Central Minnesota
Economic and Business Conditions Report
Third 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

Various indicators suggest Central Minnesota business conditions will remain solid over the next several months. While the Central Minnesota Index of Leading Economic Indicators (LEI) declined slightly in the third quarter, the abundance of regional evidence points to continued economic strength. Making positive contributions to the LEI were new filings of incorporation in Central Minnesota, increased residential building permits in St. Cloud, and a rise in national durable goods orders. Recent weakness in a general measure of state business conditions and a rise in jobless claims had a negative effect on the LEI.

There were 1,217 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the third quarter of 2014—representing a 5.4 percent decline from one year ago. There were 125 new regional business incorporations in the third quarter, an 8.8 percent reduction from year ago levels. Over the past 12 months, new limited liability company (LLC) filings in Central Minnesota increased by 2 percent—rising to 706 in the third quarter of 2014. New assumed names totaled 345 in this year's third quarter—a reduction of 12.7 percent from the third quarter of 2013. There were 41 new filings for Central Minnesota non-profits in the third quarter—22 fewer filings than one year ago.

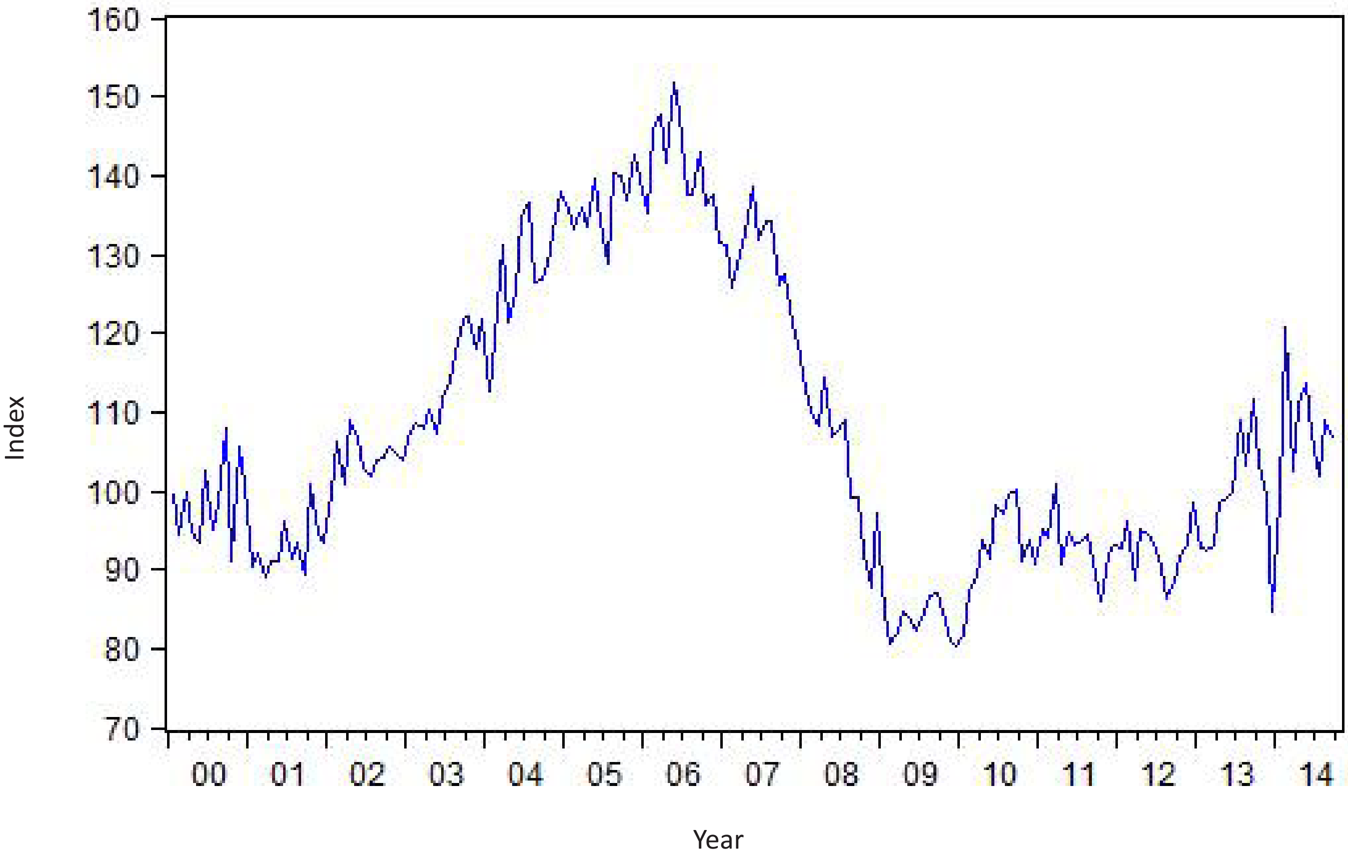
Central Minnesota employment was 1.4 percent higher in September 2014 than it was one year earlier. Compared to one year ago, 4,884 more residents of Central Minnesota now have jobs. The regional unemployment rate was 3.7 percent in September 2014, well below the 4.6 percent rate reported one year ago. Initial claims for unemployment insurance increased over the last three months, although October 2014 jobless claims were 27 percent lower than one year earlier. The Central Minnesota labor force continues to grow and job vacancies per 100 unemployed are higher than they have been in many years. Regional bankruptcies fell to an annual total of 2,053 in the second quarter. This is 14.3 percent lower than the annual total in last year's second quarter.

Data from the St. Cloud area showed strength in the largest market in the Central Minnesota planning area. Overall job growth was up 2 percent over the year ending September 2014 and the St. Cloud unemployment rate fell to 3.5 percent. St. Cloud area businesses remain concerned about worker shortages as a measure of expected future difficulty attracting qualified workers was 42 percent higher than one year ago.

Central Minnesota Leading Economic Indicators Index

The SCSU Central Minnesota Leading Economic Indicators (LEI) Index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI finished 0.48 points lower in this year's third quarter, and is now 4.39 percent below its level one year ago. As can be seen in the accompanying figure, the LEI has shown a high degree of quarterly volatility so this period's negative reading does not yet signal future economic weakness. The series has drifted upward considerably from its low point in the Great Recession.

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



Components of SCSU Central Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2014	Contribution to LEI, 2nd quarter 2014
Minnesota Business Conditions Index	-1.32	1.40
Central Minnesota initial claims for unemployment insurance	-0.98	-2.21
Central Minnesota new filings of incorporation	1.52	2.40
St. Cloud MSA residential building permits	0.12	-0.71
National new orders for durable goods, real	0.18	0.59
TOTAL CHANGE	**-0.48**	**1.48**

Two index components—Central Minnesota initial claims for unemployment insurance and the Minnesota Business Conditions Index—had a negative impact on the LEI in the third quarter. The three other components of the LEI favorably influenced the third quarter outlook. Central Minnesota is an exporter of consumer durables, so national durable goods orders are a proxy for regional economic performance. This indicator improved slightly in the third quarter. New filings for business incorporation in Central Minnesota also helped lift the LEI in the third quarter. Finally, St. Cloud MSA residential building permits had a minor positive effect.

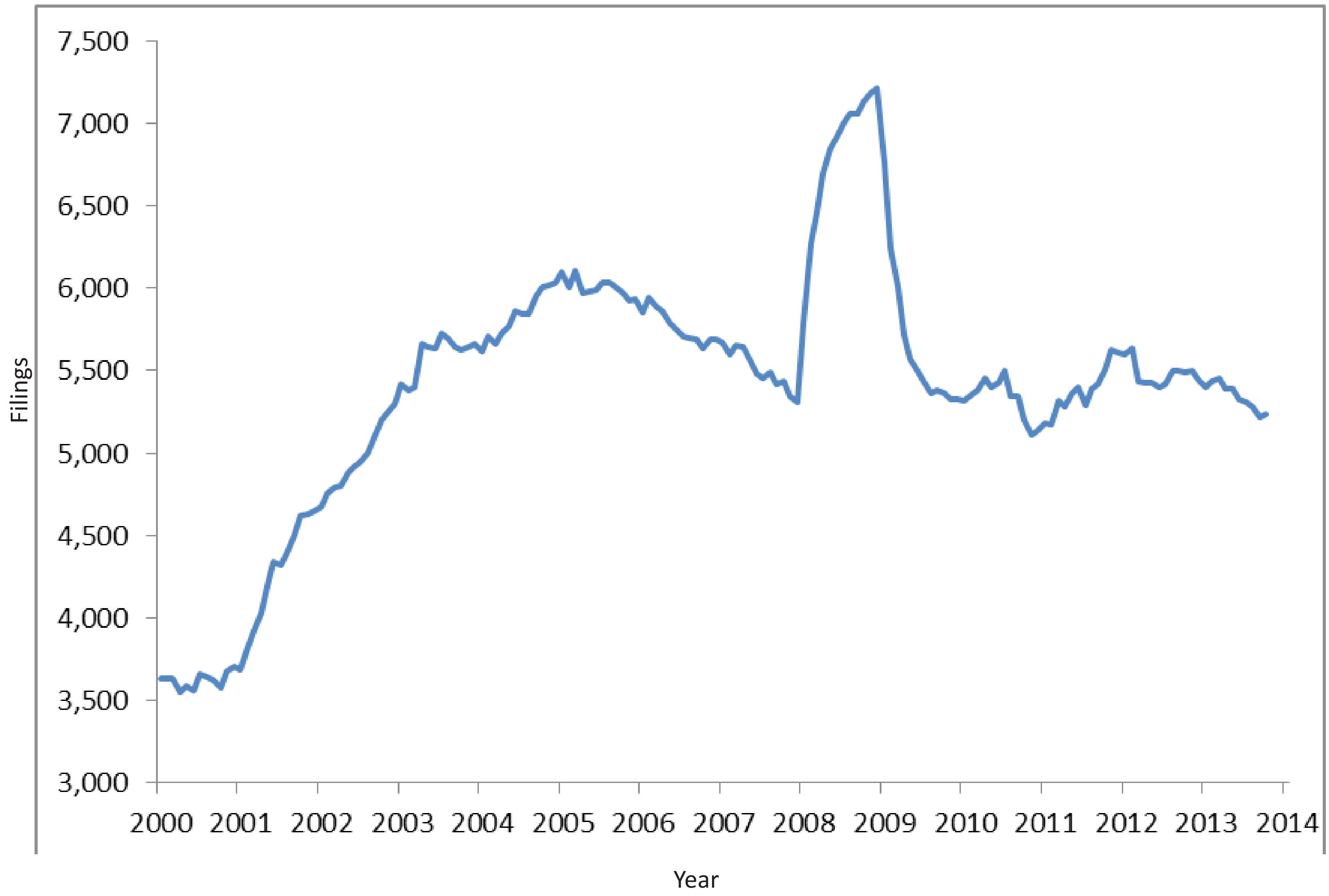
SCSU Central Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index September	66.3	57	16.32%
Central Minnesota initial claims for unemployment insurance September	1,842	1,961	-6.07%
Central Minnesota new filings of incorporation Third Quarter	125	137	-8.76%
St. Cloud MSA residential building permit valuation In Thousands, September	11,491	14,795	-22.33%
National new orders for durable goods, billions of real 1984 dollars, September	210.6	210.6	0.00%
Central Minnesota Leading Economic Indicators Index September (December 1999 = 100)	106.6	111.5	-4.39%

Central Minnesota Business Filings

The graphs in this section show 12-month moving totals for the various new business filings in Central Minnesota registered with the Office of the Minnesota Secretary of State, thereby removing seasonal patterns in the data.

There were 1,217 new business filings in Central Minnesota in the third quarter. While this represents a 5.4 percent decline from the same period last year, the annual number of regional new business filings has been fairly steady for the past several years. As can be seen in the accompanying graph, there was an abrupt increase in new business filings in mid-2008. This resulted from a sharp increase in new LLC filings at that time. This outlier (resembling a shark fin in the graph below) 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.

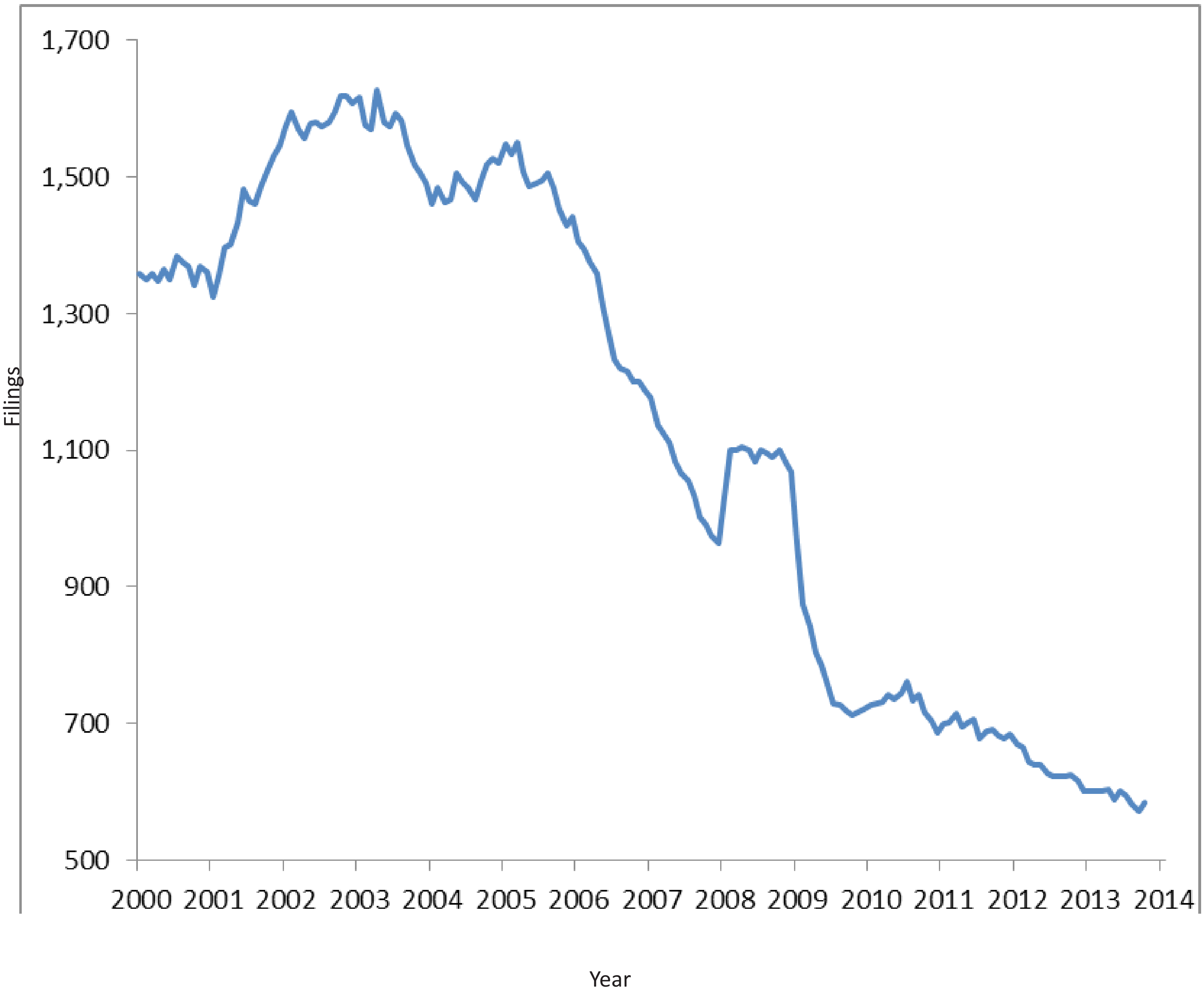
Total New Business Filings—Central Minnesota Planning Area (12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Central Minnesota Total New Business Filings	1,287	1,199	1,450	1,370	1,217	-5.4%

New business incorporations have trended downward in Central Minnesota since 2005. Quarterly figures of new business incorporations decreased 8.8 percent over the past 12 months—changing from 137 in the third quarter of 2013 to 125 one year later.

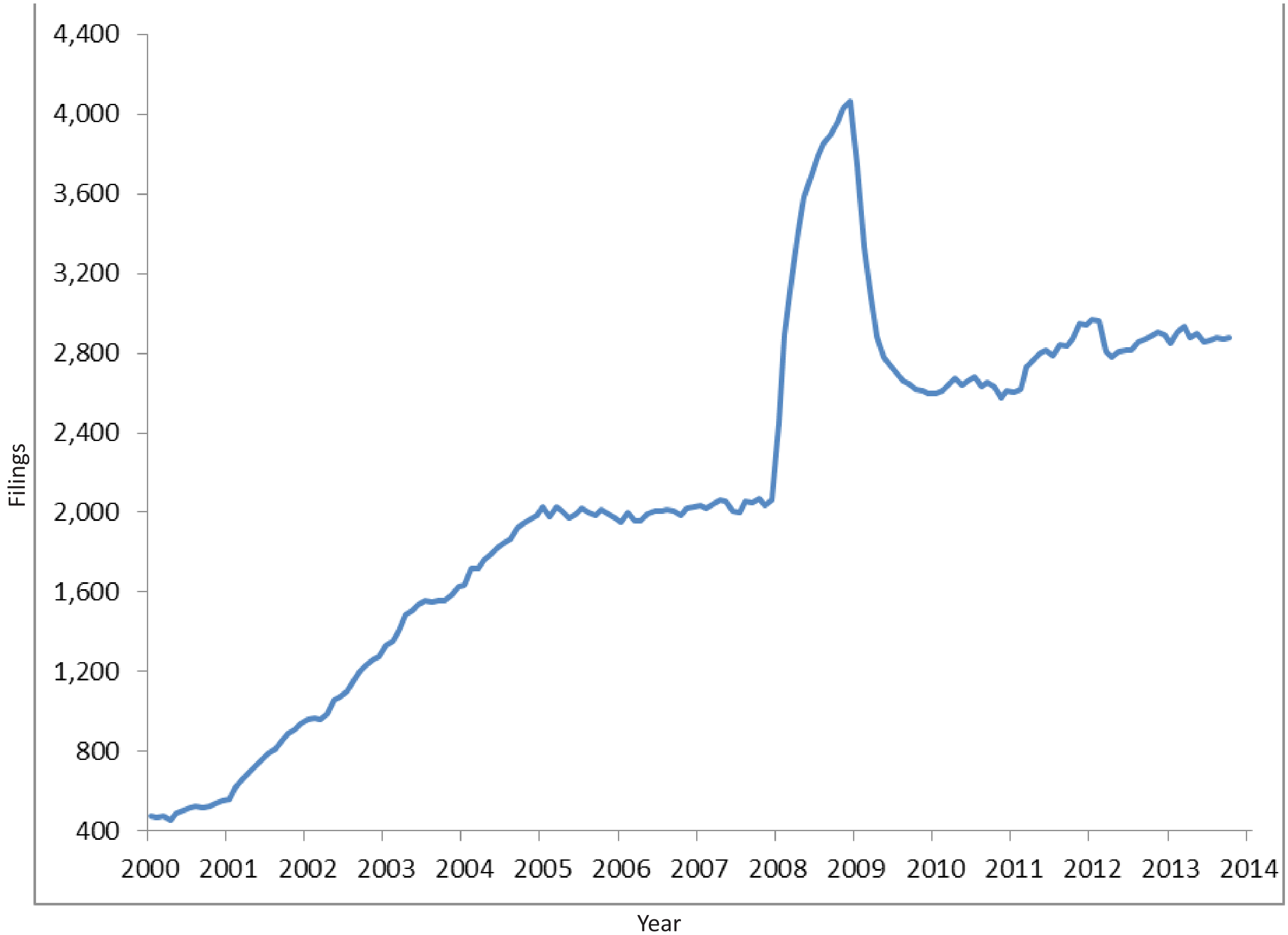
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Central Minnesota New Business Incorporations	137	131	177	151	125	-8.8%

There has been a move in Central Minnesota 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 Central Minnesota, LLCs are increasingly useful in evaluating regional economic performance. New LLCs in Central Minnesota are nearly six times larger than newly formed business incoprporations. the number of new LLCs expanded by 2.0 percent over the past twelve months.

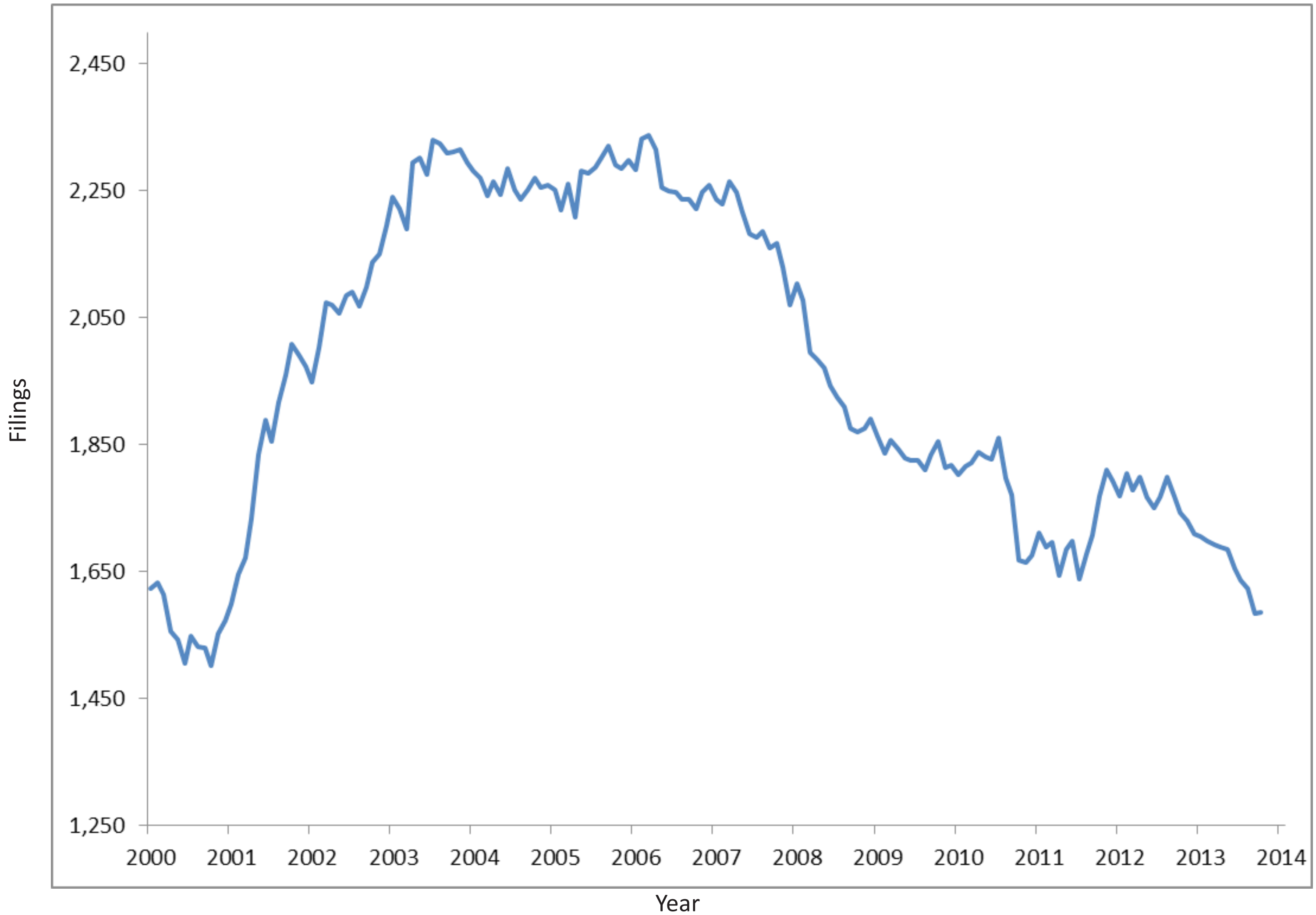
New Limited Liability Companies—Central Minnesota Planning Area (12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Central Minnesota New Limited Liability Companies	692	664	746	762	706	2.0%

Assumed names, which include sole proprietors or organizations that do not have limited liability, declined by 12.7 percent compared to last year's third quarter. With the exception of a brief steady period in 2011-2012, this series has been trending downward since the beginning of the Great Recession.

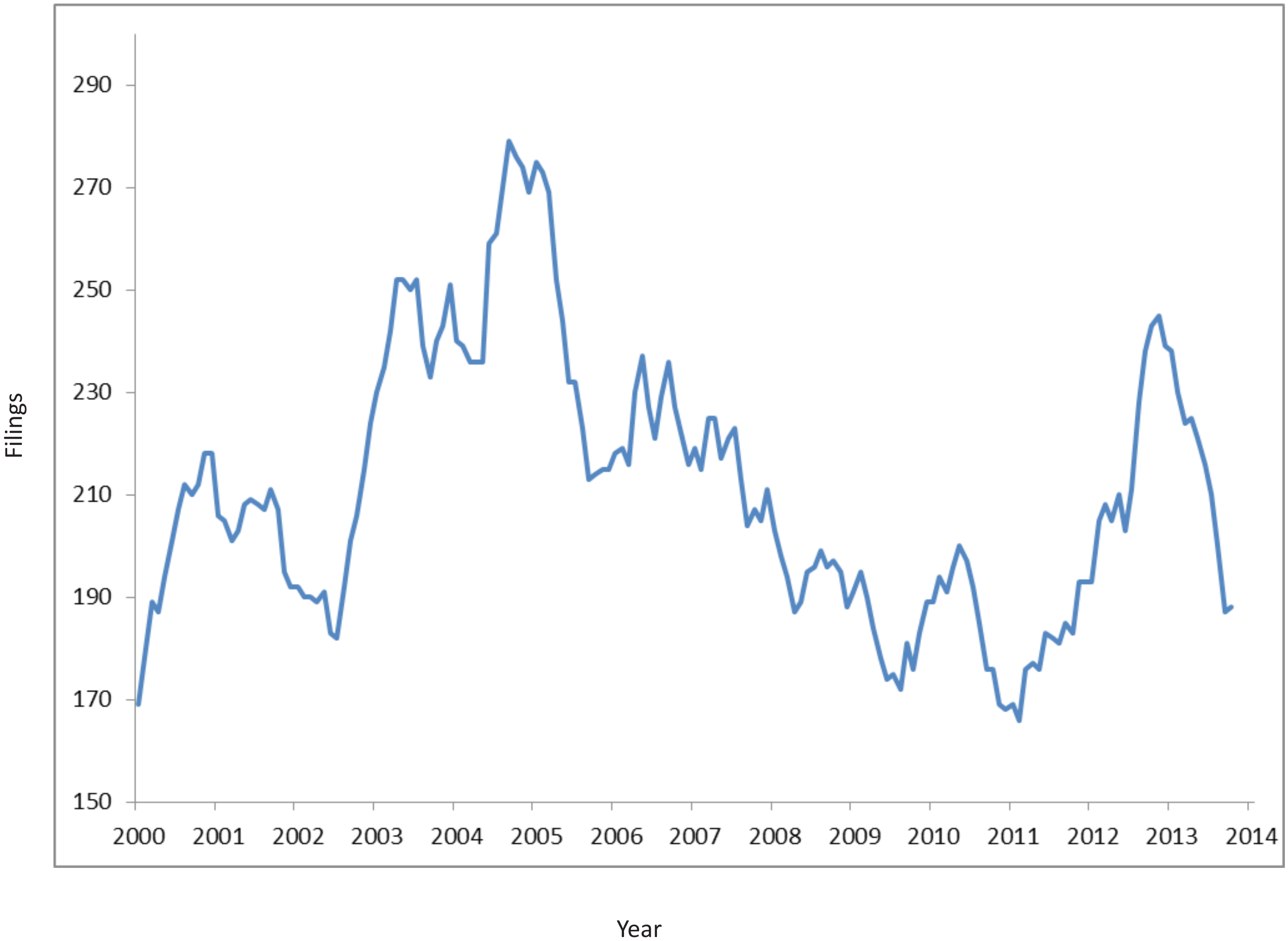
New Assumed Names—Central Minnesota Planning Area (12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Central Minnesota New Assumed Names	395	351	475	415	345	-12.7%

There were 41 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the third quarter of 2014—22 fewer new non-profits than were recorded one year ago. This represents a 34.9 percent decline in new non-profits compared to last year's third quarter.

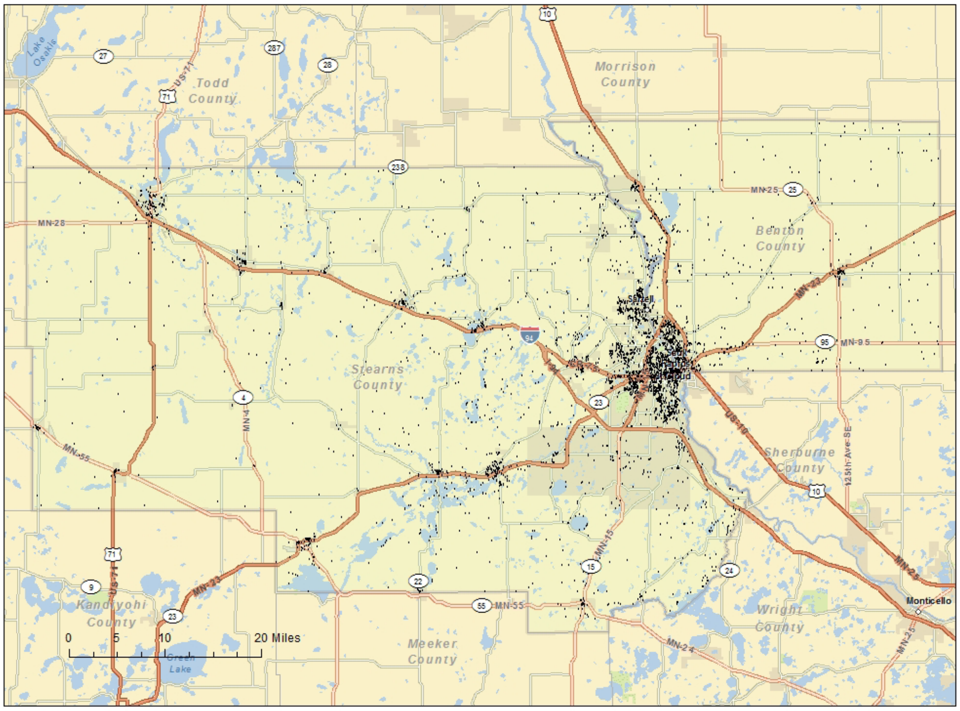
New Non-Profits—Central Minnesota Planning Area (12-month moving total)



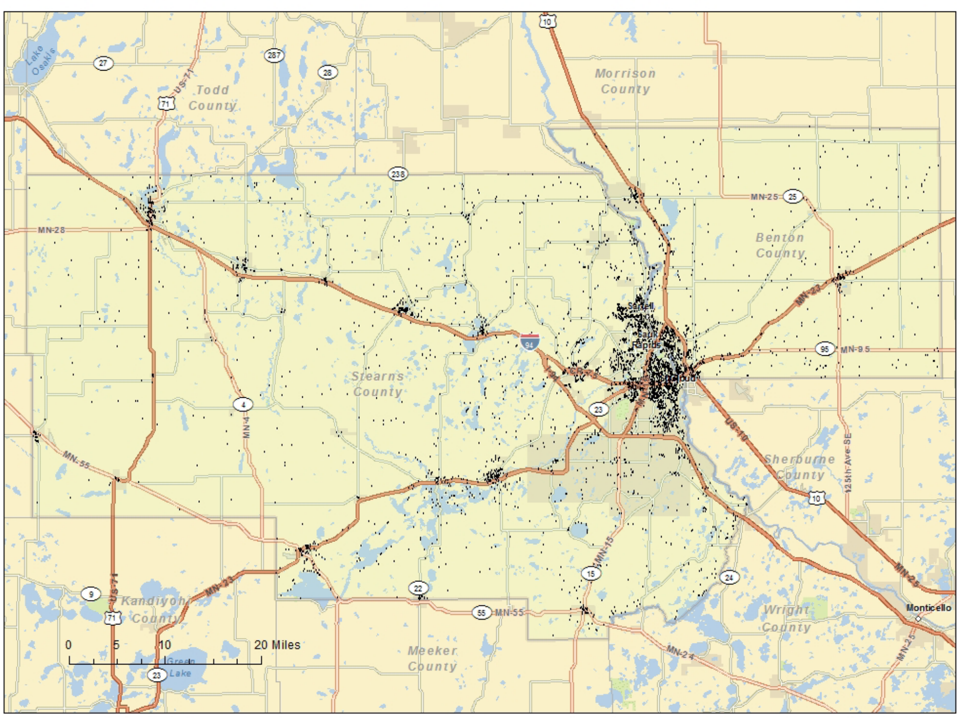
Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Central Minnesota New Non-Profits	63	53	52	42	41	-34.9%

The two maps below attempt to highlight new business formation in the St. Cloud Metropolitan Statistical Area (MSA) in two periods: 2000—2004 (quarter 3) and 2010—2014 (quarter 3). This MSA consists of two counties—Stearns and Benton. Each dot in the map represents a newly formed business in the relevant time period. While the composition of the dots has certainly changed (for example, there are now more LLCs and fewer business incorporations), little seems to have changed in the general pattern of business formation in the St. Cloud MSA since the beginning of the 21st century. Most newly formed businesses are in the St. Cloud area (including Sartell, Sauk Rapids and Waite Park) and other clusters of business filings tend to follow key roadways.

New Business Formation Between 2000 and 2004:III—St. Cloud MSA



New Business Formation Between 2010 and 2014:III—St. Cloud MSA

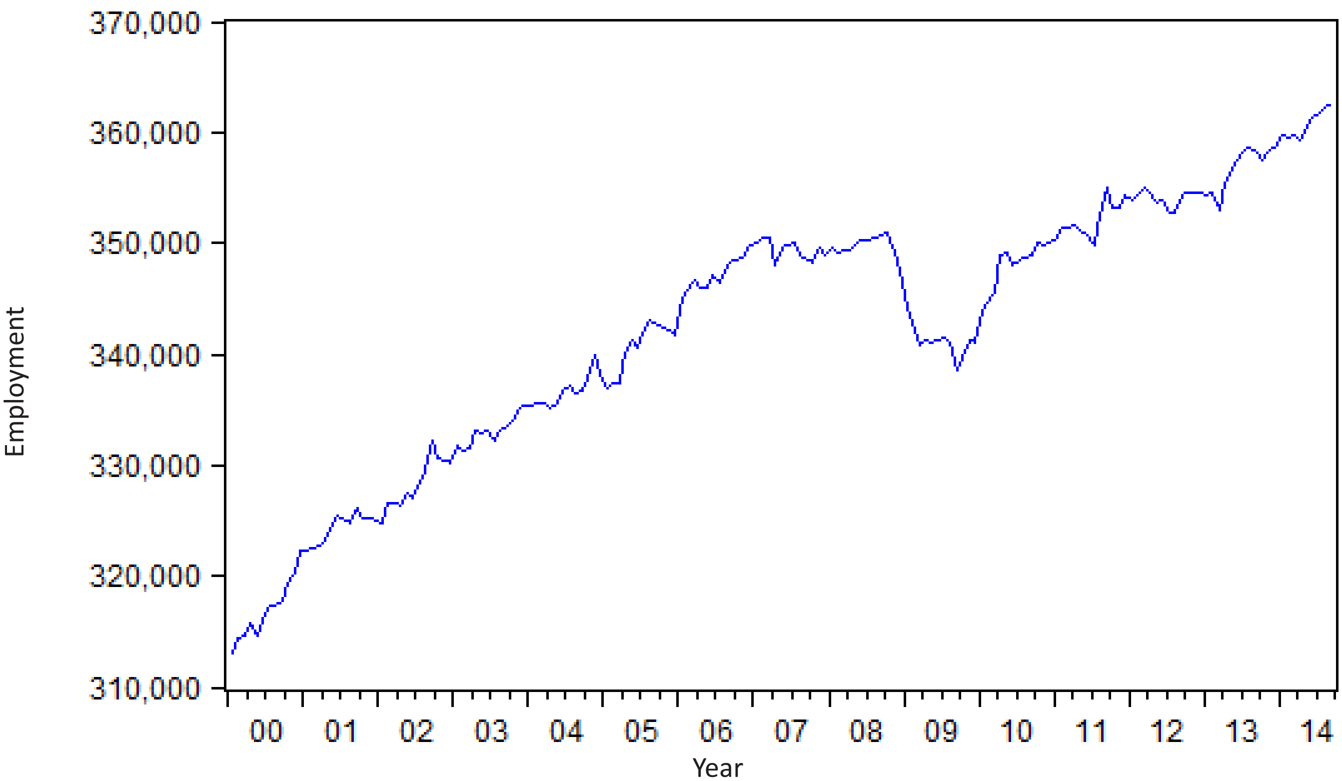


Central Minnesota Labor Market Conditions

Central Minnesota employment grew 1.4 percent over the past year. With the exception of the Great Recession of 2008–2009, Central Minnesota has demonstrated its ability to create jobs over the past 14 years at a rate better than other areas of greater Minnesota.

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, contact the SCSU School of Public Affairs Research Institute, soparesearch@stcloudstate.edu.

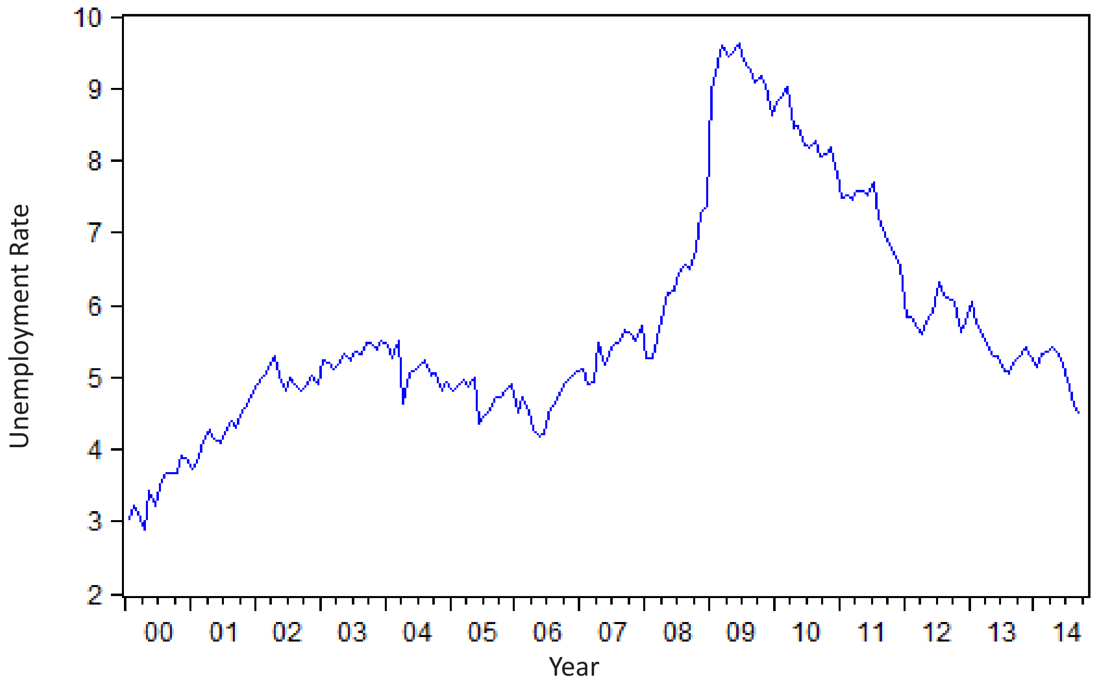
Employment—Central Minnesota Planning Area (12-month moving average)



Month	September 2013	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Employment (Not seasonally adjusted)	359,524	359,350	362,172	363,237	364,630	364,839	364,408

Central Minnesota's unemployment rate declined over the last three months. At 3.7 percent, the September 2014 regional unemployment rate is considerably lower than 4.6 percent one year earlier.

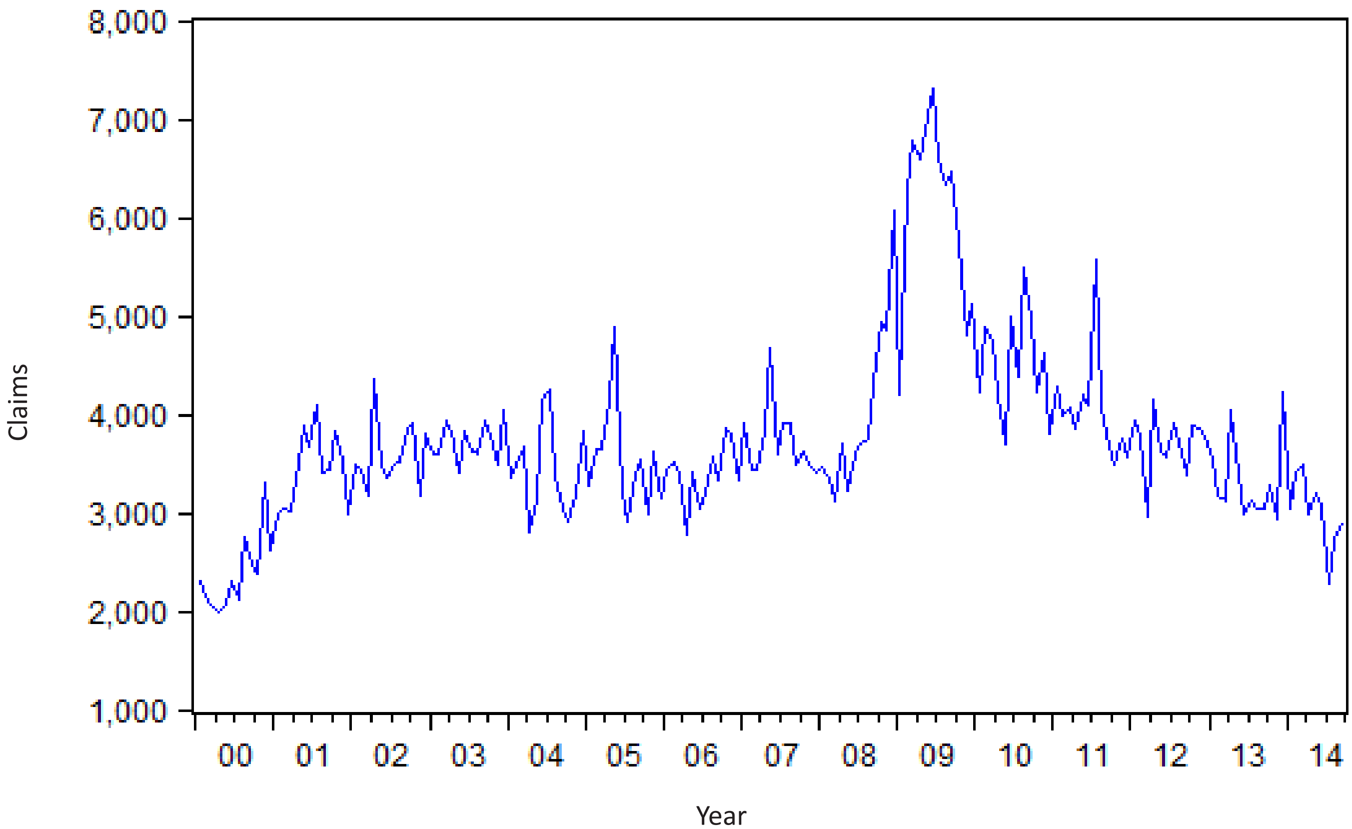
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	September 2013	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Unemployment Rate (Not seasonally adjusted)	4.6%	5.5%	4.5%	4.7%	4.4%	3.9%	3.7%

Initial claims for unemployment insurance in the Central Minnesota planning area increased in September and October. However, the current level of regional jobless claims is 27 percent lower than in October 2013.

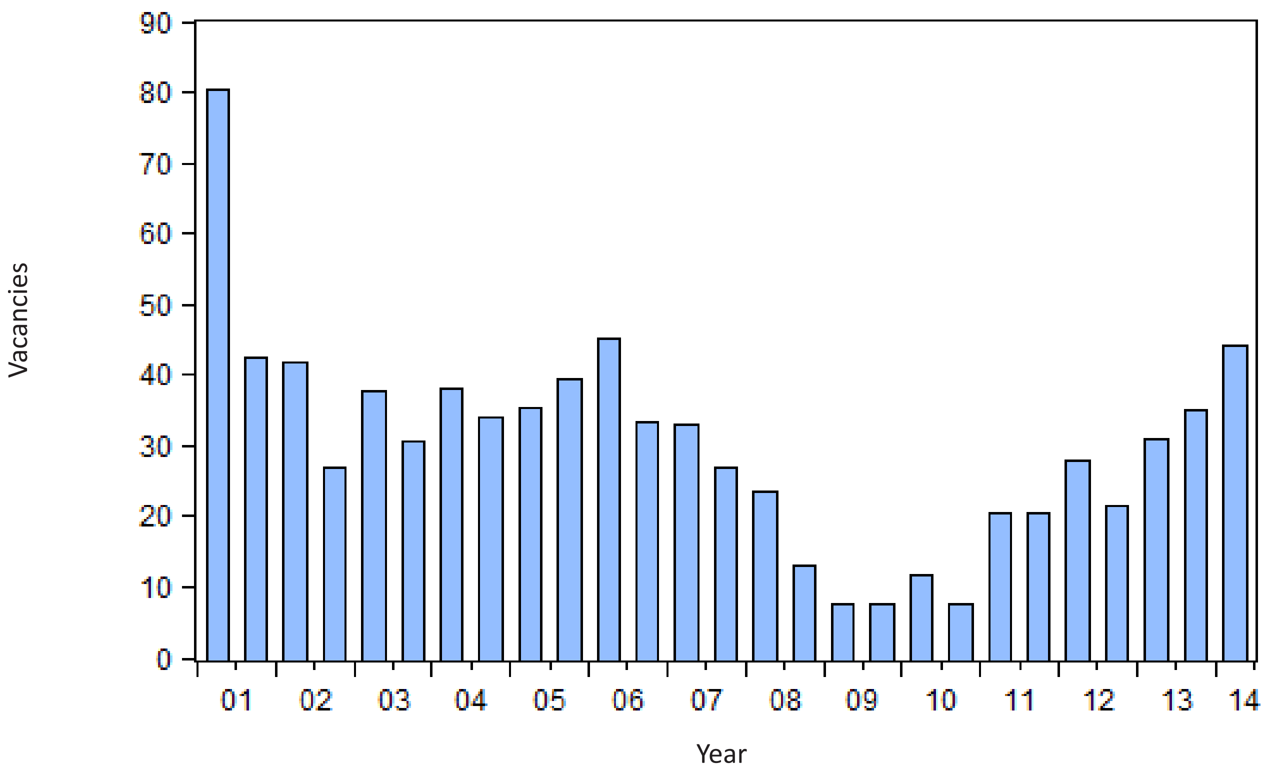
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Central Minnesota Planning Area



Month	October 2013	May 2014	June 2014	July 2014	August 2014	September 2014	October 2014
Initial claims (Not seasonally adjusted)	2,898	2,506	2,336	1,918	1,693	1,842	2,109

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Central Minnesota planning area, the rate of job vacancies per 100 unemployed was 47.53 in the second quarter of 2014 (the most recently available data). This is the highest reading for this series since 2006.

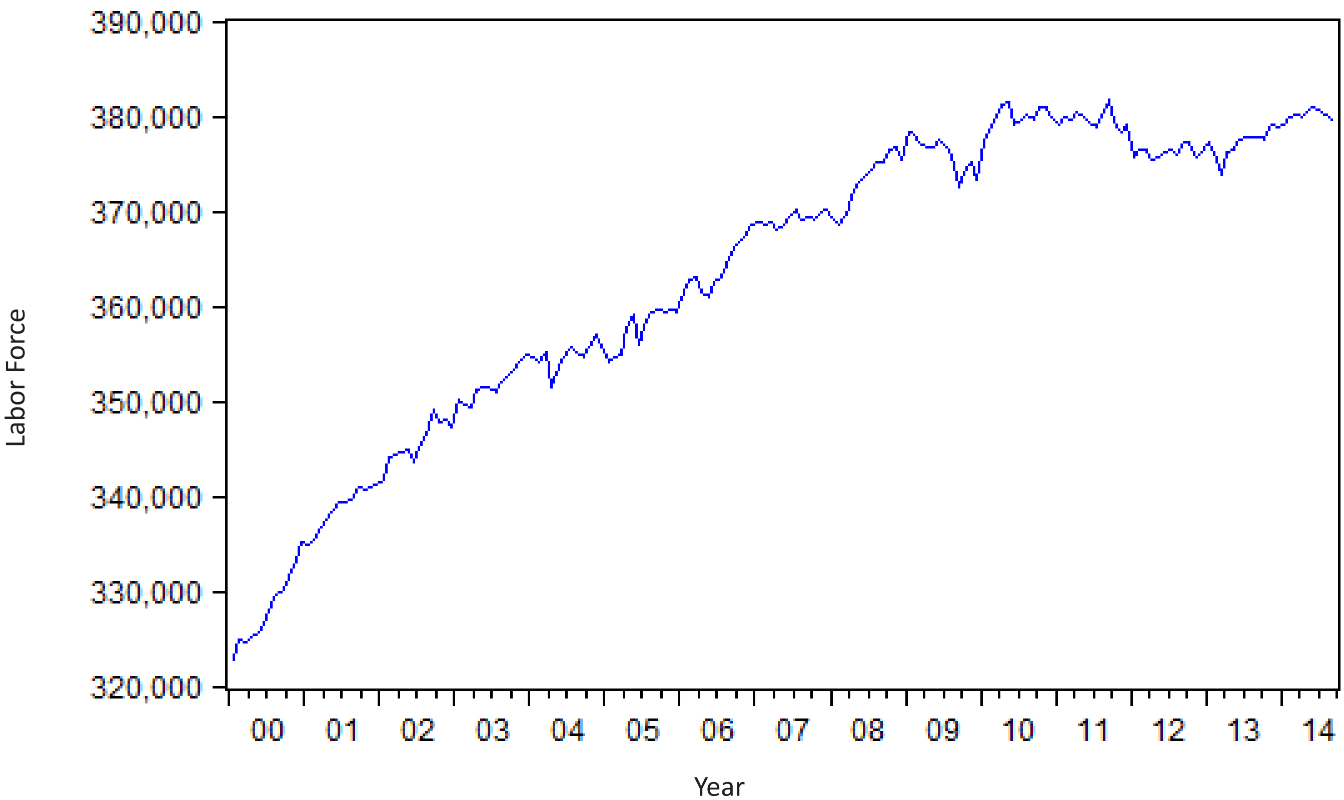
Job Vacancies per 100 Unemployed—Central Minnesota Planning Area



Quarter	2011:IV	2012:II	2012:IV	2013:II	2013:IV	2014:II
Job Vacancies per 100 Unemployed	23.93	29.89	25.06	33.02	39.90	47.53

The labor force continues to grow in Central Minnesota. While the regional labor force grew only by 0.4 percent over the last year, all other planning areas in Minnesota, except for the Twin Cities, experienced a decline in their work force.

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

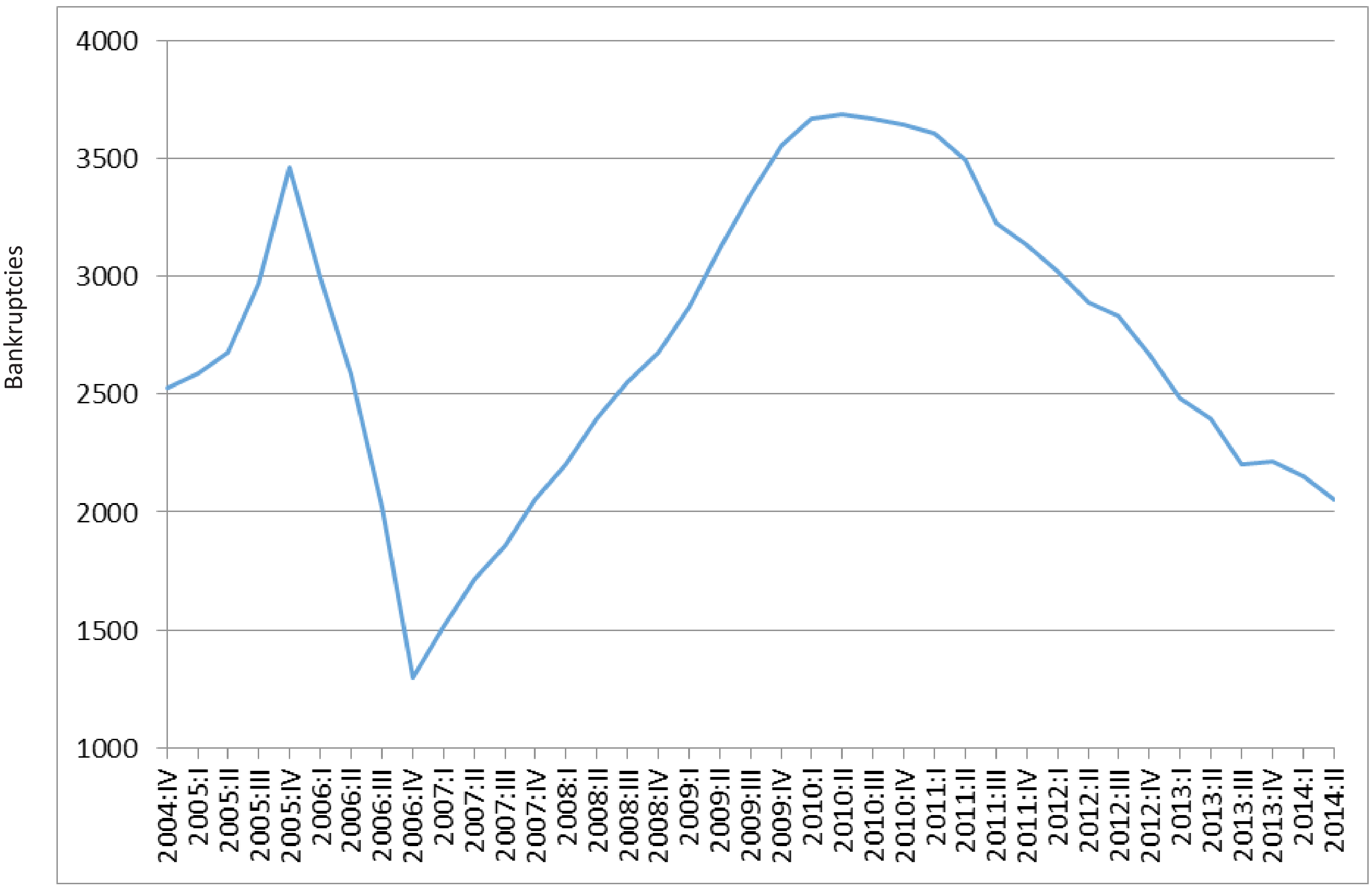


Year (September)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	369,965	377,256	379,456	375,727	376,678	378,326

Central Minnesota Bankruptcies

This quarter's report includes a measure of bankruptcies in Central Minnesota. The 12-month moving total shown below illustrates the annual number of bankruptcies in the central region since 2004. After trending upward since 2007, the annual number of Central Minnesota bankruptcies has steadily declined since the second quarter of 2010. The region has now returned to a level of bankruptcies that was last seen before the Great Recession. The precipitous drop in bankruptcies in late 2005 resulted from a law change (the Bankruptcy Abuse Prevention and Consumer Protection Act) that made it more difficult for households to declare bankruptcy. This pattern of bankruptcy filings is seen in each of Minnesota'a six planning areas.

Total Annual Bankruptcies—Central Minnesota Planning Area (12-month moving total)



Year (Second Quarter)	2009	2010	2011	2012	2013	2014
Annual Bankruptcies (Not seasonally adjusted)	3,120	3,685	3,495	2,888	2,396	2,053

Central Minnesota Economic Indicators

St. Cloud MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
LABOR MARKET					
Employment	September 2014 (m)	106,714	104,612	2.0% ↑	1.0%
Manufacturing Employment	September 2014 (m)	15,332	15,229	0.7% ↑	-0.9%
Average Weekly Work Hours--Private Sector	September 2014 (m)	32.5	32.8	-0.9% ↓	33.4 (since 2008--missing 2010, 2011)
Average Earnings Per Hour--Private Sector	September 2014 (m)	$23.55	$23.01	2.3% ↑	2.8% (since 2008)
Unemployment Rate	September 2014 (m)	3.5%	4.4%	NA ↓	4.4%
Labor Force	September 2014 (m)	109,252	108,510	0.7% ↑	0.6%
SCSU Future Employment Index	August 2014 (q)	29.4	32.8	-10.4% ↓	11.4 (since 2005)
SCSU Future Length of Workweek Index	August 2014 (q)	-1.5	2.8	-153.6% ↓	-4.3 (since 2005)
SCSU Future Employee Compensation Index	August 2014 (q)	54.4	41.1	32.4% ↑	37.8 (since 2005)
SCSU Future Worker Shortage Index	August 2014 (q)	36.8	26	41.5% ↑	14.5 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	October 2014 (m)	547	754	-27.5% ↓	NA
St. Cloud Times Help Wanted Linage	July 2014 (q)	2,145	2,363	-9.2% ↓	NA
BUSINESS FORMATION					
New Business Filings	Third Quarter 2014	338	333	1.5% ↑	304 (since 2000)
Assumed Names	Third Quarter 2014	95	110	-13.6% ↓	116 (since 2000)
Business Incorporations	Third Quarter 2014	28	28	0.0% ↔	50 (since 2000)
Limited Liability Corporations	Third Quarter 2014	200	174	14.9% ↑	124 (since 2000)
Non-Profits	Third Quarter 2014	15	21	-28.6% ↓	15 (since 2000)

(m) represents a monthly series; (q) represents a quarterly series

St. Cloud MSA Indicators, Cont'd.

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
BUSINESS ACTIVITY					
SCSU Future Business Activity Index	August 2014 (q)	42.6	39.8	7.0% ↑	25.6 (since 2005)
SCSU Future Capital Expenditures Index	August 2014(q)	30.9	27.4	12.8% ↑	18.4 (since 2005)
SCSU Future National Business Activity Index	August 2014 (q)	25	20.6	21.4% ↑	15.7 (since 2005)
St. Cloud Index of Leading Economic Indicators	July 2014 (q)	102.6	102.3	0.3% ↑	NA
St. Cloud Residential Building Permit Valuation	September 2014 (m)	11,491	14,795	-22.3% ↓	9788
PRICES					
St. Cloud Cost of Living Index	Second Quarter 2014	94.8	94.0	0.9% ↑	NA
St. Cloud Median Home Prices	October 2014 (m)	146,750	149,950	-2.1% ↓	NA
SCSU Future Prices Received Index	August 2014 (q)	23.6	13.7	72.3% ↑	16.9 (since 2005)

(m) represents a monthly series; (q) represents a quarterly series

Central Minnesota contains the St. Cloud MSA, where a survey of business leaders is conducted quarterly by St. Cloud State University. Among other things, this survey indicates a tighter labor market in the St. Cloud area, as firms report more difficulty attracting qualified workers and higher employee compensation. Payroll employment grew 2.0 percent over the year ending September 2014 in St. Cloud and the MSA unemployment rate fell from 4.4 percent to 3.5 percent over the same period. The St. Cloud labor force is now 109,252, an increase of 0.7 percent over the past 12 months. Median housing prices in St. Cloud decreased over the last 12 months, but the cost-of-living index increased, suggesting the area became relatively less affordable in the second quarter of the year. More area firms report that they expect to be able to increase prices over the next six months than last year at this time

State and National Indicators

MINNESOTA Indicators	Sept 2014	June 2014	Sept 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,834,700	2,818,800	2,784,000	0.6%	1.8%
Average weekly hours worked, private sector	34.0	34.5	34.3	-1.4%	-0.9%
Unemployment rate, seasonally adjusted	4.1%	4.5%	4.9%	NA	NA
Earnings per hour, private sector	$25.83	$25.73	$25.77	0.4%	0.2%
Philadelphia Fed Coincident Indicator, MN	166.07	164.09	160.31	1.2%	3.6%
Philadelphia Fed Leading Indicator, MN	2.32	2.24	1.67	3.6%	38.9%
Minnesota Business Conditions Index	66.3	70.1	57	-5.4%	16.3%
Price of milk received by farmers (cwt)	$26.70	$23.40	$20.20	14.1%	32.2%
Enplanements, MSP airport, thousands	1,409.8	1,609.6	1,366.7	-12.4%	3.2%

NATIONAL Indicators	Sept 2014	June 2014	Sept 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	139,435	138,764	136,800	0.5%	1.9%
Industrial production, index, SA	105.0	104.0	100.7	4.3%	3.3%
Real retail sales, SA	186,423	185,251	181,553	0.6%	2.7%
Real personal Income less transfers	11,291	11,237	11,032	0.5%	2.3%
Real personal consumption expenditures	10,964	10,935	10,742	0.3%	2.1%
Unemployment rate	5.9%	6.1%	7.2%	NA	NA
New building permits, SA, thousands	1,031	973	993	6.0%	3.8%
Standard & Poor's 500 stock price index	1,993.23	1,947.09	1,687.17	4.5%	20.3%
Oil, price per barrel in Cushing, OK	$93.21	$105.79	$106.29	-11.9%	-12.3%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Average weekly hours worked fell, although earnings per hour in the private sector rose over the past year. Two of three broader indicators suggest strength in the state economy. Milk prices are 32.2 percent higher than one year ago—an important favorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul Airport increased by 3.2 percent over the last 12 months.

The national economy continued to grow at a solid pace in the third quarter. Compared to year earlier levels, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment, and the unemployment rate all look strong. Oil prices have declined over the past year, putting some discretionary income in the hands of consumers as they enter the holiday season. The national economy looks to have considerable momentum as 2015 approaches.

The Central Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

This issue is part of a series for the six planning areas of Minnesota—Central, Northeast, Northwest, Southeast, Southwest and Twin Cities. The Central Minnesota Planning Area consists of 13 counties: Benton, Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, Stearns and Wright.

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Metropolitan Airports Commission: MSP Enplanements.

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

SCSU School of Public Affairs Research Institute: SCSU Central Minnesota Index of Leading Economic Indicators, SCSU Future Business Activity Index, SCSU Future Capital Expenditures Index, SCSU Future Employee Compensation Index, SCSU Future Employment Index, SCSU Future Length of Workweek Index, SCSU Future National Business Activity Index, SCSU Future Prices Received Index, SCSU Future Worker Shortage Index, St. Cloud Index of Leading Economic Indicators.

St. Cloud Area Association of REALTORS: Median Home Prices.

St. Cloud Times: Help Wanted Linage.

Standard & Poor's: Standard & Poor's 500 Stock Price Index.

Thomson Reuters and University of Michigan: Index of Consumer Sentiment.

U.S. Bankruptcy Courts: Total Annual Bankruptcies

U.S. Census Bureau: 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.