Central Minnesota Economic and Business Conditions Report - Third Quarter 2016

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Central Minnesota
Economic and Business Conditions Report
Third Quarter 2016

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.
Executive Summary

The Central Minnesota planning area is expected to experience a slowing of economic growth over the next several months according to predictions of the Central Minnesota Index of Leading Economic Indicators (LEI). The leading index fell by 2.90 points in the most recent period, with three components producing negative readings. Weakness in a general measure of statewide business conditions along with slowing residential building permits in the St. Cloud area helped tip the index down this quarter. An increase in initial jobless claims in Central Minnesota also had a negative impact on the LEI in the third quarter. An uptick in national durable goods orders contributed favorably to the regional outlook while new business filings of incorporation in the Central Minnesota planning area were largely neutral.

There were 1,191 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the third quarter of 2016 — representing a 0.8 percent increase from one year ago. There were 117 new regional business incorporations in the third quarter, a 2.6 percent increase from year ago levels. New limited liability company (LLC) filings in Central Minnesota increased 2.5 percent relative to the third quarter of 2015—rising to 686 in this year’s third quarter. New assumed names totaled 343 over the recent quarter—a decrease of 1.4 percent compared to the same period in 2015. There were 45 new filings for Central Minnesota non-profit in the third quarter—five fewer filings than one year ago.

Central Minnesota employment was 0.7 percent lower in September 2016 than it was one year earlier. Compared to one year ago, 2,567 fewer residents of Central Minnesota now have jobs. The September regional unemployment rate was 3.4 percent—up from 3.2 percent one year earlier. Initial claims for unemployment insurance were 4.6 percent higher in September than they were in the same month last year. The Central Minnesota labor force contracted by 0.5 percent over the past year and the job vacancy rate remains elevated at 72.21 per 100 unemployed. As noted in last quarter’s Central Minnesota Economic and Business Conditions Report, regional bankruptcies have levelled out. The region’s 1,532 bankruptcies over the past twelve months are only slightly lower than they were in last quarter’s report.

Economic performance in the St. Cloud area was mixed, with higher unemployment rates, less help wanted linage, higher initial jobless claims and a decline in the labor force being offset by accelerating wages, a rising work week, higher employment, an increase in new business filings, and a rise in home prices. A recent survey of St. Cloud area business leaders was less optimistic about future business activity than one year earlier. It appears the economic expansion in St. Cloud (and Central Minnesota) has matured, so less rapid growth can be expected in future quarters.
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 2.90 points in the third quarter after contracting a revised 2.80 points in the second quarter of the year. However, compared to last year, the LEI is 5.21 percent higher. As was noted last quarter, Central Minnesota’s expected growth mirrors that which is seen in other areas of Minnesota—slowing growth, but no current concerns about recession in the near future.

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

Components of SCSU Central Minnesota Leading Economic Indicators Index

<table>
<thead>
<tr>
<th>Component of Index</th>
<th>Contribution to LEI, 3rd quarter 2016</th>
<th>Contribution to LEI, 2nd quarter 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota Business Conditions Index</td>
<td>-0.42</td>
<td>0.35</td>
</tr>
<tr>
<td>Central Minnesota initial claims for unemployment insurance</td>
<td>-1.26</td>
<td>1.99</td>
</tr>
<tr>
<td>Central Minnesota new filings of incorporation</td>
<td>0.02</td>
<td>-1.24</td>
</tr>
<tr>
<td>St. Cloud MSA residential building permits</td>
<td>-2.19</td>
<td>-5.01</td>
</tr>
<tr>
<td>National new orders for durable goods, real</td>
<td>0.95</td>
<td>1.11</td>
</tr>
<tr>
<td><strong>TOTAL CHANGE</strong></td>
<td><strong>-2.90</strong></td>
<td><strong>-2.80</strong></td>
</tr>
</tbody>
</table>
Three index components—Central Minnesota initial claims for unemployment insurance, St. Cloud MSA residential building permits, and the Minnesota Business Conditions Index (which is a general measure of statewide business conditions)—had negative readings in the third quarter. Since Central Minnesota is an exporter of consumer durables, national durable goods orders are used as a proxy for regional economic performance. This indicator was positive in the current quarter. New filings of incorporation in Central Minnesota had little impact on the leading index in the third quarter.

<table>
<thead>
<tr>
<th>SCSU Central Minnesota Leading Economic Indicators Index</th>
<th>2016</th>
<th>2015</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota Business Conditions Index September</td>
<td>48.4</td>
<td>53</td>
<td>-8.68%</td>
</tr>
<tr>
<td>Central Minnesota initial claims for unemployment insurance September</td>
<td>1,808</td>
<td>1,728</td>
<td>4.63%</td>
</tr>
<tr>
<td>Central Minnesota new filings of incorporation Third Quarter</td>
<td>117</td>
<td>114</td>
<td>2.63%</td>
</tr>
<tr>
<td>St. Cloud MSA single family building permits September</td>
<td>31</td>
<td>10</td>
<td>210.00%</td>
</tr>
<tr>
<td>National new orders for durable goods, billions of real 1984 dollars, September</td>
<td>232.4</td>
<td>218.8</td>
<td>6.22%</td>
</tr>
<tr>
<td>Central Minnesota Leading Economic Indicators Index September (September 1999 = 100)</td>
<td>108.3</td>
<td>102.9</td>
<td>5.21%</td>
</tr>
</tbody>
</table>
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 1,191 new business filings in Central Minnesota in the third quarter. This represents a 0.8 percent increase from the same period in 2015. 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 been trending upward since the end of 2014.

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

![Graph showing 12-month moving totals for Central Minnesota new business filings between 2005 and 2016.]

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Central Minnesota</td>
<td>1,181</td>
<td>1,329</td>
<td>1,529</td>
<td>1,454</td>
<td>1,191</td>
<td>0.8%</td>
</tr>
<tr>
<td>Total New Business</td>
<td></td>
<td></td>
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</tbody>
</table>
New business incorporations trended downward in Central Minnesota from 2005 to 2015. However, over the past several quarters, the 12-month moving total of this series has levelled out. Compared to one year ago, quarterly figures of new business incorporations increased by 2.6 percent in the third quarter—rising from 114 in 2015: III to 117 in the most recent period.

New Incorporations—Central Minnesota Planning Area (12-month moving total)
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. The number of new LLCs increased by 2.5 percent (to 686) 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)**

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</thead>
<tbody>
<tr>
<td>Central Minnesota New Limited Liability Companies</td>
<td>669</td>
<td>723</td>
<td>840</td>
<td>792</td>
<td>686</td>
<td>2.5%</td>
</tr>
</tbody>
</table>
Assumed names, which include sole proprietors or organizations that do not have limited liability, fell in this year’s third quarter. After a decade of decline (other than a brief steady period in 2011-12), this series had been trending upward in recent quarters, but it now appears to be flattening out.

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

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</thead>
<tbody>
<tr>
<td>Central Minnesota New Assumed Names</td>
<td>348</td>
<td>384</td>
<td>454</td>
<td>458</td>
<td>343</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>
There were 45 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the third quarter of 2016. This was 10 percent fewer filings than one year ago.

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

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</thead>
<tbody>
<tr>
<td>Central Minnesota New Non-Profits</td>
<td>50</td>
<td>45</td>
<td>53</td>
<td>41</td>
<td>45</td>
<td>-10%</td>
</tr>
</tbody>
</table>
The first map shown below is a visual representation of new business filings around the Central Minnesota planning area in the third quarter of 2016. As usual, the densest areas of new business formation 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.
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.

Central Minnesota Labor Market Conditions

Central Minnesota employment fell 0.7 percent over the year ending September 2016. Note that all of Minnesota’s six planning areas experienced declining year-over-year employment in September. Recent weakness in the labor market can be seen in the accompanying graph, where the 12-month moving average of Central Minnesota employment has turned downward in recent 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—Central Minnesota Planning Area (12-month moving average)

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</tr>
</thead>
<tbody>
<tr>
<td>Employment (Not seasonally adjusted)</td>
<td>370,140</td>
<td>373,107</td>
<td>374,057</td>
<td>372,955</td>
<td>373,181</td>
<td>369,929</td>
<td>367,573</td>
</tr>
</tbody>
</table>
Central Minnesota’s unemployment rate was 3.4 percent in September 2016, marginally higher than one year earlier. The seasonally adjusted unemployment rate has clearly leveled off in recent quarters (see figure below).

Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area

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</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Rate</td>
<td>3.2%</td>
<td>4.2%</td>
<td>3.5%</td>
<td>4.1%</td>
<td>3.8%</td>
<td>3.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td>(Not seasonally adjusted)</td>
<td></td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>
Initial claims for unemployment insurance in the Central Minnesota planning area were 1,808 in September 2016. This was 4.6 percent more claims than one year ago. As can be seen in the accompanying graph, the seasonally adjusted initial jobless claims series had trended downward since peaking in 2009. However, this series has moved upward in 2016.

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

|----------------------|----------------|------------|----------|-----------|-----------|-------------|----------------|
The number of job vacancies per 100 unemployed was slightly lower in the second quarter of 2016 (this is the most recently available data). However, the job vacancy rate remains elevated in Central Minnesota (and throughout the state). This job vacancy rate is now six times higher than it was at its low point during the Great Recession.

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</thead>
<tbody>
<tr>
<td>Job Vacancies per 100 Unemployed</td>
<td>42.05</td>
<td>51.89</td>
<td>60.10</td>
<td>79.93</td>
<td>81.91</td>
<td>72.21</td>
</tr>
</tbody>
</table>
The Central Minnesota labor force contracted at a 0.5 percent rate over the year ending in September 2016. As seen in the accompanying graph, the 12-month moving average of the regional labor force has declined in 2016. As with other areas throughout the state, Central Minnesota is having difficulty replacing retiring workers—an economic and demographic trend that could go on for several years.

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

<table>
<thead>
<tr>
<th>Year (September)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Force (Not seasonally adjusted)</td>
<td>376,844</td>
<td>376,916</td>
<td>377,916</td>
<td>379,123</td>
<td>382,480</td>
<td>380,590</td>
</tr>
</tbody>
</table>
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 increased through the second quarter of 2010, and has now started to bottom out. With 1,532 bankruptcies over the past twelve months, the annual level of bankruptcies in Central Minnesota is slightly lower than it was three months ago.

Central Minnesota Bankruptcies (12-month moving total)

<table>
<thead>
<tr>
<th>Year (Third Quarter)</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Bankruptcies (Not seasonally adjusted)</td>
<td>3,226</td>
<td>2,835</td>
<td>2,285</td>
<td>1,974</td>
<td>1,777</td>
<td>1,532</td>
</tr>
</tbody>
</table>
### Economic Indicators

#### St. Cloud MSA Indicators

<table>
<thead>
<tr>
<th>Period Covered</th>
<th>Current Period</th>
<th>Prior Year</th>
<th>Annual Percent Change</th>
<th>Long-Term Average (since 1999, unless noted)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LABOR MARKET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>September 2016 (m)</td>
<td>110,717</td>
<td>108,188</td>
<td>2.3% ↑</td>
</tr>
<tr>
<td>Manufacturing Employment</td>
<td>September 2016 (m)</td>
<td>14,810</td>
<td>15,073</td>
<td>-1.7% ↓</td>
</tr>
<tr>
<td>Average Weekly Work Hours--Private Sector</td>
<td>September 2016 (m)</td>
<td>32.9</td>
<td>32.3</td>
<td>1.9% ↑</td>
</tr>
<tr>
<td>Average Earnings Per Hour--Private Sector</td>
<td>September 2016 (m)</td>
<td>$25.13</td>
<td>$25.02</td>
<td>0.4% ↑</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>September 2016 (m)</td>
<td>3.3%</td>
<td>3.0%</td>
<td>NA ↑</td>
</tr>
<tr>
<td>Labor Force</td>
<td>September 2016 (m)</td>
<td>109,645</td>
<td>109,798</td>
<td>-0.1% ↓</td>
</tr>
<tr>
<td>SCSU Future Employment Index</td>
<td>August 2016 (q)</td>
<td>0</td>
<td>17.2</td>
<td>NA ↓</td>
</tr>
<tr>
<td>SCSU Future Length of Workweek Index</td>
<td>August 2016 (q)</td>
<td>0</td>
<td>-3.1</td>
<td>NA ↑</td>
</tr>
<tr>
<td>SCSU Future Employee Compensation Index</td>
<td>August 2016 (q)</td>
<td>38.2</td>
<td>43.8</td>
<td>-12.8% ↓</td>
</tr>
<tr>
<td>SCSU Future Worker Shortage Index</td>
<td>August 2016 (q)</td>
<td>23.7</td>
<td>32.8</td>
<td>-27.7% ↓</td>
</tr>
<tr>
<td>St. Cloud-Area New Unemployment Insurance Claims</td>
<td>September 2016 (m)</td>
<td>432</td>
<td>416</td>
<td>3.8% ↑</td>
</tr>
<tr>
<td>St. Cloud Times Help Wanted Linage</td>
<td>July 2016 (q)</td>
<td>559</td>
<td>2,736</td>
<td>-79.6% ↓</td>
</tr>
<tr>
<td><strong>BUSINESS FORMATION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Business Filings</td>
<td>Third Quarter 2016 (q)</td>
<td>359</td>
<td>323</td>
<td>11.1% ↑</td>
</tr>
<tr>
<td>Assumed Names</td>
<td>Third Quarter 2016 (q)</td>
<td>97</td>
<td>92</td>
<td>5.4% ↑</td>
</tr>
<tr>
<td>Business Incorporations</td>
<td>Third Quarter 2016 (q)</td>
<td>33</td>
<td>19</td>
<td>73.7% ↑</td>
</tr>
<tr>
<td>Limited Liability Companies</td>
<td>Third Quarter 2016 (q)</td>
<td>216</td>
<td>199</td>
<td>8.5% ↑</td>
</tr>
<tr>
<td>Non-Profits</td>
<td>Third Quarter 2016 (q)</td>
<td>13</td>
<td>13</td>
<td>0.0% ↔</td>
</tr>
</tbody>
</table>

(m) represents a monthly series; (q) represents a quarterly series
Central Minnesota contains the St. Cloud MSA, where mixed signals of the future economic health of this metropolitan area have emerged in recent months. For example, the future outlook from a survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University was considerably weaker than normal. In addition, Help Wanted linage in the St. Cloud Times is down, the unemployment rate rose, the labor force contracted, and initial jobless claims increased. However, new business filings rose, median home sales prices increased, employment improved, average hourly earnings accelerated, and average weekly work hours expanded.
Across the state there was growth in payrolls, higher earnings per hour, and more average weekly hours worked in the private sector over the past twelve months. The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia are mixed—current conditions are stronger but the future conditions index declined by 14.6 percent from one year earlier. The Minnesota Business Conditions index also turned negative this quarter. Milk prices are largely unchanged from one year ago, but are 19.3 percent higher than last quarter. Enplanements at the Minneapolis-St. Paul airport increased by 2.4 percent over the last twelve months.

The national economic indicators reported in the table are largely favorable. Over the past twelve months, stock prices rose, building permits are higher, and oil prices have continued to fall. In addition, employment, consumer expenditures, and income all experienced growth and the national unemployment rate fell. Retail sales improved. Only industrial production contracted from year ago levels.
Sources

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.

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

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Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.
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U.S. Department of Agriculture: Milk Prices.
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U.S. Energy Information Administration: Oil Prices.