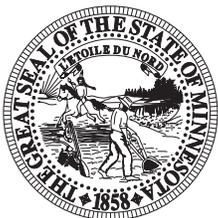




Twin Cities Area  
Economic and Business Conditions Report  
Second Quarter 2015



OFFICE OF THE MINNESOTA  
SECRETARY OF STATE



SCHOOL OF PUBLIC AFFAIRS  
RESEARCH INSTITUTE  
ST. CLOUD STATE UNIVERSITY.

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### Executive Summary

**The Twin Cities economy is expected to experience stronger growth over the next several months according to the prediction of the Twin Cities Index of Leading Economic Indicators (LEI).** The Twin Cities LEI rose by 3.40 points in this year’s second quarter as three of the five index components increased. The LEI is now 6.2 percent below its level of one year ago. Accounting for the increase in the index are higher residential building permits in the Minneapolis/St. Paul Metropolitan Statistical Area (MSA), a rise in new business filings, and recent improvement in a general measure of statewide business conditions. A second measure of general business conditions was basically neutral in the second quarter. Higher initial jobless claims in the Twin Cities planning area were the one index component with a significant negative value in the second quarter.

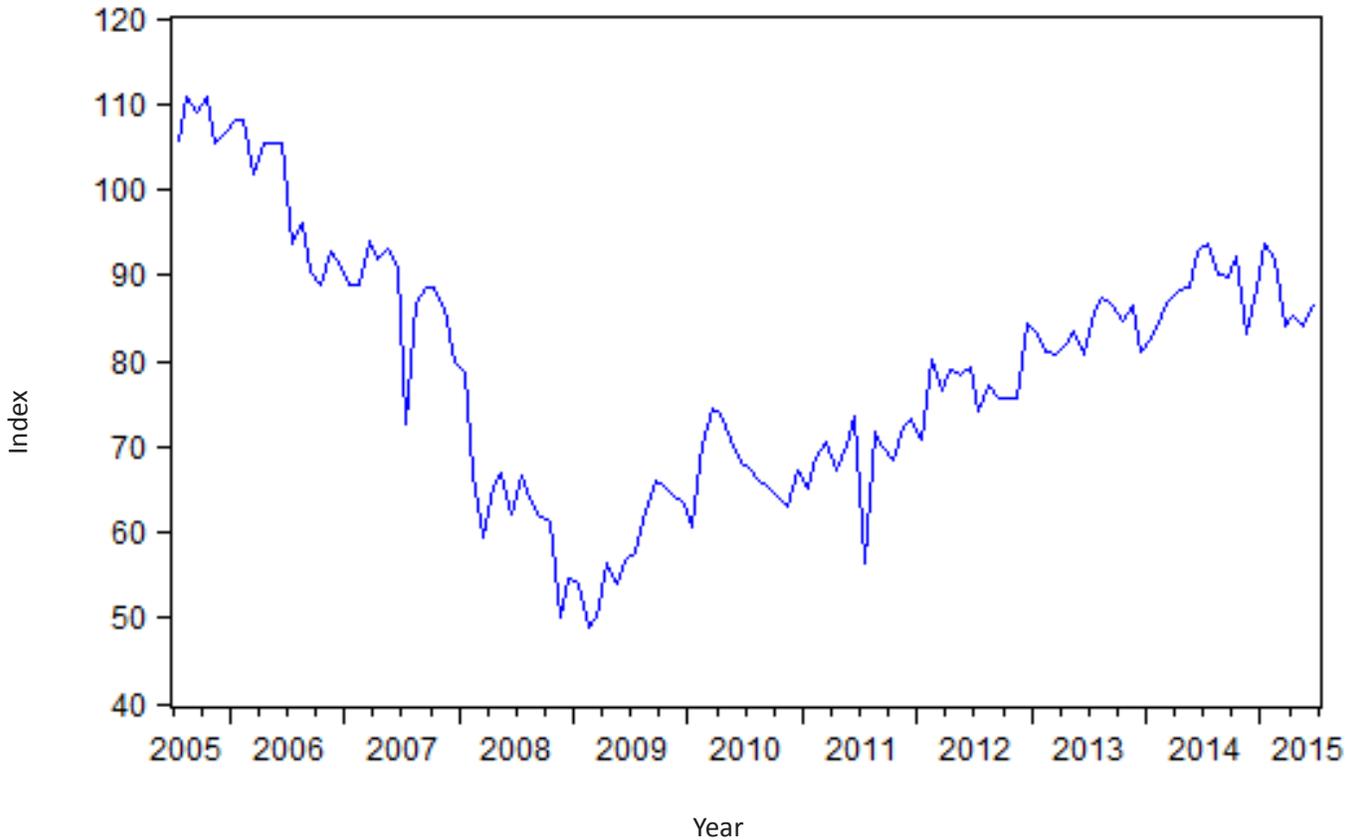
**There were 10,306 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the second quarter of 2015—representing a 1.7 percent increase from one year ago.** There were 1,504 new regional business incorporations in the second quarter, a 3.8 percent increase over year ago levels. Second quarter new LLC filings in the seven-county metro area were up 2.7 percent—rising to 6,310. New assumed names totaled 2,061 in this year’s second quarter—a reduction of 3.9 percent from the second quarter of 2014. There were 431 new filings for non-profits in the Twin Cities in the second quarter of 2015, 8.6 percent more filings than one year earlier.

**Twin Cities employment increased by 0.9 percent over the year ending June 2015.** The regional unemployment rate was 3.7 percent in June, an improvement on its 4.0 percent reading one year earlier. June 2015 initial claims for unemployment insurance were higher than year ago levels, rising by 1 percent to 8,185. Average weekly wages in the Twin Cities planning area are now \$1,149, a 4.3 percent increase from one year earlier. The labor force expanded in the Minneapolis-St. Paul area by 0.6 percent over the past year. Average weekly hours worked declined in the metro area and the relative cost of living in both Minneapolis and St. Paul appears to have declined. The value of residential building permits rose by 1 percent in the Twin Cities MSA.

## 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 declining in each of the previous two quarters, the LEI rose by 3.40 points in the second quarter of 2015. The Twin Cities index is now 6.2 percent lower than 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, 2nd quarter 2015	Contribution to LEI, 1st quarter 2015
Minnesota Business Conditions Index	1.77	-6.21
Twin Cities initial claims for unemployment insurance	-1.60	2.22
Twin Cities new filings of incorporation and LLCs	0.92	0.83
Mpls.-St. Paul MSA residential building permits	2.56	-1.87
Philadelphia Fed Minnesota leading indicators	-0.25	-0.27
<b>TOTAL CHANGE</b>	<b>3.40</b>	<b>-5.30</b>

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 was basically neutral this quarter. On the other hand, the Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—had a positive effect on this quarter’s LEI.

Two of the three local measures were positive in this year’s second quarter. While higher initial jobless claims were a drag on the index, increased valuation of residential building permits had a favorable impact on the LEI in the second quarter. A recent rise in new Twin Cities filings for incorporation and LLC also made a positive contribution to the leading index.

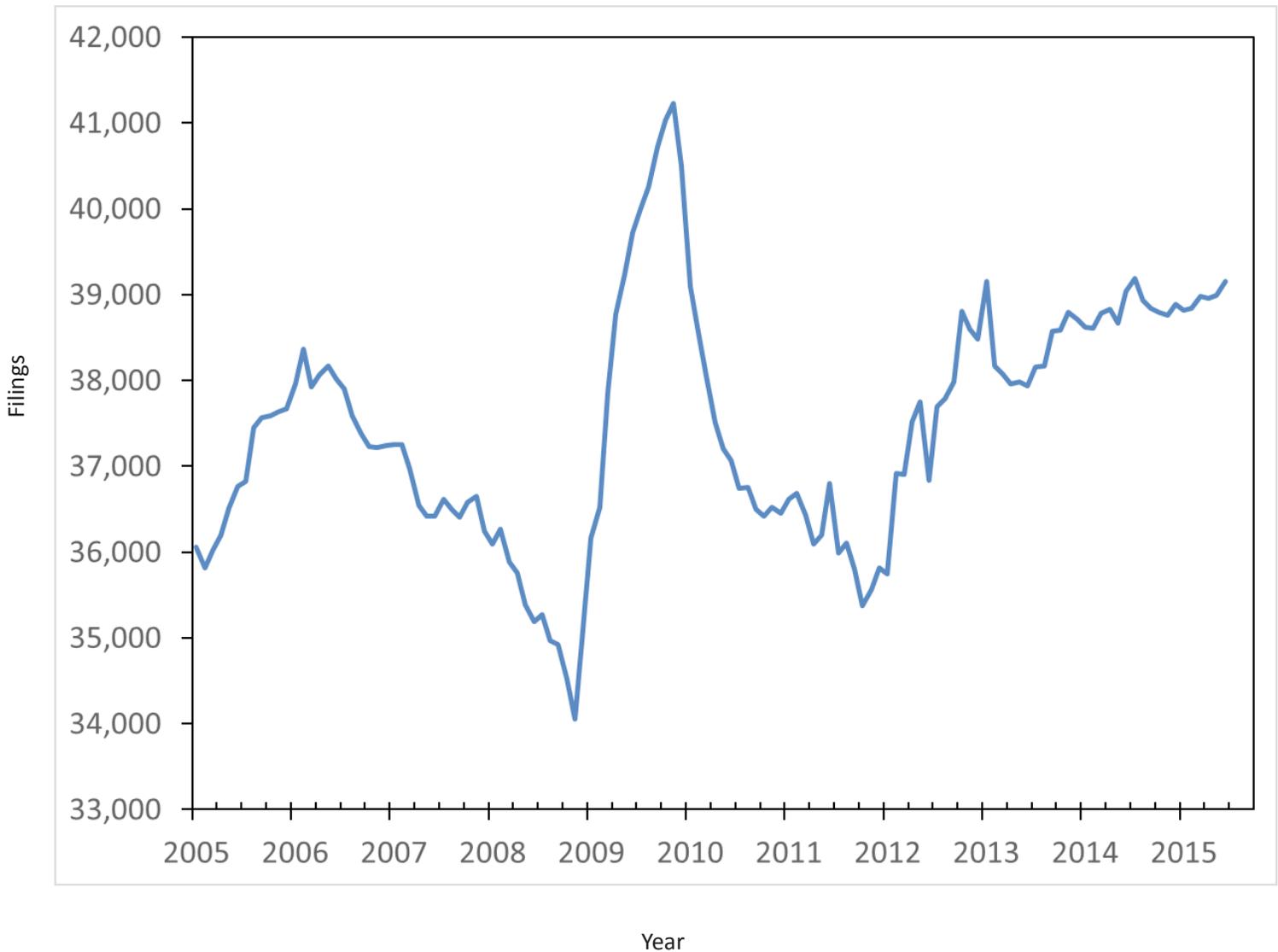
SCSU Twin Cities Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index June	53	70.1	-24.4%
Twin Cities initial claims for unemployment insurance June	8,185	8,107	1.0%
Twin Cities new filings of incorporation and LLCs Second Quarter	7814	7595	2.9%
Twin Cities MSA single-family building permits, June	761	705	7.9%
Index of Leading Economic Indicators Philadelphia Federal Reserve, June	1.21	1.78	-32.0%
Twin Cities Leading Economic Indicators Index June (December 1999 = 100)	86.9	92.6	-6.2%

## Twin Cities Business Filings

Total new business filings have generally trended upward since the second half of 2011. This trend continued in the second quarter of this year as filings grew at a 1.7 percent year-over-year rate. 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.

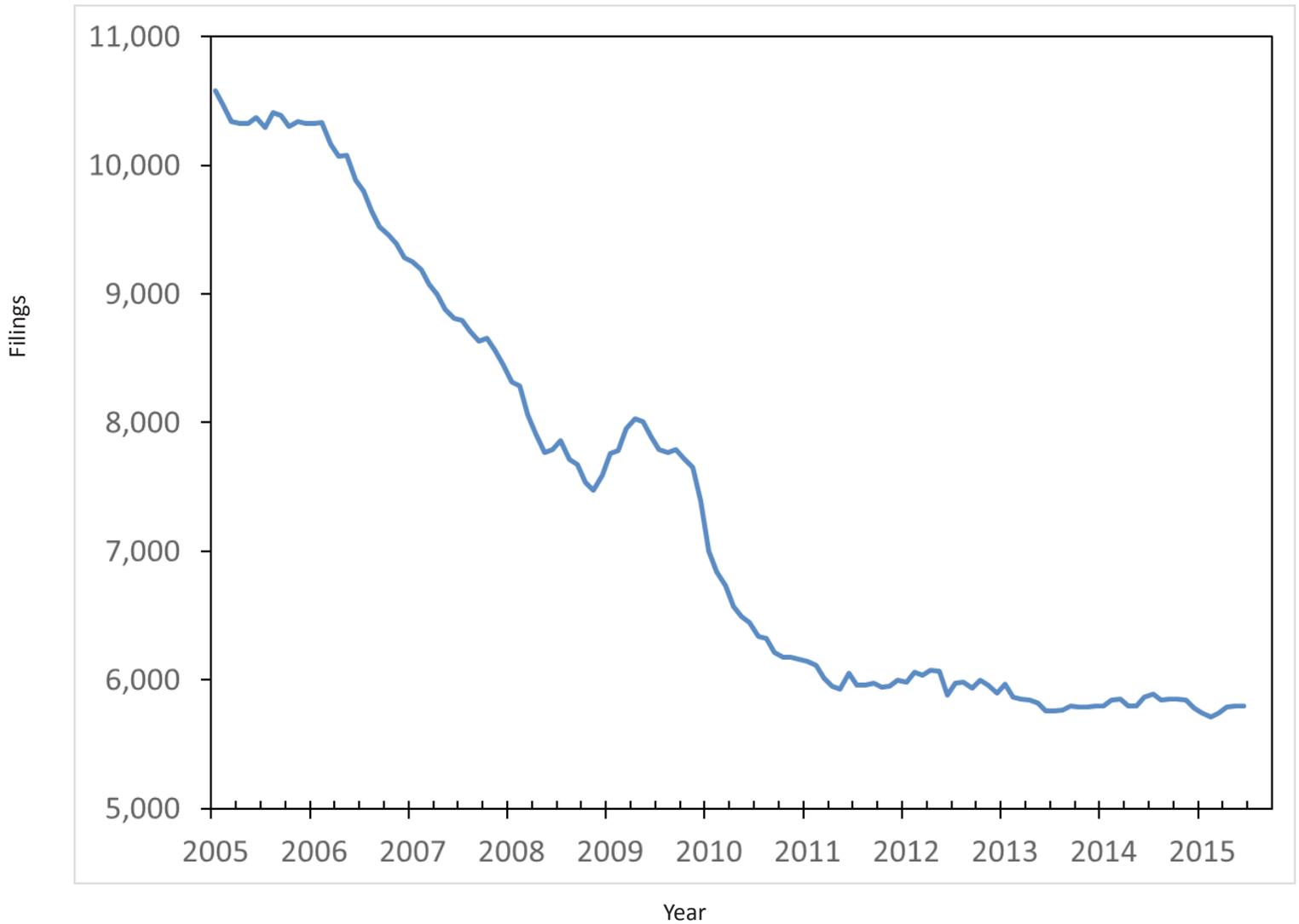
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Twin Cities Total New Business Filings	10,137	9,223	9,127	10,494	10,306	1.7%

New business incorporations trended downward in the Twin Cities from 2005 to 2011, and have been relatively flat since that time. Filings for new business incorporation rose 3.8 percent from one year earlier in the second quarter of 2015.

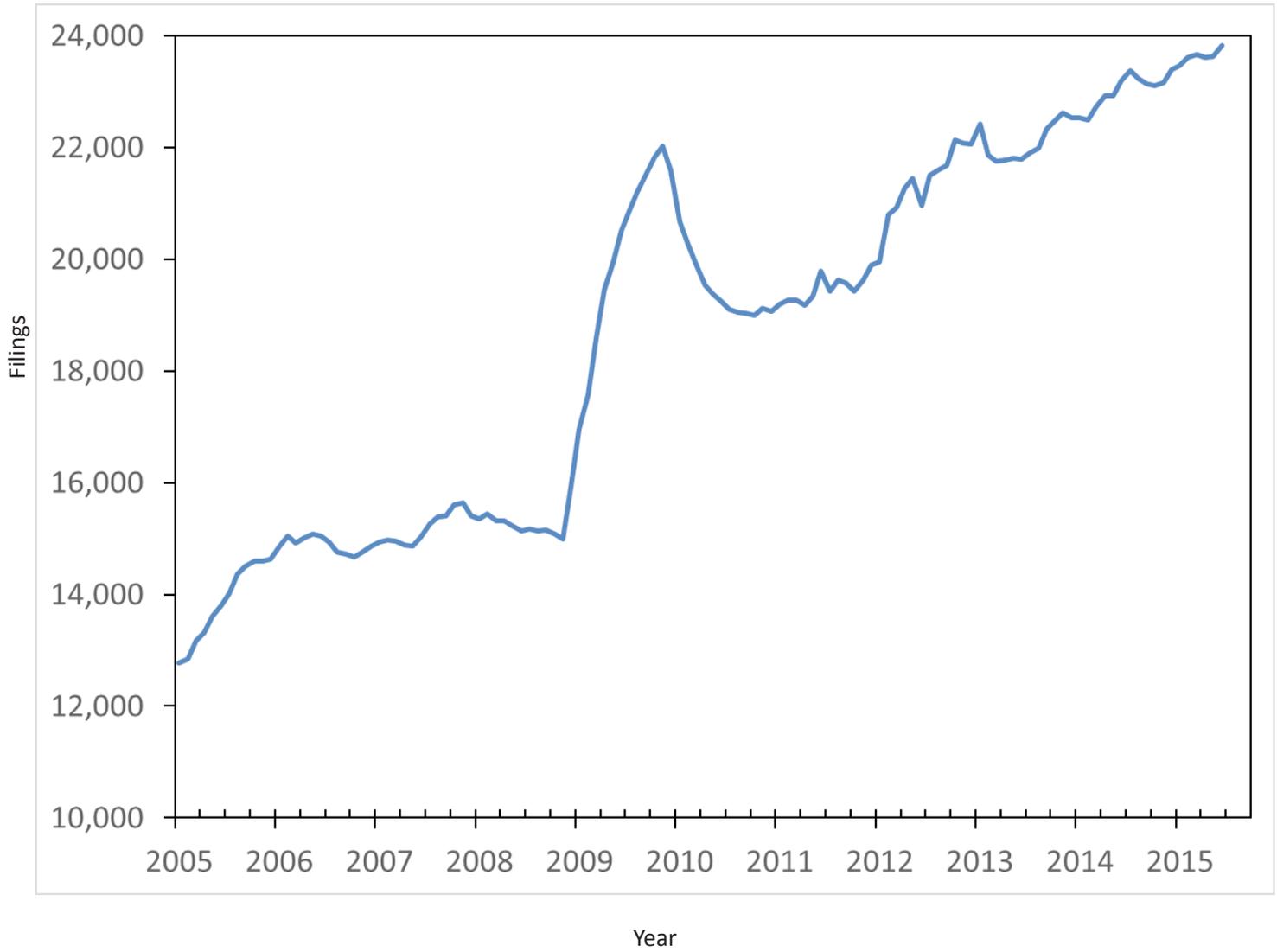
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Twin Cities New Business Incorporations	1,449	1,394	1,346	1,553	1,504	3.8%

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 6,310, new filings for LLC in the second quarter of 2015 were 2.7 percent higher than one year earlier.

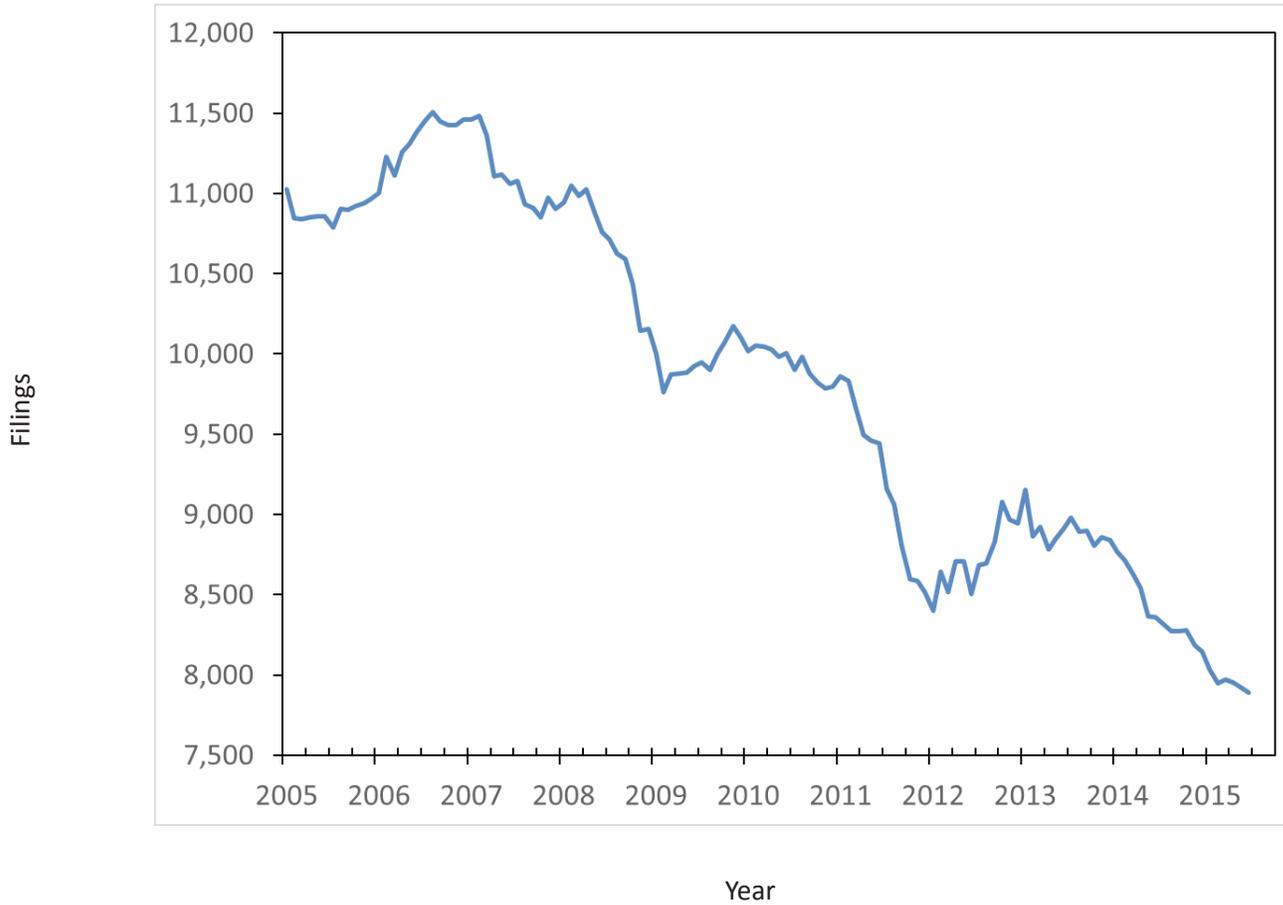
New Limited Liability Companies—Twin Cities Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Twin Cities New Limited Liability Companies	6,146	5,517	5,619	6,385	6,310	2.7%

Assumed names, which include sole proprietors or organizations that do not have limited liability, continued their slide by falling 3.9 percent in the second quarter relative to the same period in 2014. This series has not recovered from its peak levels of 2006-2007.

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



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Twin Cities New Assumed Names	2,145	1,938	1,791	2,099	2,061	-3.9%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State increased to a level last seen in the mid-2000s. With 431 new non-profits registered in this year’s second quarter, this sector added 8.6 percent more firms than one year earlier.

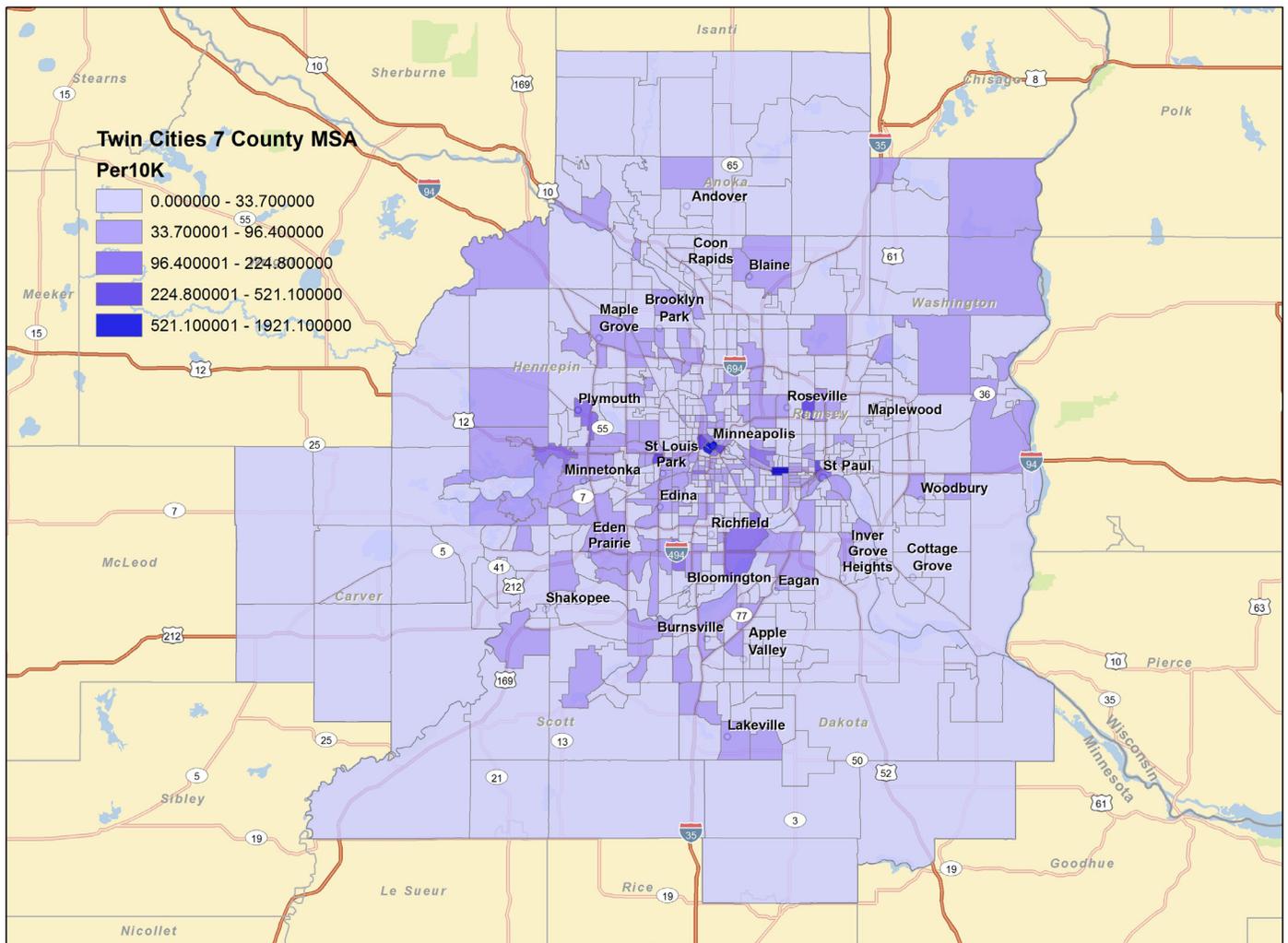
New Non-Profits—Twin Cities Planning Area (12-month moving total)



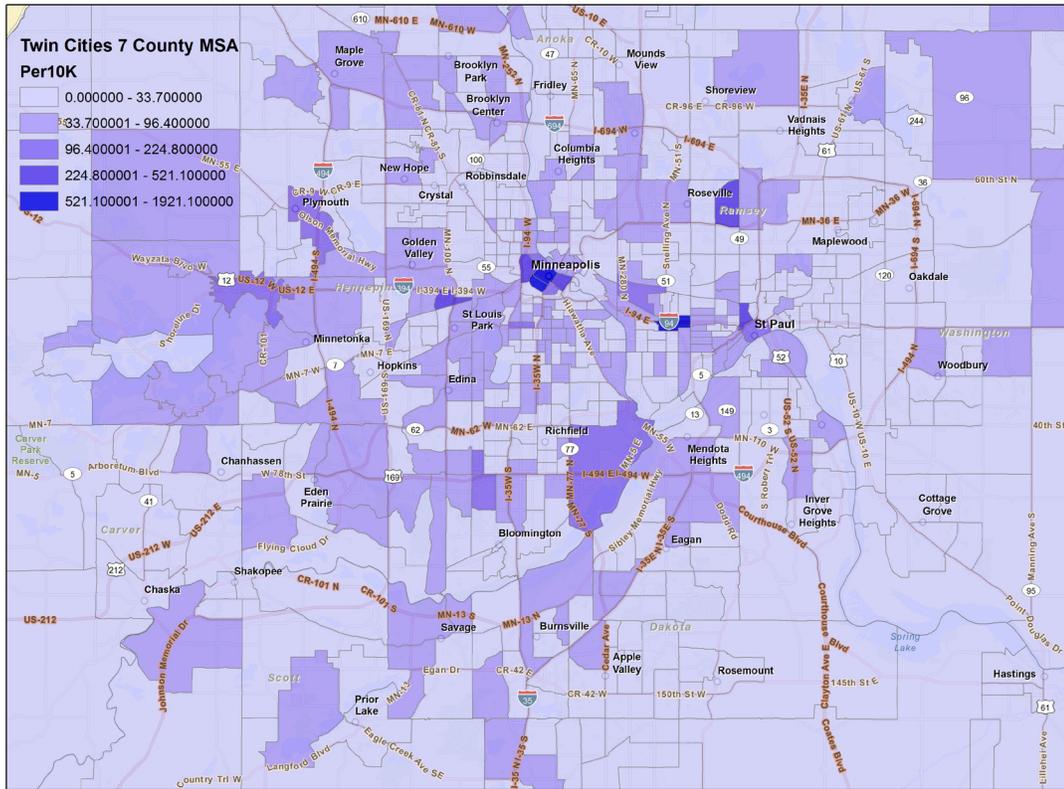
Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Twin Cities New Non-Profits	397	374	371	457	431	8.6%

The map below highlights per capita new business formation by census tract in this year's second quarter in the 7-county Twin Cities planning area. As noted above, while there were 10,306 new business filings in the Twin Cities in this year's second quarter, the distribution of new filings is clearly uneven over the metro area. Using census tract population numbers from the 2010 census, the map shows some portions (represented by the lighter colored blocks) of the 7-county planning area experienced relatively little new per capita business formation in this period, while others (the darker colored blocks) enjoyed fairly strong gains. Some areas naturally experience a disproportionately large number of per capita new business filings. For example, relatively few people live in downtown areas (where there tends to be a lot of office space), while business filings tend to be strong. This map is a reminder that after controlling for population, some areas of the MSA are more likely than others to experience new economic development.

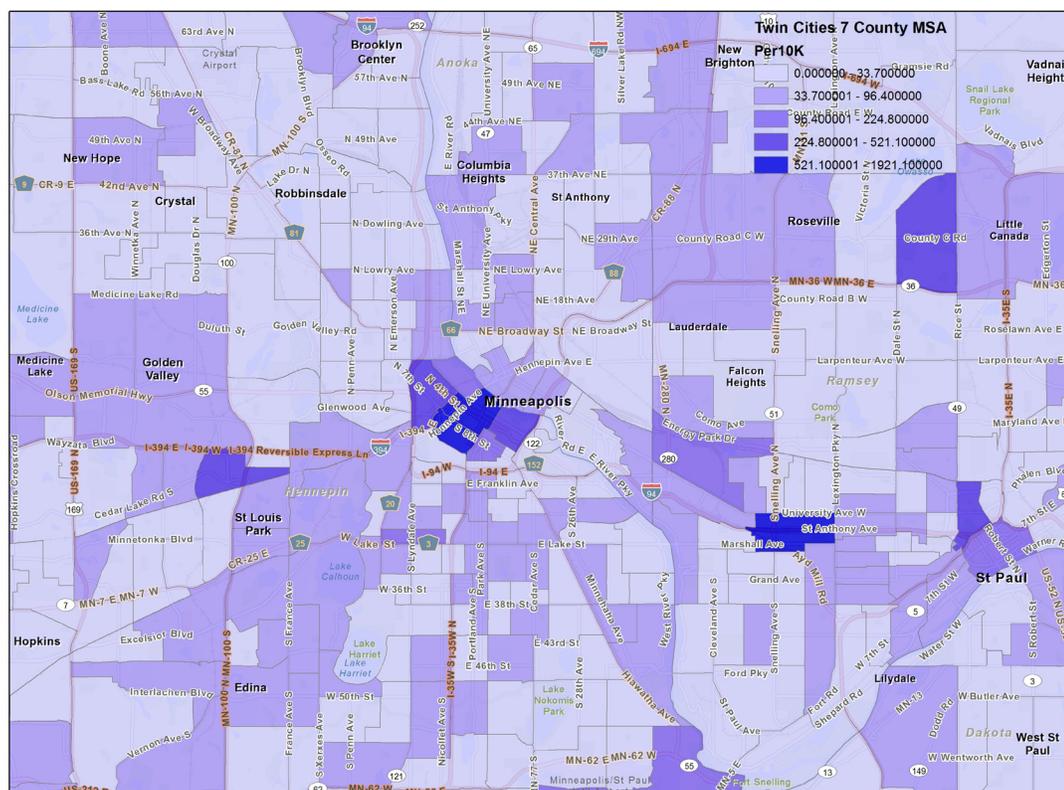
### New Business Formation Per 10,000 People By Census Tract in 2015, Quarter 2—Twin Cities Planning Area



The map below zooms in on some of the areas of the Twin Cities planning area and removes some of the outer areas of the 7-county metro.



The map below zooms in even further on the inner core of the Twin Cities planning area, showing large rates of per capita business formation in the downtown areas of Minneapolis-St. Paul

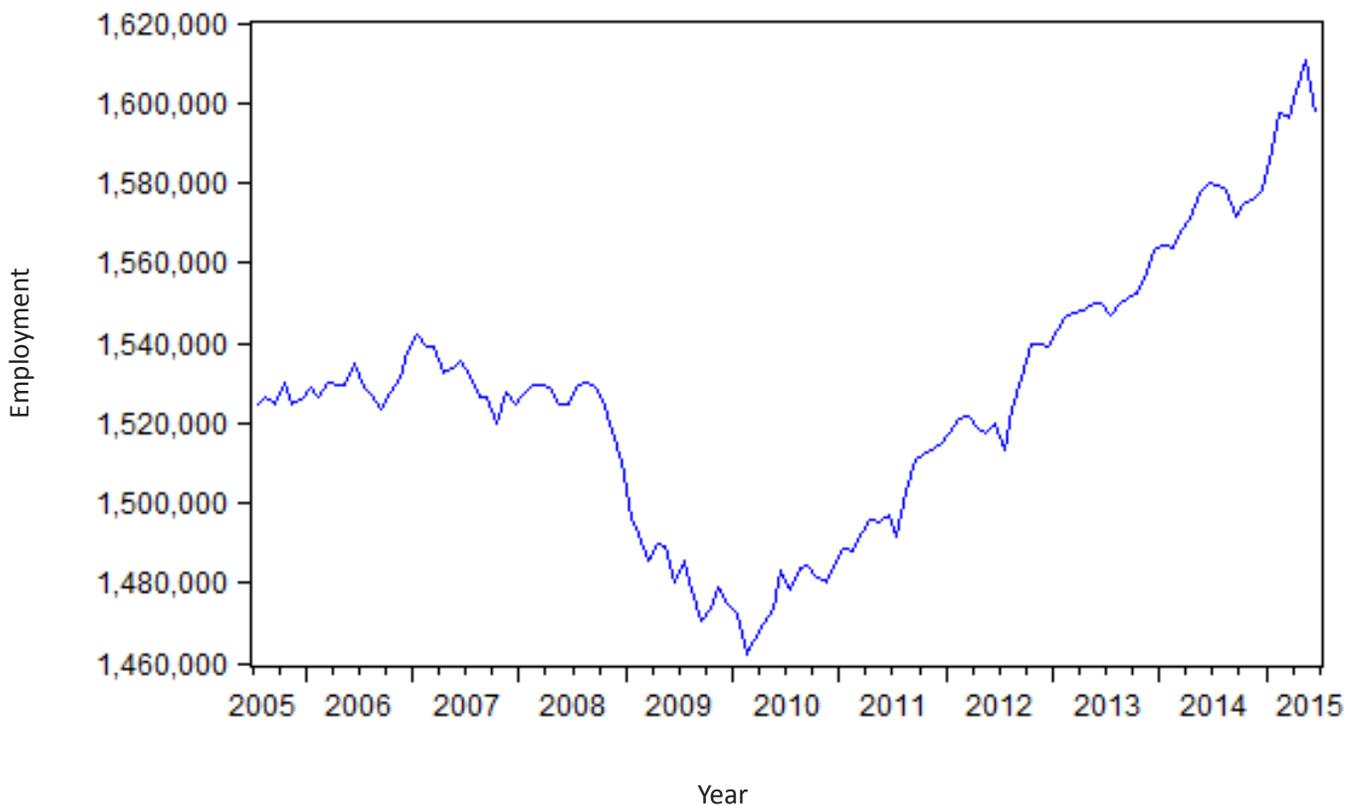


## Twin Cities Labor Market Conditions

Employment of Twin Cities residents grew 0.9 percent over the past year. After relative stagnation through 2007 and a decline during the Great Recession, the area has experienced fairly steady employment growth since the start of 2010.

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. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, [soparesearch@stcloudstate.edu](mailto:soparesearch@stcloudstate.edu).

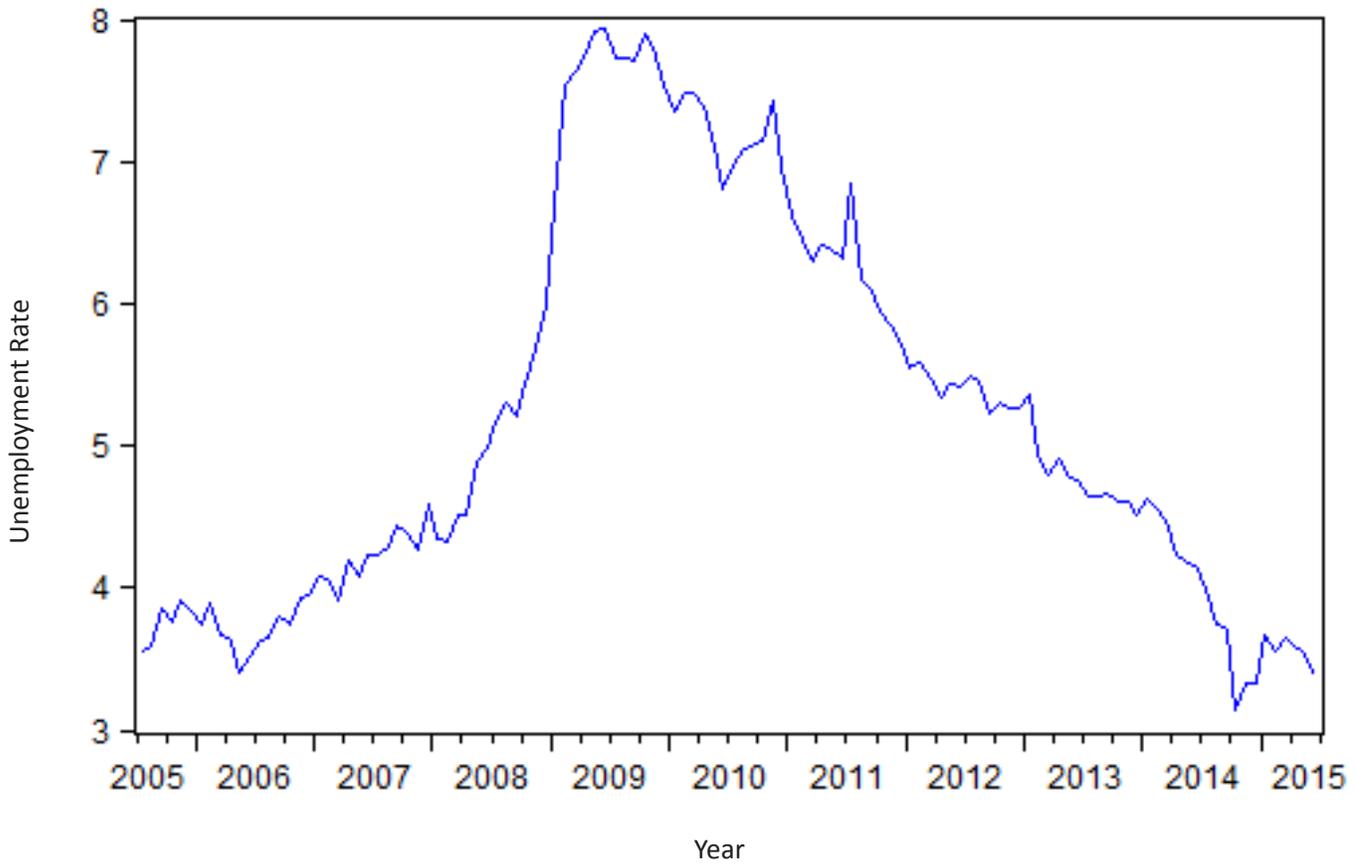
Employment—Twin Cities Planning Area (12-month moving average)



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Employment (Not seasonally adjusted)	1,588,775	1,564,997	1,581,793	1,583,191	1,602,675	1,613,592	1,602,927

The seasonally adjusted unemployment rate in the Twin Cities has declined since the end of the Great Recession in 2009. This series now appears to be flattening out as the Twin Cities approaches full employment. The non-seasonally adjusted unemployment rate now stands at 3.7 percent, substantially lower than the 4.0 percent rate recorded one year ago.

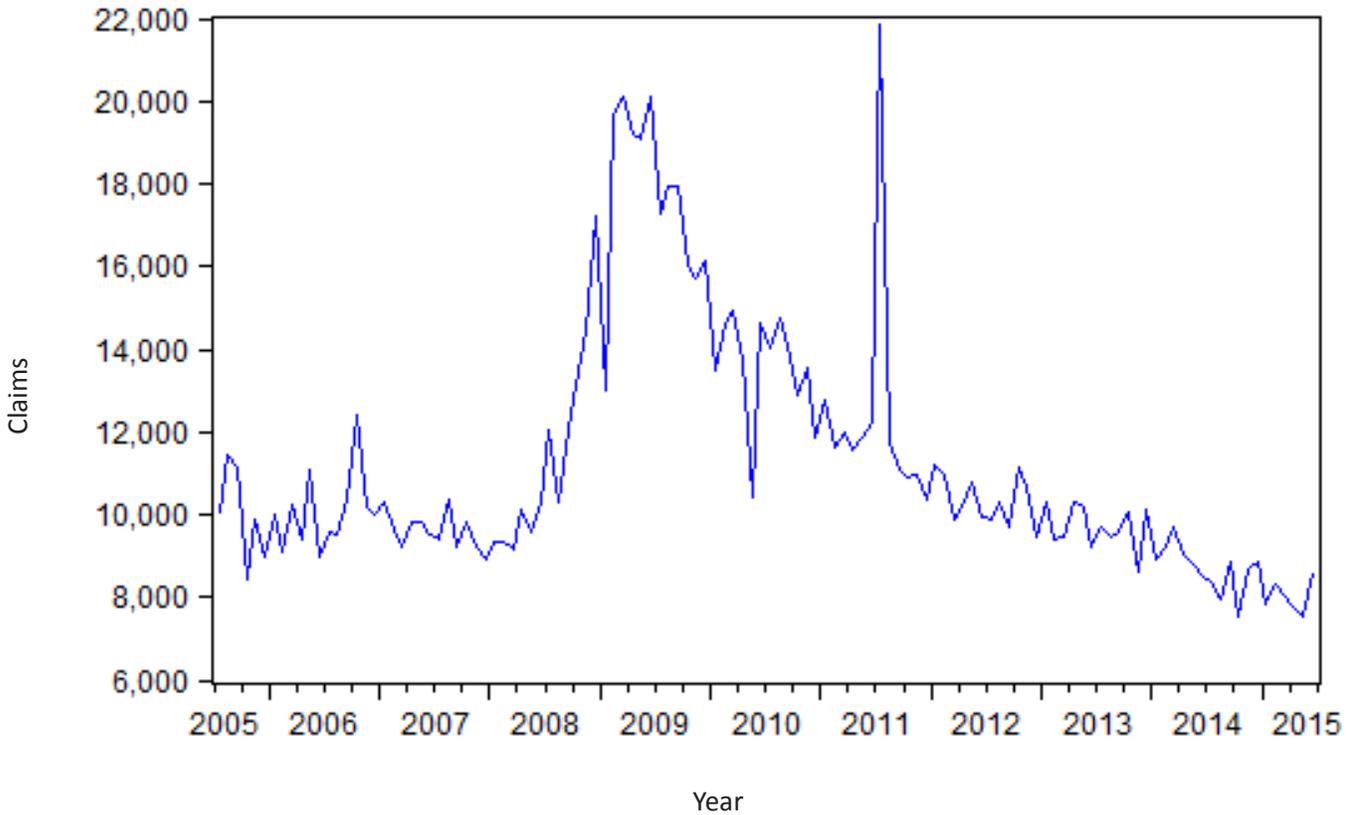
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Unemployment Rate (Not seasonally adjusted)	4.0%	3.9%	3.8%	3.8%	3.4%	3.4%	3.7%

New claims for unemployment insurance were 1 percent above year ago levels in June 2015. However, the graph of the seasonally adjusted series suggests claims are still at levels that are among the lowest observed over the past 10 years.

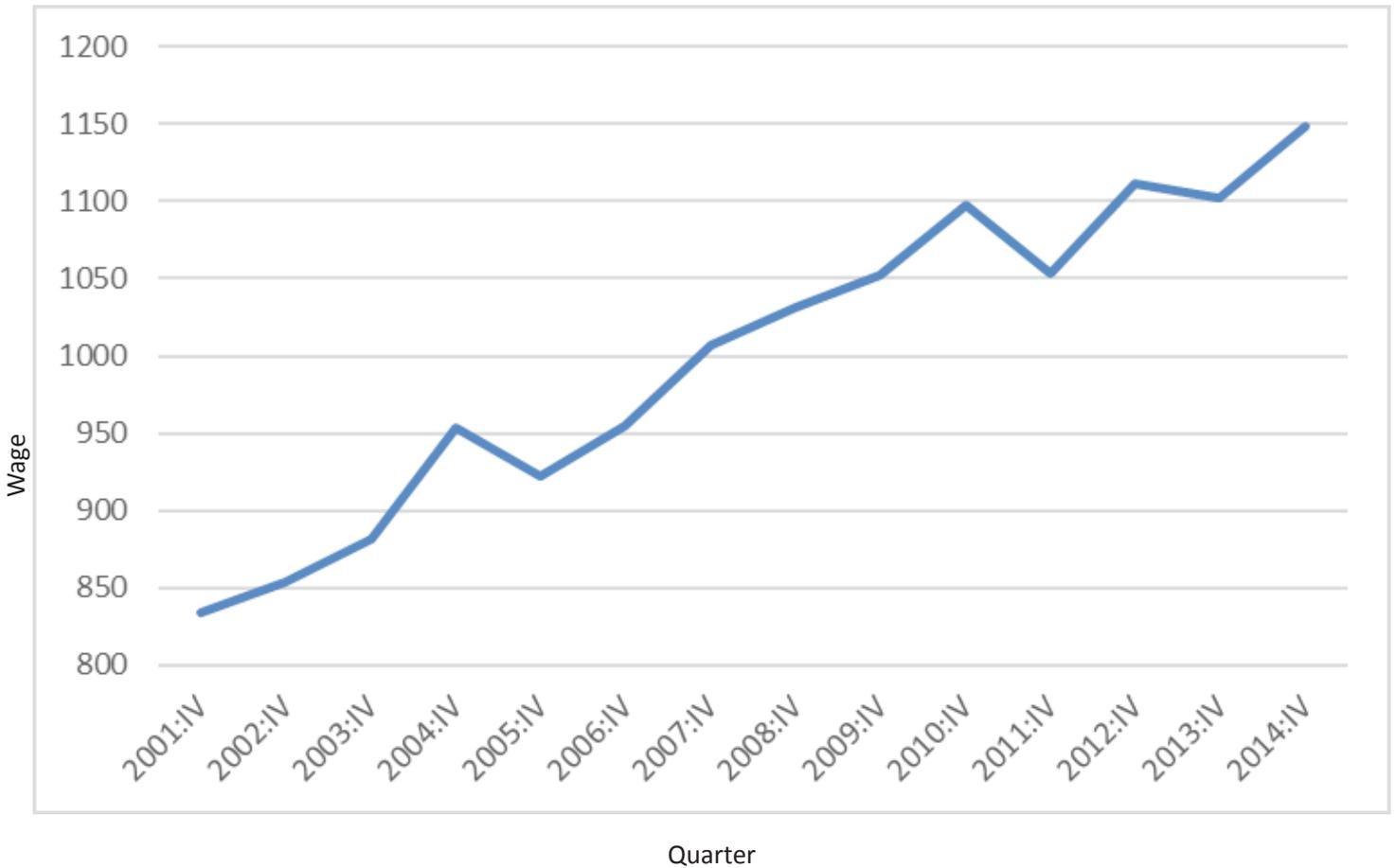
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Twin Cities Planning Area



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Initial claims (Not seasonally adjusted)	8,107	10,089	7,941	7,673	7,021	6,710	8,185

Average weekly wages in the Twin Cities planning area increased by 4.3 percent to \$1,149 over the year ending in the fourth quarter of 2014 (this is the most recently available data). The Twin Cities is (by far) the planning area that has the highest average wages. By comparison, the Southeast Minnesota planning area ranks second with an average weekly wage of \$877.

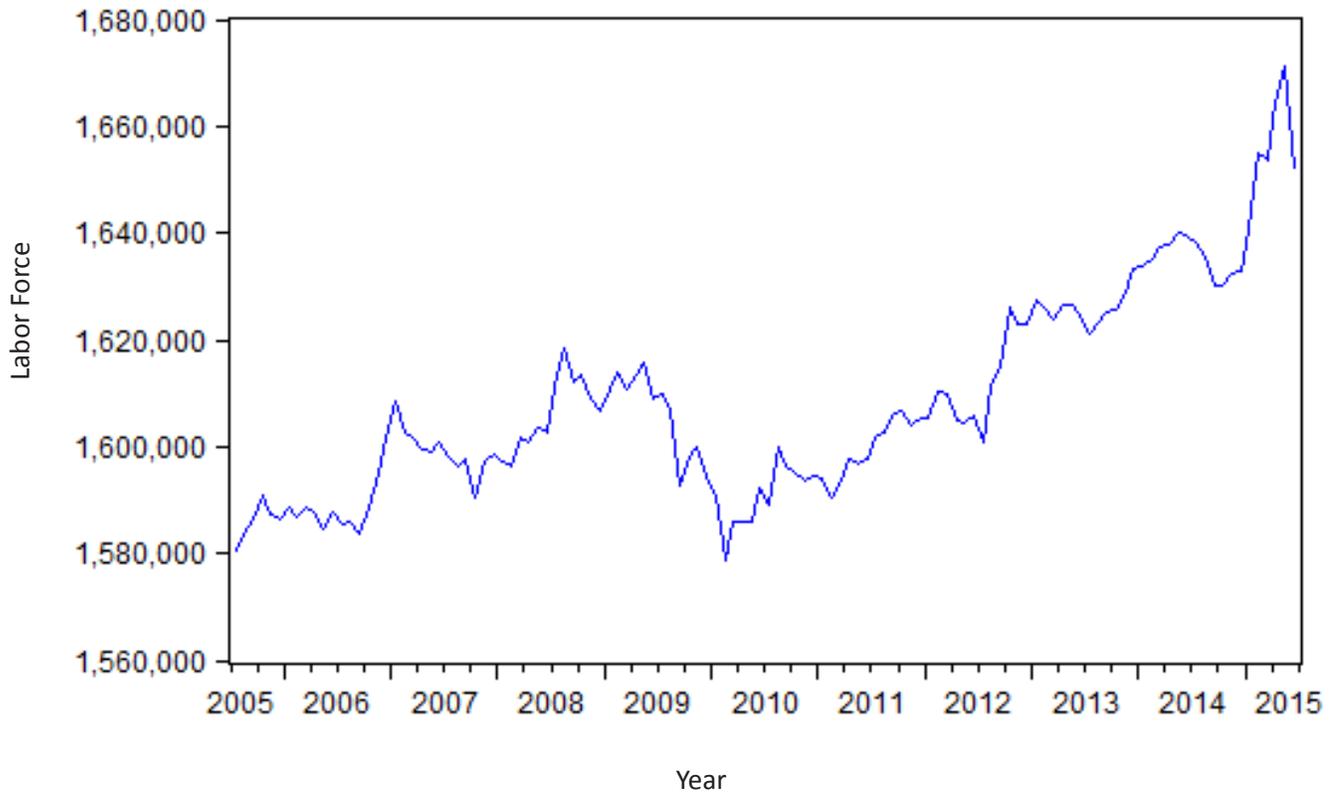
Average Weekly Wages—Twin Cities Planning Area



Quarter	2009:IV	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV
Average Weekly Wage	\$1,052	\$1,098	\$1,054	\$1,112	\$1,102	\$1,149

The size of the Twin Cities labor force continues to rise. Over the last twelve months, the labor force in the Twin Cities planning area expanded by 0.6 percent to 1,664,631.

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

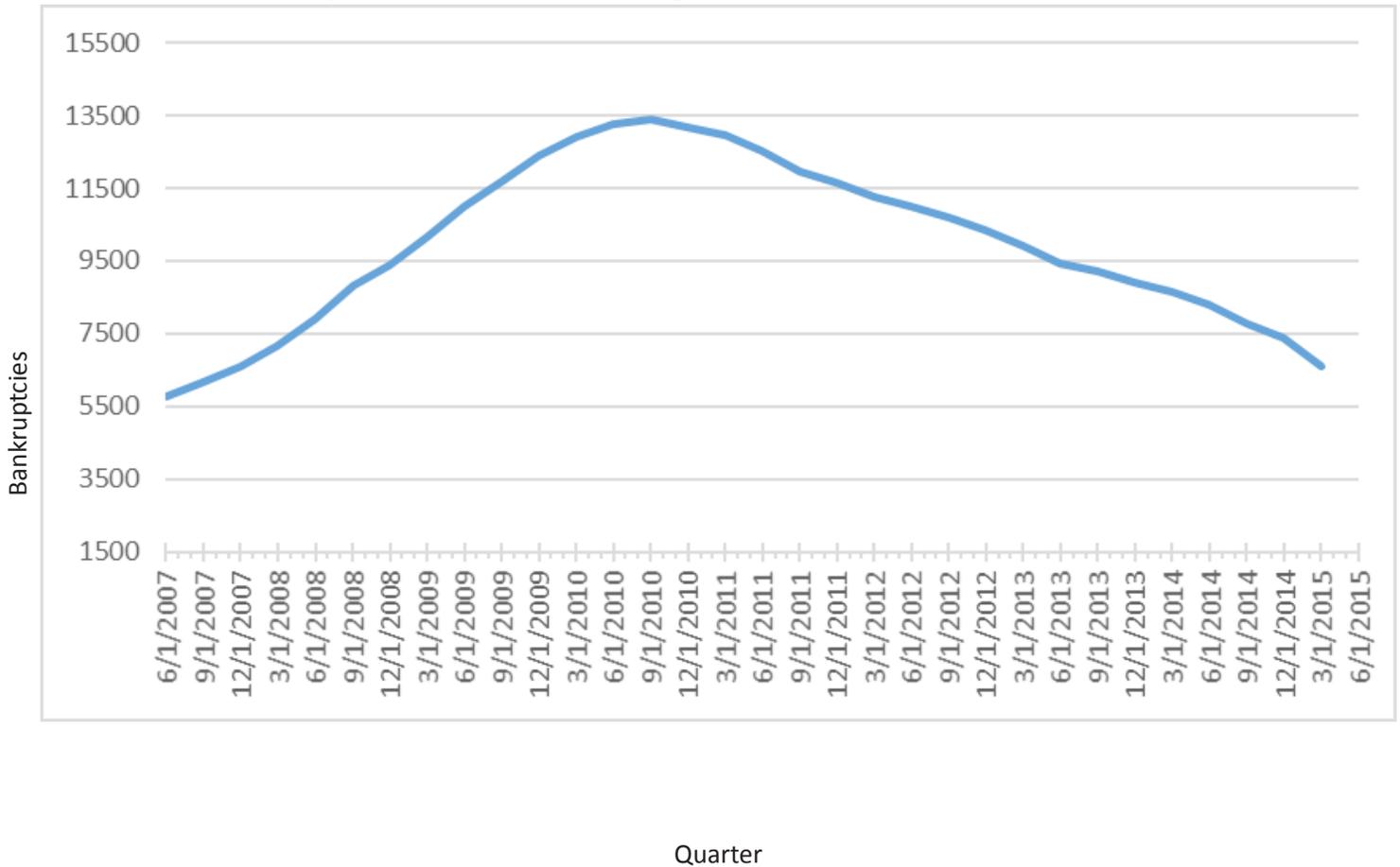


Year (June)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	1,605,581	1,611,570	1,620,949	1,640,543	1,654,772	1,664,631

## 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 has steadily declined since that time. With 6,581 bankruptcies over the past twelve months, the level of bankruptcies in the Twin Cities has now nearly returned to a level last seen prior to the Great Recession.

Twin Cities Bankruptcies (12-month moving total)



Year (First Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (not seasonally adjusted)	12,923	12,971	11,241	9,925	8,636	6,581

## Economic Indicators

Twin Cities MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (since 1999 unless noted)
Employment	June 2015 (m)	1,959,822	1,921,934	2.0% ↑	0.6%
Manufacturing Employment	June 2015 (m)	194,792	192,368	1.3% ↑	-1.4%
Average Weekly Work Hours Private Sector	June 2015 (m)	34.5	34.8	-0.9% ↓	34.1 (since 2007)
Average Earnings Per Hour Private Sector	June 2015 (m)	\$26.44	\$26.60	-0.6% ↓	0.4% (since 2007)
Average Weekly Work Hours Manufacturing (Production Workers)	June 2015 (m)	41.3	42.5	-2.8% ↓	40.6 (since 2005)
Average Earnings Per Hour Manufacturing (Production Workers)	June 2015 (m)	\$21.34	\$20.42	4.5% ↑	1.7% (since 2005)
Unemployment Rate	June 2015 (m)	3.8%	4.0%	NA ↓	4.8%
Labor Force	June 2015 (m)	1,948,385	1,935,450	0.7% ↑	0.6%
MSP Residential Building Permit Valuation	June 2015 (m)	291,255	288,458	1.0% ↑	NA
Minneapolis Cost-of-Living Index	First Quarter 2015	107.1	108.2	-1.0% ↓	NA
St. Paul Cost-of-Living Index	First Quarter 2015	106.2	108.3	-1.9% ↓	NA

(m) represents a monthly 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 favorable labor market conditions in the last 12 months. Overall employment increased 2 percent in the Twin Cities MSA and manufacturing employment rose by 1.3 percent over the year ending June 2015. Average hourly earnings fell in the private sector (although they did increase in manufacturing) and average weekly hours declined in these two sectors. The relative cost of living measure for Minneapolis and St. Paul declined in the first quarter of 2015. The Twin Cities MSA is approximately 6-7 percent more expensive to live in than in the average city in the United States. The value of residential building permits rose by 1 percent in June 2015 relative to the same period one year earlier. Compared to June 2014, the Twin Cities MSA unemployment rate is lower and the labor force is larger.

## State and National Indicators

MINNESOTA Indicators	Jun 2015	Mar 2015	Jun 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,854,500	2,844,600	2,817,700	0.3%	1.3%
Average weekly hours worked, private sector	34.0	33.9	34.5	0.3%	-1.4%
Unemployment rate, seasonally adjusted	3.8%	3.7%	4.4%	NA	NA
Earnings per hour, private sector	\$25.75	\$26.32	\$25.73	-2.2%	0.1%
Philadelphia Fed Coincident Indicator, MN	174.58	173.50	169.66	0.6%	2.9%
Philadelphia Fed Leading Indicator, MN	1.21	1.43	1.78	-15.4%	-32.0%
Minnesota Business Conditions Index	54.3	50.0	70.1	8.6%	-22.5%
Price of milk received by farmers (cwt)	\$17.60	\$17.10	\$23.40	2.9%	-24.8%
Enplanements, MSP airport, thousands	1,673.7	1,629.6	1,609.6	2.7%	4.0%

NATIONAL Indicators	Jun 2015	Mar 2015	Jun 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	141,842	141,178	138,907	0.5%	2.1%
Industrial production, index, SA	107.1	107.4	105.7	-0.3%	1.3%
Real retail sales, SA	185,895	186,041	183,689	-0.1%	1.2%
Real personal income less transfers	11,511.0	11,416.2	11,116.6	0.8%	3.5%
Real personal consumption expenditures	11,176.3	11,104.4	10,860.8	0.6%	2.9%
Unemployment rate	5.3%	5.5%	6.1%	NA	NA
New building permits, SA, thousands	1,337	1,038	1,033	28.8%	29.4%
Standard & Poor's 500 stock price index	2,099.28	2,079.99	1,947.09	0.9%	7.8%
Oil, price per barrel in Cushing, OK	\$59.82	\$47.82	\$105.79	25.1%	-43.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Average weekly hours worked fell and earnings per hour in the private sector were essentially unchanged over the past year. Two of three broader indicators suggest softening in the state economy in the second quarter. Milk prices were 24.8 percent lower than one year ago in June. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 4 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, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment, 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. The national economy appears to have rebounded from a soft patch in the year's first quarter and now appears poised to grow at a moderate rate through the remainder of 2015.

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.

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.

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 Joe Kucan. 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.*

*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.*

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