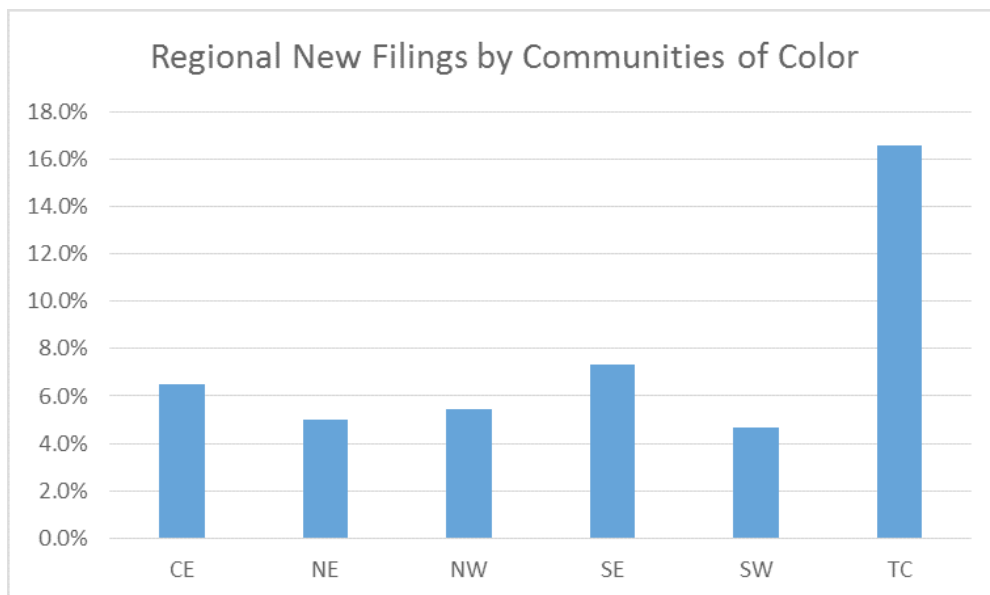
Quarter	IV: 2017	I: 2018	II: 2018	III: 2018	IV: 2018	2018 Quarter IV: Percent change from prior year
Twin Cities New Non-Profits	428	488	446	428	450	5.1%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

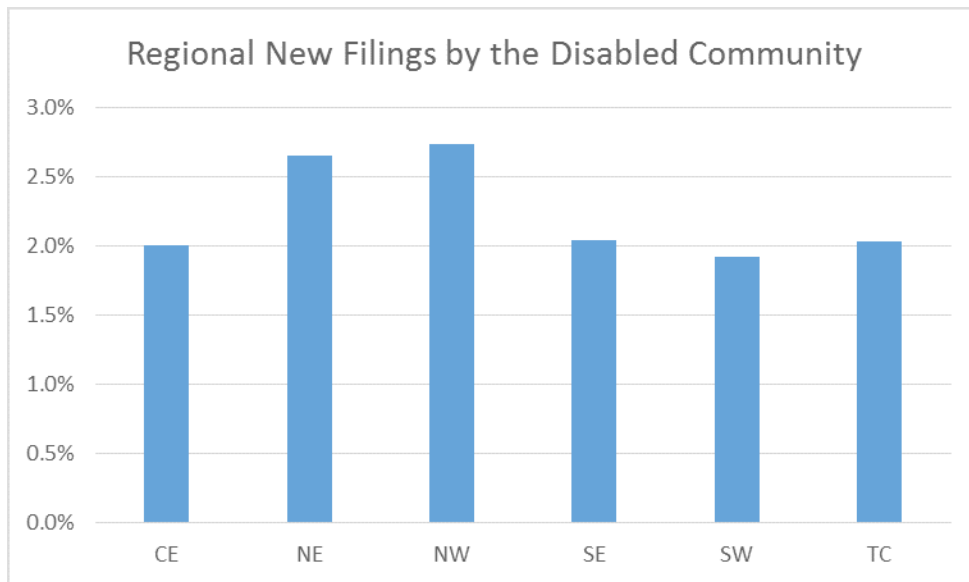
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 the Twin Cities, 59 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

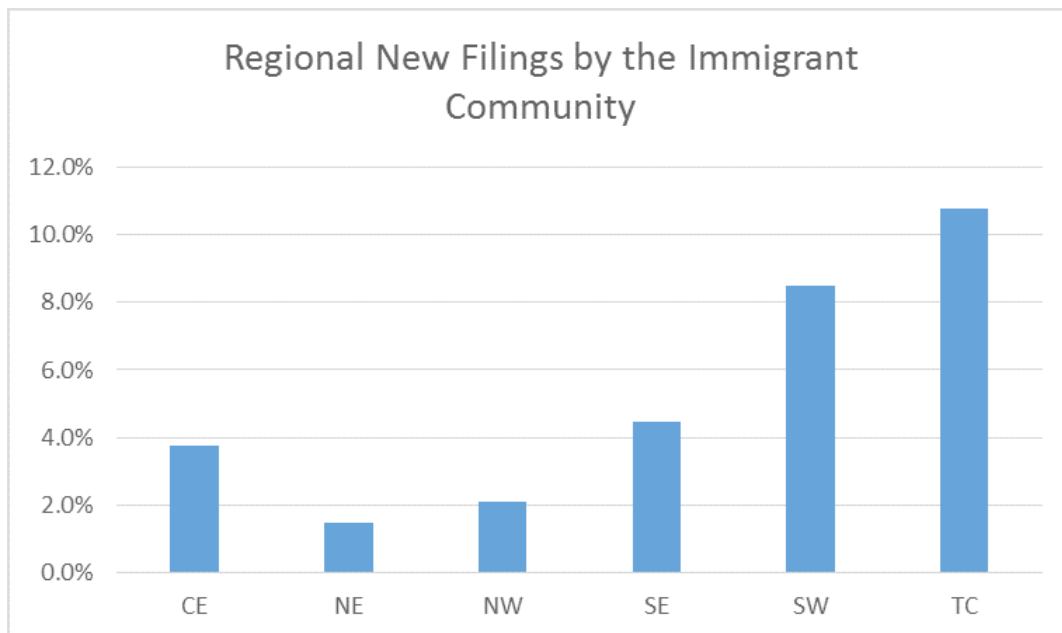
16.6 percent of those new filers completing the MBS from the Twin Cities planning area report being from a community of color. This is more than twice the rate recorded in any of the other planning areas in the state.



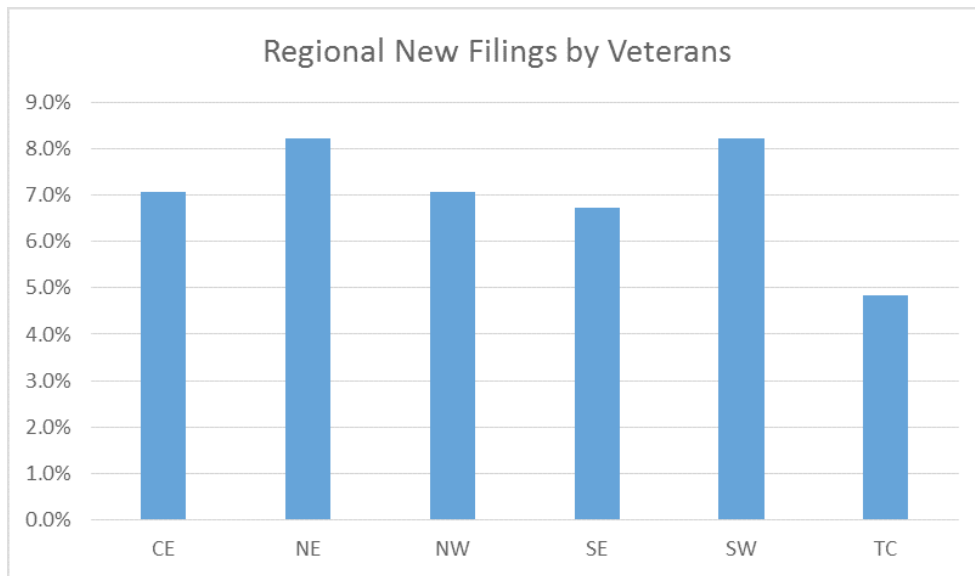
A small percentage of Twin Cities' new filers—2 percent—are from the disability community.



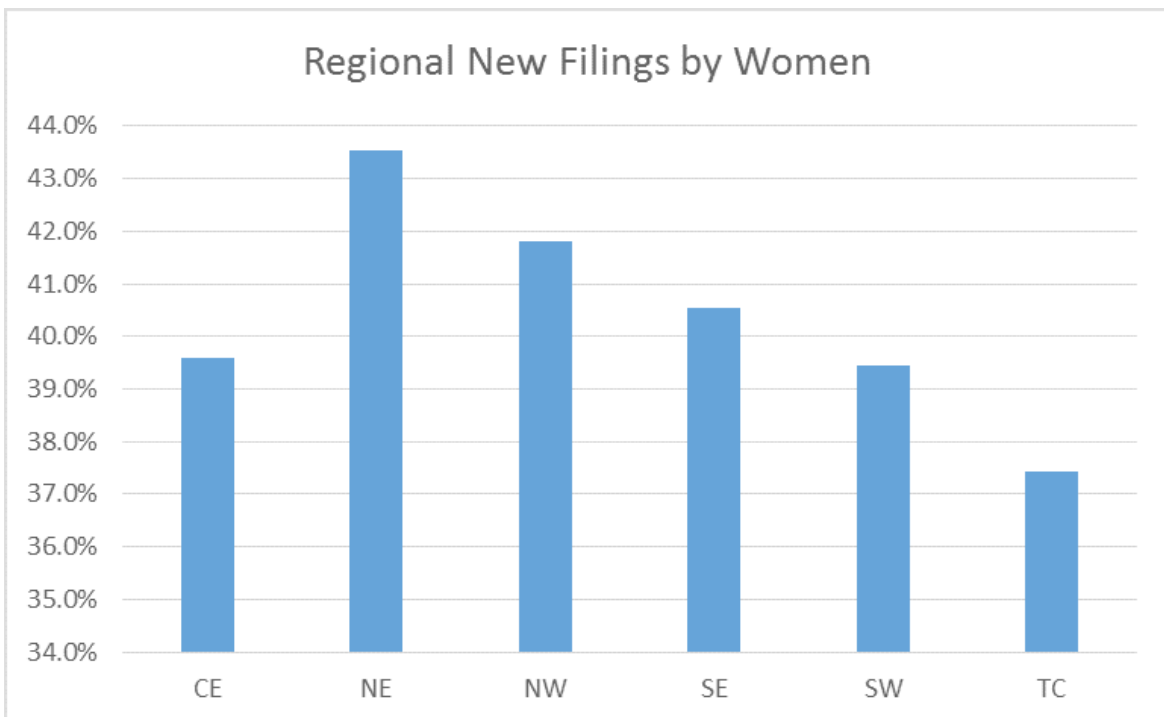
10.8 percent of new business filings in the Twin Cities come from the immigrant community. This is a considerably higher rate than is found in most other Minnesota planning areas.



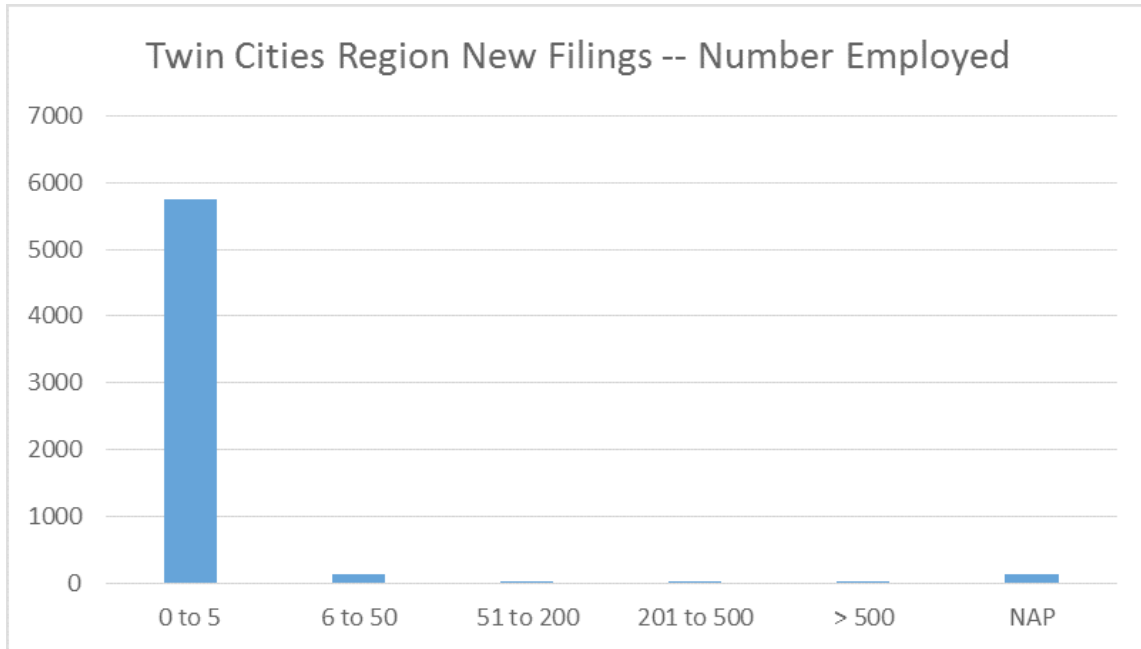
4.8 percent of new filings in the Twin Cities come from military veterans. This is the lowest rate of Minnesota's six planning areas.



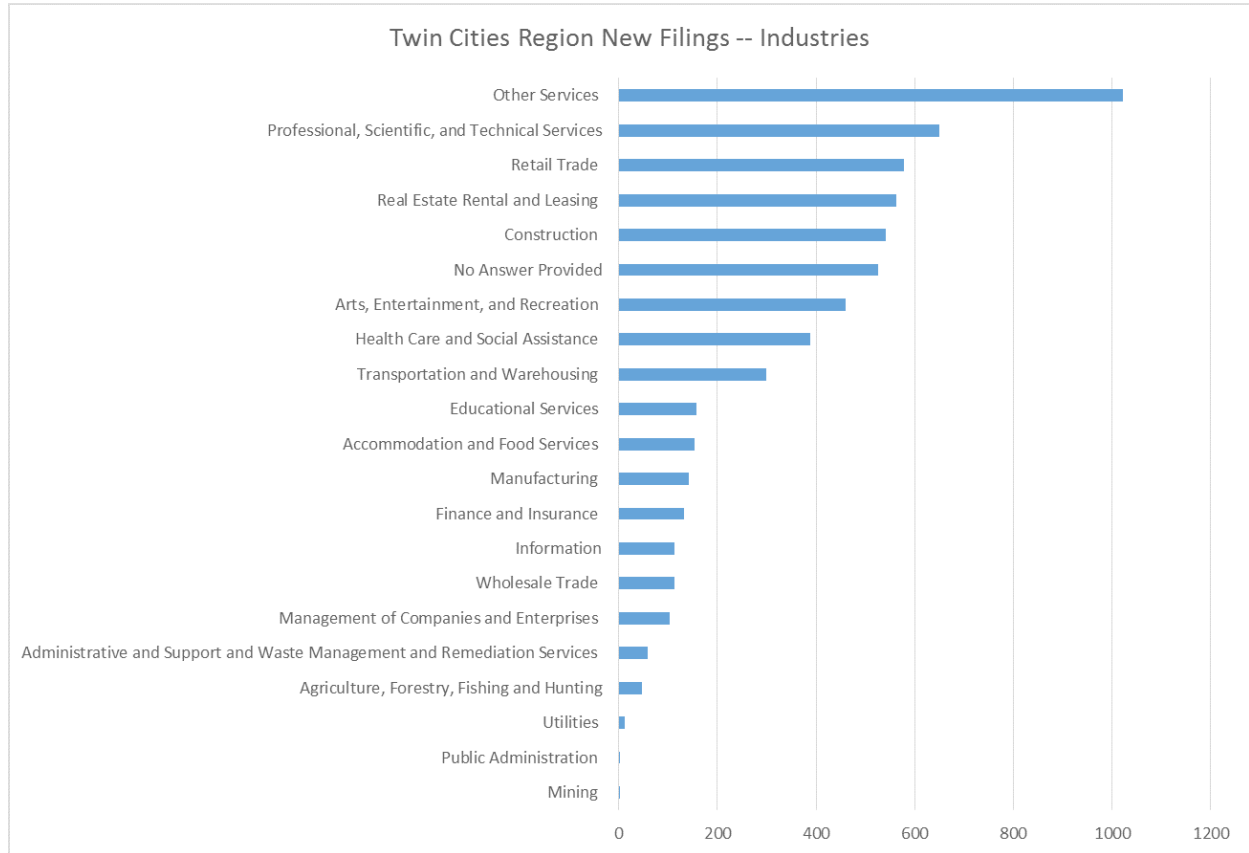
Woman owners represented 37.4 percent of the new business filings in the Twin Cities in the fourth quarter of 2018. As shown in the accompanying graph, the rate of female new business filers is lowest in the Twin Cities planning area.



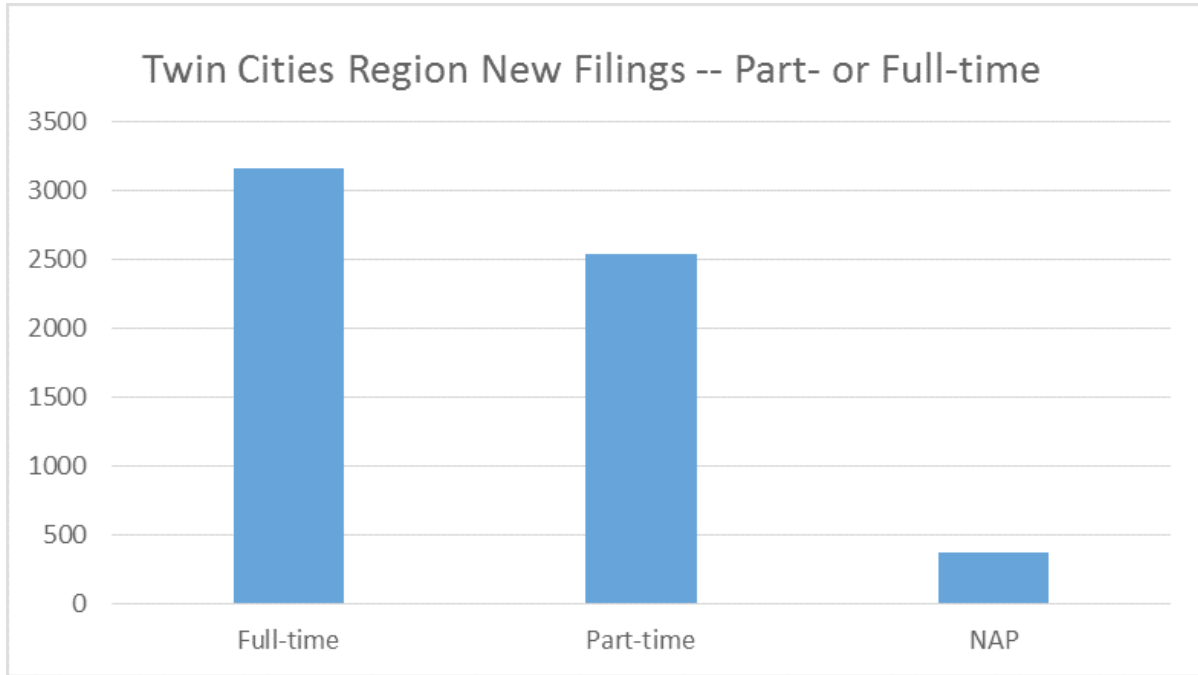
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by “NAP”—no answer provided), 5,926 responses were tallied to a question asking the new business filer to indicate 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.



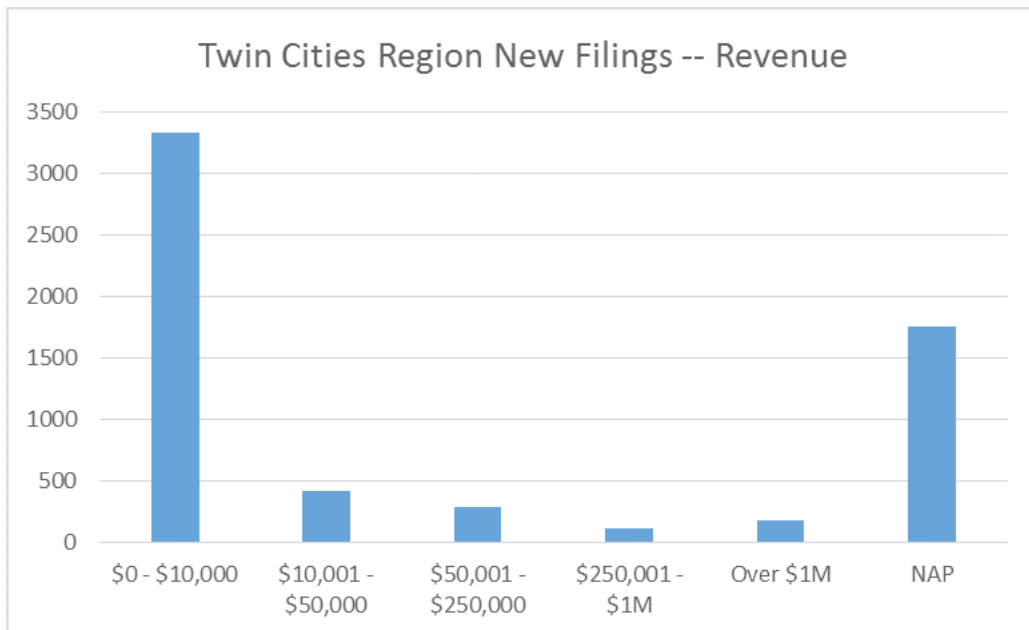
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, professional/scientific/technical services, retail trade, real estate/rental/leasing, 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. 525 new firms did not provide an answer to this survey item (see “NAP”).



44.5 percent of those submitting a new business filing in the Twin Cities are part-time ventures.

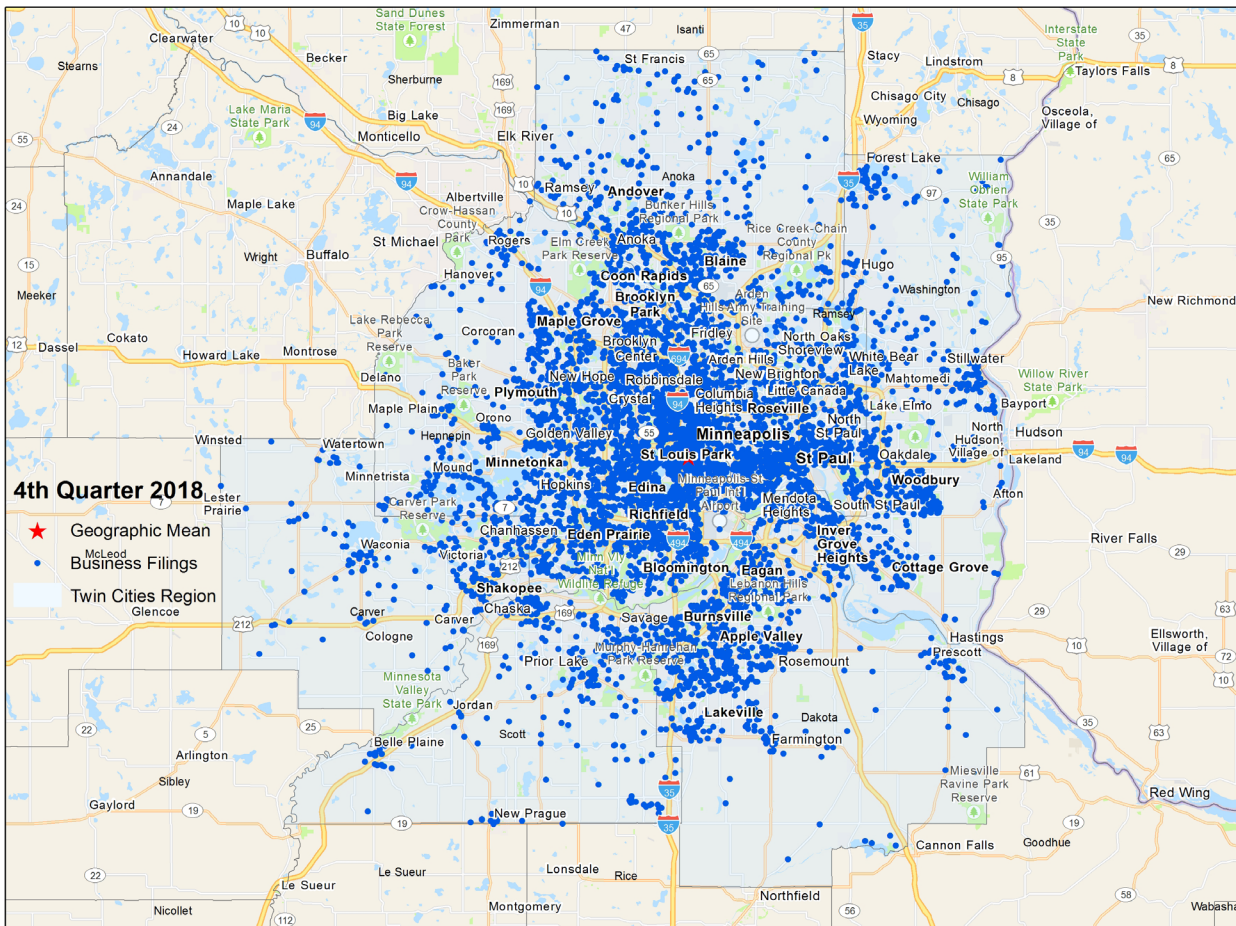


1,746 new business filers in the Twin Cities did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues of less than \$10,000. 579 firms report revenues in excess of \$50,000.



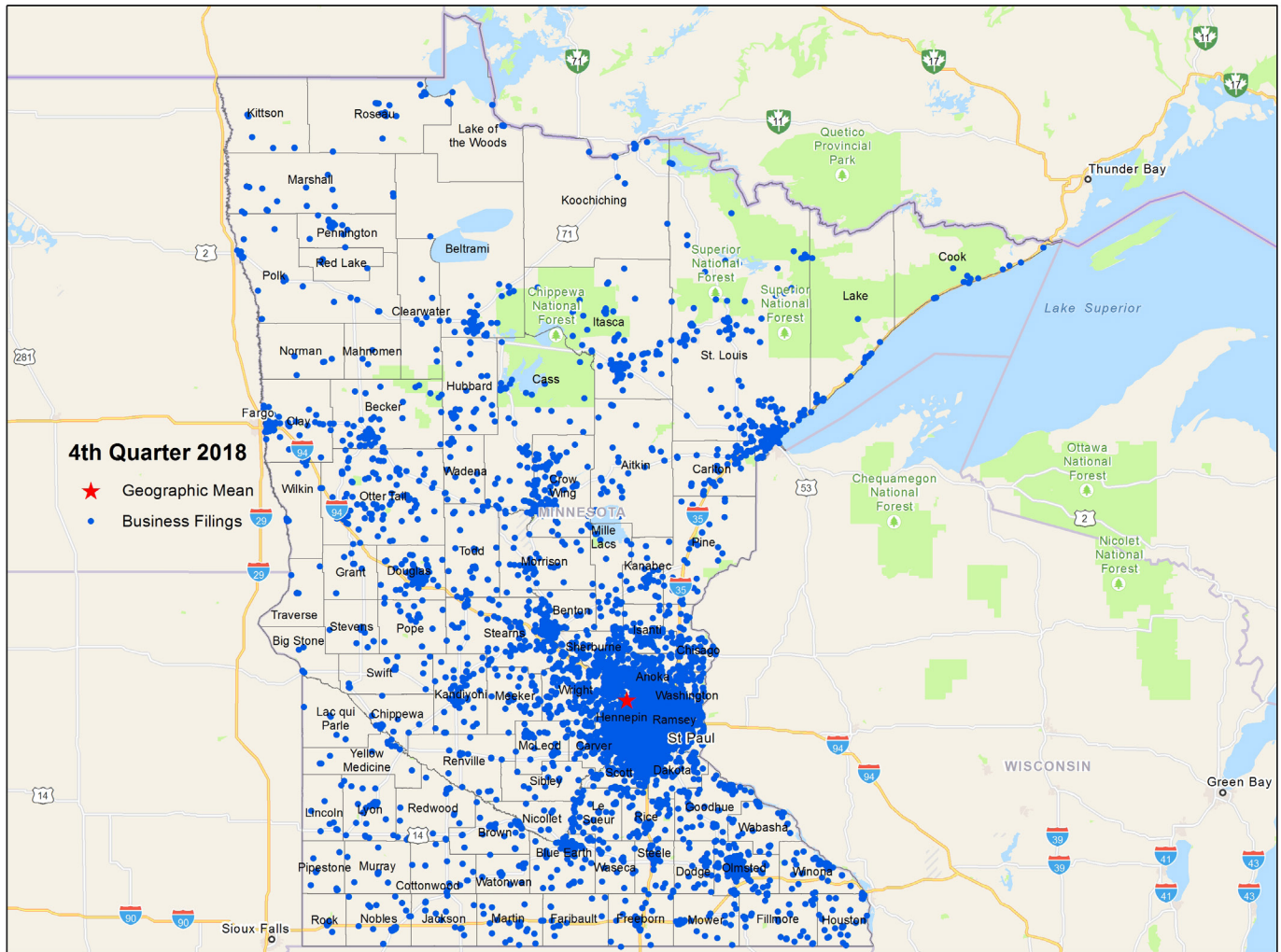
The first map shown below is a visual representation of new business formation around the Twin Cities planning area in the fourth quarter of 2018. The densest areas of new business formation are concentrated in the middle of the planning area, although virtually all portions of the area experienced some type of new business formation. Well-traveled roadways are a predictor of new business formation in the Twin Cities planning area.

Twin Cities 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

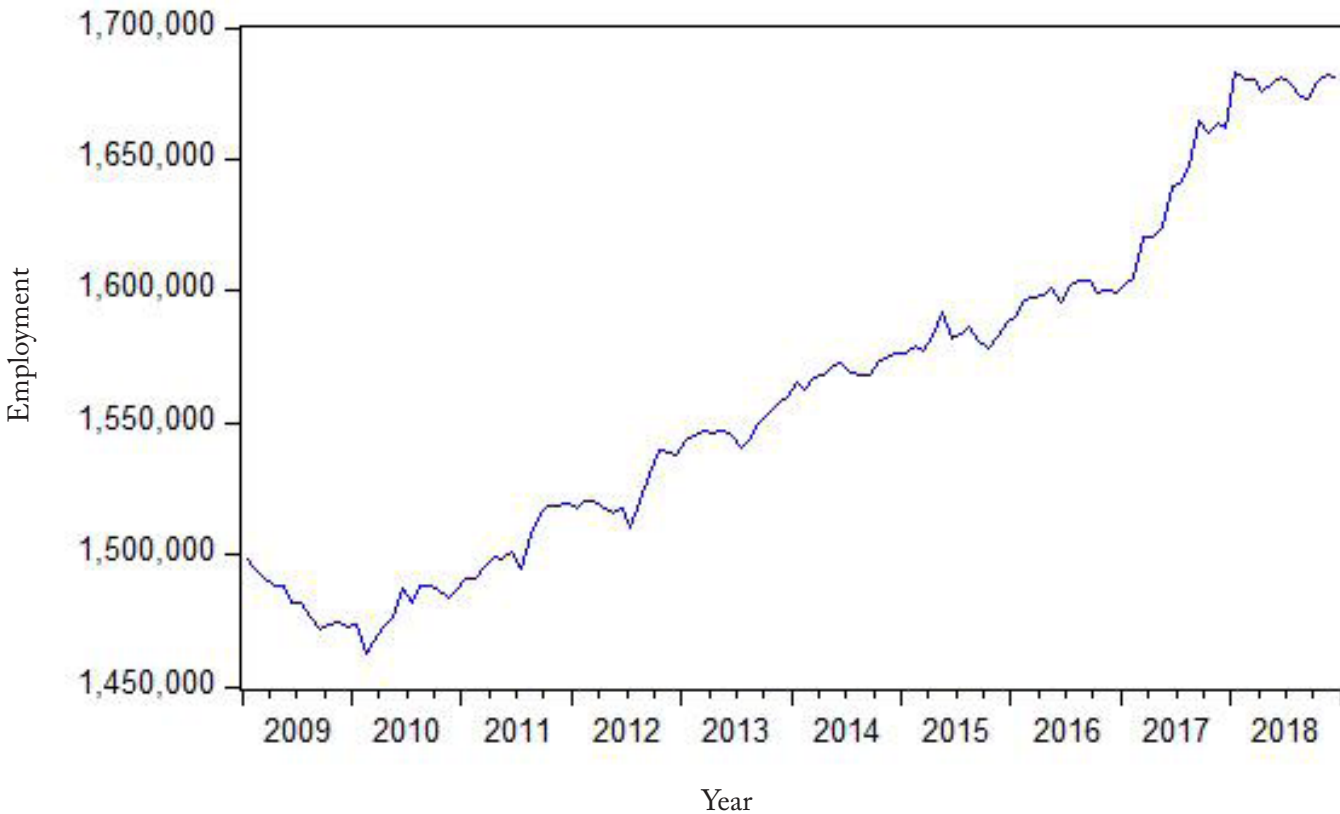


TWIN CITIES LABOR MARKET CONDITIONS

Employment of Twin Cities planning area residents increased 1.1 percent over the past year. After a decline during the Great Recession, the area has experienced fairly steady employment growth since the start of 2010, but employment gains leveled out in 2018 as the region experienced effective full employment.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance. While there are seasonally adjusted labor market data for the Twin Cities metro area, these data include parts of Wisconsin. These seasonally adjusted data therefore do not accurately capture the Twin Cities planning area (which is confined to seven counties). Some graphs of labor market indicators found in this section of the report are adjusted so as to remove seasonal patterns from the data. Tabular data are not seasonally adjusted.

Employment—Twin Cities 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)	1,653,422	1,703,813	1,687,895	1,678,284	1,681,195	1,682,907	1,671,199

Until flattening out in 2015, the seasonally adjusted unemployment rate in the Twin Cities had declined since the end of the Great Recession. However, the accompanying graph shows the seasonally adjusted unemployment rate once again declined beginning in 2017. This series has now turned upward in the last quarter of 2018. The non-seasonally adjusted unemployment rate now stands at 2.6 percent, slightly lower than the 2.7 percent rate recorded in December 2017.

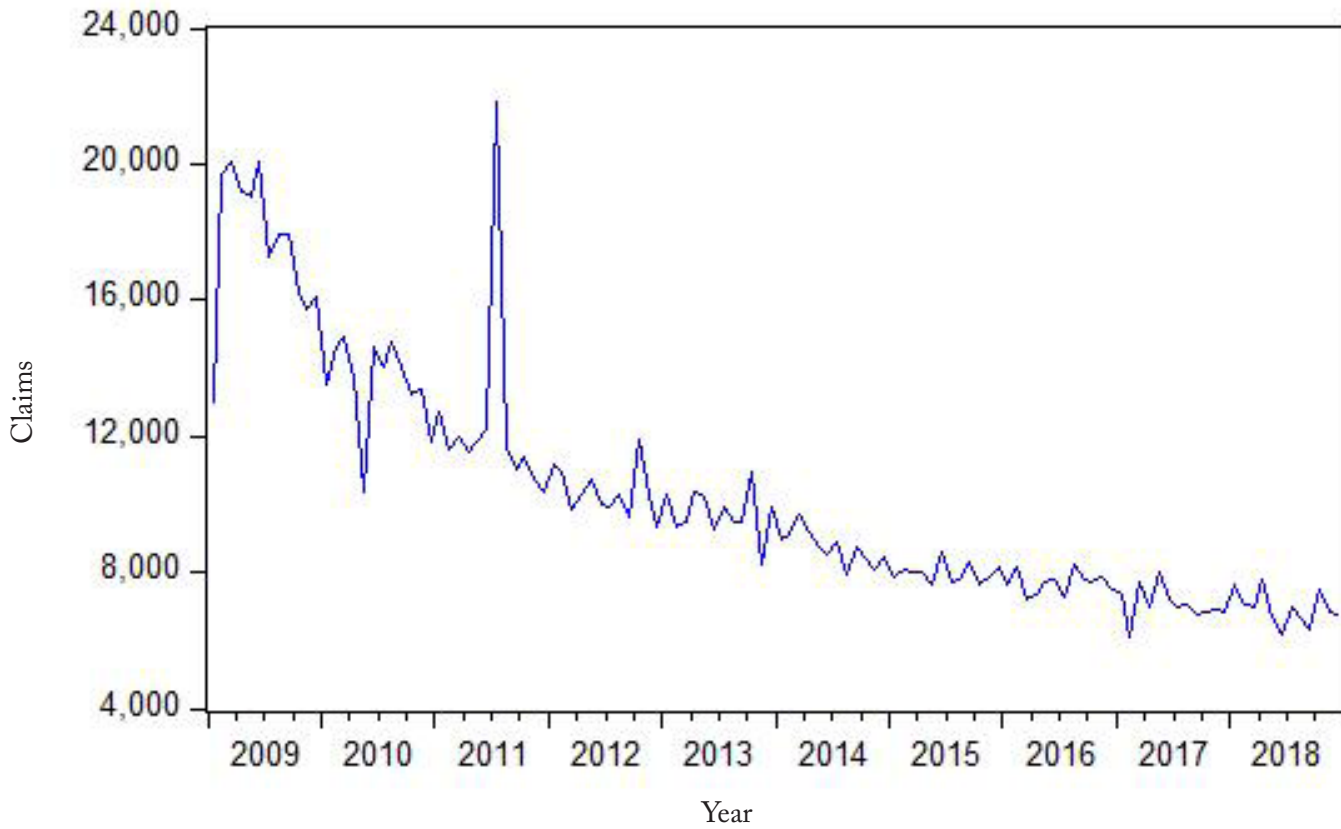
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	December 2017	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018
Unemployment Rate (Not seasonally adjusted)	2.7%	2.6%	2.4%	2.2%	2.1%	2.0%	2.6%

New claims for unemployment insurance were 3.4 percent below year ago levels in December 2018. The graph of the seasonally adjusted series suggests claims began to level out in 2018.

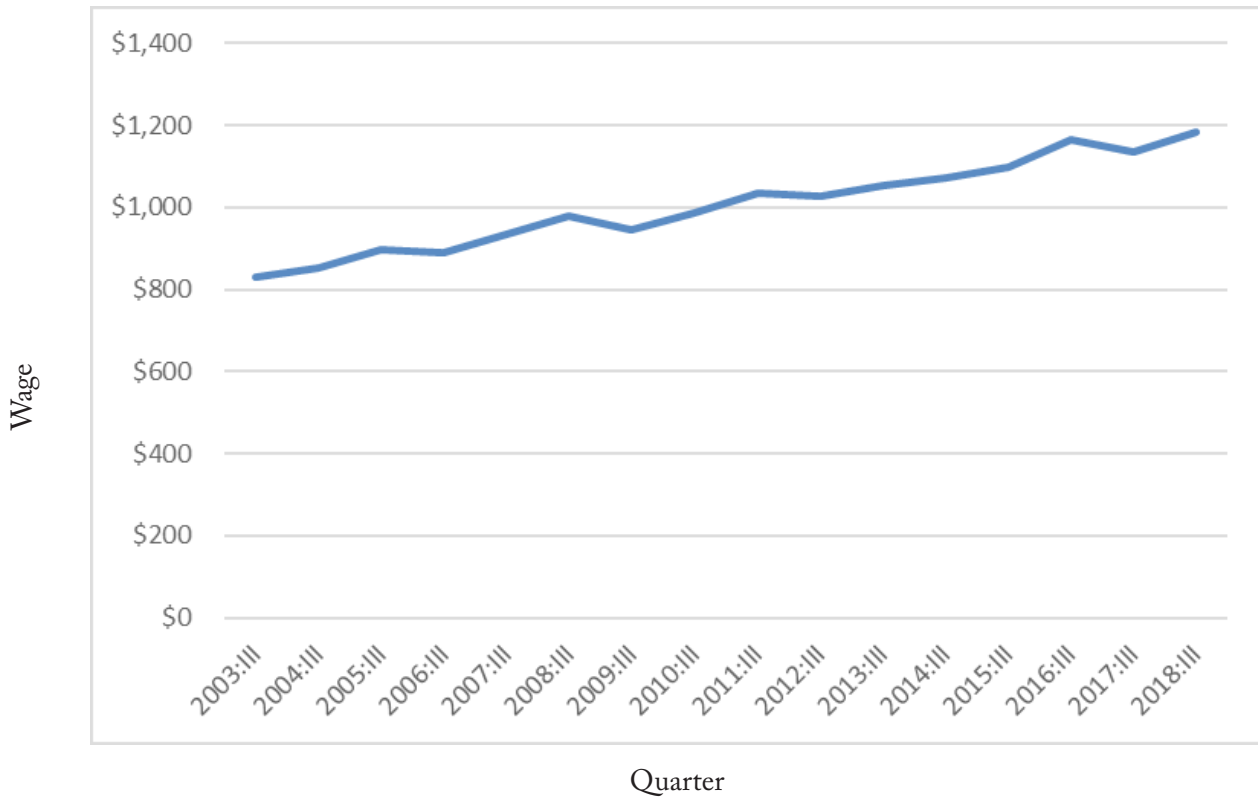
**Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Twin Cities Planning Area**



Period	December 2017	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018
Initial claims (Not seasonally adjusted)	9,873	5,740	5,413	4,906	6,345	9,511	9,538

With continuing labor shortages being reported across the state, it is no surprise that there is upward pressure on wages. At \$1,184, the average weekly wage in the Twin Cities planning area in the third quarter of 2018 was 4.2 percent above its level of one year earlier. Wages are increasing throughout Minnesota. Note that the average weekly wage in the Twin Cities is considerably higher than the state’s other planning areas. The Southeast Minnesota planning area has the second highest average weekly wage of \$1,001 and monthly earnings are lowest in Northwest Minnesota (at \$768 per month).

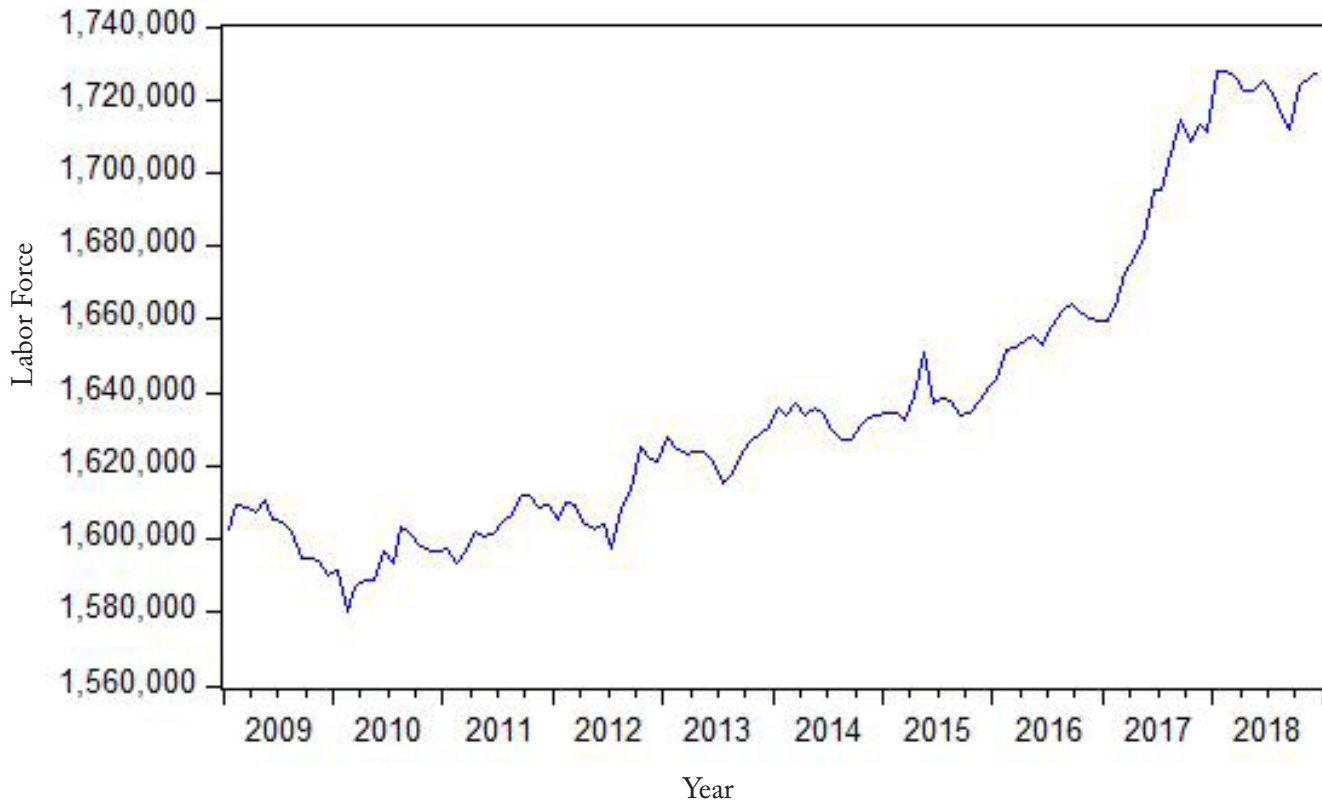
Average Weekly Wages---Twin Cities Planning Area



Quarter	2013:III	2014:III	2015:III	2016:III	2017:III	2018:III
Average Weekly Wages	\$1,054	\$1,073	\$1,099	\$1,166	\$1,136	\$1,184

The size of the Twin Cities labor force grew by 0.9 percent over the past twelve months. The 12-month moving average (see accompanying graph) of the Twin Cities labor force leveled out in 2018.

Labor Force—Twin Cities Planning Area (12-month moving average)

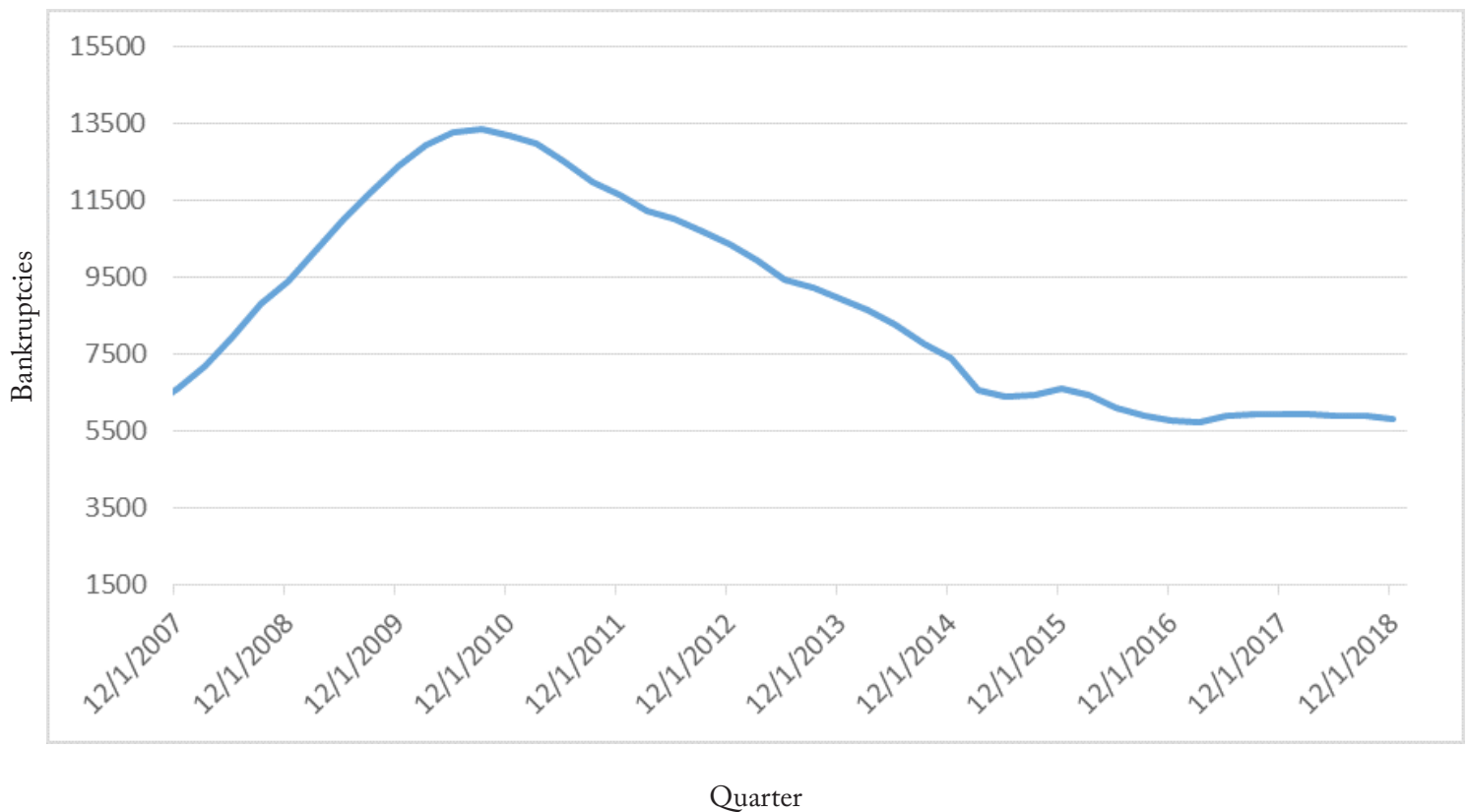


Year (December)	2013	2014	2015	2016	2017	2018
Labor Force (Not seasonally adjusted)	1,622,062	1,624,238	1,631,844	1,648,696	1,700,094	1,716,092

TWIN CITIES BANKRUPTCIES

The figure below shows the 12-month moving total for Twin Cities 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 through the second quarter of 2010, and generally declined until the beginning of this year, at which time it began leveling out. With 5,811 bankruptcies over the past twelve months, the annual number of bankruptcies reported in the Twin Cities is 2.2 percent lower than it was one year ago (when 5,940 annual bankruptcies were reported).

Twin Cities Bankruptcies (12-month moving total)



Year (Fourth Quarter)	2013	2014	2015	2016	2017	2018
Annual Bankruptcies (not seasonally adjusted)	8,930	7,385	6,615	5,756	5,940	5,811

ECONOMIC INDICATORS

Twin Cities MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (since 1999 unless noted)
Employment	December 2018 (m)	2,011,128	2,006,574	0.2% ↑	0.6%
Manufacturing Employment	December 2018 (m)	199,565	196,035	1.8% ↑	-1.0%
Average Weekly Work Hours-Private Sector	December 2018 (m)	34.7	34.6	0.3% ↑	34 (since 2006)
Average Earnings Per Hour-Private Sector	December 2018 (m)	\$30.71	\$29.49	4.1% ↑	1.5% (since 2007)
Average Weekly Work Hours-Manufacturing (Production Workers)	December 2018 (m)	40.4	42	-3.8% ↓	40.9 (since 2005)
Average Earnings Per Hour-Manufacturing (Production Workers)	December 2018 (m)	\$22.88	\$22.11	3.5% ↑	1.8% (since 2005)
Unemployment Rate	December 2018 (m)	2.8%	2.9%	NA ↓	4.2%
Labor Force	December 2018 (m)	2,008,037	1,990,904	0.9% ↑	0.6%
MSP Residential Building Permit Valuation	December 2018 (m)	228,104	274,507	-16.9% ↓	NA
Minneapolis Cost of Living Index	Annual 2018	106.3	104.9	1.3% ↑	NA
St. Paul Cost of Living Index	Annual 2018	106.1	104.5	1.5% ↑	NA

(m) represents a monthly series

(q) represents a quarterly series

The Minneapolis-St. Paul Metropolitan Statistical Area (an MSA is a grouping of counties and municipalities identified by the Census as having economic and demographic forces in common) includes 14 Minnesota counties (the definition of the MSA was recently expanded to include Le Sueur, Mille Lacs, and Sibley counties): Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Le Sueur, Mille Lacs, Ramsey, Scott, Sherburne, Sibley, Washington and Wright. This MSA also includes the Wisconsin counties of Pierce and St. Croix. It is thus much larger than the seven-county Twin Cities planning area. Still, activity outside of the area influences economic behavior within it, and vice versa. The larger Minneapolis-St. Paul MSA experienced mixed economic performance over the past 12 months. Overall employment increased only 0.2 percent in the Twin Cities MSA (but manufacturing employment expanded at a much more rapid pace). Average hourly earnings rose in the private sector (as well as for manufacturing employees), and average weekly work hours rose in the private sector (but decreased for production workers). The Twin Cities MSA unemployment rate was slightly lower and the labor force grew. The relative cost of living rose in both Minneapolis and St. Paul. The value of residential building permits in the Twin Cities MSA experienced a 16.9 percent year-over-year decrease from December 2018.

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 Twin Cities 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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