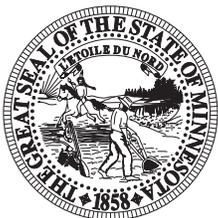




Metropolitan Area
Economic and Business Conditions Report
First Quarter 2014



OFFICE OF THE MINNESOTA
SECRETARY OF STATE



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

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Executive Summary

Twin Cities business conditions are expected to pick up over the next several months according to the predictions of the St. Cloud State University (SCSU) Twin Cities Index of Leading Economic Indicators. The leading economic indicator index (LEI) was lifted by an increase in new filings for business incorporations and limited liability companies (LLC) in the Twin Cities. An improvement in a general measure of statewide business conditions also contributed positively to the Twin Cities outlook. Despite poor winter weather, the value of residential building permits expanded in the Twin Cities metro, further lifting the outlook for the regional economy. The Twin Cities index is now 4.9 percent higher than one year ago.

There were 10,406 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the first quarter of 2014 — representing a 0.7 percent increase from one year ago. There were 1,594 new regional business incorporations in the first quarter, a 3 percent increase over year-ago levels. Over the past 12 months, new LLC filings in the seven-county metro area increased by 3.4 percent — rising to 6,106 in the first quarter of 2014. New assumed names totaled 2,270 in this year’s first quarter — a reduction of 8.5 percent from the first quarter of 2013. There were 436 new filings for non-profits in the Twin Cities in the first quarter of 2014, an 8.7 percent increase from one year earlier.

Twin Cities employment increased by 1.4 percent over the year ending March 2014. The regional unemployment rate was 4.7 percent in March, an improvement on its 5.1 percent reading one year ago. Initial claims for unemployment insurance were slightly elevated from one year ago, though down from late 2013. This number has trended down consistently since 2010. Job vacancies continue to rise in the Twin Cities. There is now nearly one vacancy for every two people unemployed in this region. The labor force continues to expand in the Minneapolis-St. Paul area, particularly when compared to Greater Minnesota.

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. The area rebounded strongly from the recession in 2008–2009, but paused somewhat last year. The LEI fell 3.7 percent in 2013 based on declines in regional measures, though national and state trends were positive. Performance of the LEI in this year’s first quarter was much improved and is now 4.9 percent higher than one year ago, suggesting strong predicted future growth in the Twin Cities metro.

The SCSU Twin Cities Leading Economic Indicators Index



Components of SCSU Twin Cities Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2014	Contribution to LEI, annual 2013
Minnesota Business Conditions Index	2.58	0.89
Twin Cities initial claims for unemployment insurance	-1.73	-1.94
Twin Cities new filings of incorporation and LLCs	1.77	-0.71
Mpls. - St. Paul residential building permits	0.2	-2.2
Philadelphia Fed MN leading indicators	-0.5	0.27
TOTAL CHANGE	2.32	-3.69

The Twin Cities LEI contains five factors, 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 Minnesota’s LEI rose in 2013 but fell during the first three months of 2014. In contrast, the Minnesota Business Conditions Index (constructed by Creighton University) rose in the first quarter of 2014. This helped lift the Twin Cities outlook.

Two of the three local measures were positive in this year’s first quarter, reversing trends of 2013. New Twin Cities filings of incorporation and LLCs were up sharply in the quarter, contributing 1.77 points of the 2.32 point gain in LEI. Despite the brutal winter in 2014, metro area building permits were up slightly. Initial claims for unemployment insurance rose over the last quarter and were thus a drag on the LEI.

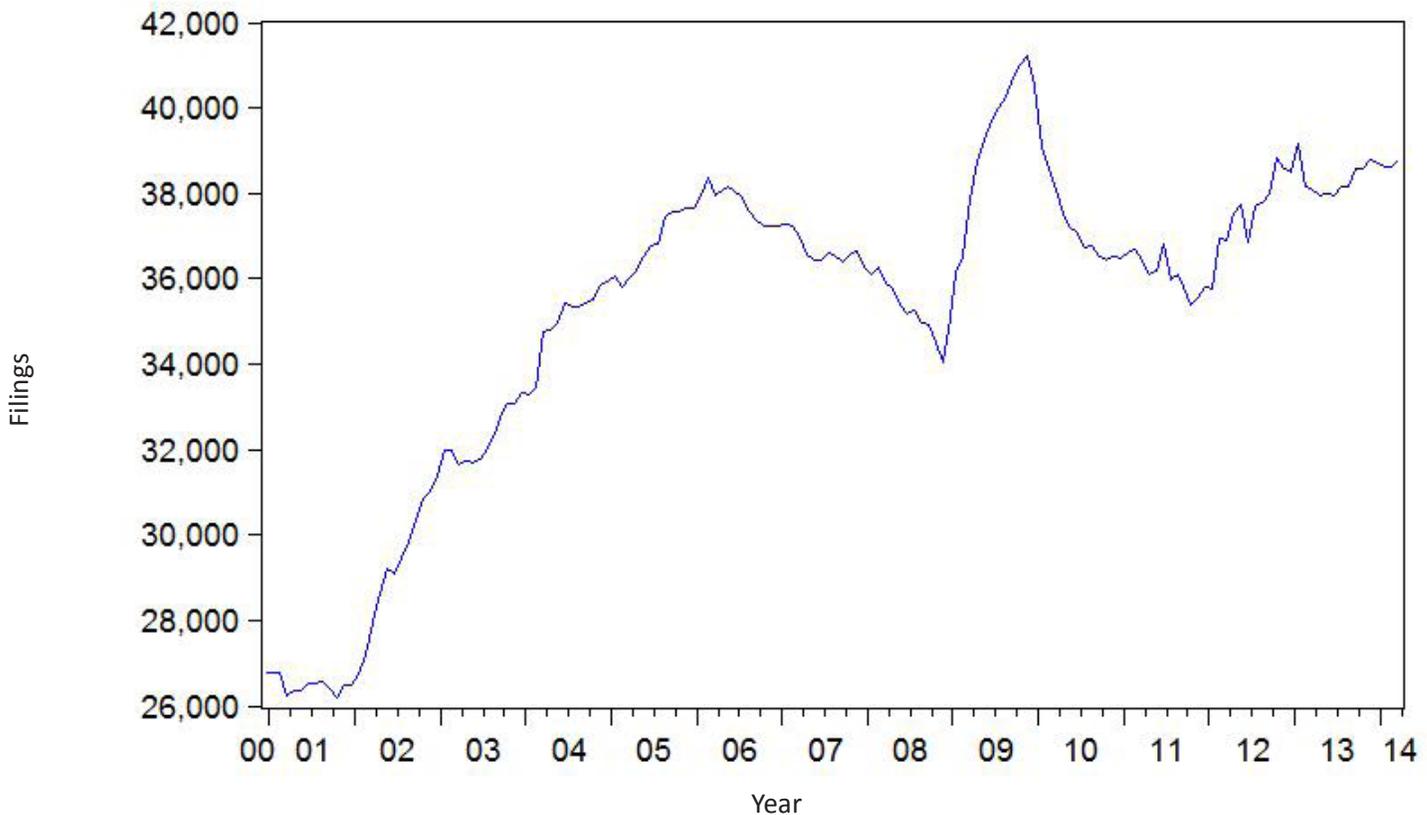
SCSU Twin Cities Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index March	64.1	55.2	16.1%
Twin Cities initial claims for unemployment insurance March	9,271	9,136	1.5%
Twin Cities new filings of incorporation and LLCs First Quarter	7,703	7,450	3.4%
Twin Cities MSA single family building permits, March	493	511	-3.5%
Index of Leading Economic Indicators Philadelphia Federal Reserve, March	1.21	1.20	0.8%
Twin Cities Leading Economic Indicators Index March (December 1999 = 100)	101.6	96.9	4.9%

Twin Cities Business Filings

Total new business filings grew rapidly from 2000 to 2005, after which they declined for three years. 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 in the graph below) 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. Total business filings resumed their rise in the second half of 2011. In four quarters through March 2014, total filings rose 0.7 percent.

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.

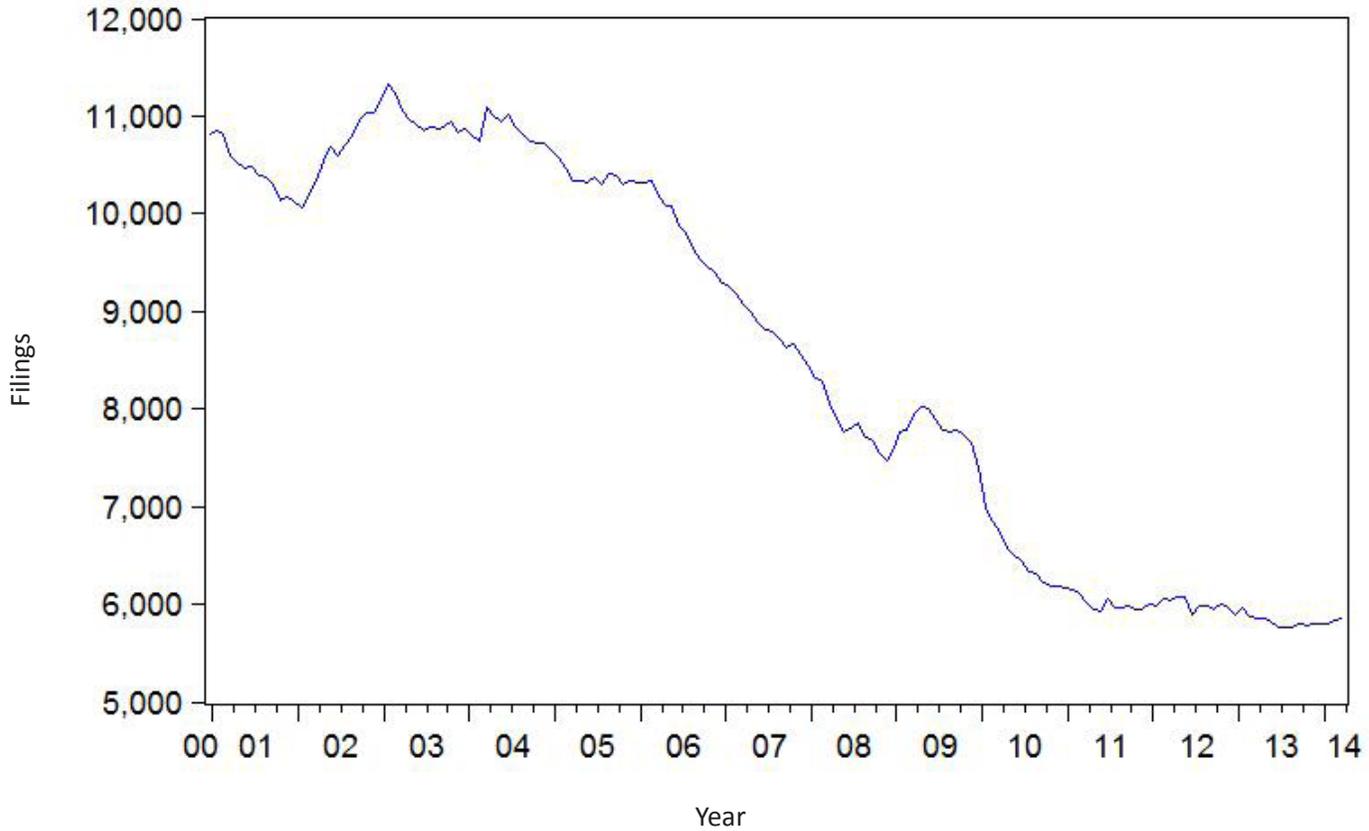
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Twin Cities Total New Business Filings	10,333	9,886	9,411	9,080	10,406	0.7%

New business incorporations trended downward in the Twin Cities from 2004 to 2011, and have been relatively flat to slightly down since. However, new business incorporations rose 3 percent from one year earlier in the first quarter of 2014.

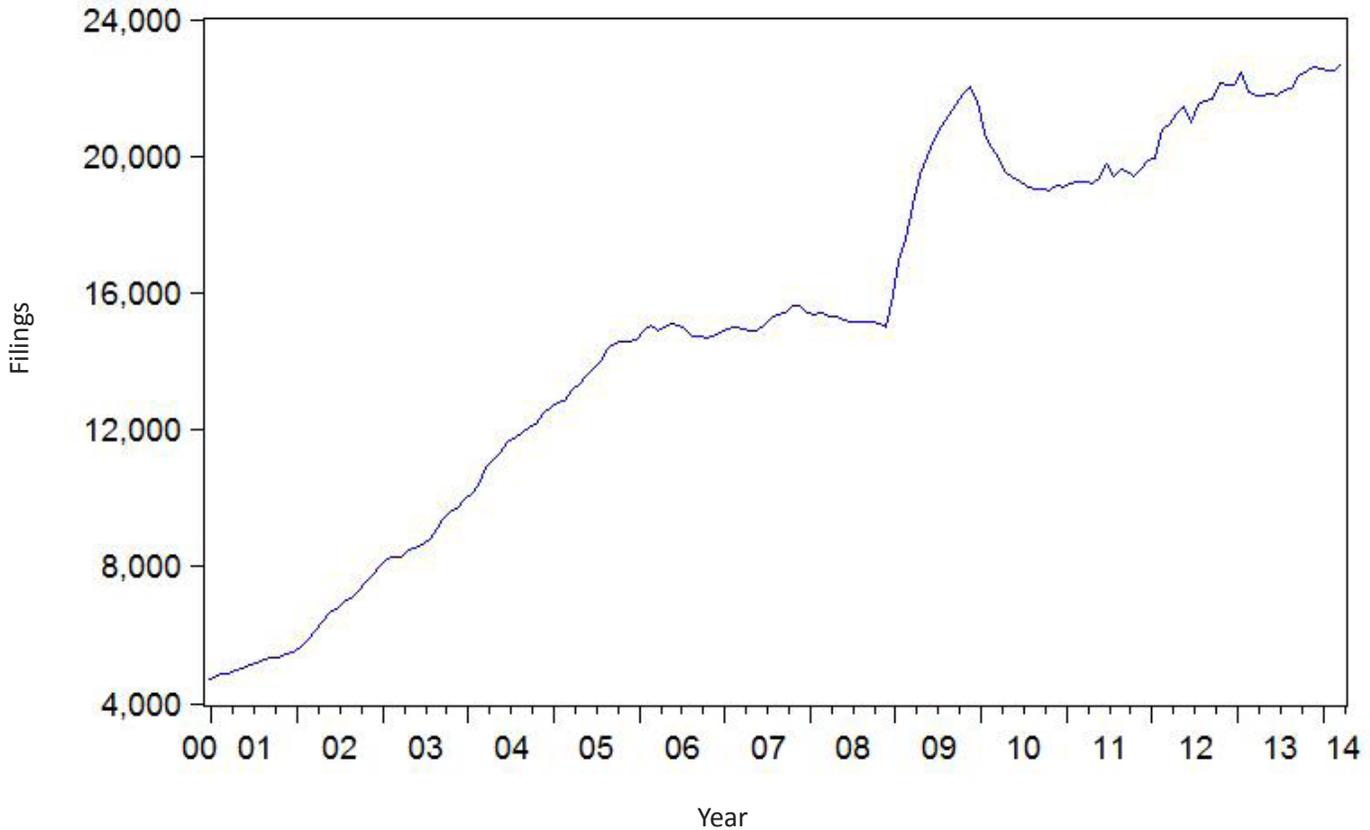
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Twin Cities New Business Incorporations	1,547	1,427	1,413	1,414	1,597	3.0%

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 which continued in 2013. With the exception of the outlier period in 2008–2009, new LLC formation has shown a fairly steady rate of growth since 2000.

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



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Twin Cities New Limited Liability Companies	5,903	5,690	5,568	5,372	6,106	3.4%

Assumed names, which include sole proprietors or organizations that do not have limited liability, declined precipitously over the year ending March 2014, falling 8.5 percent. This series has not recovered from its peak levels of 2006–2007, though there was some recovery at the end of the Great Recession.

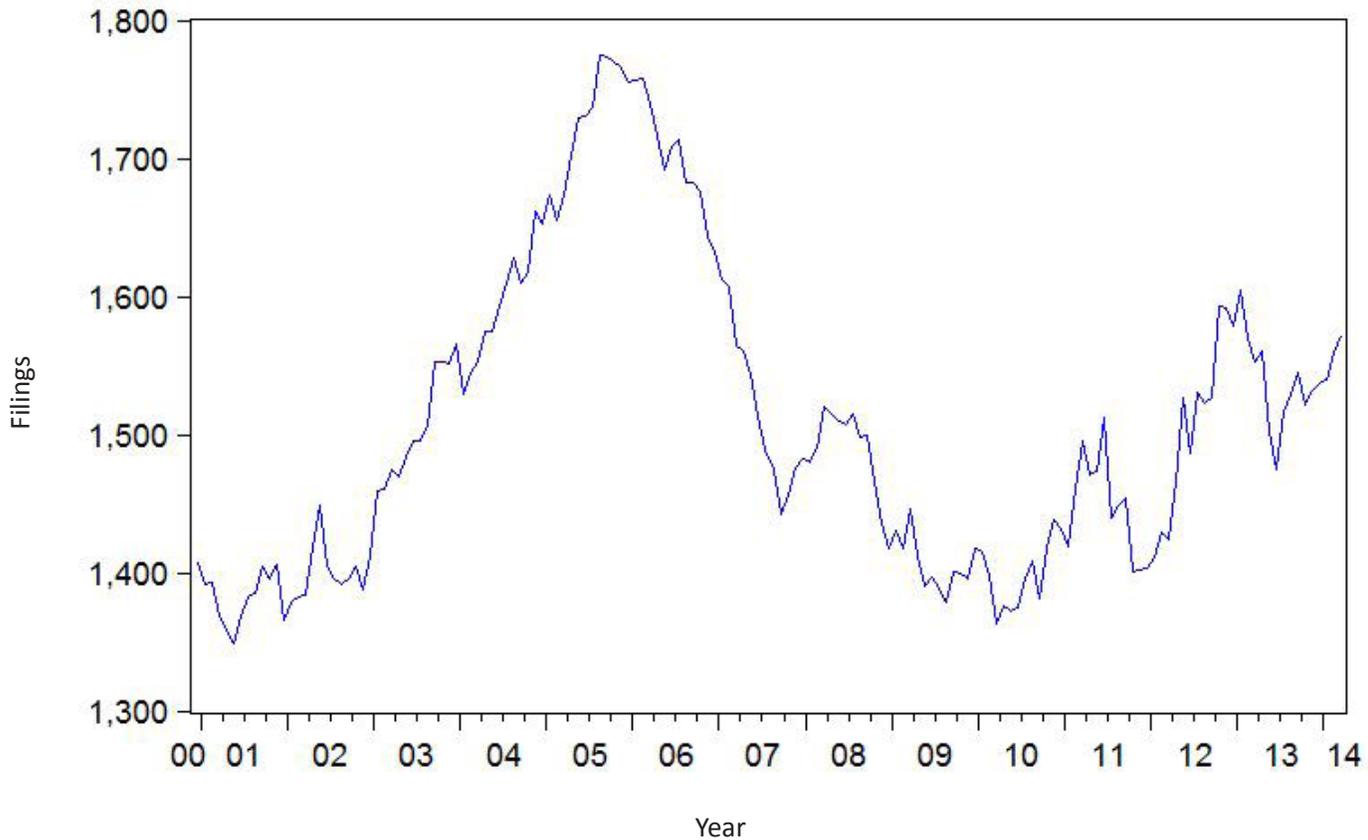
New Assumed Names—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Twin Cities New Assumed Names	2,482	2,413	2,024	1,919	2,270	-8.5%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State increased, though remained below the levels seen before the Great Recession. The numbers fluctuate from quarter-to-quarter, but there is an unmistakable upward trend. In the last 12 months through the first quarter of 2014, registration of new Twin Cities non-profits grew 8.7 percent.

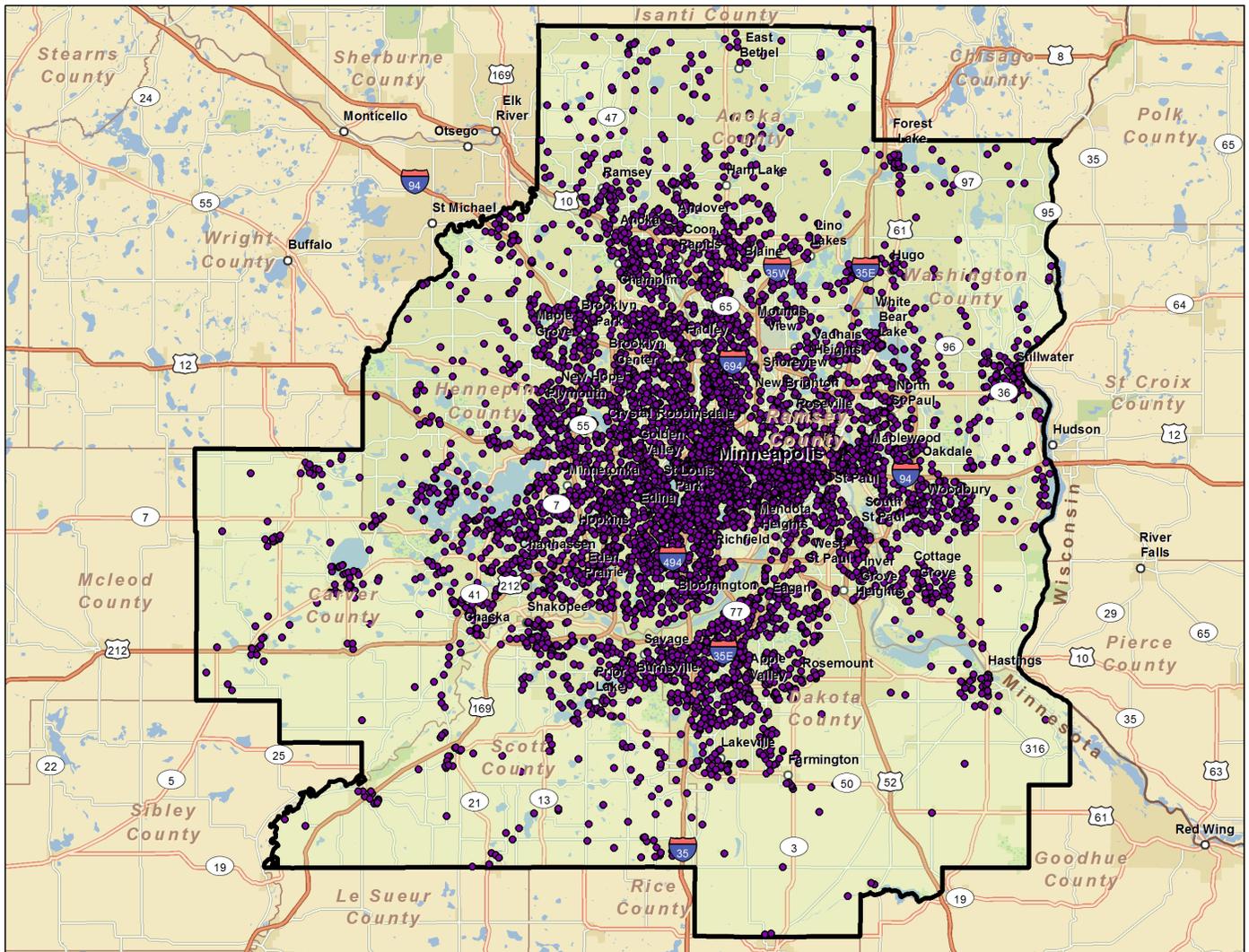
New Non-Profits—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Twin Cities New Non-Profits	401	355	406	375	436	8.7%

The highlighted area in the map below is the seven-county Twin Cities planning area, consisting of the following counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington. Each dot within the area is a new business filing registered between January and March 2014. Within this area there were: 1,597 new business incorporations; 2,270 assumed names; 6,106 LLCs; and 436 non-profits.

Geographic Distribution of All New Twin Cities Business Filings January - March 2014



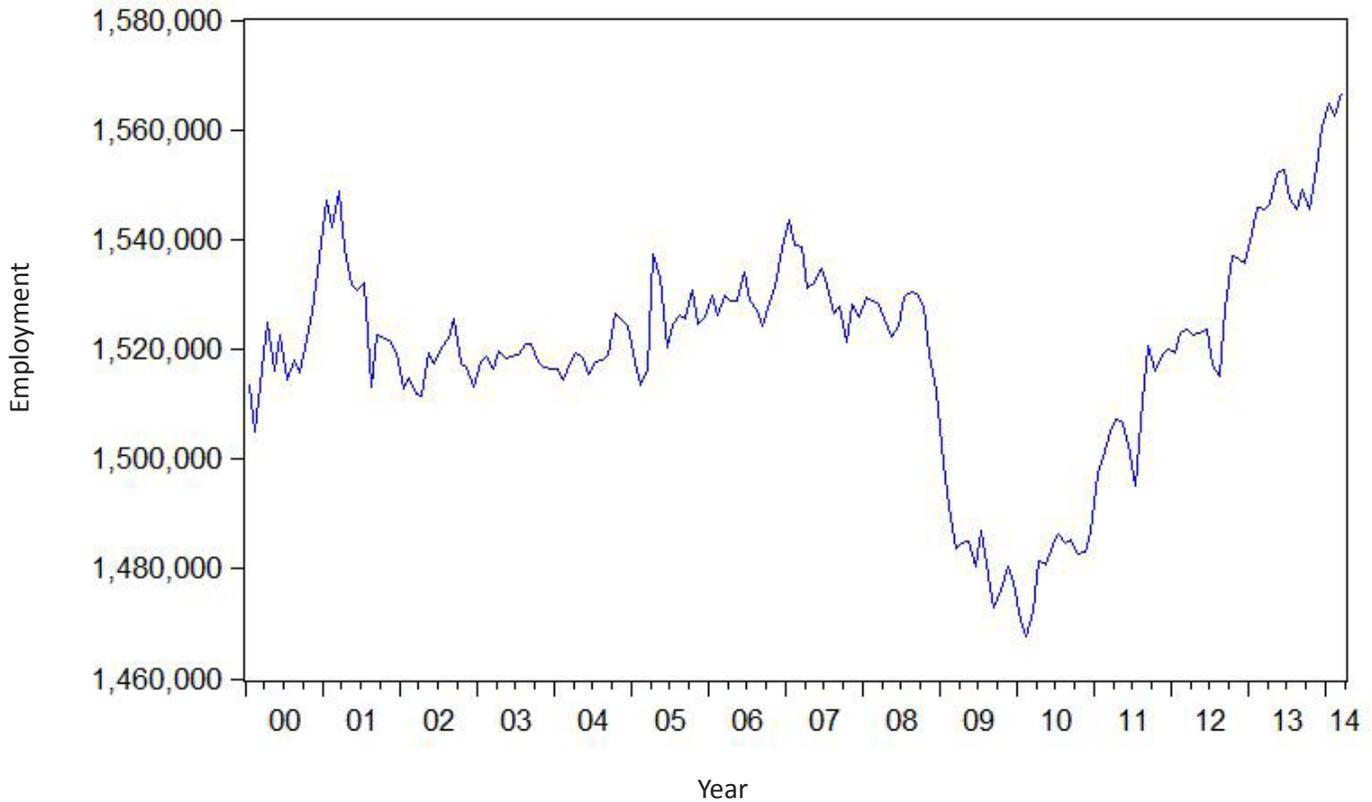
Most recent filings happened within the Twin Cities area proper. The southern part of this planning area saw very few firms started. Interestingly, the area closer to the Wisconsin border, particularly near cities like Stillwater or Hastings, saw some new business formation. Business development tends to follow highways. In particular, the northwest corner of the Twin Cities saw substantial new business filings along the corridor formed by U.S. Highway 10 and Interstate 94 towards Rogers and Elk River. Ten years ago this area was noteworthy for rapid economic expansion, but was slowed by the Great Recession. The growth shown in this map may signal a new start of rapid expansion.

This map is different than those that appear in the reports for Minnesota’s other five planning areas. Given the volume of business activity in the Twin Cities, a map of all new business filings since 2000 would overpopulate the metro area with dots, making the image appear to be one continuous area of new activity.

Twin Cities Labor Market Conditions

Employment of Twin Cities residents grew 1.4 percent over the past year. After relative stagnation through 2007, and a decline during the Great Recession, the area has experienced steady growth since the start of 2010. The growth in LEI in the first quarter of 2014 indicated earlier in this report may signal the growth rate to pick up in the second half of 2014.

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



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Employment (Not seasonally adjusted)	1,534,567	1,552,380	1,561,063	1,554,625	1,544,479	1,549,064	1,556,194

Seasonally adjusted unemployment in the Twin Cities is 0.4 percent below 2013 levels. The unemployment rate has declined since peaking out at the end of the Great Recession in 2009. The non-seasonally adjusted unemployment rate now stands at 4.7 percent, more than 1.5 percentage points below the national average.

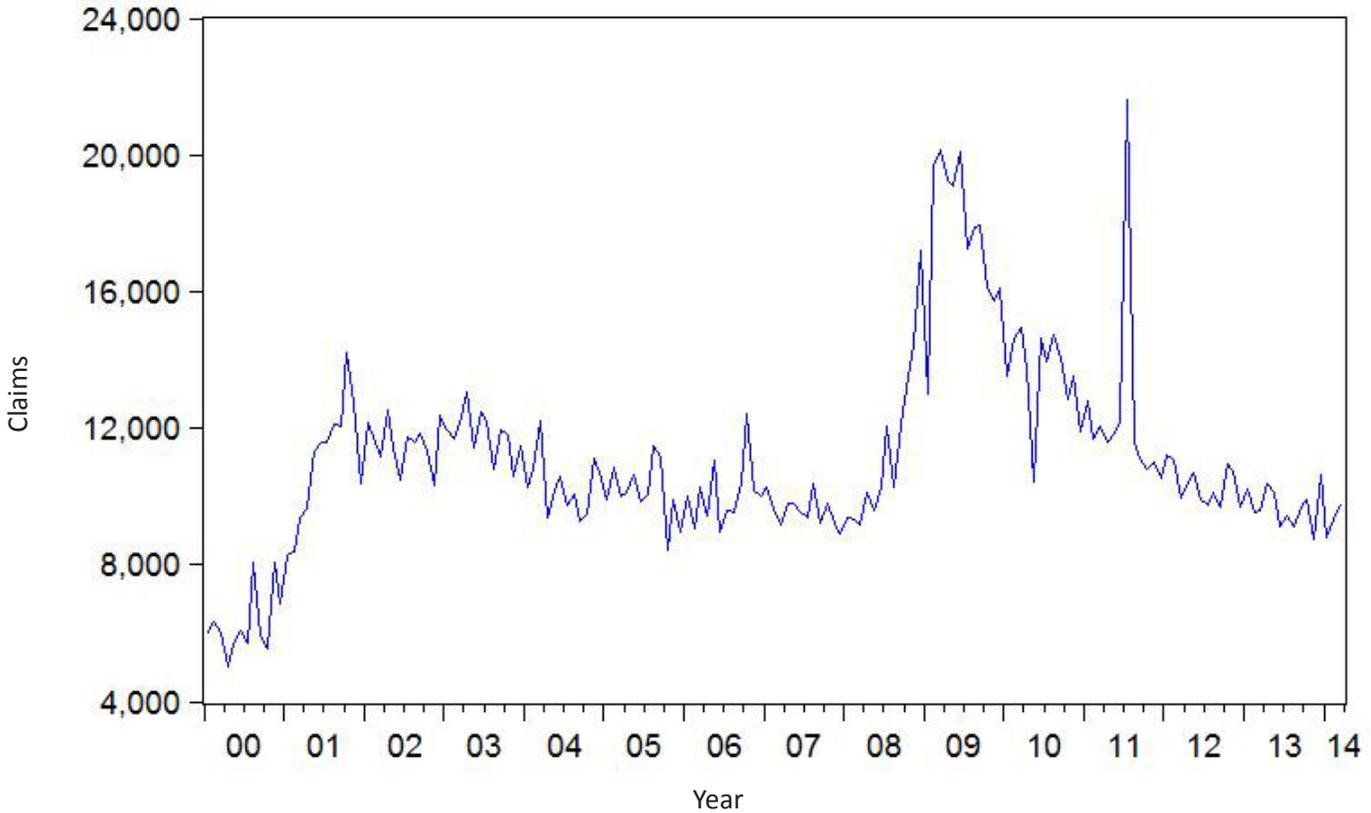
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Unemployment Rate (Not seasonally adjusted)	5.1%	4.3%	4.1%	4.2%	4.9%	4.8%	4.7%

New claims for unemployment insurance increased slightly in March 2014 from a year ago. There were 135 more unemployment claims than one year earlier. Despite this, initial jobless claims are well below their heightened levels during the Great Recession.

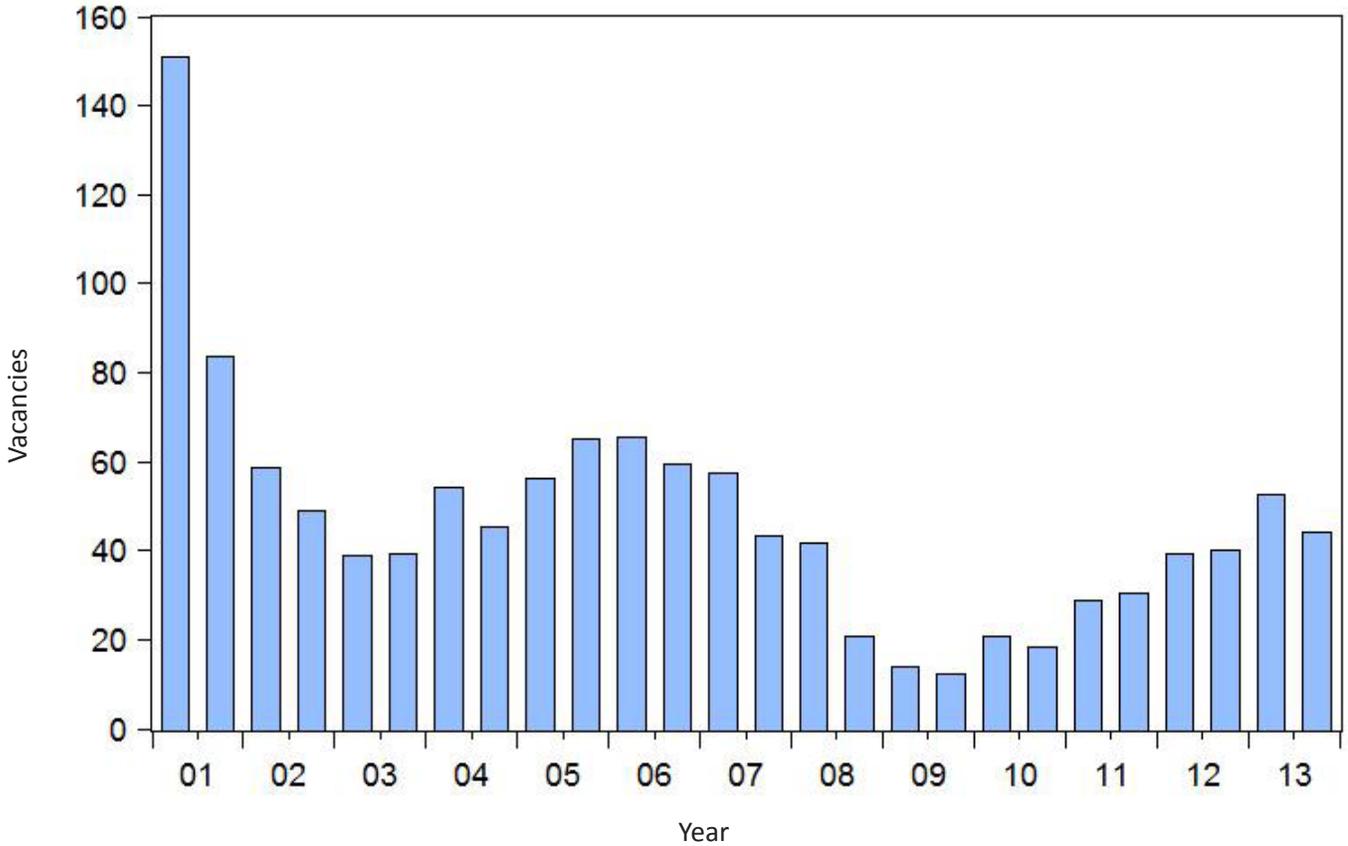
Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Twin Cities Planning Area



Period	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Initial claims (Not seasonally adjusted)	9,136	9,547	10,674	13,586	11,557	8,821	9,271

Job vacancies in the fourth quarter of 2013 in the Twin Cities were substantially higher as a share of the unemployed compared to 2011 and 2012, but still below the levels seen during the economic expansion of the first half of the previous decade. There is almost one vacancy for every two unemployed workers. While it is not known whether the jobs that are vacant have qualified workers among the unemployed, it is encouraging to see more vacancies in the area.

Job Vacancies per 100 unemployed—Twin Cities Planning Area



Quarter	2011: 2nd	2011: 4th	2012: 2nd	2012: 4th	2013: 2nd	2013: 4th
Vacancies /100 unemployed	29.04	34.11	39.95	43.50	54.11	48.62

The size of the Twin Cities labor force has increased steadily over the last few years. The Twin Cities labor force has expanded by 2.2 percent since 2009 and is now 5.6 percent larger than it was in 2000.

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



Year (March)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	1,597,048	1,581,469	1,596,297	1,603,040	1,616,210	1,632,552

Twin Cities Economic Indicators

Twin Cities MSA Indicators	Period covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (Since 1999 unless noted)
Employment	March 2014 (m)	1,788,557	1,764,651	1.4% ↑	0.5%
Manufacturing Employment	March 2014 (m)	185,081	180,645	2.5% ↑	-1.6%
Average Weekly Work Hours Private Sector	March 2014 (m)	34.7	33.9	2.4% ↑	33.9 (since 2008)
Average Earnings Per Hour Private Sector	March 2014 (m)	\$27.07	\$26.63	1.7% ↑	1.0% (since 2008)
Average Weekly Work Hours Manufacturing (Production Workers)	March 2014 (m)	41	40.2	2.0% ↑	40.2 (since 2001)
Average Earnings Per Hour Manufacturing (Production Workers)	March 2014 (m)	\$20.31	\$20.78	-2.3% ↓	2.1% (since 2001)
Unemployment Rate	March 2014 (m)	4.9%	5.3%	NA ↓	5.1%
Labor Force	March 2014 (m)	1,875,103	1,856,700	1.0% ↑	0.6%
MSP Residential Building Permit Valuation	March 2014(m)	223,526	202,193	10.6% ↑	211542
Minneapolis Cost of Living Index	4th Quarter 2013	110.1	108.8	1.2% ↑	110.5 (since 2007)
St. Paul Cost of Living Index	4th Quarter 2013	109	108	0.9% ↑	109.4 (since 2008)

(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 11 Minnesota counties: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, 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 good labor market conditions in the last 12 months. Weekly hours — a leading indicator in many economic models of the business cycle — rose in the period for both manufacturing production workers and for workers in the private sector overall. Earnings per hour in manufacturing fell, but this may be due to adding 2.5 percent more workers in the last 12 months (new workers tend to earn less than existing workers and will bring the average down.) Cost of living measures for both Minneapolis and St. Paul rose in the fourth quarter of 2013 compared to the same period in 2012. It is important to note that those measures are not the same as a consumer price index, but reflect the relative cost of living in the Twin Cities. The data should be read to indicate that it is approximately 9-10 percent more expensive to live in the Twin Cities than an average city in the United States.

State and National Indicators

MINNESOTA Indicators	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,813,900	2,811,700	2,770,000	0.1%	1.6%
Average weekly hours worked, private sector	34.0	34.0	33.4	0.0%	1.8%
Unemployment rate, seasonally adjusted	4.8%	4.7%	5.2%	NA	NA
Earnings per hour, private sector	\$25.86	\$25.94	\$25.55	-0.3%	1.2%
Philadelphia Fed Coincident Indicator, MN	160.98	159.85	156.40	0.7%	2.9%
Philadelphia Fed Leading Indicator, MN	1.21	1.9	1.27	-36.3%	-4.7%
Minnesota Business Conditions Index	64.1	58.9	55.2	8.8%	6.7%
Price of milk received by farmers (cwt)	\$26.40	\$22.10	\$19.50	19.5%	35.4%
Enplanements, MSP airport, thousands	1,568.8	1,392.1	1,510.1	12.7%	3.9%

NATIONAL Indicators	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	137928	137395	135682	0.4%	1.7%
Industrial production, index, SA	103.2	101.5	99.5	1.7%	3.7%
Real retail sales, SA	184140	182779	180159	0.7%	2.2%
Real personal income less transfers	11,063	10,987	10,830	0.7%	2.2%
Real personal consumption expenditures	10979	10844	10674	1.2%	2.9%
Unemployment rate	6.7%	6.7%	7.5%	NA	NA
New building permits, thousands	990	991	890	-0.1%	11.2%
Standard and Poor's 500 stock price index	1872.34	1848.36	1569.19	1.3%	19.3%
Oil, price per barrel in Cushing, OK	\$100.80	\$97.63	\$92.94	3.2%	8.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Earnings per hour in the private sector rose 1.2 percent over the past year. Broader indicators suggest strength in the state economy. Farmers are receiving higher prices for milk, an important indicator in many areas of Minnesota.

Despite a recent report of tepid output growth in the first quarter, the national economy continues its expansion. Despite a de facto tax hike that resulted from the elimination of the partial payroll tax holiday at the beginning of 2013, consumption rose 2.9 percent over the last 12 months, and building permits rose. The stock market surged in 2013, which may have helped consumer sentiment. Oil prices, on the other hand, rose over the past year, taking some discretionary income out of consumers' hands.

The Metropolitan Area 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 7 counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington.

Reports on second quarter 2014 business and economic conditions in each of the six planning areas will be available in August 2014.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Joseph Kucan and Jie Zu. Our thanks to Professor David Wall and Ian Wolfe of the SCSU Geography Department for 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

U.S. Bureau of Census: Durable Goods Orders, Housing Permits, Residential Building Permits, Retail Sales.

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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.