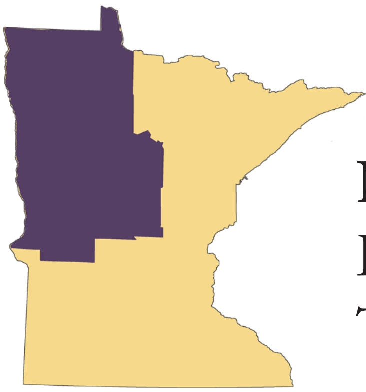

Northwest Minnesota
Economic and Business Conditions Report
Third Quarter 2015

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Northwest Minnesota business conditions are expected to soften over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI). All five components of the leading index were lower in the third quarter as the LEI retreated by 9.37 points. A more challenging macroeconomic environment for rural America and recent weakness in consumer sentiment were two components that helped drag down the LEI. In addition, rising initial jobless claims during the summer months and a prior decline in new filings for incorporation and limited liability companies (LLCs) weighed on the index. A fall in residential building permits earlier in the year in the key metropolitan areas of the region also made a negative contribution to this quarter's LEI. Prior to this quarter's LEI reading, the outlook had been quite favorable but recent weakness in the agriculture and energy sectors of the economy are certainly concerning. There is considerable uncertainty associated with predicting future economic performance in this region of Minnesota.

There were 926 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the third quarter of 2015 — representing a 3.6 percent increase from one year ago. 84 new regional business incorporations were recorded in the most recent quarter, a 16 percent reduction from the same quarter last year. In the third quarter, new LLC filings in Northwest Minnesota were up 9.2 percent from one year ago—increasing to 488. New assumed names totaled 308 in this year's third quarter—an increase of 4.4 percent from the same period in 2014. There were 46 new filings for Northwest Minnesota non-profits in the third quarter—11.5 percent more filings than one year ago.

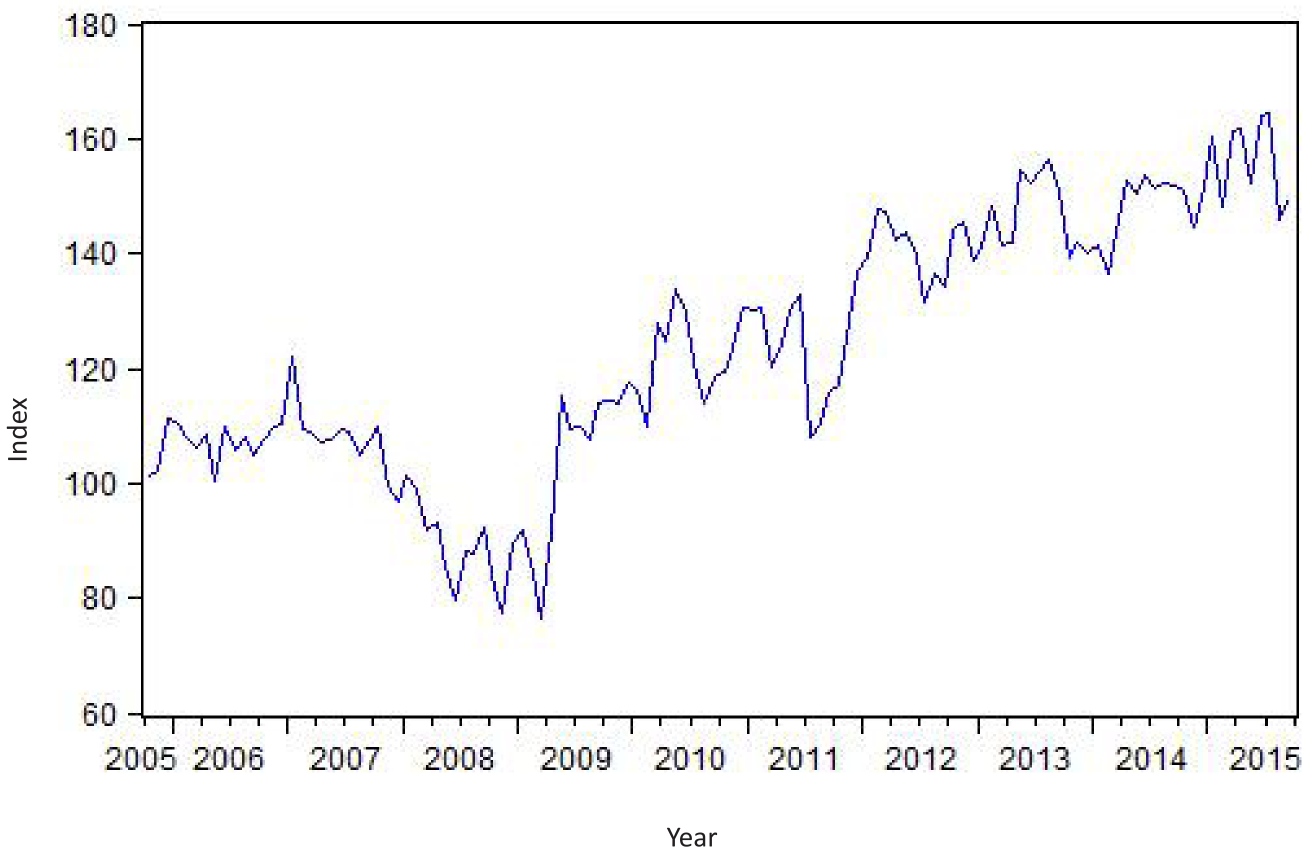
Employment of Northwest Minnesota residents increased by 1.8 percent over the year ending September 2015. The regional unemployment rate was 3.4 percent in September, slightly lower than one year ago. Initial claims for unemployment insurance in September were 22 lower (a decrease of 2 percent) than in September 2014 and the rate of job vacancies per 100 unemployed jumped to 76.73 in this year's second quarter. The regional labor force expanded by 4,699 (a 1.6 percent increase) from one year earlier.

The Fargo/Moorhead Metropolitan Statistical Area (MSA) experienced a mixed economic performance over the past quarter. This MSA tallied gains in overall employment (but decreased employment in two key sectors), a rise in average hourly earnings, more residential building permits, and a lower unemployment rate. This was offset by a reduced work force, lower average hours worked, higher initial jobless claims, and a higher cost of living. **Economic activity in the Grand Forks/East Grand Forks MSA was similarly mixed in the third quarter.** Higher employment, a lower unemployment rate, lower initial jobless claims, and higher average hourly earnings were offset by declining weekly work hours, a reduction in residential building permits, and a declining labor force.

Northwest Minnesota Leading Economic Indicators Index

The SCSU Northwest 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 decreased by 9.37 points in the third quarter of 2015 after rising in the prior quarter. The index now stands 1.6 percent below its level of the third quarter of 2014. As shown in the accompanying graph, the LEI has trended upward since the end of the Great Recession and there has recently been a considerable amount of quarterly variation in the series, so the series may well rebound in coming quarters.

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



Components of SCSU Northwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2015	Contribution to LEI, 2nd quarter 2015
Rural Mainstreet Index	-1.71	1.3
Northwest Minnesota initial claims for unemployment insurance	-1.70	1.93
Northwest Minnesota new filings of incorporation and LLCs	-0.55	1.25
Fargo-Moorhead + Grand Forks-EGF MSA residential building permits	-1.28	-3.81
Consumer Sentiment, University of Michigan	-4.13	1.39
TOTAL CHANGE	-9.37	2.06

The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns averaging a population of 1,300 in 10 Midwestern states. This series is used as a proxy for economic activity in the rural areas of Northwest Minnesota. As can be seen in the accompanying table, this rural index had an unfavorable impact on this quarter's index. Because Northwest Minnesota exports many recreational vehicles, consumer sentiment is included as a proxy for demand in that industry. The University of Michigan's Consumer Sentiment Index also exhibited weakness in the most recent quarter. Lower residential building permits in Fargo/Moorhead and Grand Forks/East Grand Forks in the recent quarter were a further drag on the leading index as were reductions in new business filings for incorporation and LLC. Rising quarterly claims for unemployment insurance also had an unfavorable impact on the LEI.

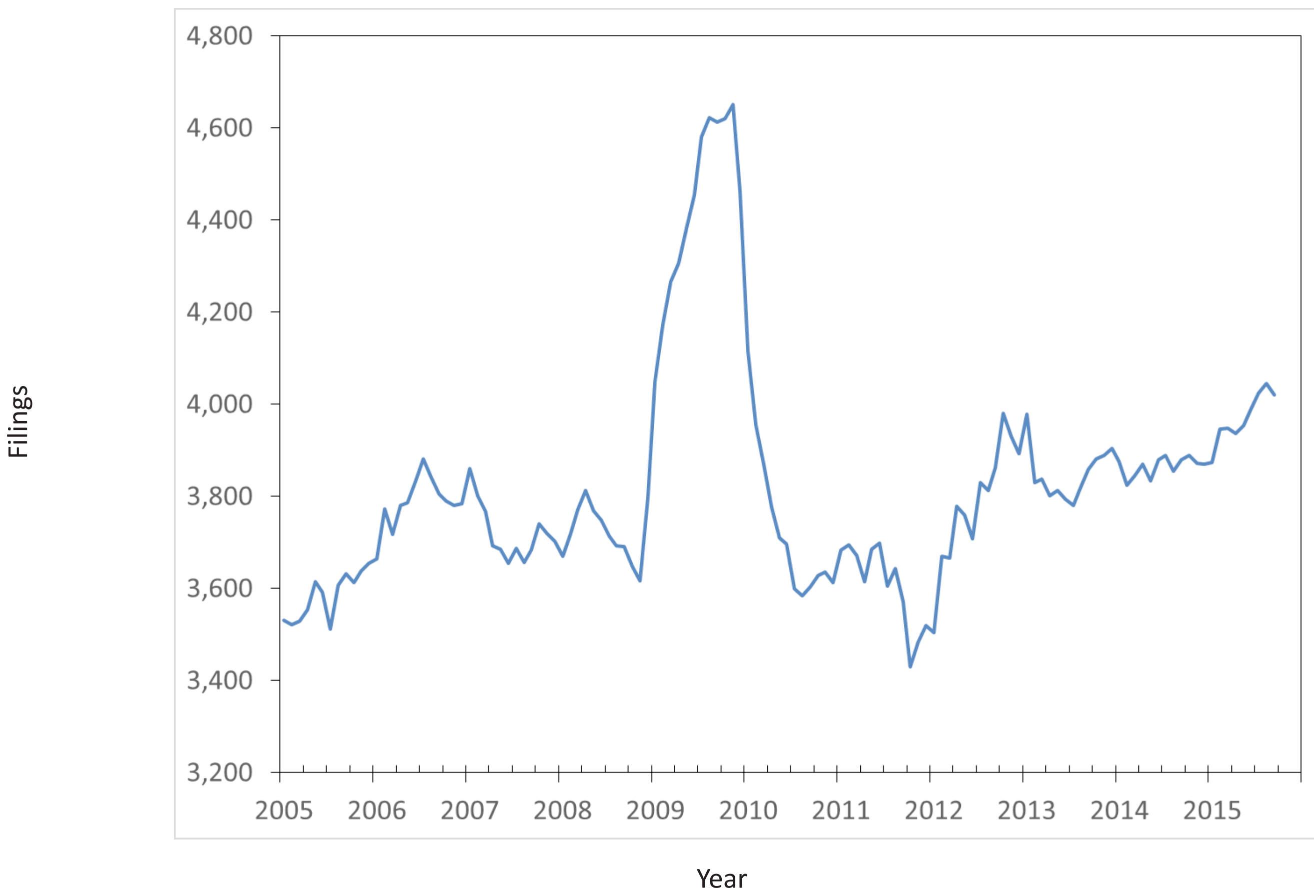
SCSU Northwest Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Rural Mainstreet Index, Creighton University, September	49.2	50.9	-3.3%
Northwest Minnesota initial claims for unemployment insurance, September	1,057	1,079	-2.0%
Northwest Minnesota new filings of incorporation and LLCs, Third Quarter	572	549	4.2%
Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, September	167	177	-5.6%
Consumer Sentiment, University of Michigan, September	87.2	84.6	3.1%
Northwest Minnesota Leading Economic Indicators Index September (December 1999 = 100)	149.5	152.0	-1.6%

Northwest Minnnesota Business Filings

The 12-month moving total of new business filings in this region has trended upward since the end of 2011. This trend has continued in 2015. 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 and appears to be a one-time only transitory event seen in the data in all regions of Minnesota. As shown in the accompanying table, third quarter total new business filings increased by 3.6 percent from the prior year in Northwest Minnesota.

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

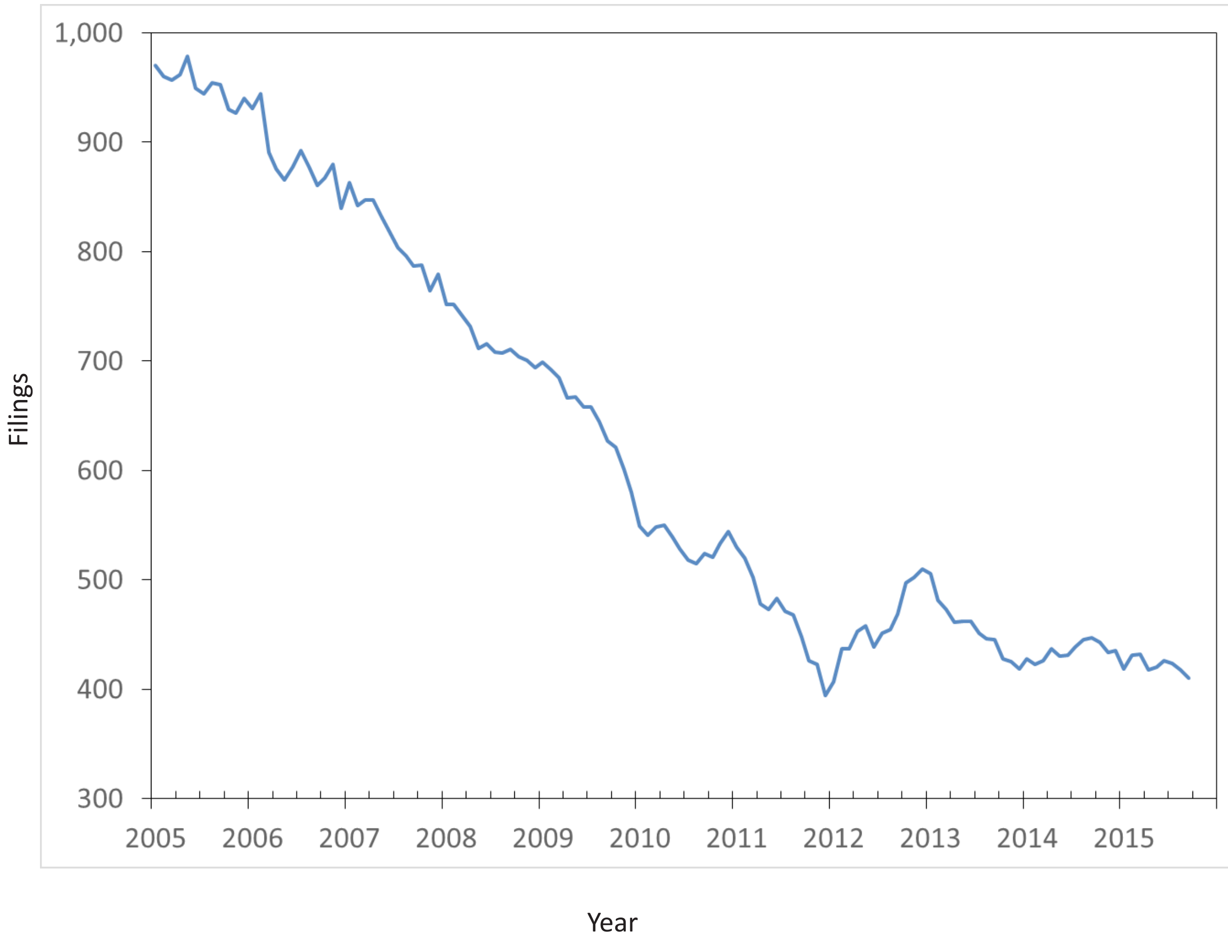
Total New Business Filings—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northwest Minnesota Total New Business Filings	894	863	1,102	1,129	926	3.6%

New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, but have since leveled out. New business incorporations totaled 84 (a decrease of 16 percent) in the third quarter of 2015.

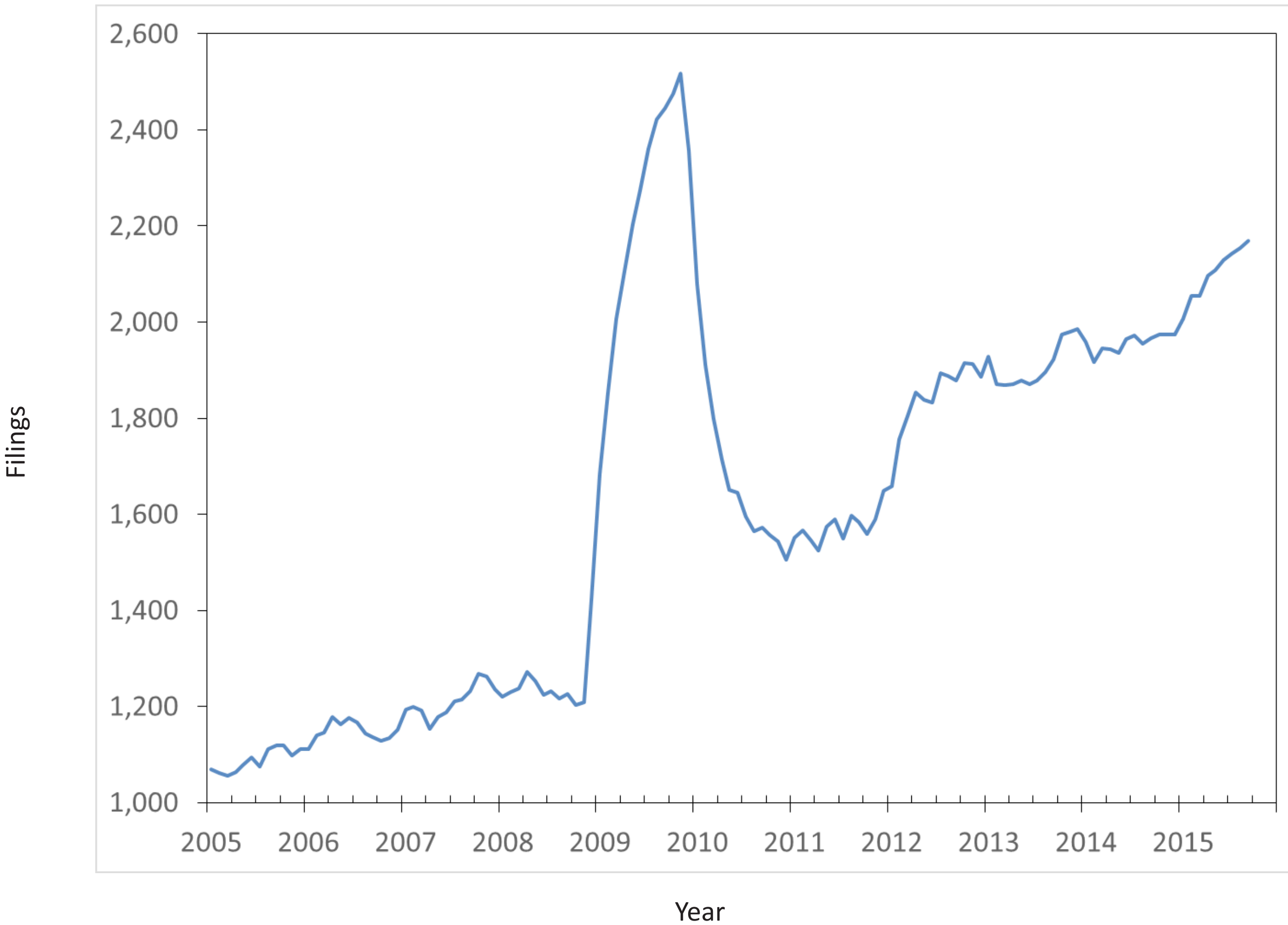
New Incorporations—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northwest Minnesota New Business Incorporations	100	91	117	118	84	-16.0%

There has been a move in Northwest Minnesota (and the rest 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 Northwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northwest Minnesota. With the exception of the outlier period in 2008–2009, new LLC formation has shown a fairly steady rate of growth over the last ten years. Third quarter 2015 LLC filings increased by 9.2 percent compared to the same period in 2014.

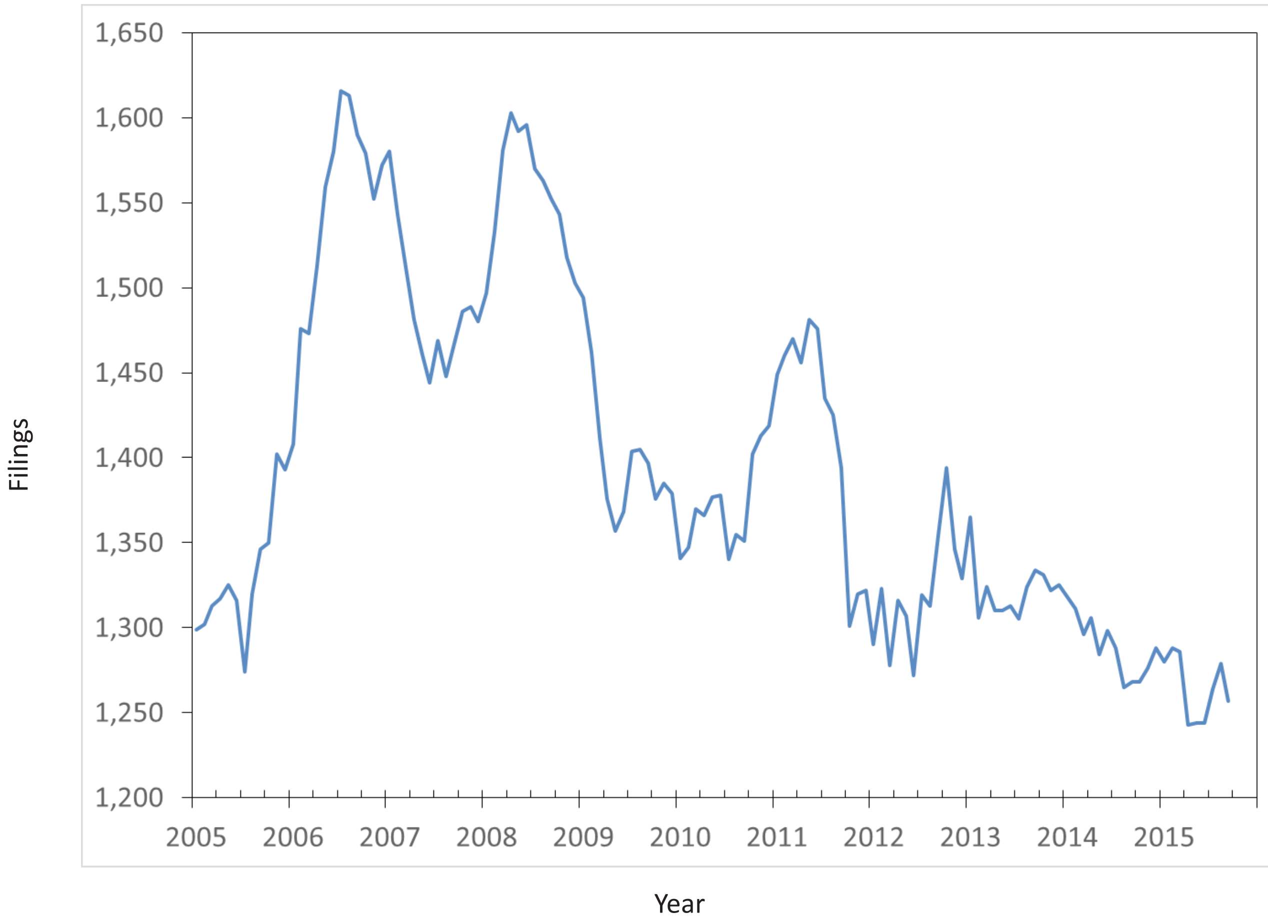
New Limited Liability Companies—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	447	475	593	614	488	9.2%

Assumed names, which include sole proprietors or organizations that do not have limited liability, increased by 4.4 percent from the same period last year. This series has not yet recovered from its peak levels of 2006–2007.

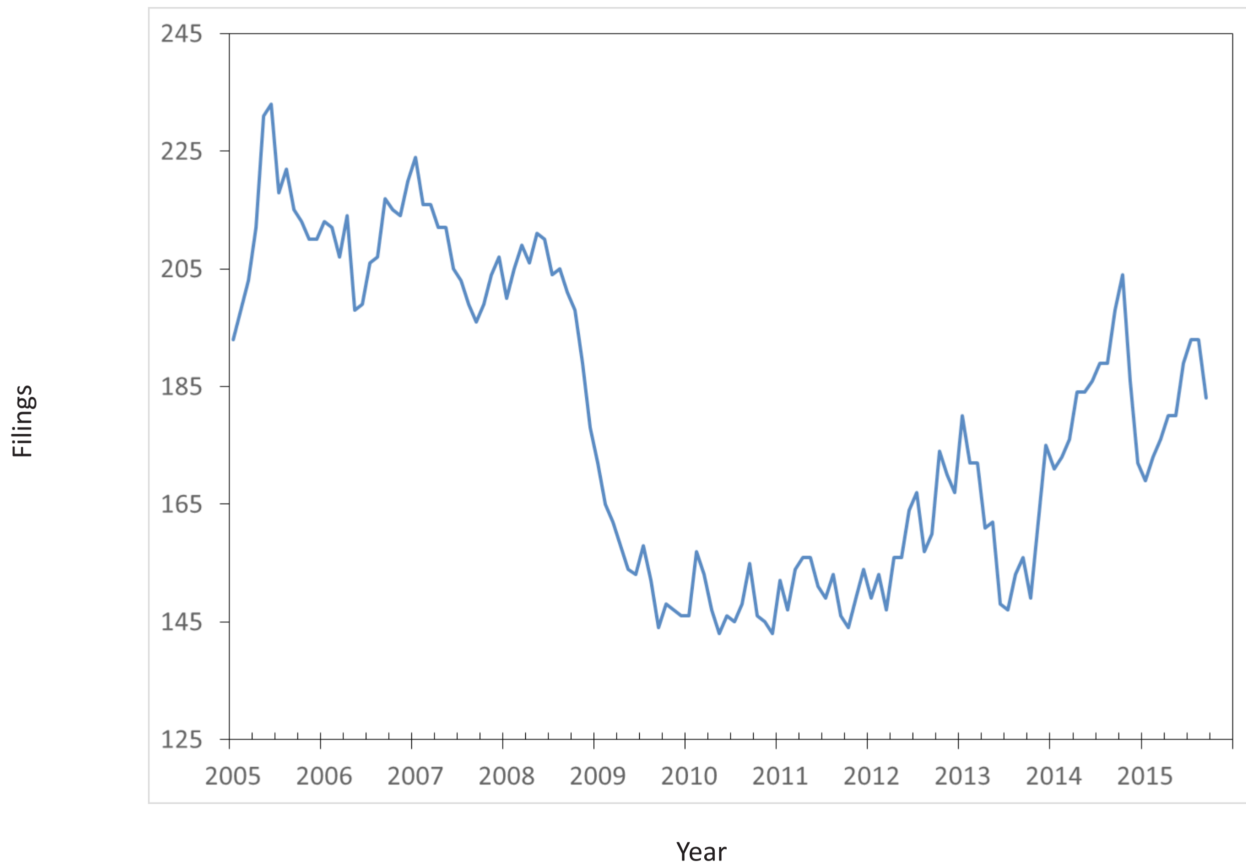
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northwest Minnesota New Assumed Names	295	263	343	343	308	4.4%

The number of new non-profits in the Northwest Minnesota planning area was 46 in this year's third quarter. This was 11.5 percent fewer filings than one year earlier.

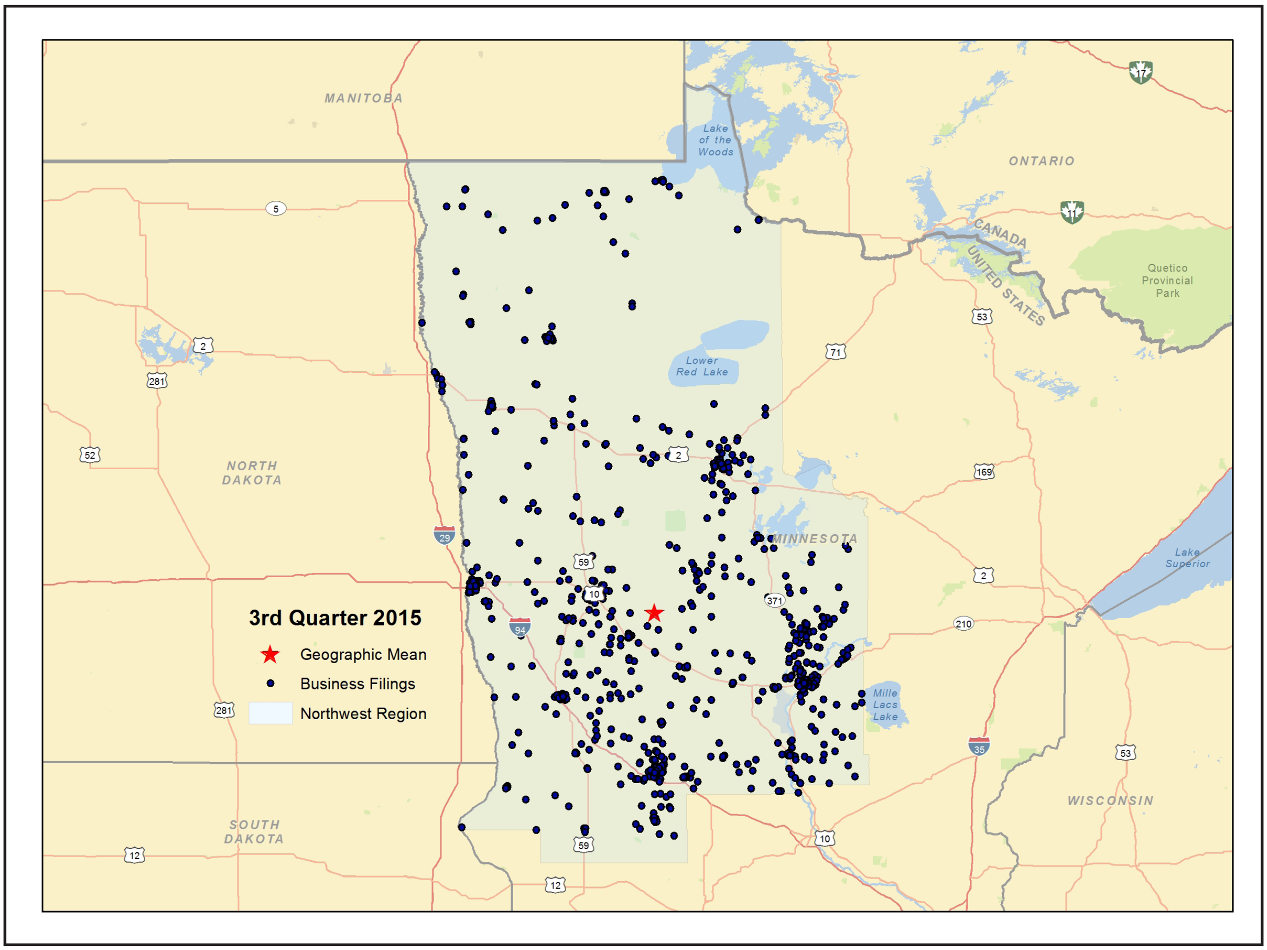
New Non-Profits—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Northwest Minnesota New Non-Profits	52	34	49	54	46	-11.5%

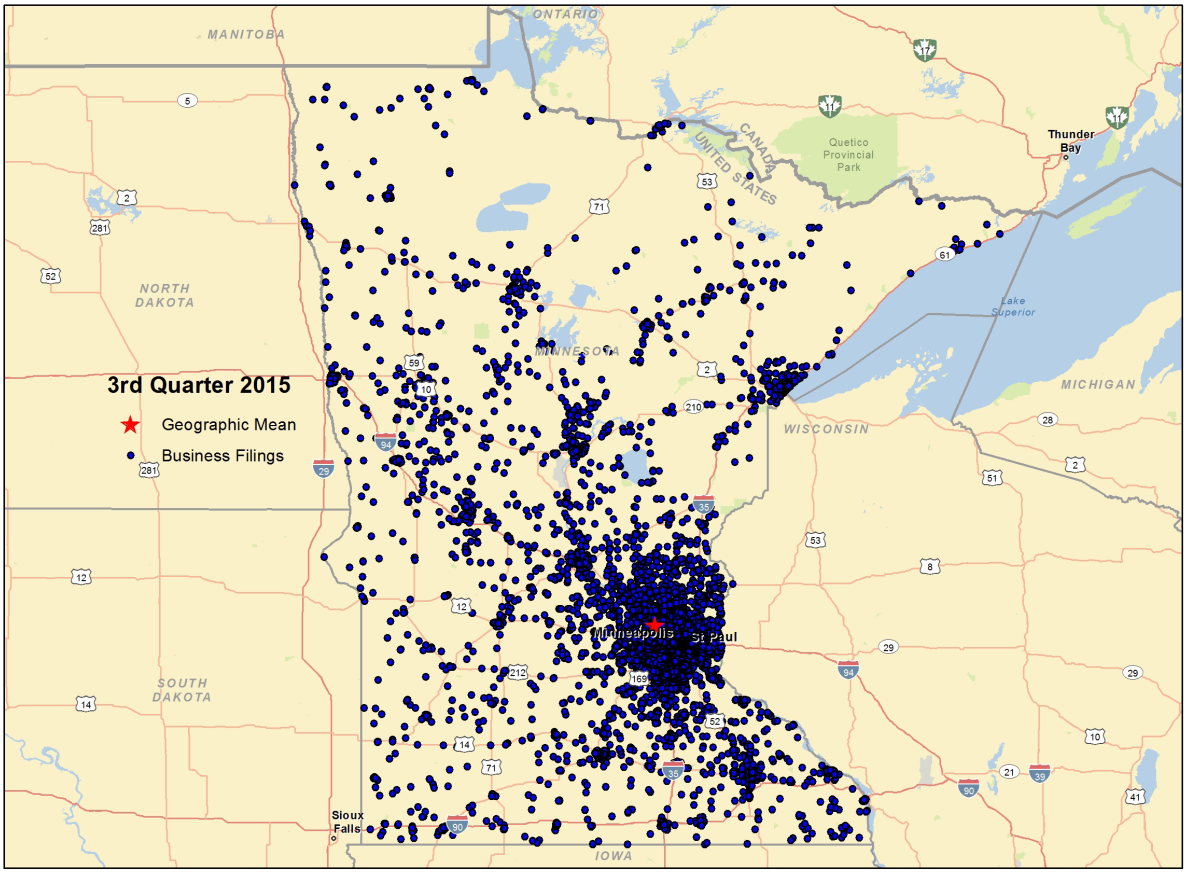
The first map shown below is a visual representation of new business formation around the Northwest Minnesota planning area in this year's third quarter. The densest areas of new business formation are in the Fergus Falls, Detroit Lakes, and Bemidji areas, and the geographic mean of new business filings is in the Perham/New York Mills area north of U.S. Highway 10. There are also clusters of new business filings along the border in both Moorhead and East Grand Forks. Well-traveled roadways are also a predictor of new business formation in Northwest Minnesota.

Northwest 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

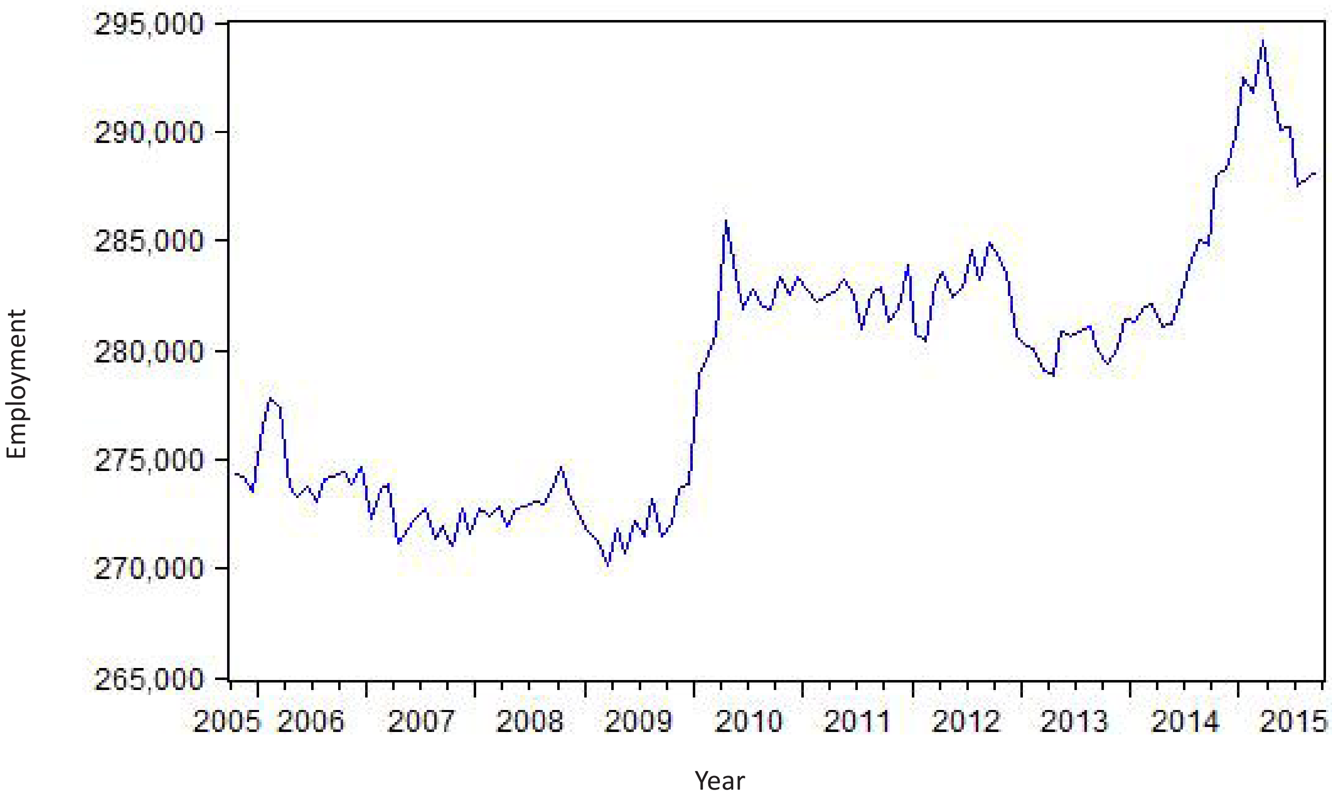


Labor Market Conditions

Employment in the Northwest Minnesota planning area grew 1.8 percent over the year ending September 2015. As can be seen in the accompanying graph, the area experienced rapid job growth over the two years ending January 2015, but its moving average has declined 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. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, sopareseach@stcloudstate.edu.

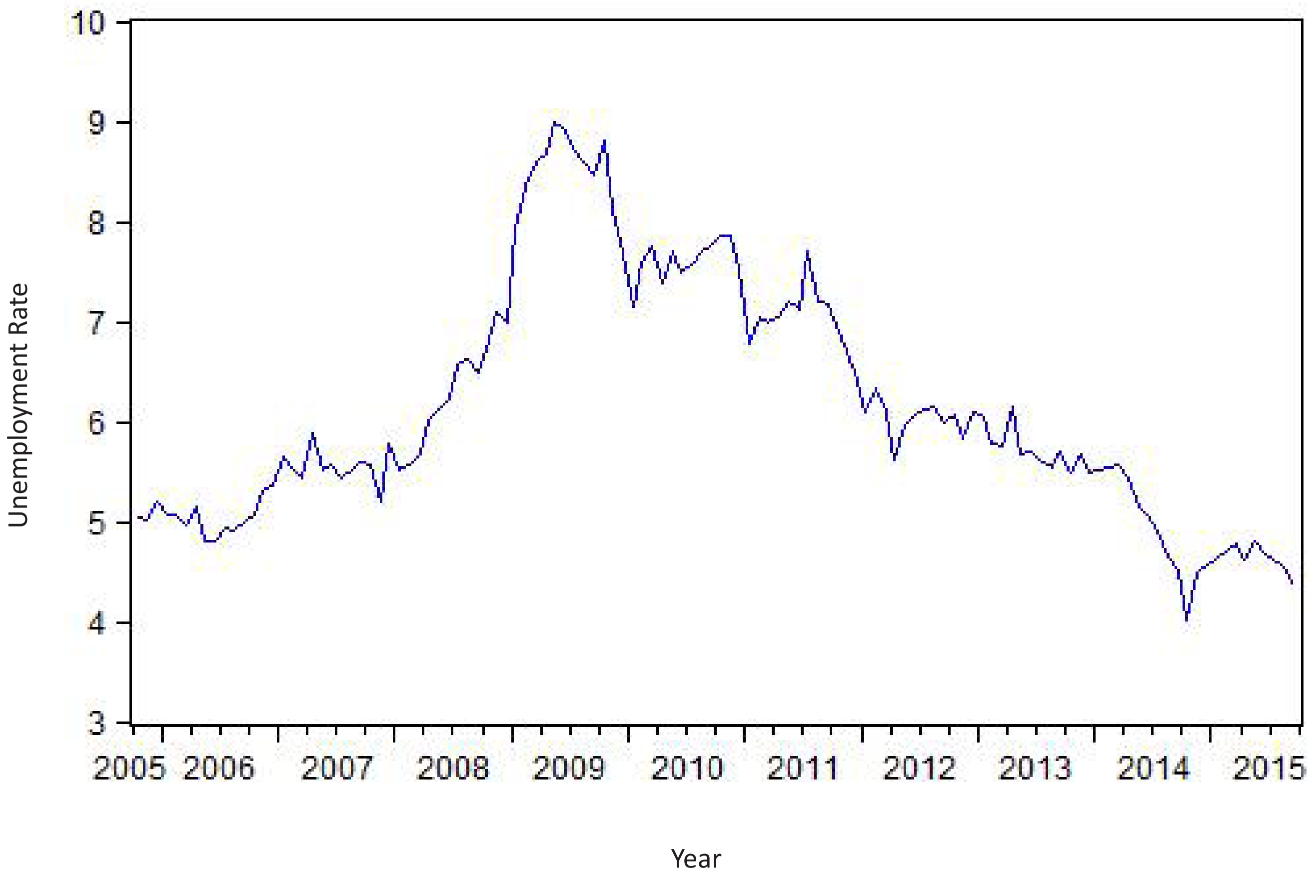
Employment—Northwest Minnesota Planning Area (12-month moving average)



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Employment (Not seasonally adjusted)	286,868	289,104	293,395	297,053	294,750	294,507	291,932

After inching up in recent quarters, the seasonally adjusted unemployment rate dropped slightly in Northwest Minnesota in the third quarter. The non-seasonally adjusted unemployment rate now stands at 3.4 percent and is also slightly lower than one year ago.

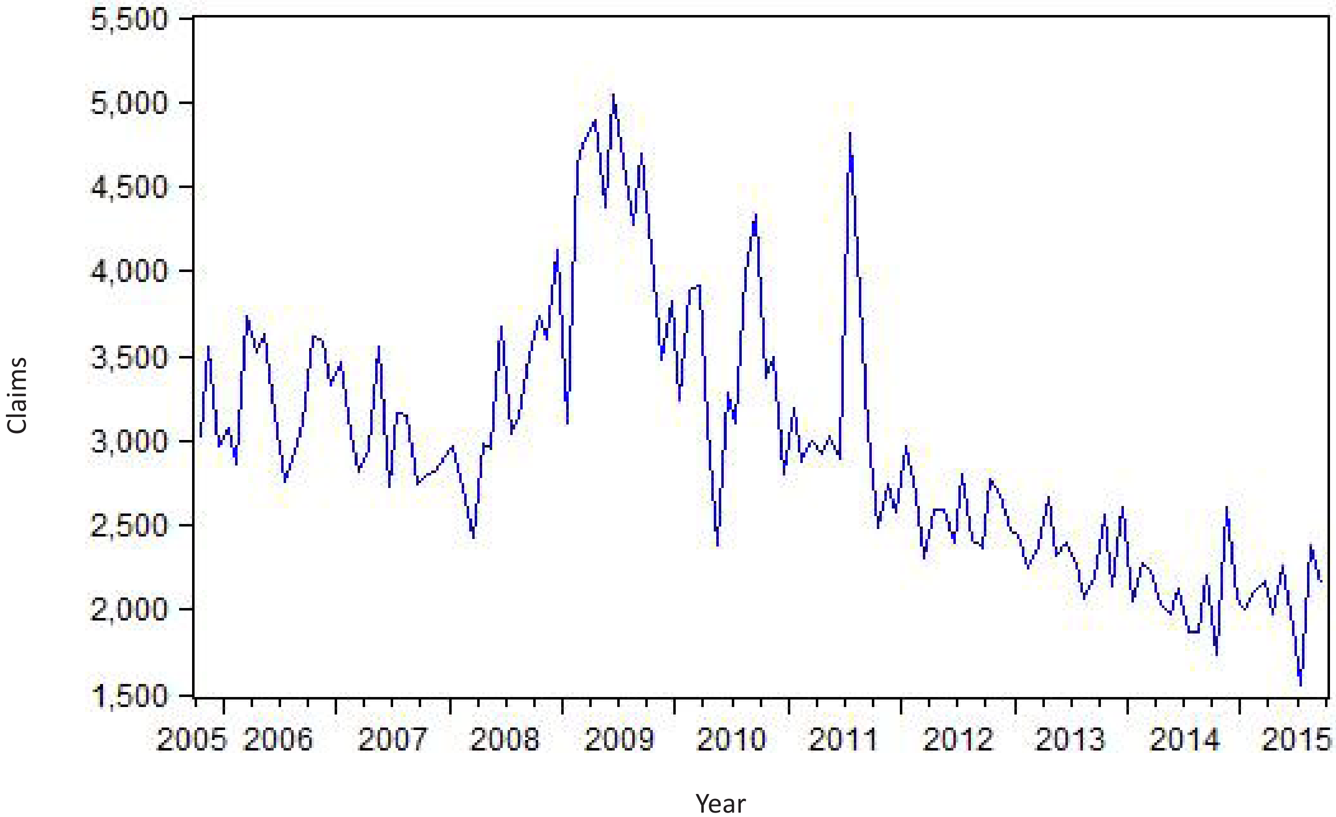
Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Unemployment Rate (Not seasonally adjusted)	3.5%	4.9%	4.2%	4.4%	4.2%	3.7%	3.4%

New claims for September 2015 unemployment insurance decreased from year-ago levels. They are now lower than one year ago by 22 (a 2 percent reduction). Seasonally adjusted jobless claims rose in the most recent quarter.

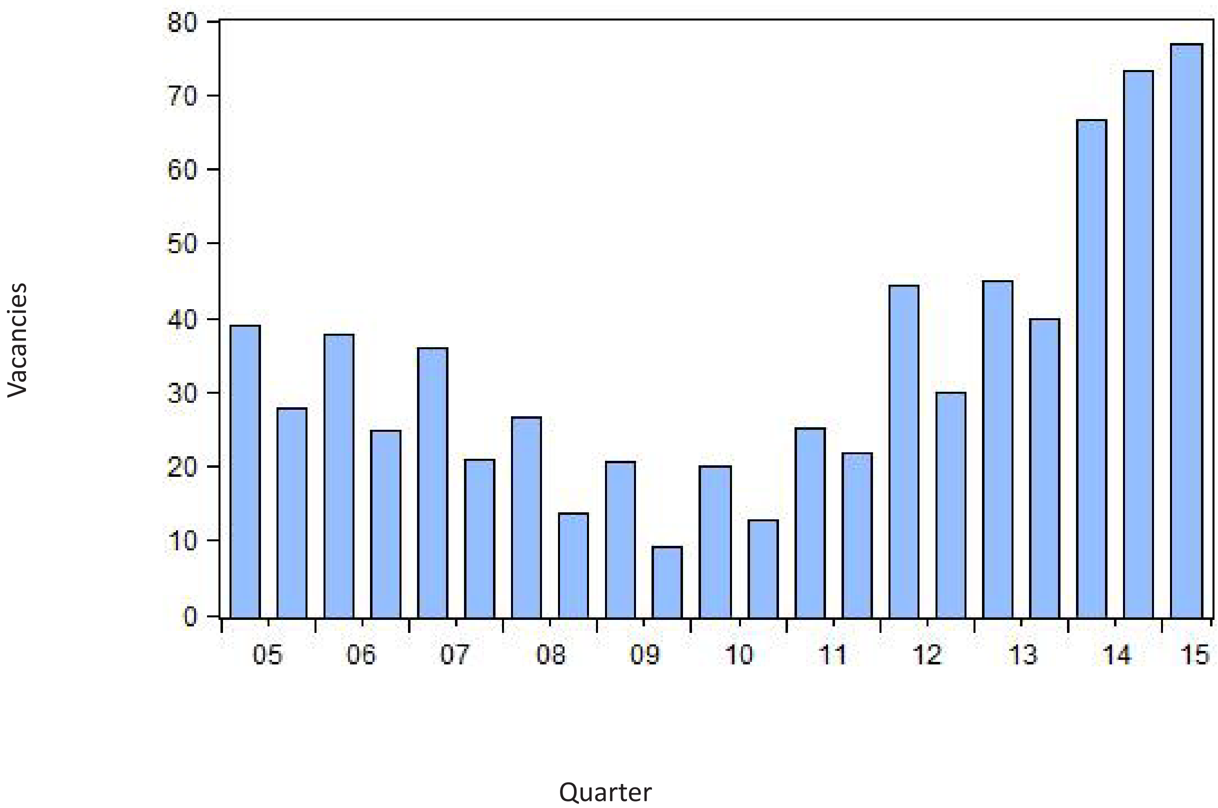
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Initial claims (Not seasonally adjusted)	1,079	1,501	1,653	1,336	1,178	1,114	1,057

Northwest Minnesota job vacancies rose in this year's second quarter (this is the most recently available data). The rate of regional job vacancies per 100 unemployed is now higher than it has been for several years. Note, however, that the job vacancy rate is higher in the Twin Cities, Southeast, and Southwest planning areas of the state (the Northwest rate is the same as in the Central region). Only the Northeast Minnesota planning area has a lower rate of job vacancies.

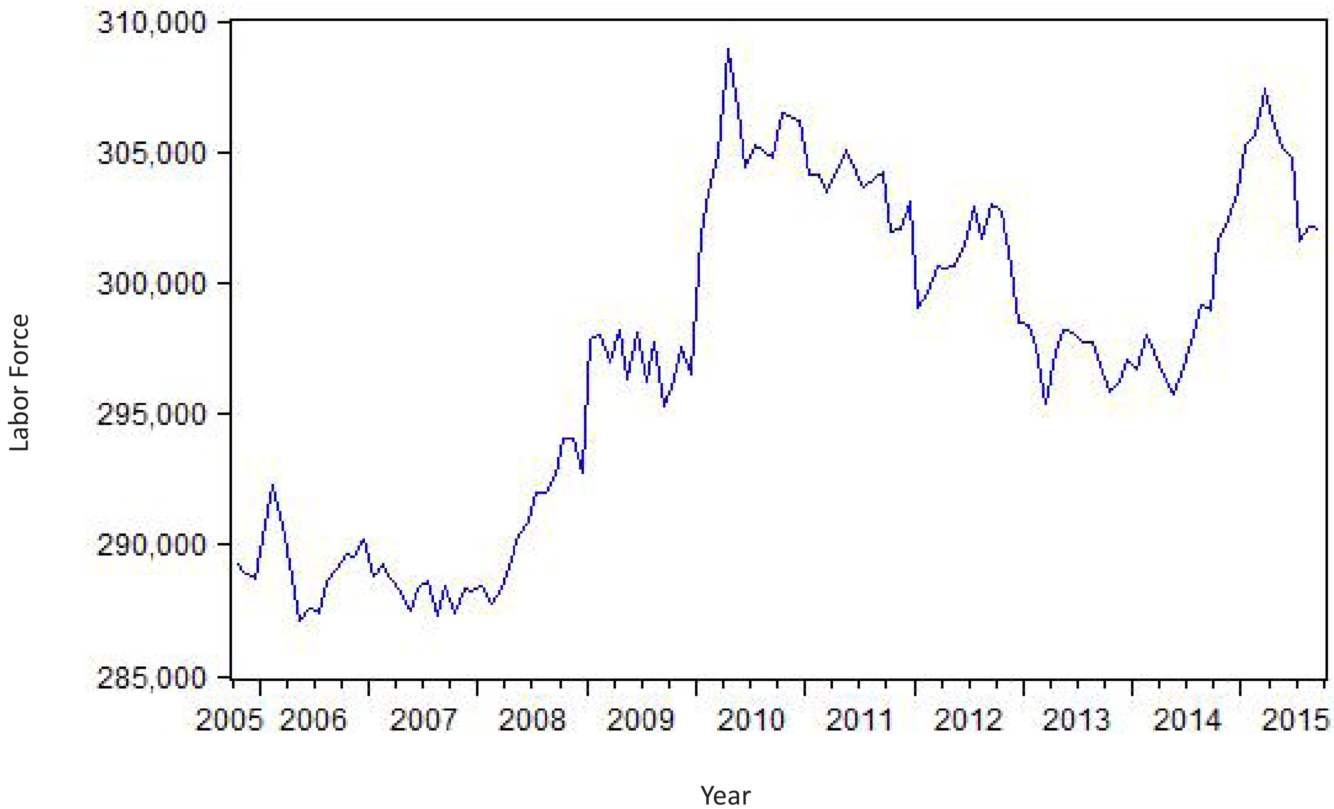
Job Vacancies per 100 Unemployed--Northwest Minnesota Planning Area



Quarter	2012:IV	2013:II	2013:IV	2014:II	2014:IV	2015:II
Job Vacancies per 100 Unemployed	33.29	47.22	44.72	71.69	73.25	76.73

The size of the Northwest Minnesota labor force grew over the year ending September 2015. At 302,125, the regional labor force is 4,699 larger (representing a 1.6 percent increase) than one year ago.

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

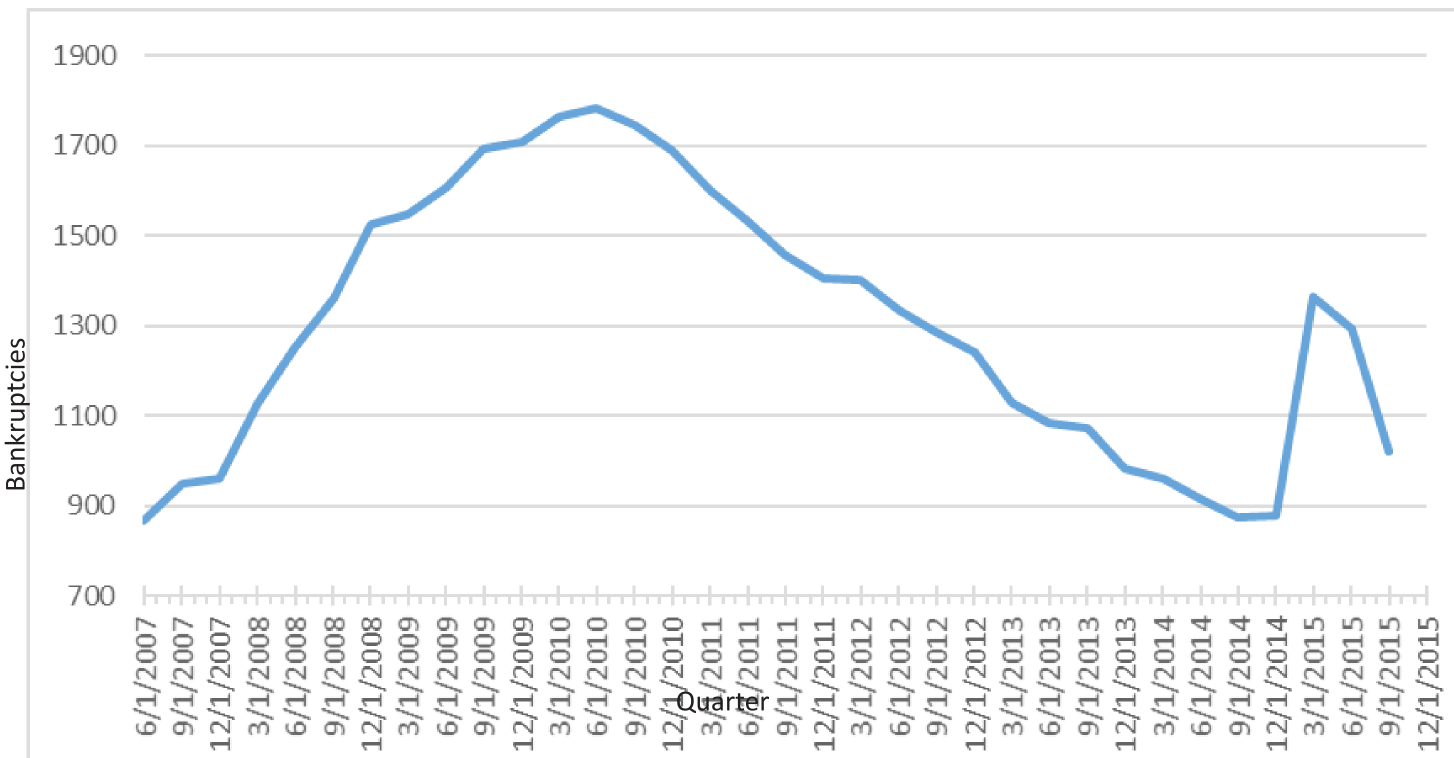


Year (September)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	295,030	294,705	295,870	295,412	297,426	302,125

Northwest Minnesota Bankruptcies

The figure below shows the 12-month moving total for Northwest 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 then declined steadily until the end of last year. However, the series began to rise in this year's first quarter. A closer inspection of the Northwest Minnesota bankuptcy data suggests a disproportionately large number of recent bankruptcies have come from Polk, Becker, and Clay counties. This is the only one of Minnesota's six planning areas to see a recent rise in this series, so we took a closer look at the bankruptcy data set received from the US Bankruptcy Courts. The jump in bankruptcies in these three counties is in non-business bankruptcy filings (for example, personal bankruptcies). Since these three counties are close to the North Dakota border, one might imagine that an abrupt increase in non-business bankruptcies in this year's first quarter would be seen in North Dakota's Clay and Grand Forks counties, but bankruptcy filings in these counties did not jump like they did in the three Minnesota counties. We are therefore hesitant to make too much of this outlier in the data.

Northwest Minnesota Bankruptcies (12-month moving total)



Year (Third Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1,744	1,456	1,287	1,071	875	1,022

Economic Indicators

Fargo-Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)
Employment	September 2015 (m)	141,300	139,500	1.3%	↑	2.1%
Manufacturing Employment	September 2015 (m)	10,200	10,400	-1.9%	↓	1.8%
Mining, Logging, Construction Employment	September 2015 (m)	9,400	9,700	-3.1%	↓	2.1%
Average Weekly Work Hours, Private Sector	September 2015 (m)	34.4	35	-1.7%	↓	NA (since 2007)
Average Earnings Per Hour, Private Sector	September 2015 (m)	$23.98	$23.75	1.0%	↑	3.2% (since 2007)
Unemployment Rate	September 2015 (m)	2.1%	2.2%	NA	↓	NA
Labor Force	September 2015 (m)	127,856	129,506	-1.3%	↓	1.3%
Initial Jobless Claims	October 2015 (m)	502	335	49.9%	↑	NA
Fargo-Moorhead Residential Building Permit Valuation, in thousands	September 2015 (m)	52,608	38,412	37.0%	↑	NA
Fargo-Moorhead Cost of Living Index	Quarter 2: 2015	99.9	94.0	6.3%	↑	NA

Grand Forks-East Grand Forks MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)
Employment	September 2015 (m)	58,600	57,500	1.9%	↑	1.1%
Maufacturing Employment	September 2015 (m)	4,000	3,900	2.6%	↑	0.5%
Mining, Logging, Construction Employment	September 2015 (m)	3,800	3,500	8.6%	↑	0.9%
Average Weekly Work Hours, Private Sector	September 2015 (m)	32.5	33.5	-3.0%	↓	NA (since 2007)
Average Earnings Per Hour, Private Sector	September 2015 (m)	$21.74	$21.44	1.4%	↑	1.3% (since 2007)
Unemployment Rate	September 2015 (m)	2.4%	2.7%	NA	↓	NA
Labor Force	September 2015 (m)	54,091	54,463	-0.7%	↓	0.1%
Initial Jobless Claims	October 2015 (m)	109	112	-2.7%	↓	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation, in thousands	September 2015 (m)	3,845	16,996	-77.4%	↓	NA

(m) represents a monthly series

The Bureau of Labor Statistics identifies two MSAs in Northwest Minnesota—each of which crosses the North Dakota/ Minnesota border. While North Dakota business filing data are not incorporated into this report, a variety of economic measures can be analyzed. The data in the table show employment gains in the Fargo/Moorhead area (but declining employment in mining/logging/construction and manufacturing sectors), a reduction in the unemployment rate, an increase in the value of Fargo/Moorhead residential building permits, and a 1 percent increase in average hourly earnings. The labor force fell by 1.3 percent, average hours worked declined, initial jobless claims rose, and the relative cost of living increased.

Grand Forks/East Grand Forks MSA economic activity was also mixed in the third quarter of 2015. MSA employment rose at a 1.9 percent annual pace and the key mining/logging/construction and manufacturing sectors also experienced significant job growth. The area unemployment rate fell, average hourly earnings rose, and there were fewer initial jobless claims. However, the length of the workweek declined, the labor force fell, and the value of residential building permits dropped.

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 Northwest 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 Northwest Minnesota Planning Area consists of 26 counties: Becker; Beltrami; Cass; Clay; Clearwater; Crow Wing; Douglas; Grant; Hubbard; Kittson; Lake of the Woods; Mahnomen; Marshall; Morrison; Norman; Otter Tail; Pennington; Polk; Pope; Red Lake; Roseau; Stevens; Todd; Traverse; Wadena; and Wilkin.

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

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

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Thomson Reuters and University of Michigan, Index of Consumer Sentiment

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