Southeast Minnesota
Economic and Business Conditions Report
Third Quarter 2015

OFFICE OF THE MINNESOTA
SECRETARY OF STATE

SCHOOL OF PUBLIC AFFAIRS
RESEARCH INSTITUTE
ST. CLOUD STATE UNIVERSITY

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Southeast Minnesota business conditions are expected to soften over the next several months according to the most recent prediction of the Southeast Minnesota Index of Leading Economic Indicators (LEI). After a quarter in which the LEI expanded by 10.82 points, this quarter's leading index fell by 11.23 points as four of five index components turned negative. The LEI is now 10.2 percent lower than it was last year at this time. A fall in quarterly residential building permits in the Rochester area, a recent decline in consumer sentiment, weakness in the Minnesota Business Conditions Index (which serves as a general measure of state business conditions), and rising quarterly claims for unemployment benefits served as a drag on the third quarter LEI. Higher new business filings were the one index component that contributed favorably to this quarter's outlook. There can be considerable variation in the LEI from one quarter to the next, so the prediction of a softening economy could easily be reversed as new data come in. A variety of current measures of economic performance in Southeast Minnesota suggest regional activity may have recently improved.

There were 804 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the third quarter of 2015 — representing a 5.1 percent improvement from one year ago. There were 69 new regional business incorporations in the third quarter, a 6.8 percent fall from year ago levels. Third quarter new limited liability company (LLC) filings in Southeast Minnesota surged by 11.8 percent (to a total of 494) compared to last year's third quarter. New assumed names totaled 198 in this year's third quarter—a decrease of 6.6 percent from the same quarter in 2014. There were 43 new filings for Southeast Minnesota non-profits over the three months ending September 2015—six more filings than one year ago.

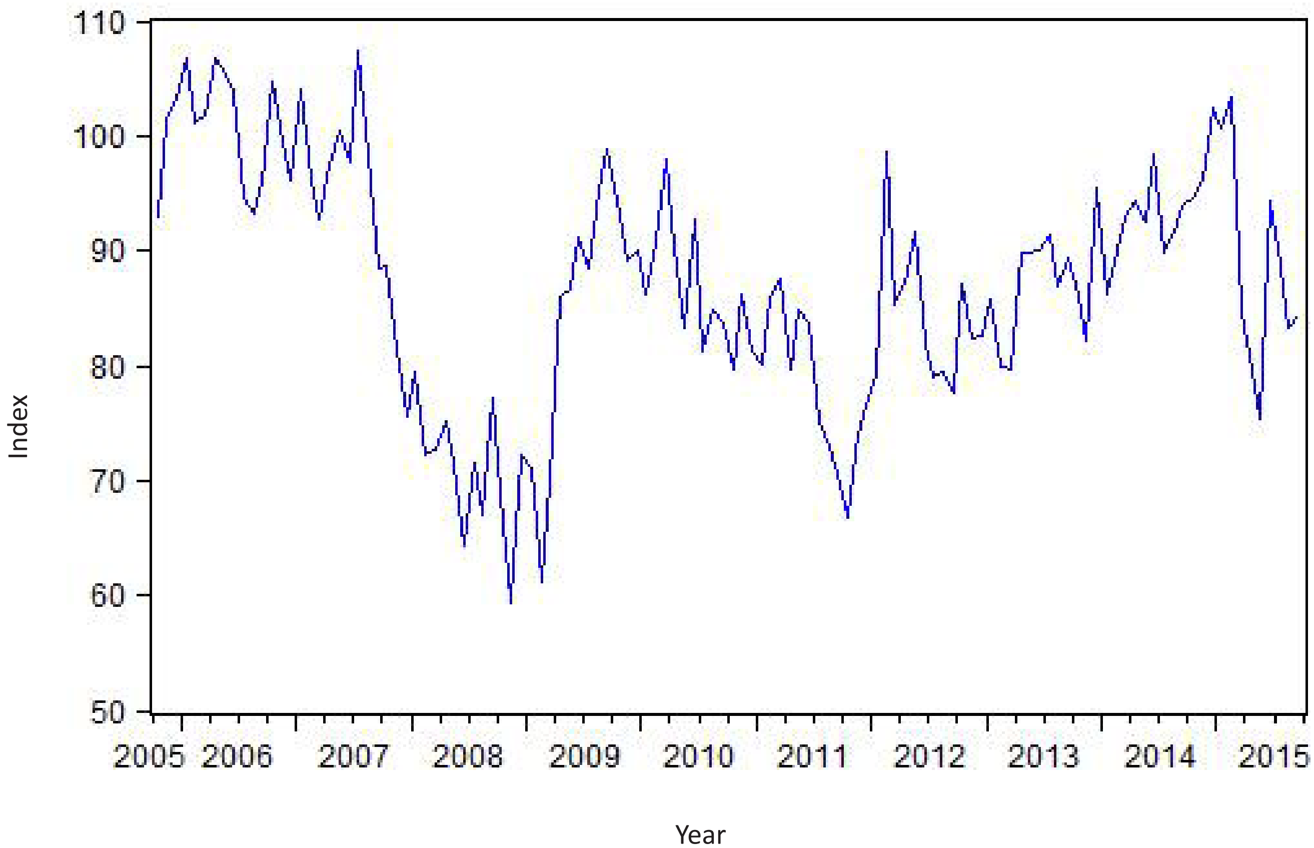
Employment of Southeast Minnesota residents increased by 0.5 percent over the year ending September 2015. Compared to September 2014, 1,378 more residents of Southeast Minnesota now have jobs. The regional unemployment rate was 2.8 percent in September, an improvement from 3.1 percent in the year earlier period. Initial claims for unemployment insurance in September 2015 were considerably lower than one year ago. The Southeast Minnesota labor force expanded by 0.2 percent over the past twelve months. The Rochester area rate of job vacancies per 100 unemployed surged in this year's second quarter.

Data from the Rochester area—the largest market in Southeast Minnesota—were mixed, with a small increase in overall employment, a longer length of the workweek, a lower unemployment rate, a reduction in initial jobless claims, and higher new business filings having a positive impact on the outlook. On the negative side was a smaller labor force, flat average hourly earnings, lower manufacturing employment, and a small decline in the value of residential building permits.

Southeast Minnesota Leading Economic Indicators Index

The SCSU Southeast 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 finished 11.23 points lower in this year's third quarter, and is now 10.2 percent below its level of one year ago. As can be seen in the accompanying figure, the LEI has experienced considerable volatility over the past several quarters. This volatility has interrupted a general upward trend in the LEI that had occurred from mid-2012 through the end of 2014.

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



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2015	Contribution to LEI, 2nd quarter 2015
Minnesota Business Conditions Index	-0.87	2.98
Southeast Minnesota initial claims for unemployment insurance	-4.76	1.31
Southeast Minnesota new filings of incorporation and LLCs	4.83	1.77
Rochester MSA residential building permits	-4.68	2.82
Consumer Sentiment, University of Michigan	-5.75	1.94
TOTAL CHANGE	**-11.23**	**10.82**

Four of five components of the LEI had a negative reading this quarter. Southeast Minnesota contains Rochester, a medical destination. Decisions to consume medical services depend in part on consumer choice, so consumer sentiment is used as a national-level indicator of Southeast Minnesota business activity. Consumer sentiment declined in the most recent quarter. Lower residential building permits in the Rochester metropolitan area also served as a drag on the index in the third quarter. Recent weakness in the Minnesota Business Conditions survey (conducted by Creighton University), which serves as a general measure of state business conditions, also contributed to the decline in the LEI, as did higher initial jobless claims in the third quarter. Higher new filings for business incorporation and LLC in Southeast Minnesota was the only index component that had a positive impact.

SCSU Southeast Minnesota Leading Economic Indicators Index

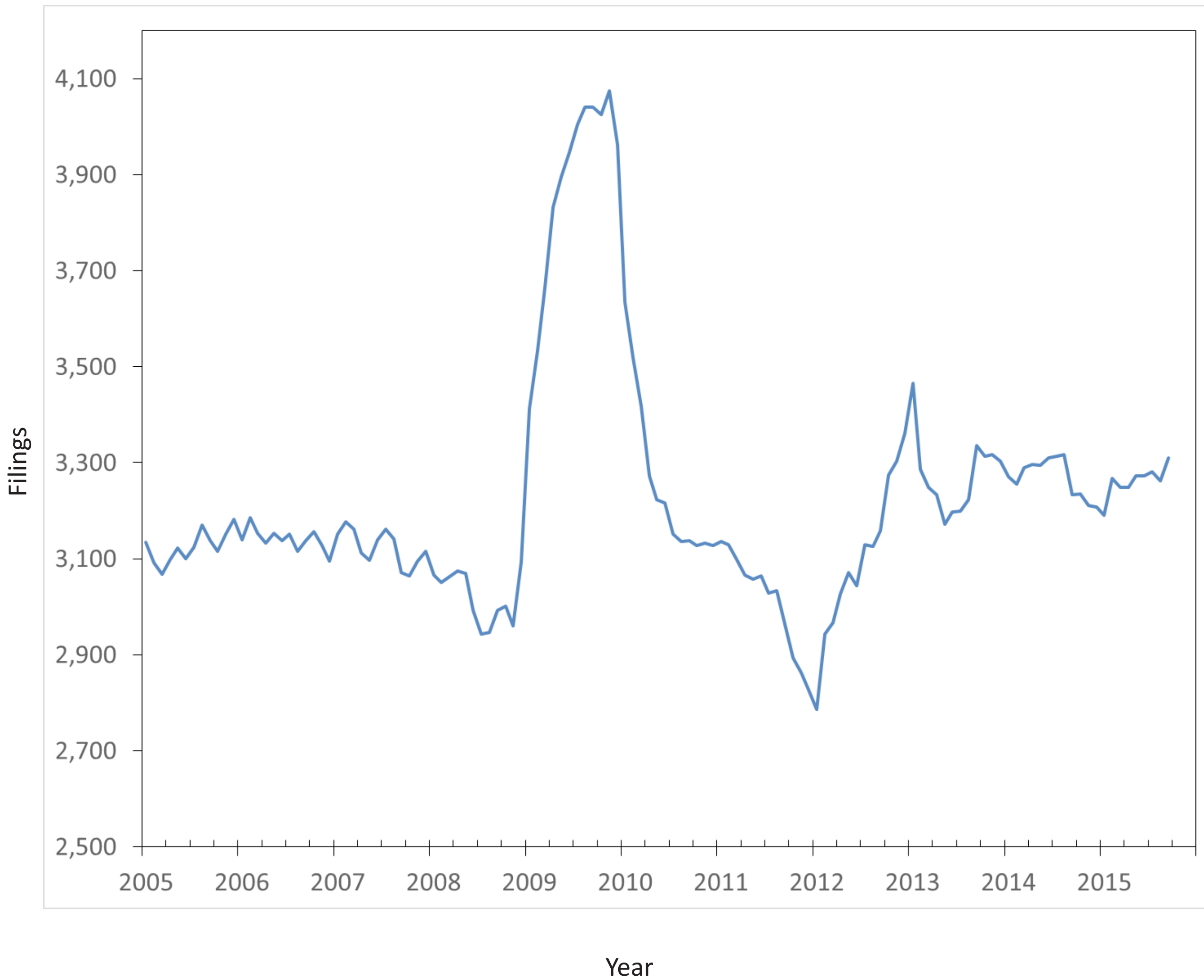
	2015	2014	Percentage change
Minnesota Business Conditions Index September	53	66.3	-20.1%
Southeast Minnesota initial claims for unemployment insurance September	793	995	-20.3%
Southeast Minnesota new filings of incorporation and LLCs Third Quarter	563	516	9.1%
Rochester MSA single-family building permits September	32	47	-31.9%
Consumer Sentiment, University of Michigan September	87.2	84.6	3.1%
Southeast Minnesota Leading Economic Indicators Index September (December 1999 = 100)	84.3	93.9	-10.2%

Southeast Minnesota Business Filings

New business filings in Southeast Minnesota are little changed since mid-2012. 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. Third quarter total new business filings were 5.1 percent higher than in the third quarter of 2015.

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

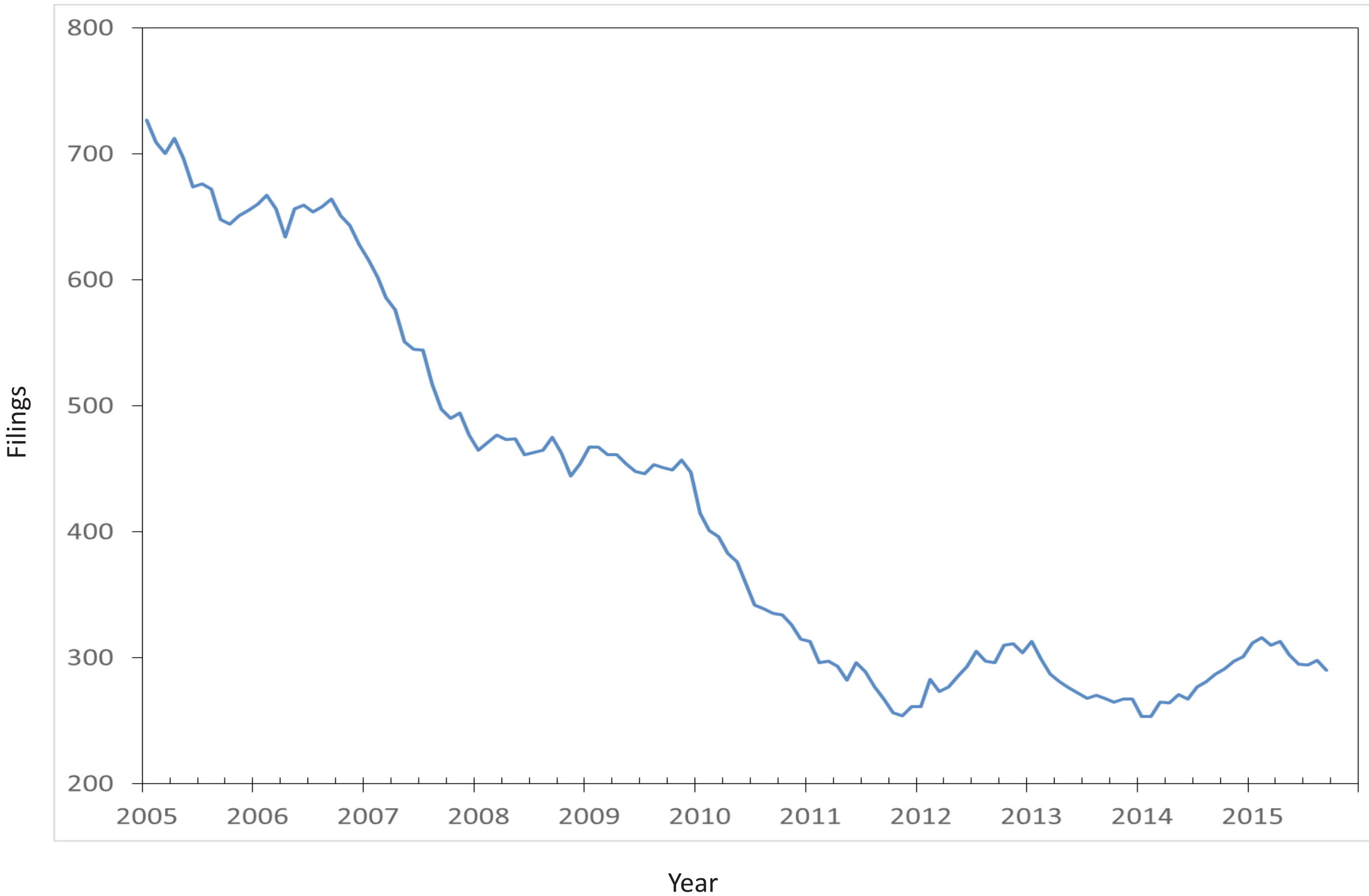
Total New Business Filings—Southeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southeast Minnesota Total New Business Filings	765	754	887	864	804	5.1%

New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but have leveled off over the past three years. However, in the third quarter of 2015, this series fell by 6.8 percent from one year earlier.

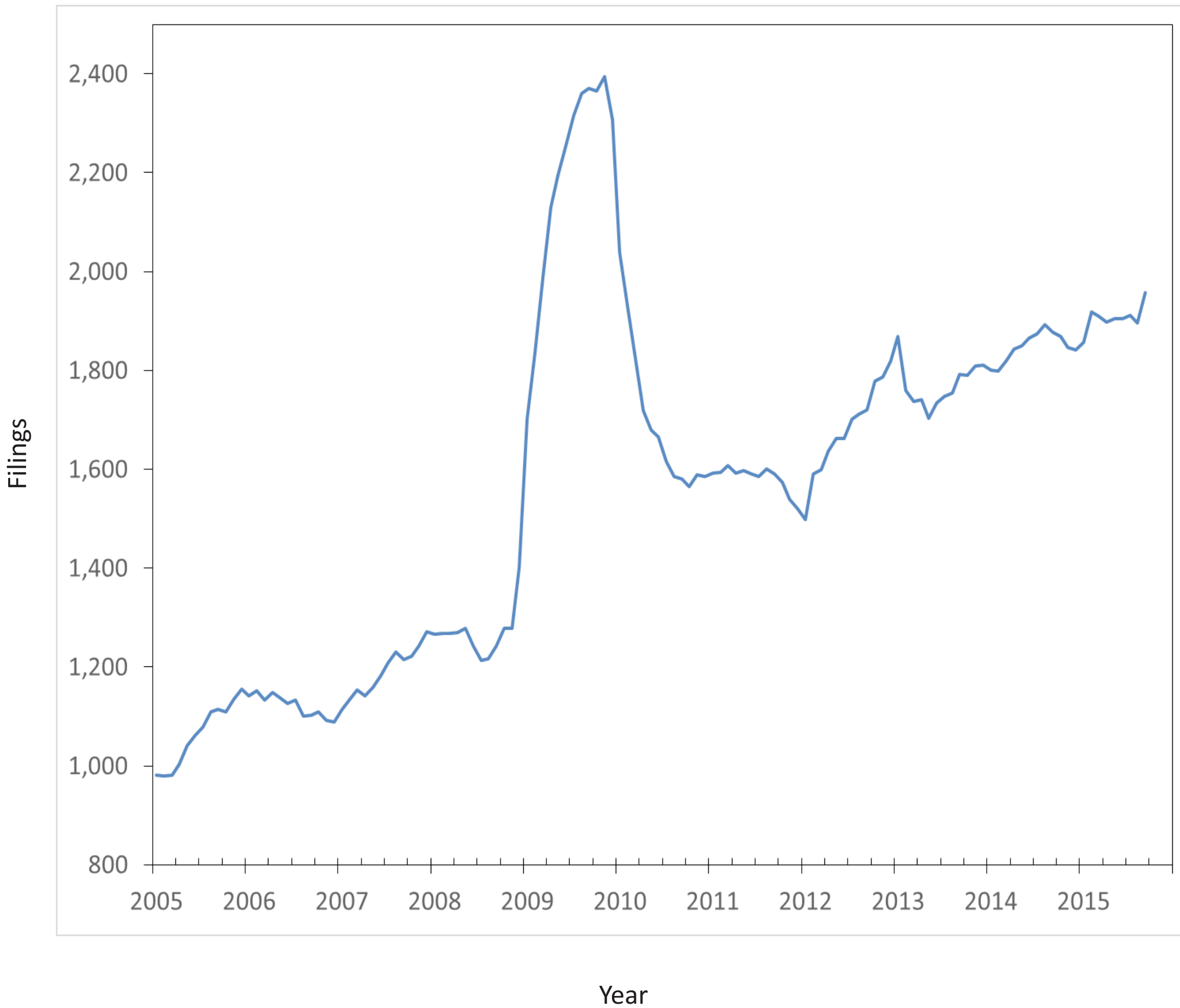
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southeast Minnesota New Business Incorporations	74	89	72	60	69	-6.8%

There has been a move in Southeast Minnesota, as in all of the state, away from the traditional incorporation form of business organization towards the LLC. While new business incorporations remain an important indicator of new business formation in Southeast Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southeast Minnesota. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2005. Third quarter LLC filings rose by 11.8 percent over their year ago level.

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



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southeast Minnesota New Limited Liability Companies	442	414	540	509	494	11.8%

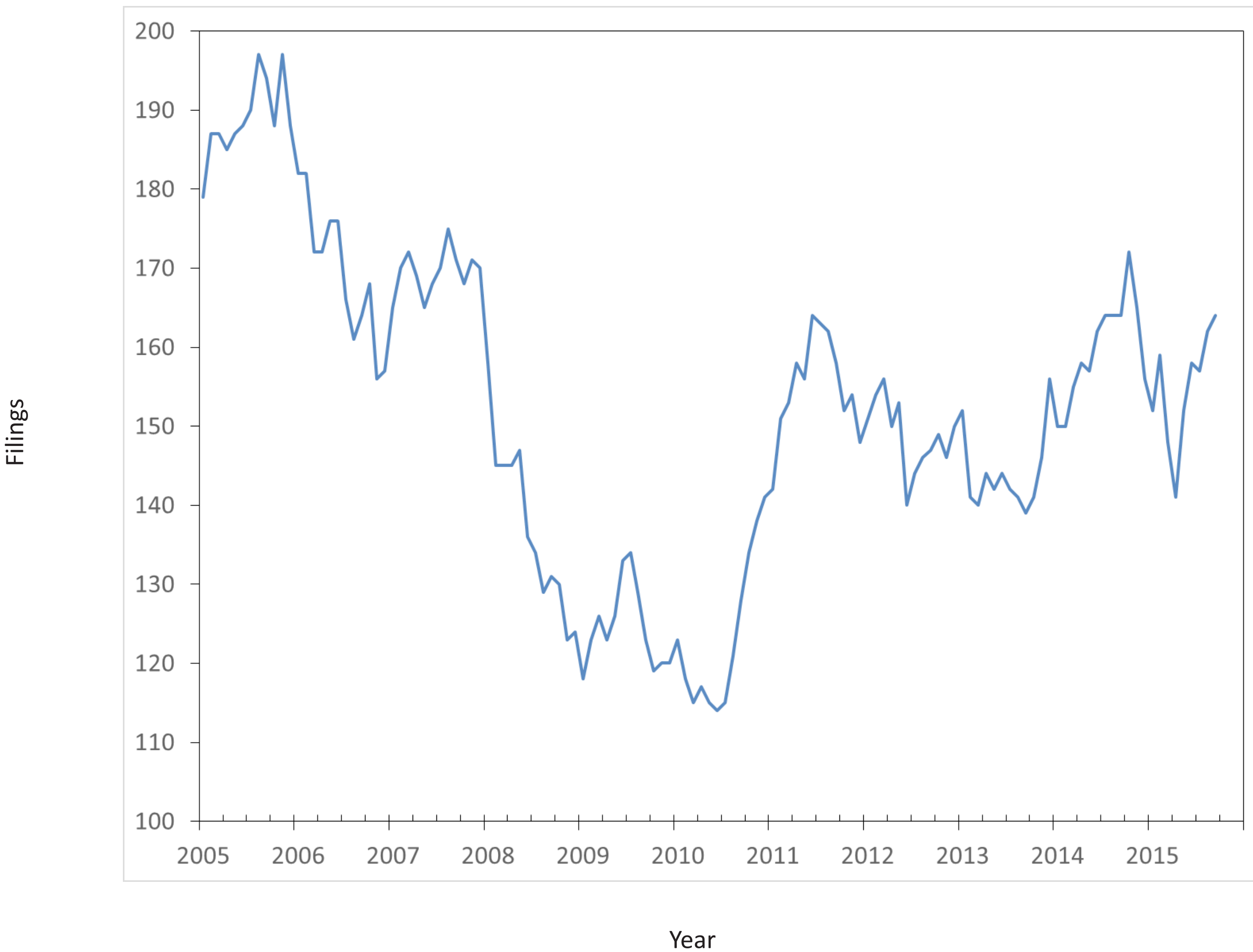
On a year over year basis, assumed names, which include sole proprietors or organizations that do not have limited liability, decreased by 6.6 percent in Southeast Minnesota in the third quarter. As can be seen in the accompanying graph, after increasing in 2012, this series moved downward until the beginning of this year.

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

Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southeast Minnesota New Assumed Names	212	211	245	246	198	-6.6%

After bottoming out in 2010, the number of new Southeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State increased to levels seen just before the Great Recession. The number of newly formed non-profits totaled 43 in the recent quarter (a 16.2 percent increase from last year's third quarter). This series has now shown signs of rebounding in the last three quarters.

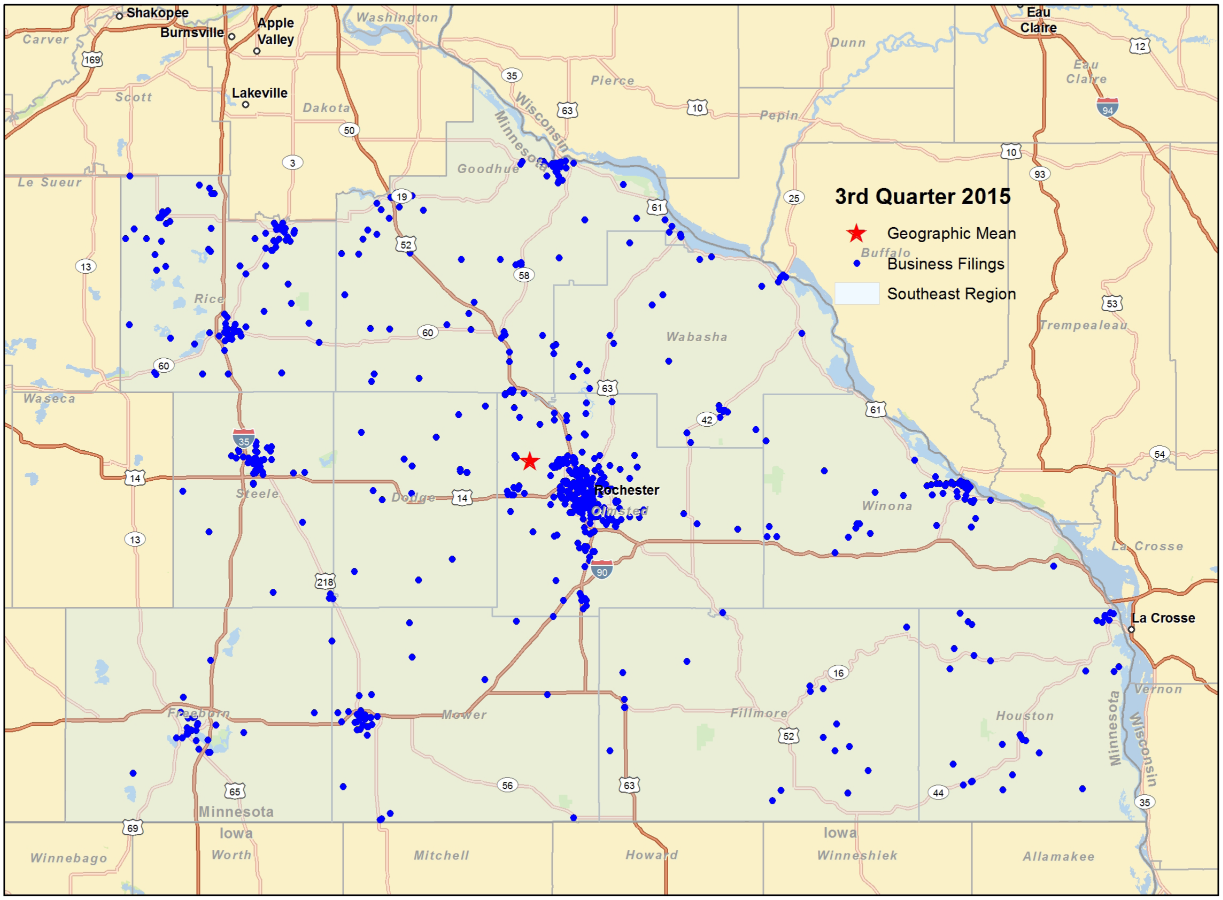
New Non-Profits—Southeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southeast Minnesota New Non-Profits	37	40	30	51	43	16.2%

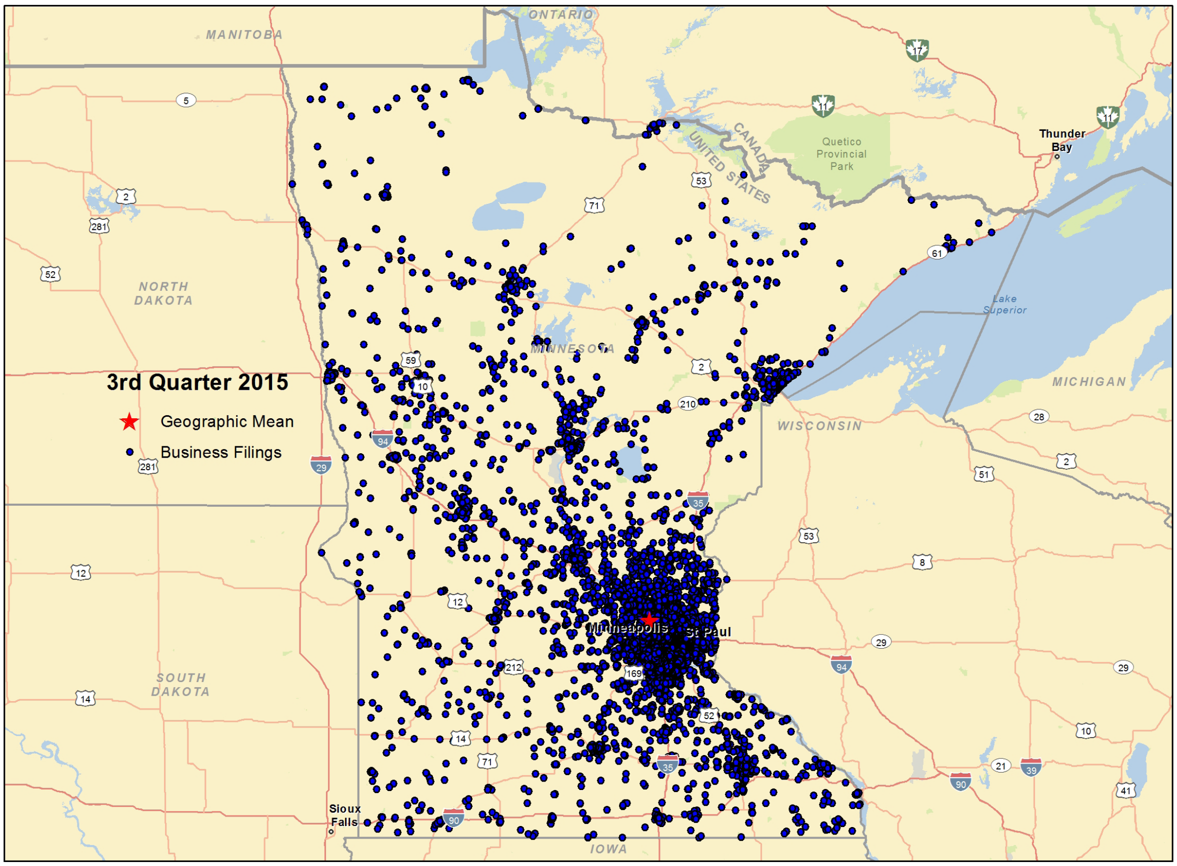
The first map shown below is a visual representation of new business formation around the Southeast Minnesota planning area in this year's third quarter. The densest areas of new business formation are in the Rochester metro (and to a lesser extent Faribault, Owatonna, Albert Lea, Austin, Winona, Northfield, and Red Wing). Well-traveled roadways and the Mississippi River are also predictors of new business formation in Southeast Minnesota. The pull of Minneapolis-St. Paul only slightly moves the geographic mean of the region from Rochester.

Southeast Minnesota Planning Area — New Business Formation — Quarter 3: 2015



The second map shows new business formation around the entire State of Minnesota in the most recent quarter. Note the dominance of the Twin Cities metropolitan area in statewide new business formation. This also reinforces the importance of roadways (and the Mississippi River) in new business filing locations. Also noteworthy is the extent to which the spread of new businesses extends both Northwest (towards St. Cloud) and South (towards Rochester and Mankato).

State of Minnesota -- New Business Formation -- Quarter 3: 2015

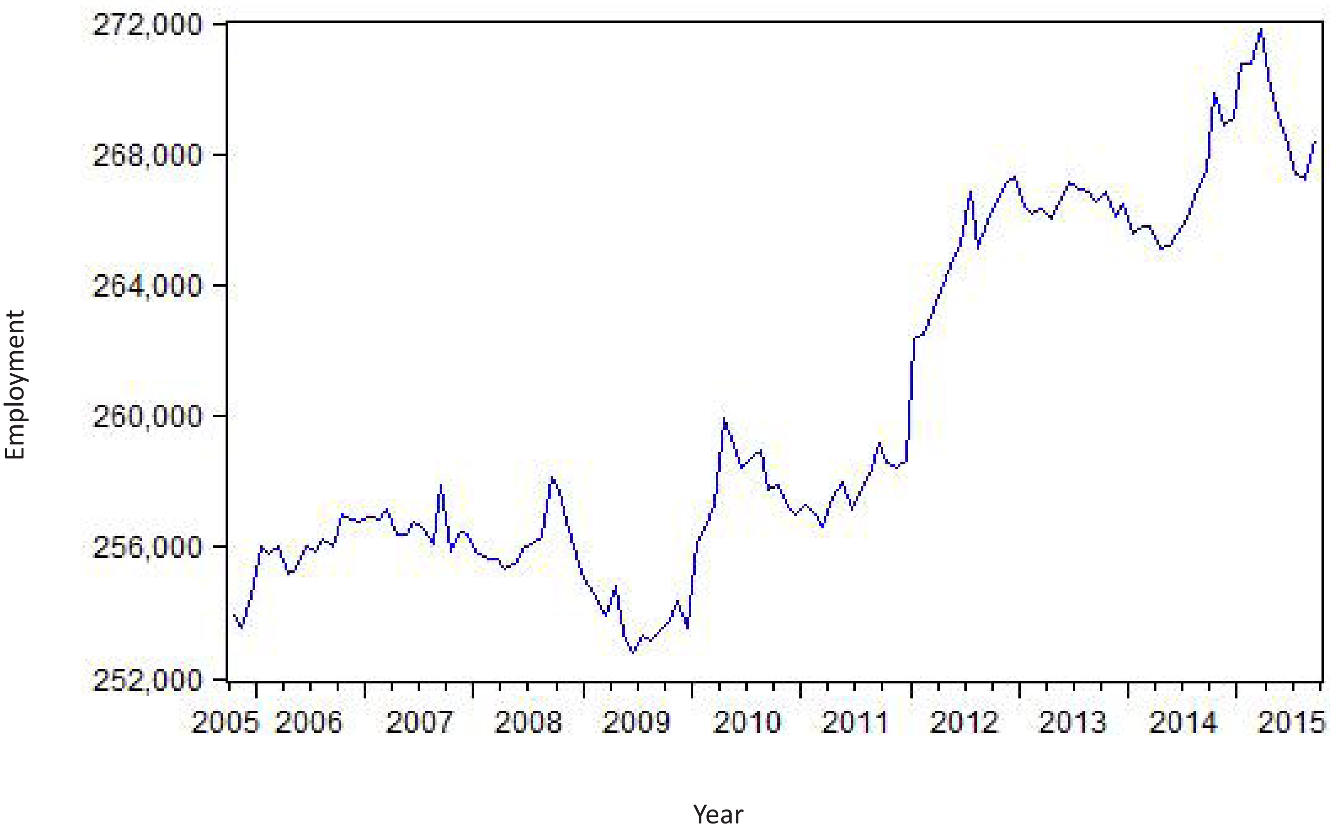


Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area grew 0.5 percent over the past year. As shown in the accompanying graph, the 12-month moving average of total employment has trended upward since the end of the Great Recession (although it declined in the first half of 2015).

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. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, soparesearch@stcloudstate.edu.

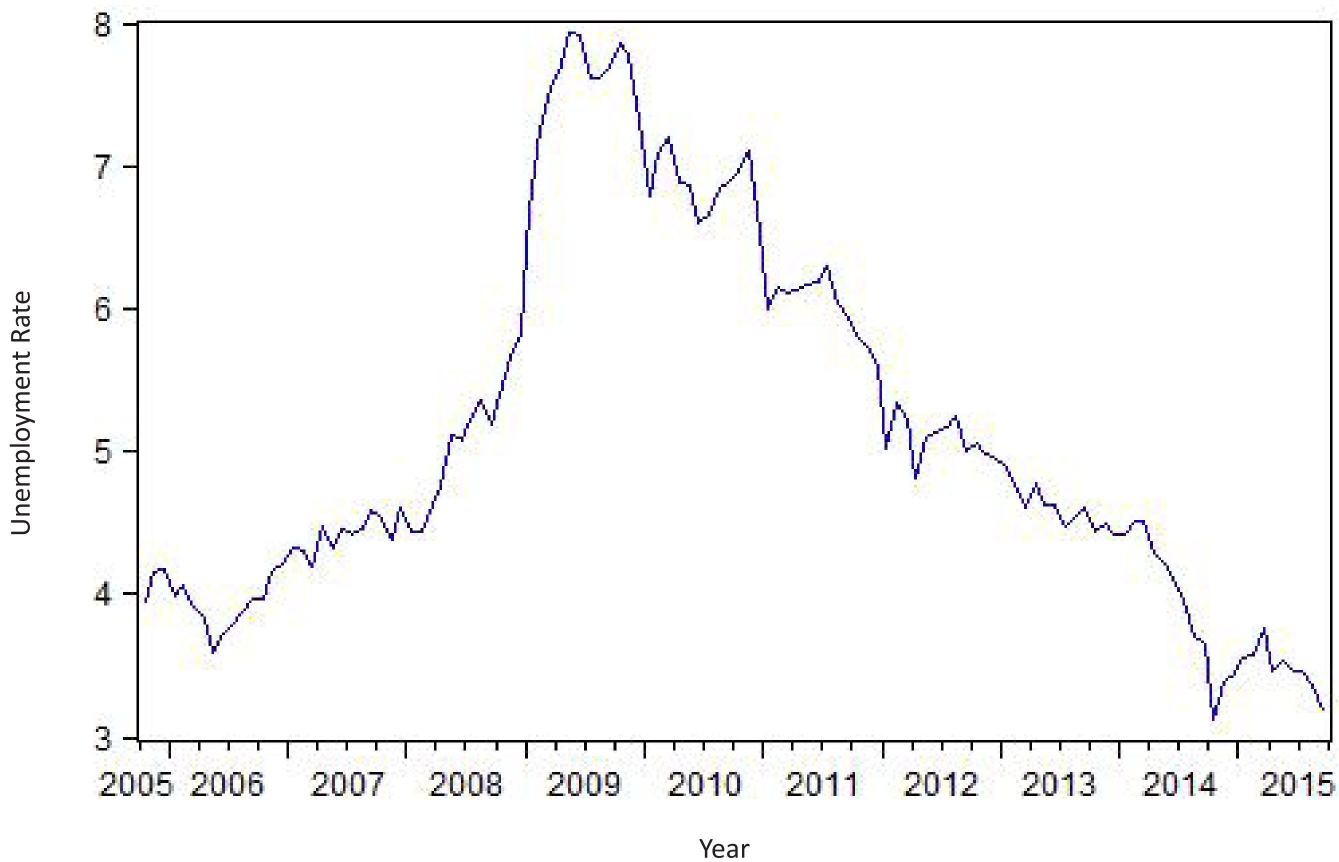
Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Employment (Not seasonally adjusted)	267,453	269,576	269,732	270,858	270,870	270,387	268,831

The seasonally adjusted unemployment rate in Southeast Minnesota had started to rise in the Southeast Minnesota planning area at the end of 2014 but has now resumed its downward path. The non-seasonally adjusted unemployment rate now stands at 2.8 percent, lower than the 3.1 percent rate observed one year ago.

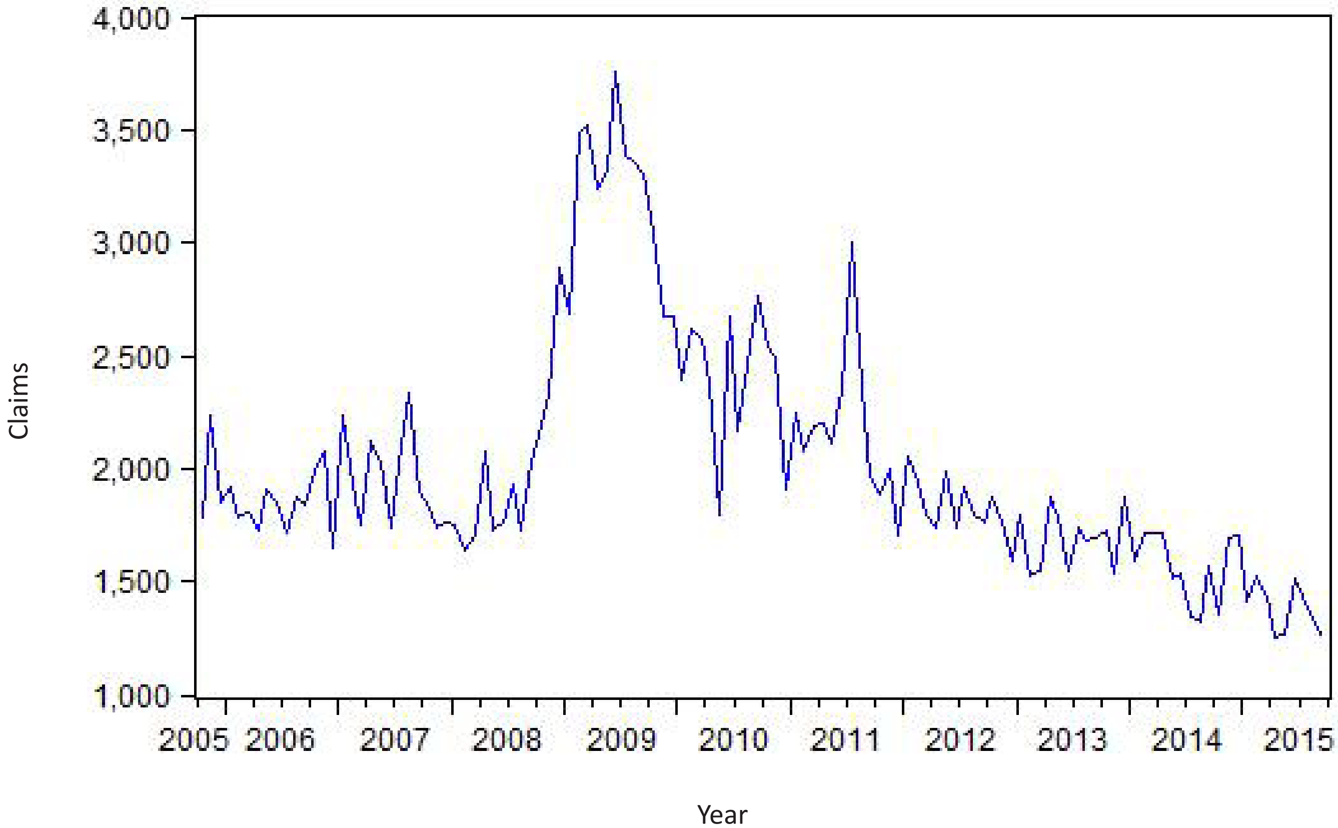
Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Unemployment Rate (Not seasonally adjusted)	3.1%	3.4%	3.3%	3.6%	3.6%	3.2%	2.8%

New claims for unemployment insurance in September 2015 were 20.3 percent lower than one year ago. On a seasonally adjusted basis, these claims remain much lower than the period in which they peaked—the middle months of 2009.

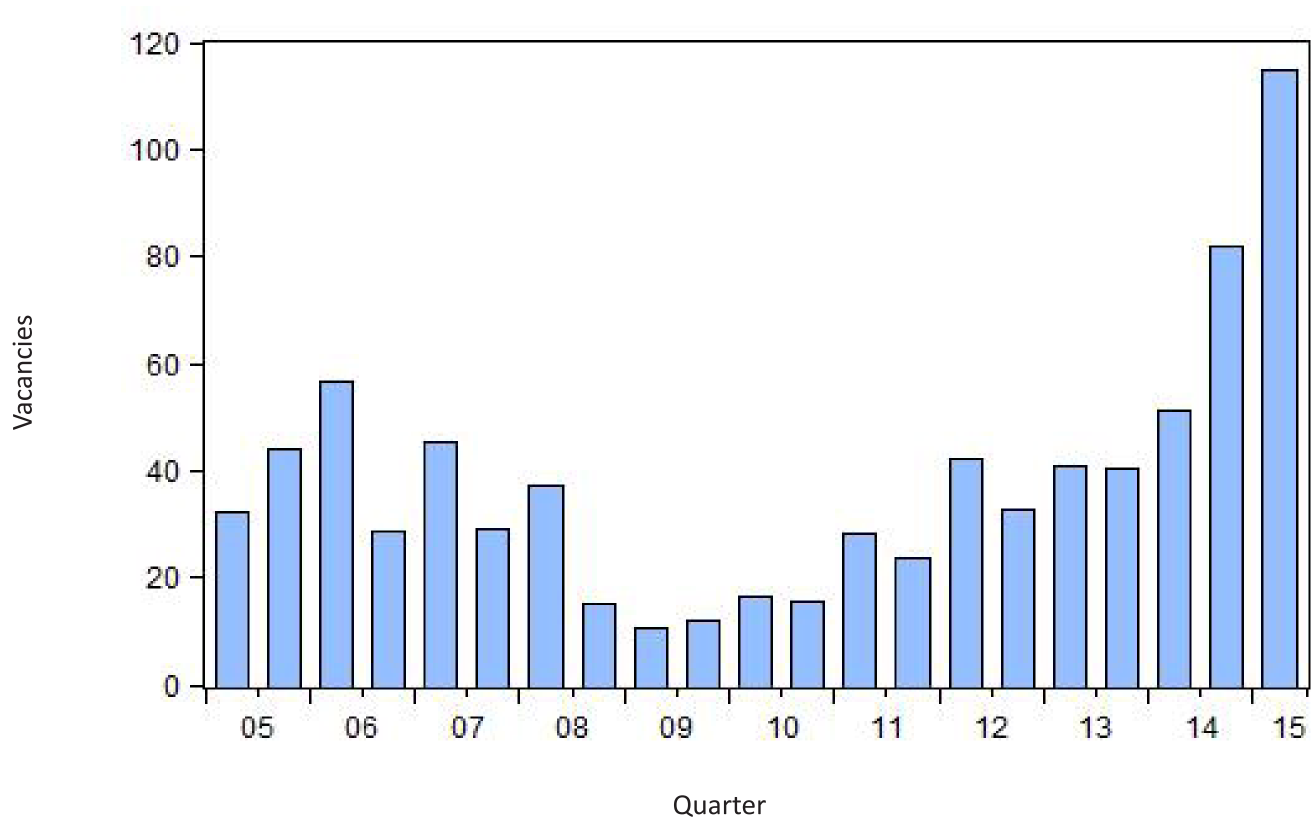
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southeast Minnesota Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Initial claims (Not seasonally adjusted)	995	1,034	1,009	1,334	1,161	802	793

Southeast Minnesota job vacancies rose sharply in this year's second quarter (this is the most recently available data). The rate of regional job vacancies per 100 unemployed is now above 100—there are more job vacancies than people who can help fill them in the region. The Southeast Minnesota planning area now has the highest rate of job vacancies of Minnesota's six planning areas.

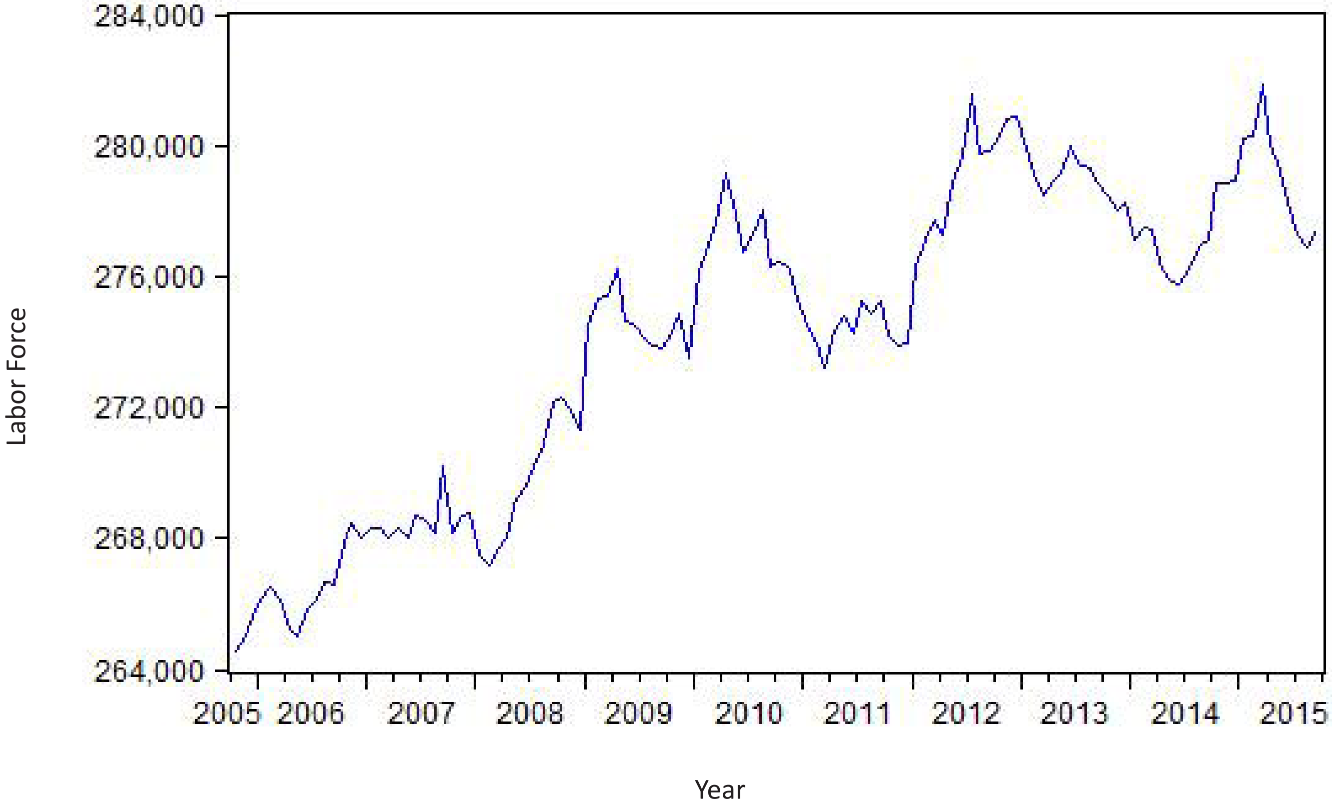
Job Vacancies per 100 Unemployed--Southeast Minnesota Planning Area



Quarter	2012:IV	2013:II	2013:IV	2014:II	2014:IV	2015:II
Job Vacancies per 100 Unemployed	37.24	41.85	48.21	54.52	81.99	114.76

The Southeast Minnesota labor force increased slightly over the last year. With a 0.2 percent increase, the Southeast Minnesota labor force is now only 687 higher than in September 2014.

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

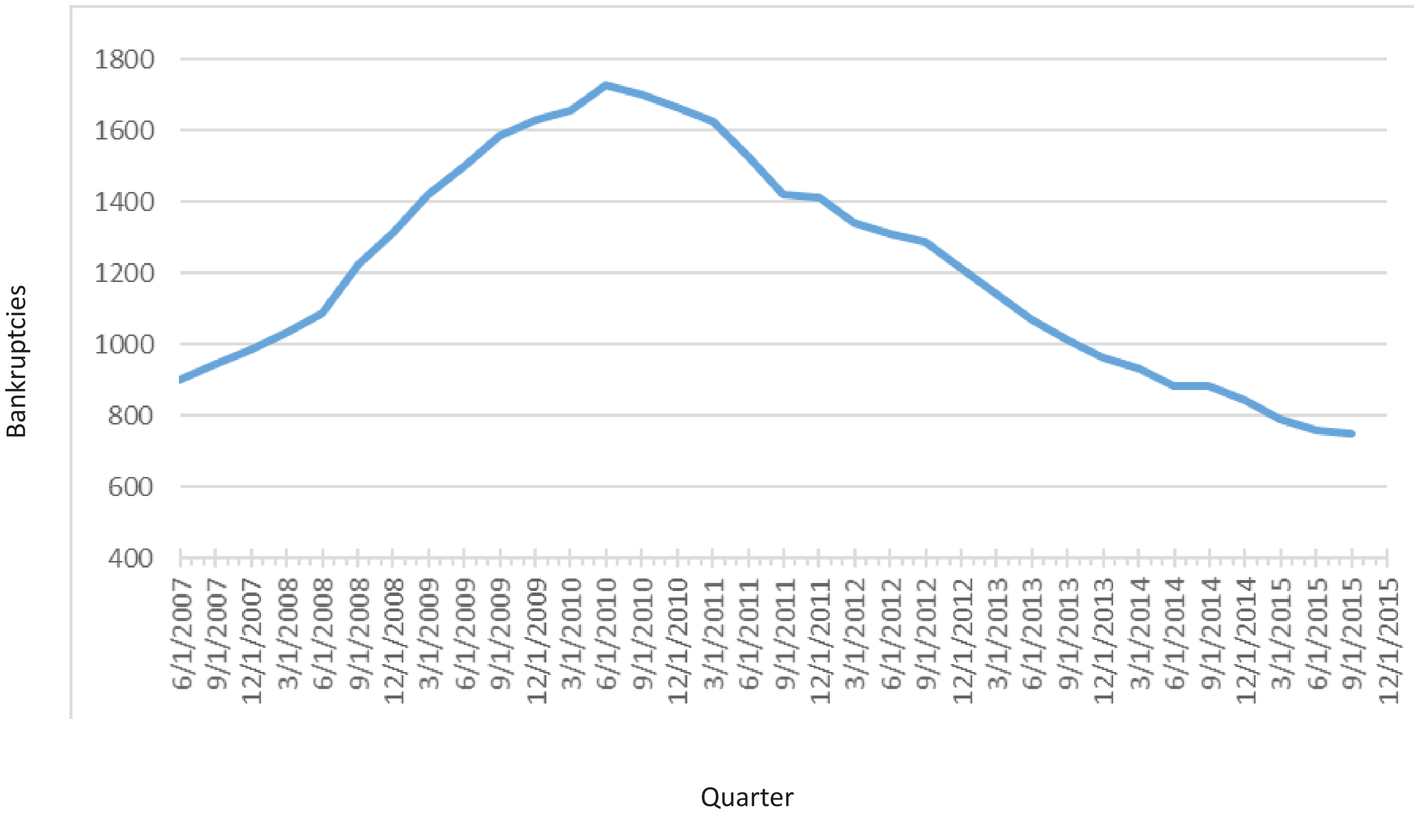


Year (September)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	274,774	275,708	278,685	277,640	276,001	276,688

Southeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southeast 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 steadily declined since that time). With 749 bankruptcies over the past twelve months, the level of bankruptcies in Southeast Minnesota has now moved to a level that is the lowest recorded over the last eight years.

Southeast Minnesota Bankruptcies (12-month moving total)



Year (Third Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1,700	1,423	1,288	1,011	883	749

Economic Indicators

Rochester MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	September 2015 (m)	115,634	115,307	0.3% ↑	0.7%
Manufacturing Employment	September 2015 (m)	11,202	11,254	-0.5% ↓	-2.9%
Educational and Health Employment	September 2015 (m)	45,281	45,147	0.3% ↑	2.5%
Average Weekly Work Hours Private Sector	September 2015 (m)	35.2	34.7	1.4% ↑	33.1 (since 2007)
Average Earnings Per Hour Private Sector	September 2015 (m)	$33.75	$33.74	0.0% ↔	4.1% (since 2007)
Unemployment Rate	September 2015 (m)	2.7%	2.9%	NA ↓	3.8%
Labor Force	September 2015 (m)	116,009	116,493	-0.4% ↓	0.5%
Initial Jobless Claims	September 2015 (m)	270	391	-30.9% ↓	NA
Business Formation					
Total New Business Filings	Third Quarter 2015	395	381	3.7% ↑	322 (since 2000)
New Business Incorporations	Third Quarter 2015	32	39	-17.9% ↓	47 (since 2000)
New Limited Liability Companies	Third Quarter 2015	250	218	14.7% ↑	145 (since 2000)
New Assumed Names	Third Quarter 2015	89	103	-13.6% ↓	111 (since 2000)
New Non-profits	Third Quarter 2015	24	21	14.3% ↑	19 (since 2000)
Rochester Residential Building Permit Valuation, in thousands	September 2015 (m)	8,443	8,451	-0.1% ↓	NA

(m) represents a monthly series

Southeast Minnesota contains the Rochester MSA, an area that derives much of its employment from the educational and health sector. This sector continues to be a pillar of economic vitality for Rochester (and for Southeast Minnesota). Year-over-year overall employment in the Rochester area increased slightly by 0.3 percent in September 2015. Employment in the key education/health sector also rose by 0.3 percent. This is well below the 2.5 percent long-term annualized growth of employment in this sector, a period during which the share of employment in Rochester's educational and health sector has increased from 29.4 percent of employment to nearly 40 percent. Average earnings per hour in the private sector were flat over the year ending September 2015, which is also well below the average annual rate since 2007. With the exception of a small decline in the value of residential building permits and in the labor force, all other economic indicators in the above table seem solid. The length of the workweek increased, the unemployment rate fell, new initial jobless claims were lower, and most categories of new business filings increased.

State and National Indicators

MINNESOTA Indicators	Sep 2015	Jun 2015	Sep 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,855,200	2,857,200	2,819,200	-0.1%	1.3%
Average weekly hours worked, private sector	33.9	34.1	34.1	-0.6%	-0.6%
Unemployment rate, seasonally adjusted	3.8%	3.9%	3.7%	NA	NA
Earnings per hour, private sector	$26.00	$25.70	$25.75	1.2%	1.0%
Philadelphia Fed Coincident Indicator, MN	176.38	175.11	171.14	0.7%	3.1%
Philadelphia Fed Leading Indicator, MN	2.17	1.28	1.21	69.5%	79.3%
Minnesota Business Conditions Index	53.0	54.3	66.3	-2.4%	-20.1%
Price of milk received by farmers (cwt)	$17.80	$17.90	$27.10	-0.6%	-34.3%
Enplanements, MSP airport, thousands	1,506.7	1,680.9	1,411.3	-10.4%	6.8%

NATIONAL Indicators	Sep-15	Jun-15	Sep-14	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	142,383	141,870	139,619	0.4%	2.0%
Industrial production, index, SA	107.4	106.7	106.7	0.7%	0.7%
Real retail sales, SA	188,171	186,611	184,083	0.8%	2.2%
Real personal Income less transfers	11,618.2	11,512.5	11,190.5	0.9%	3.8%
Real personal consumption expenditures	11,298.0	11,205.1	10,948.6	0.8%	3.2%
Unemployment rate, SA	5.1%	5.3%	5.9%	NA	NA
New building permits, SA, thousands	1,848	2,419	1,638	-23.6%	12.8%
Standard & Poor's 500 stock price index	1,944.4	2099.28	1993.23	-7.4%	-2.4%
Oil, price per barrel in Cushing, OK	$45.48	$59.82	$93.21	-24.0%	-51.2%

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate was slightly higher and average weekly hours worked in the private sector were lower. Two of three broader indicators suggest improvement in the state economy in the third quarter. Milk prices were 34.3 percent lower than one year ago in September. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 6.8 percent over the last twelve months.

The national economic indicators reported in the table suggest strong economic performance at the national level. Compared to year earlier levels, industrial production, retail sales, real income, real consumption expenditures, payroll employment, building permits and the unemployment rate are all improved. Oil prices have declined significantly over the past year. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. Stock prices were the only indicator that declined on a year-over-year basis in September 2015. These prices have since rebounded from these temporarily low readings.

The Southeast 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.

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Southeast Minnesota Planning Area consists of 11 counties: Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona.

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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.