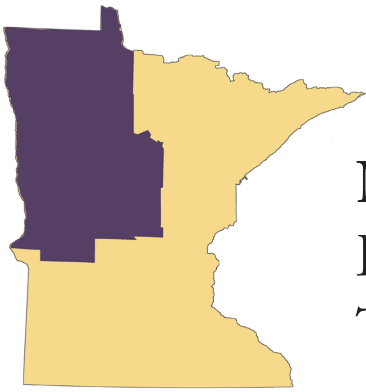

Northwest Minnesota
Economic and Business Conditions Report
Third Quarter 2014

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Northwest Minnesota business conditions are expected to improve over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI). While the macroeconomic environment for rural America seems to have weakened in the third quarter, improvements in consumer sentiment, a rise in new incorporations and limited liability companies (LLCs), and reduced initial jobless claims have strengthened the LEI in recent months. The SCSU Northwest Minnesota Index of Leading Economic Indicators increased 1.46 points in the third quarter and it now stands 2.5 percent above its level one year ago.

There were 894 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the third quarter of 2014—representing no change from one year ago. There were 100 new regional business incorporations in the third quarter, a 19 percent increase over year ago levels. Over the past 12 months, new LLC filings were up 0.4 percent—increasing to 447 in the third quarter of 2014. New assumed names totaled 295 in this year's third quarter—a reduction of 9.2 percent from the third quarter of 2014. There were 52 new filings for non-profits in the third quarter—30 percent more filings than one year ago.

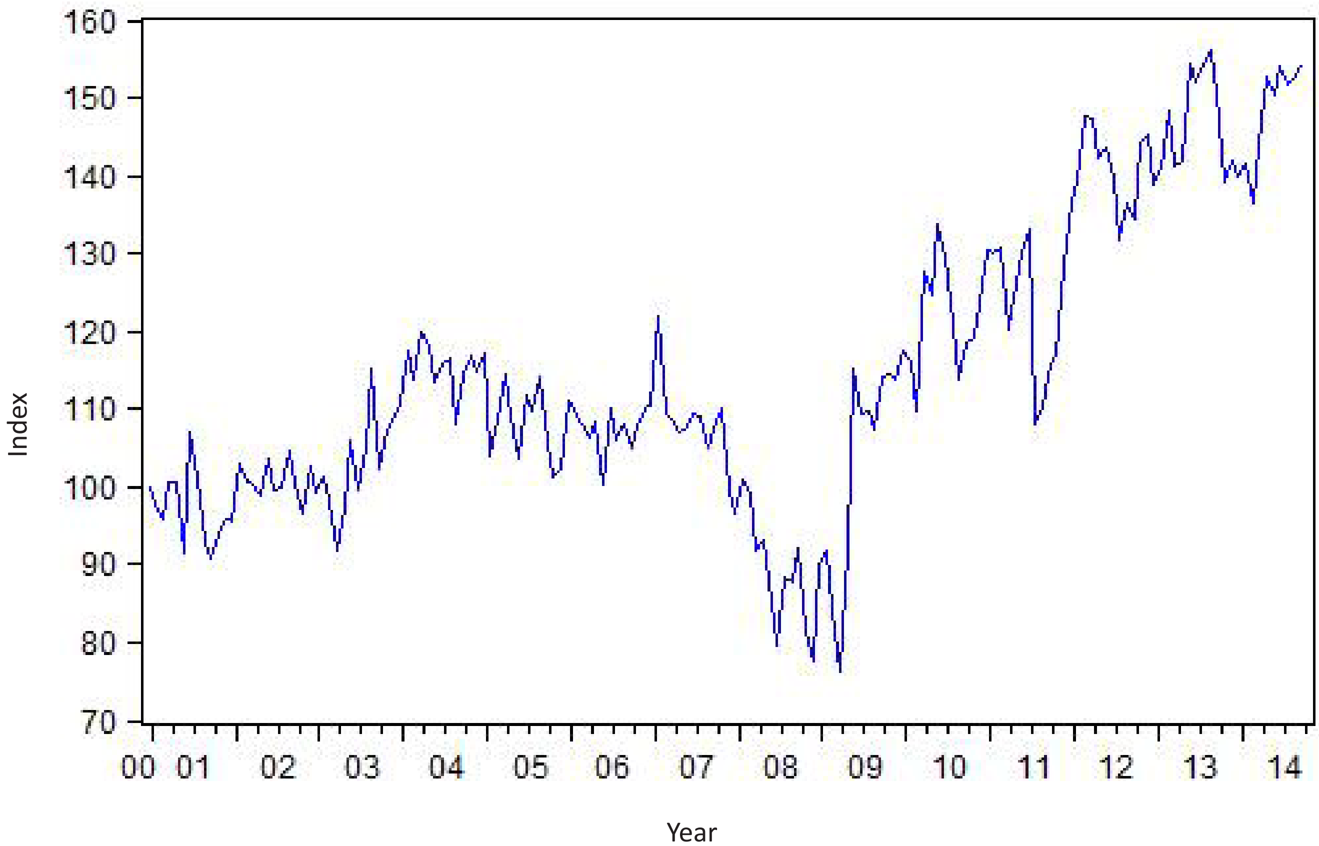
Employment of Northwest Minnesota residents increased by 0.8 percent over the year ending September 2014. The regional unemployment rate was 3.6 percent in September, an improvement on its 4.4 percent reading one year ago. Initial claims for unemployment insurance in October were 746 lower (a decrease of 31.5 percent) than in October 2013, and job vacancies per 100 unemployed jumped to 71.69 from a level of 44.72 in the prior six months. The regional labor force was essentially unchanged from year earlier levels. Annual bankruptcies totaled 914 in the second quarter of 2014—a 15.4 percent reduction from one year earlier.

The Fargo-Moorhead Metropolitan Statistical Area (MSA) experienced mixed growth over the past quarter. This MSA tallied strong gains in overall employment (and a strong rise in mining, logging and construction employment) and average hourly earnings along with a reduced unemployment rate. Average hours worked, valuation of residential building permits, and initial jobless claims were weaker in the Fargo-Moorhead area this quarter. By contrast, economic performance in the Grand Forks-East Grand Forks MSA was very strong with an increase in overall employment (bolstered by a rise in mining, logging and construction employment), higher average hourly earnings, higher values of residential building permits, a lower unemployment rate and fewer jobless claims.

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. After an uncertain beginning of the year, the area has now tallied two quarters of increases in the LEI. The third quarter LEI rose 1.46 points and now stands 2.5 percent higher than one year ago. As shown in the accompanying graph, the LEI has trended upward since the end of the Great Recession and is now approaching an all-time high.

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 2014	Contribution to LEI, 2nd quarter 2014
Rural Mainstreet Index	-1.67	2.07
Northwest Minnesota initial claims for unemployment insurance	0.53	-1.90
Northwest Minnesota new filings of incorporation and LLCs	0.60	0.24
Fargo-Moorhead + Grand Forks-EGF MSA residential building permits	0.06	1.23
Consumer Sentiment, University of Michigan	1.94	1.29
TOTAL CHANGE	1.46	2.93

Because Northwest Minnesota exports many recreational vehicles, consumer sentiment is included as a proxy for demand for that industry. The University of Michigan's Consumer Sentiment Index was a drag on the first quarter LEI, but improved to a positive reading over this year's second and third quarters. Residential building permits in the Fargo-Moorhead and Grand Forks-East Grand Forks had little influence over this quarter's LEI, while new incorporations and LLCs contributed favorably to this quarter's regional outlook. Lower initial jobless claims also bolstered the third quarter LEI. 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 exhibited weakness in the most recent quarter, serving as a drag on the outlook in Northwest Minnesota.

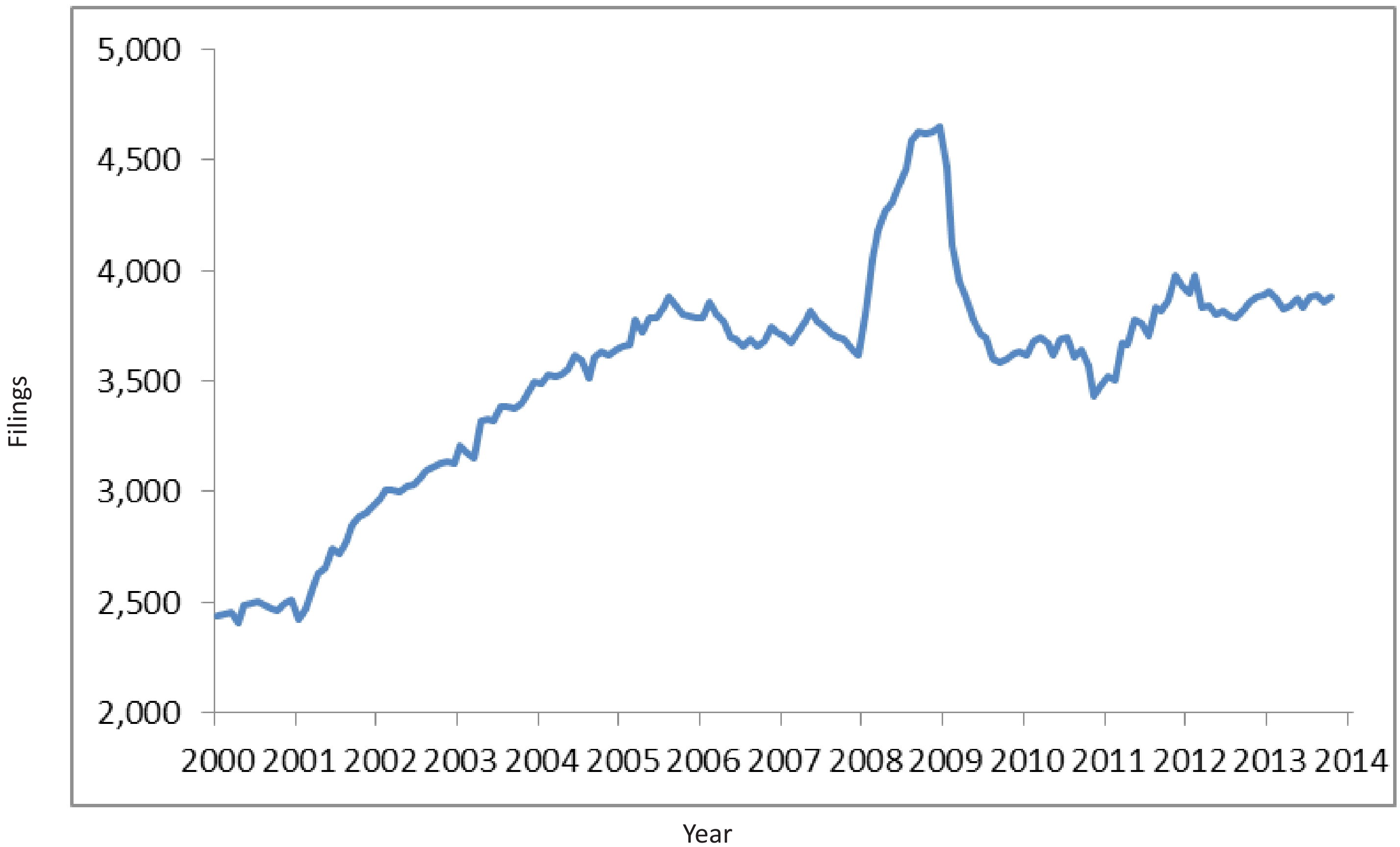
SCSU Northwest Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Rural Mainstreet Index, Creighton University, June	50.9	52.4	-2.9%
Northwest Minnesota initial claims for unemployment insurance, September	1,079	1,080	-0.1%
Northwest Minnesota new filings of incorporation and LLCs, Third Quarter	547	529	3.4%
Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, September	177	332	-46.7%
Consumer Sentiment, University of Michigan, September	86.4	77.5	11.5%
Northwest Minnesota Leading Economic Indicators Index September (December 1999 = 100)	154.6	150.8	2.5%

Northwest Minnnesota Business Filings

Total new business filings in this region grew rapidly from 2000 to 2006, at which point they began to level off. 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 were unchanged 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 registered with the Office of the Minnesota Secretary of State, thereby removing seasonal patterns in the data.

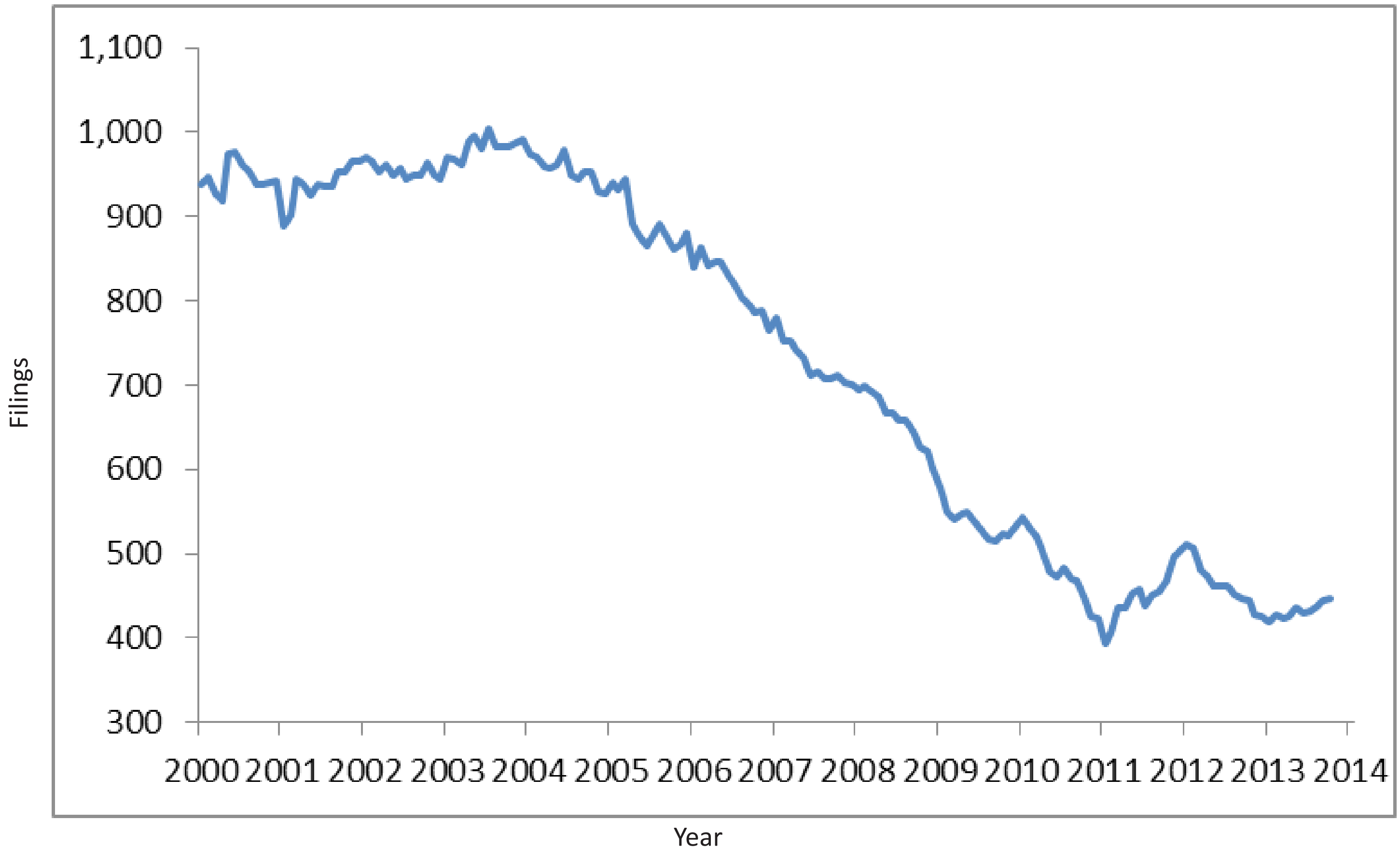
Total New Business Filings—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter 3: Percent change from prior year
Northwest Minnesota Total New Business Filings	894	873	1,024	1,089	894	0.0%

New business incorporations trended downward from 2005 through 2011, then rose in 2012, but declined again last year. This quarter's new business incorporations increased by 19 percent over last year's third quarter.

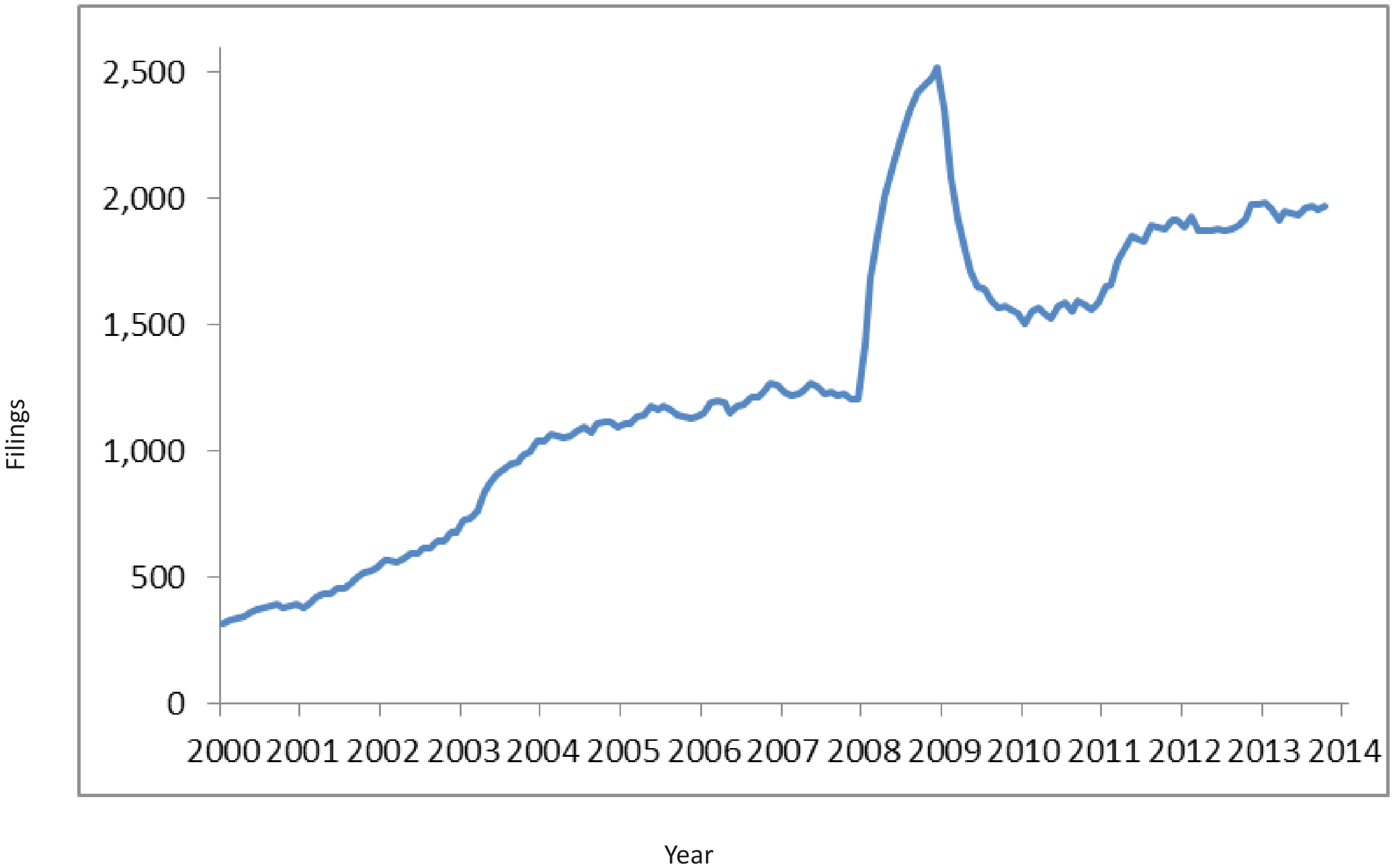
New Incorporations—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter 3: Percent change from prior year
Northwest Minnesota New Business Incorporations	84	103	120	124	100	19.0%

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 since 2000. Third quarter 2014 LLCs were basically unchanged from the same period in 2013.

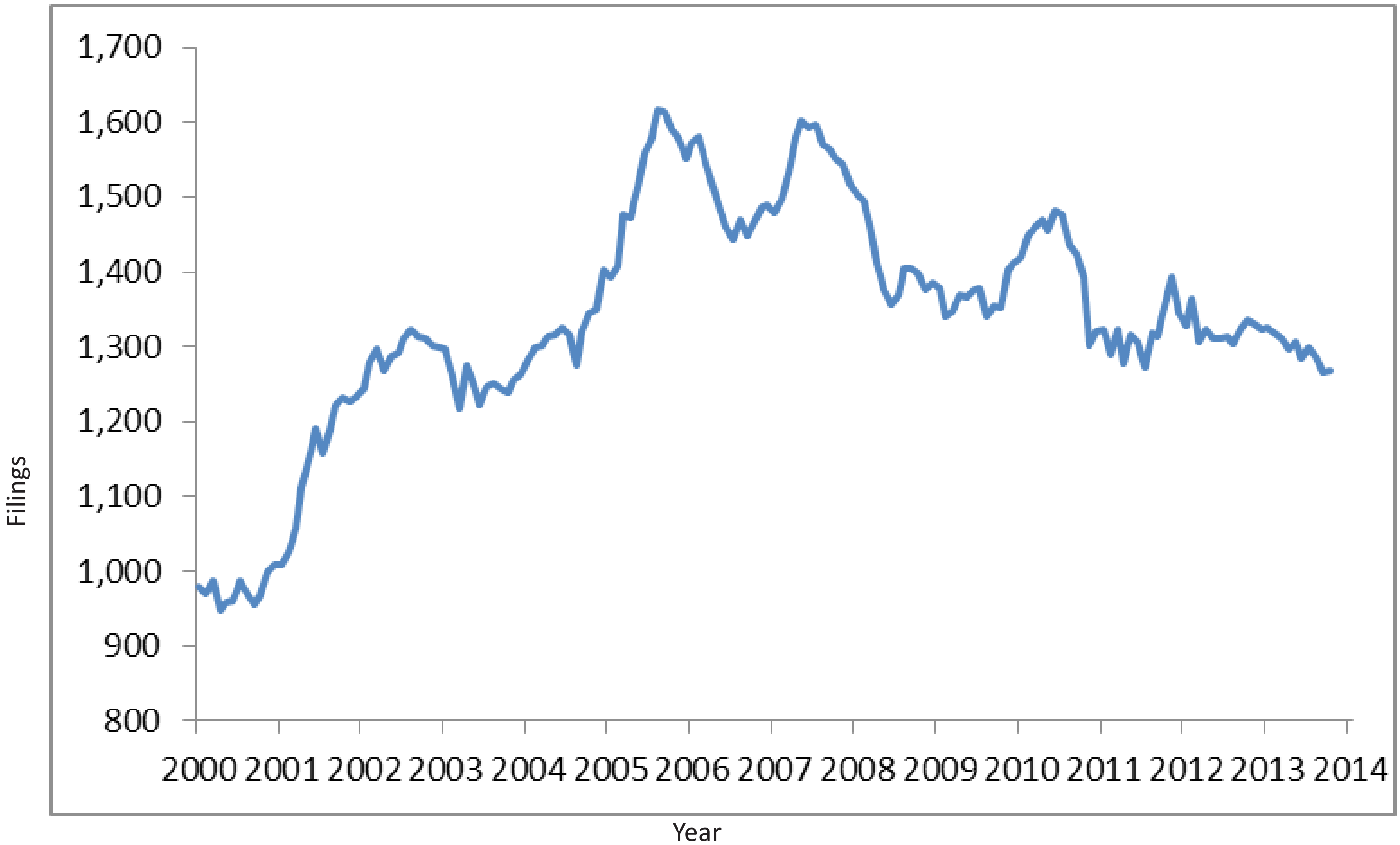
New Limited Liability Companies—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter 3: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	445	467	514	539	447	0.4%

Assumed names, which include sole proprietors or organizations that do not have limited liability, decreased 9.2 percent from the same period last year. This series has not yet recovered from its peak levels of 2006–2007.

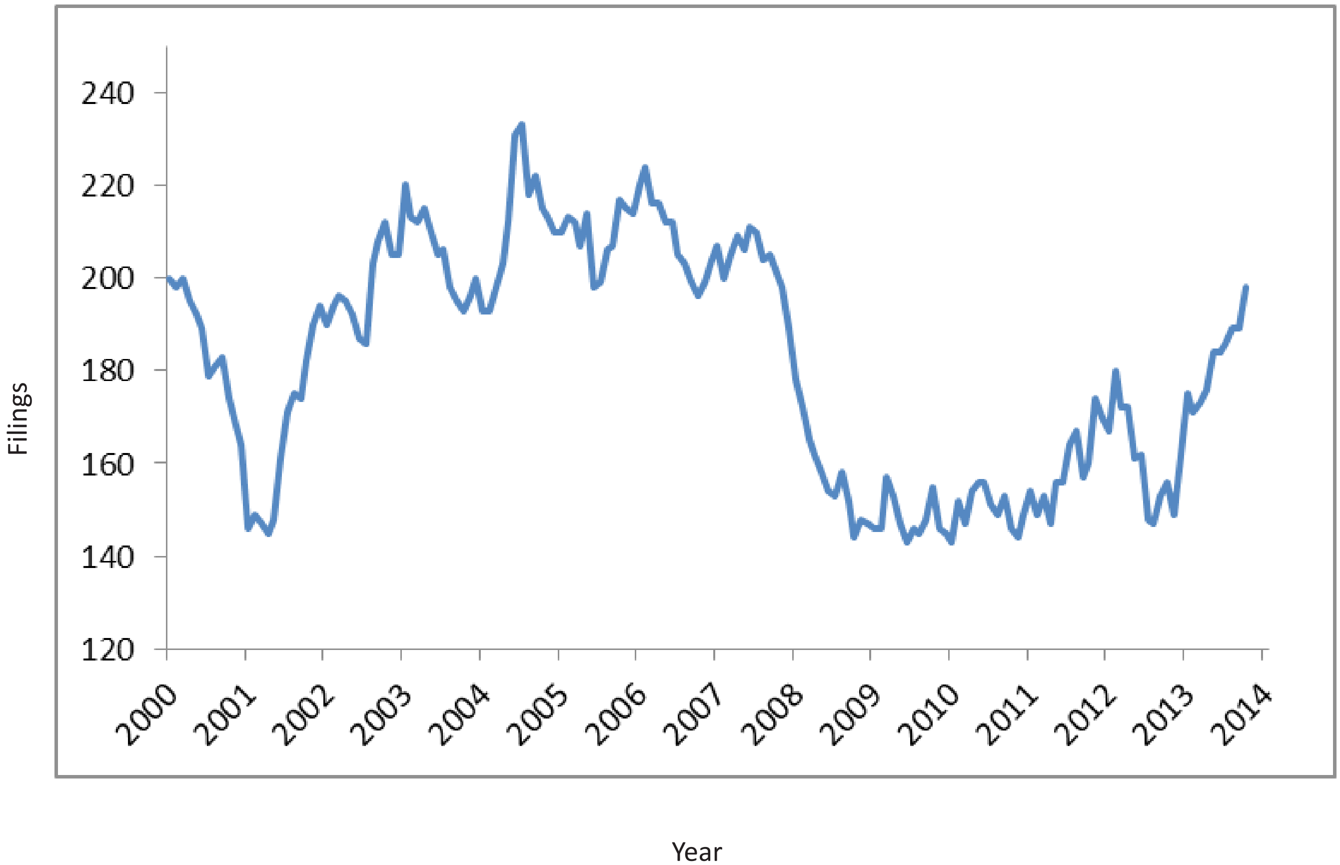
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter 3: Percent change from prior year
Northwest Minnesota New Assumed Names	325	243	345	385	295	-9.2%

The number of newly formed non-profits has expanded over the last several quarters. The number of new non-profits increased by 30 percent over last year's third quarter in the recent period.

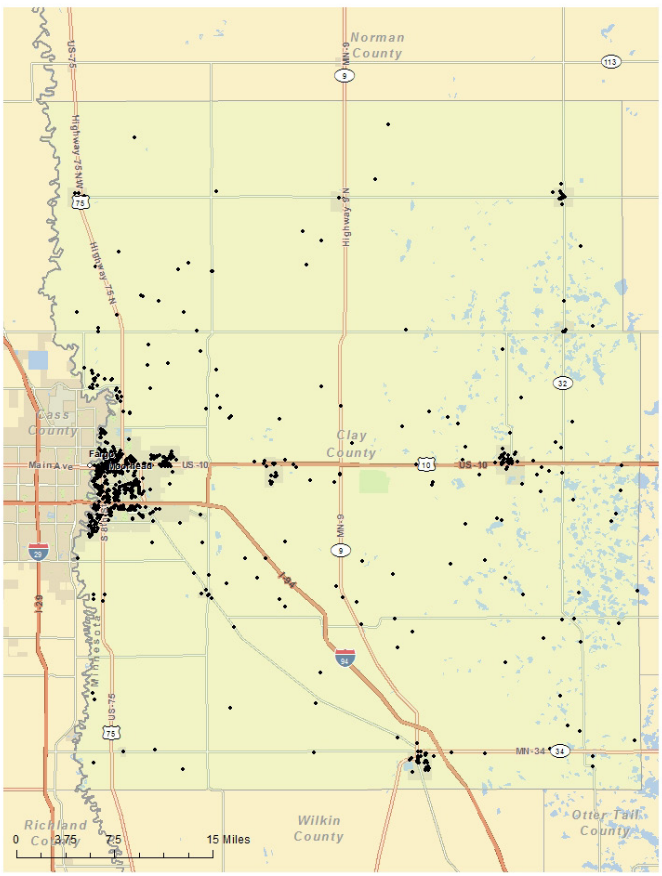
New Non-Profits—Northwest Minnesota Planning Area (12-month moving total)



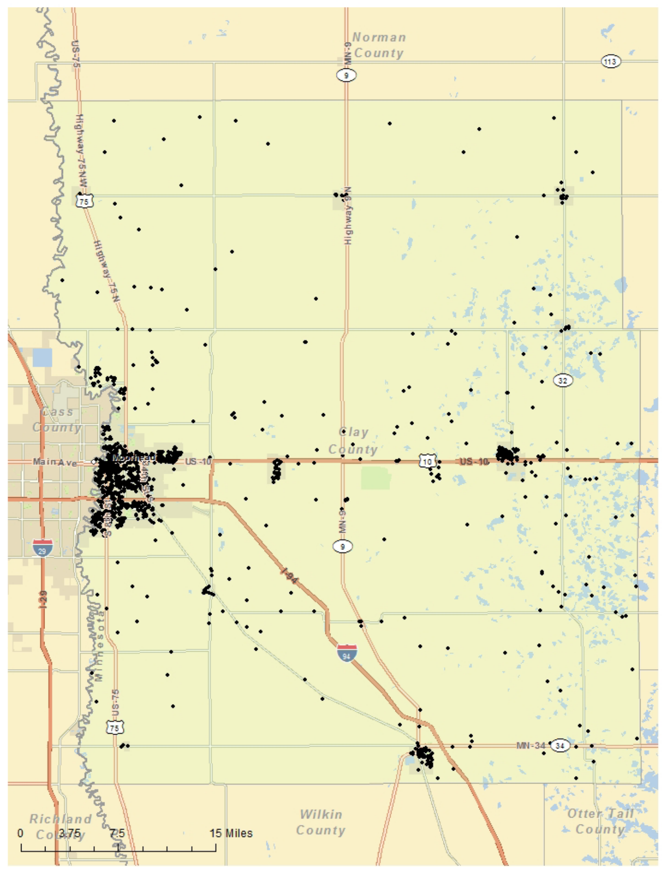
Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter 3: Percent change from prior year
Northwest Minnesota New Non-Profits	40	60	45	41	52	30.0%

The two maps below attempt to highlight new business formation in the Minnesota counties of the Fargo-Moorhead Metropolitan Statistical Area (MSA) in two periods: 2000–2004 (quarter 3) and 2010–2014 (quarter 3). This MSA consists of two counties—Clay County, Minnesota and Cass County, North Dakota. New business filing data from North Dakota are unavailable, so only Clay County is highlighted. 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 Minnesota portion of the Fargo-Moorhead MSA since the beginning of the 21st century. Most newly formed Minnesota businesses are in the Moorhead area and other clusters of business filings tend to follow key roadways. While data for Cass County, North Dakota are not available, it is quite likely that a disproportionately large share of new business formation in this MSA occurs on the North Dakota side of the border.

New Business Formation Between 2000 and 2004:III—Fargo-Moorhead MSA

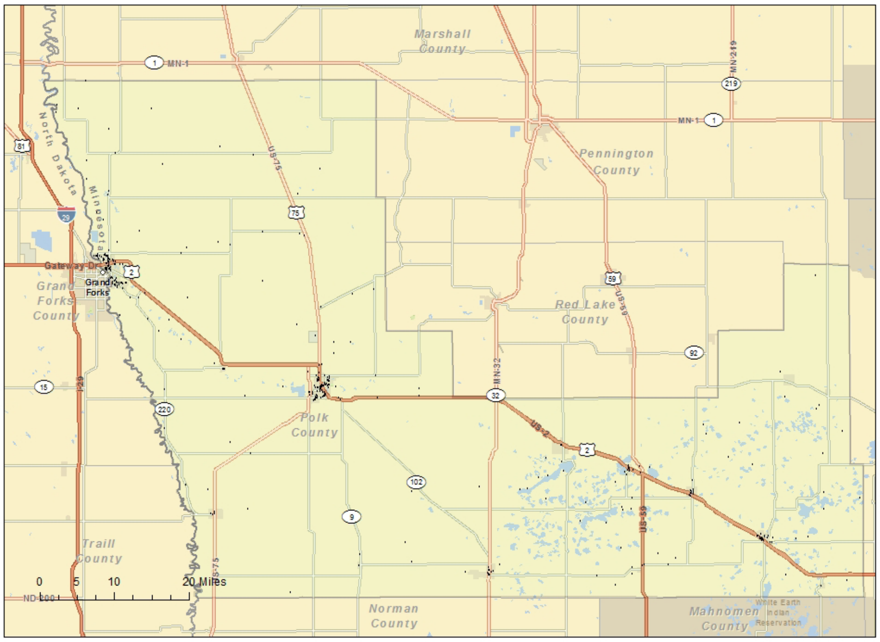


New Business Formation Between 2010 and 2014:III—Fargo-Moorhead MSA

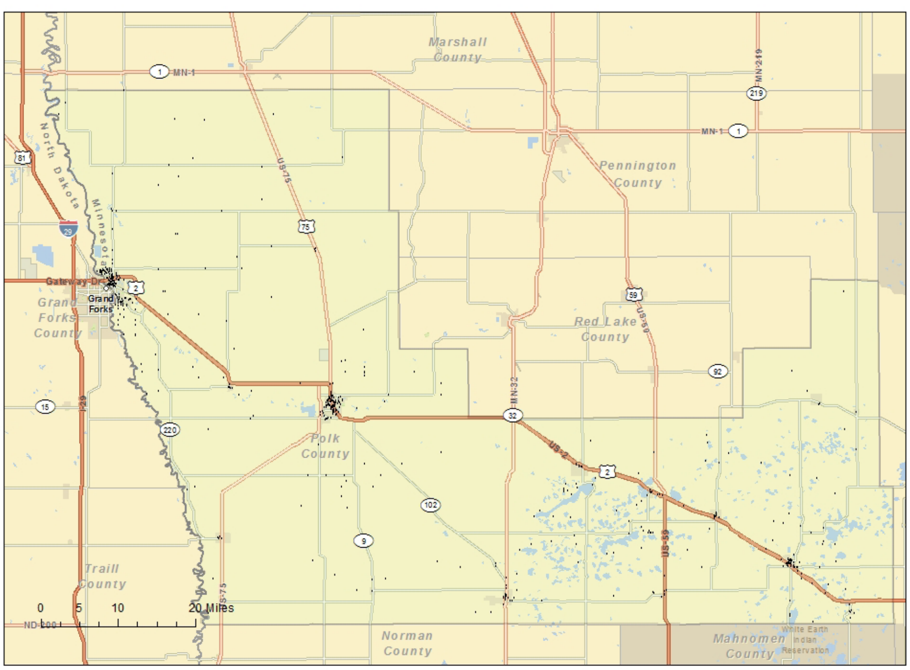


Similar to the above maps, new business formation in the Grand Forks-East Grand Forks MSA is considered in the next two maps. As noted, business formation data for North Dakota is unavailable, so the maps focus on Polk County, Minnesota, one of the two counties in the Grand Forks-East Grand Forks MSA (the other is Grand Forks County, North Dakota). Once again, the pattern of newly formed businesses is little changed between these two time periods. The dots representing newly formed businesses tend to be concentrated in the city center of the MSA. However, it is noteworthy that there is fairly limited business formation throughout the Minnesota portion of the MSA. As with Fargo-Moorhead, it would appear the great share of new business formation in this MSA occurs on the North Dakota side of the border.

New Business Formation Between 2000 and 2004:III—Grand Forks-East Grand Forks MSA



New Business Formation Between 2010 and 2014:III—Grand Forks-East Grand Forks MSA

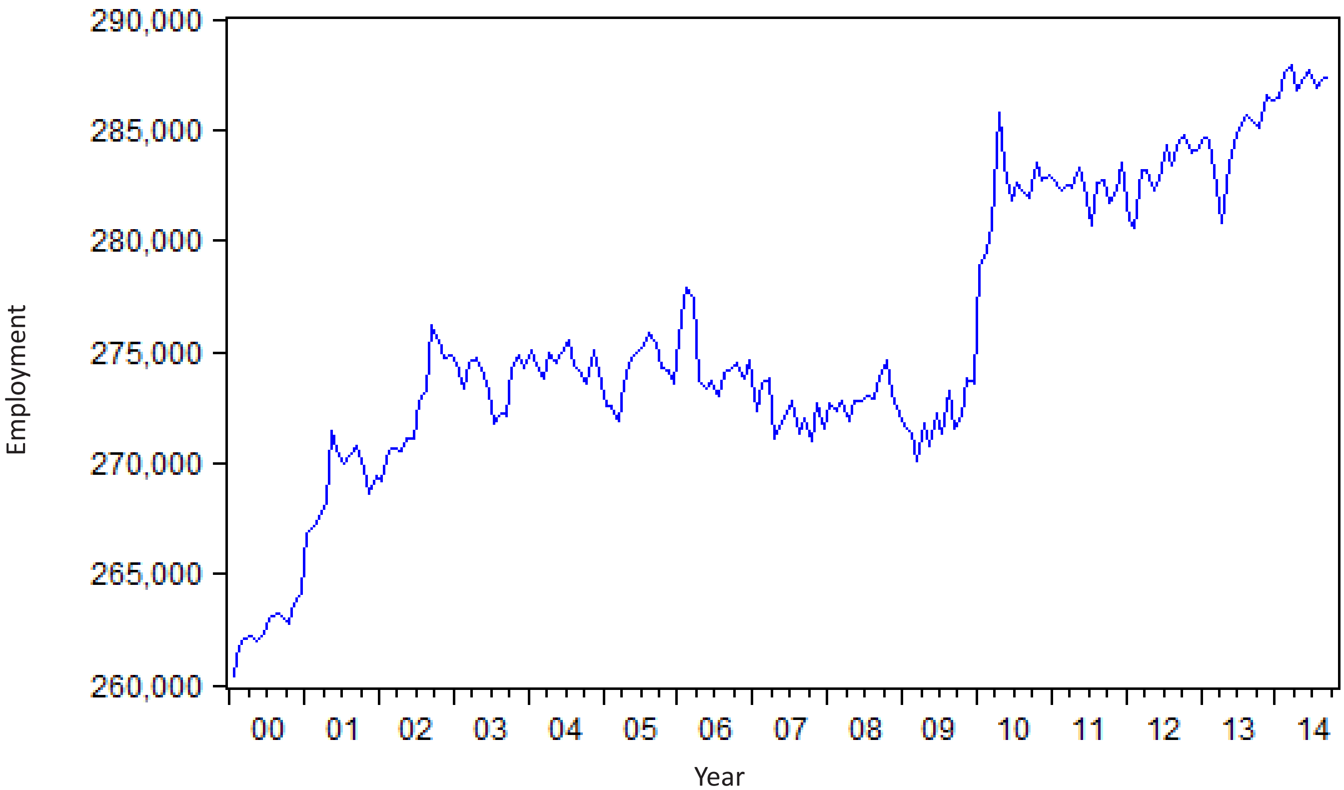


Northwest Minnesota Labor Market Conditions

Employment grew 0.8 percent over the past year. The area has settled into a steady job growth rate after the decline of 2008 and upsurge in 2010. Note that Northwest (and Southwest) Minnesota employment did not decline during the Great Recession as much as was observed in other Minnesota planning areas. Given the predictions of the LEI, employment growth should continue to be steady in Northwest Minnesota through the first quarter of 2015.

Note: Seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted. To request access to seasonally adjusted series, contact the SCSU School of Public Affairs Research Institute, soparesearch@stcloudstate.edu.

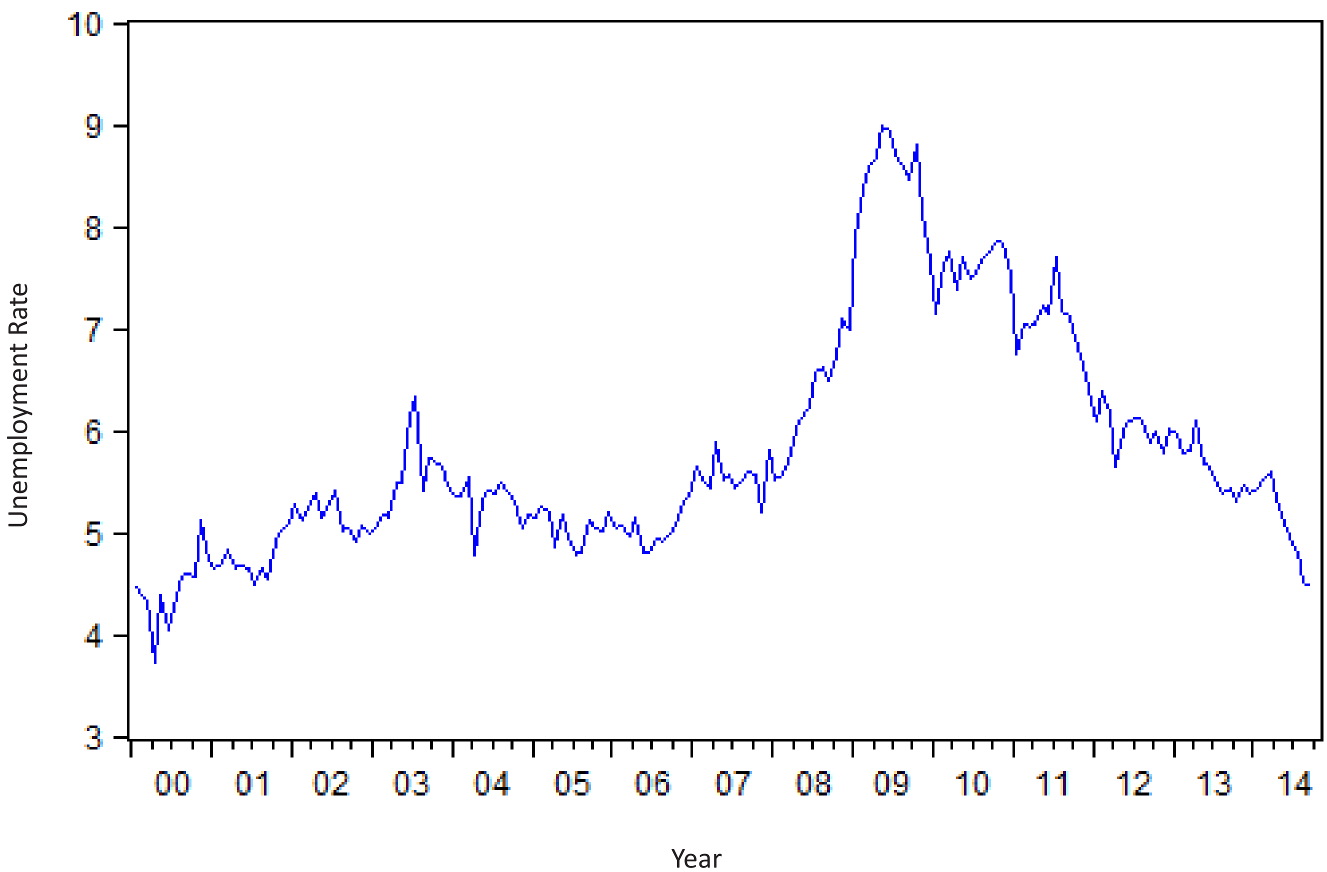
Employment—Northwest Minnesota Planning Area (12-month moving average)



Month	September 2013	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Employment (Not seasonally adjusted)	289,771	284,487	291,444	294,805	294,515	293,627	292,155

Seasonally adjusted unemployment rates continue to fall in Northwest Minnesota. The unemployment rate in this part of Minnesota has declined since peaking at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 3.6 percent, well below its 4.4 percent level in September 2013.

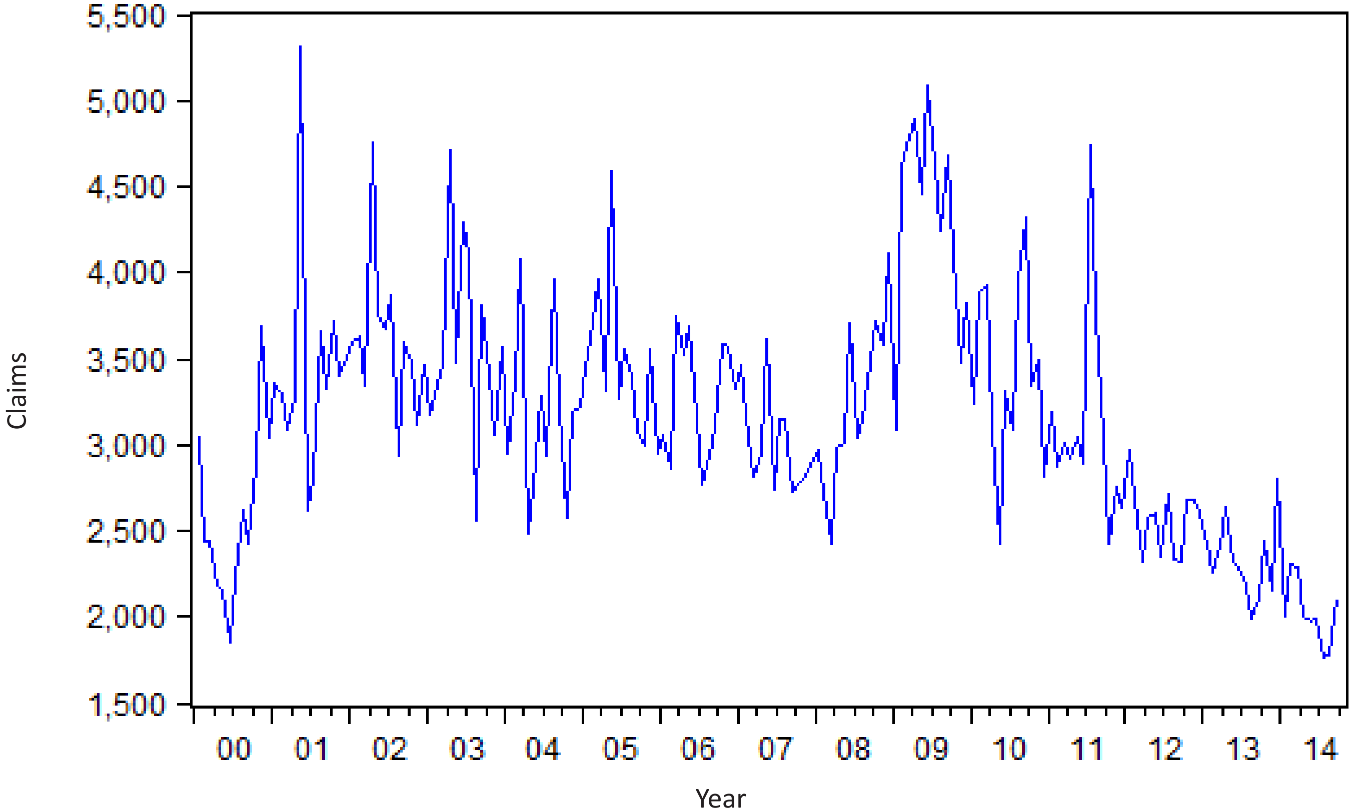
Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area



Month	September 2013	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Unemployment Rate (Not seasonally adjusted)	4.4%	5.6%	4.4%	4.6%	4.4%	3.8%	3.6%

New claims for October 2014 unemployment insurance decreased from year-ago levels. They are now lower than one year ago by 746 (a 31.5 percent decline). Initial jobless claims are well below their heightened levels during the Great Recession.

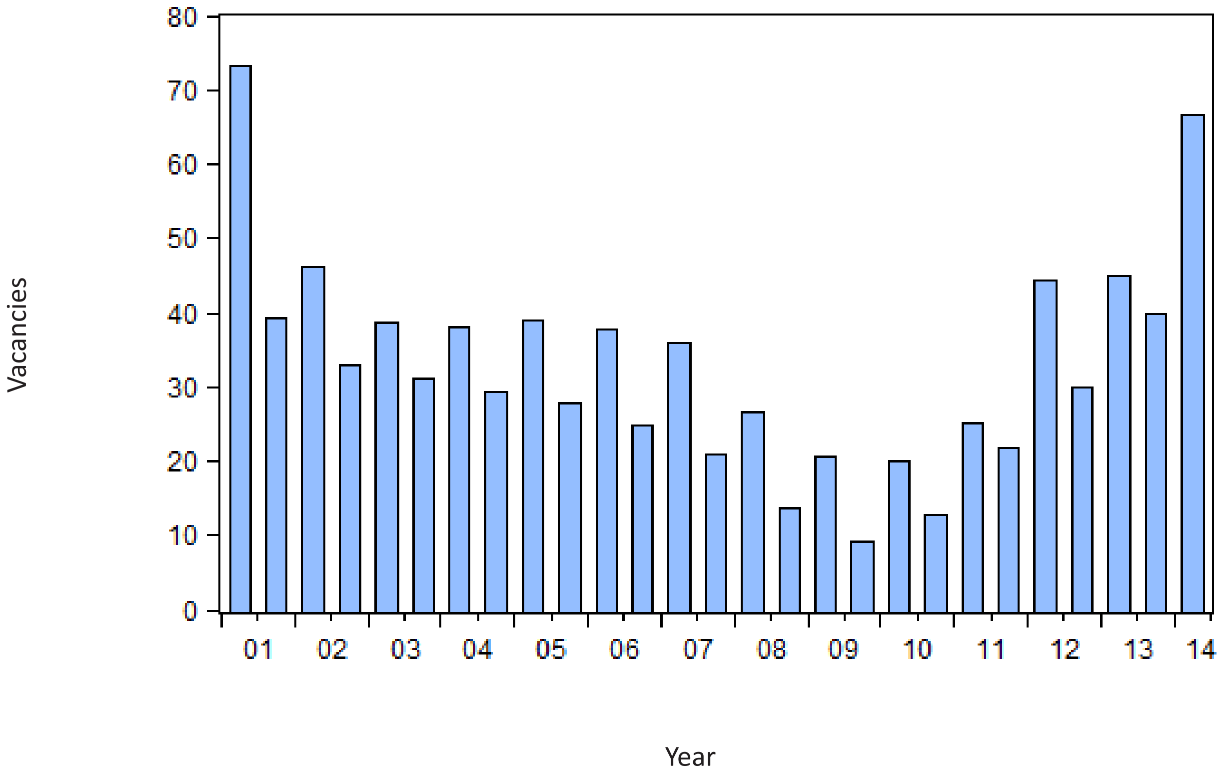
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	October 2013	May 2014	June 2014	July 2014	August 2014	September 2014	October 2014
Initial claims (Not seasonally adjusted)	2,367	1,454	1,512	1,438	911	1,079	1,621

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Northwest Minnesota planning area the rate of job vacancies per 100 unemployed was 71.69 in the second quarter of 2014 (this is the most recently available data). This was the highest job vacancy rate of any of Minnesota's six planning areas.

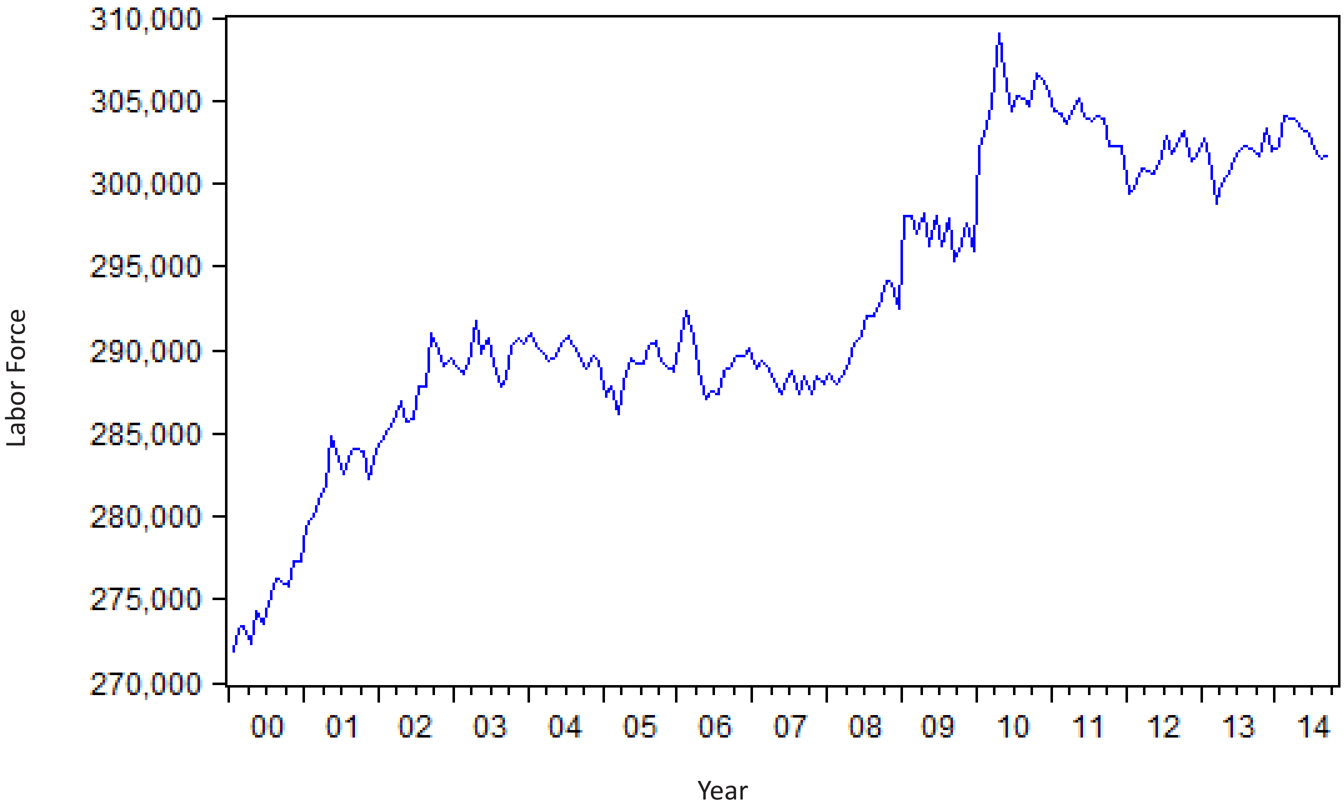
Job Vacancies per 100 Unemployed—Northwest Minnesota Planning Area



Quarter	2011:IV	2012:II	2012:IV	2013:II	2013:IV	2014:II
Job Vacancies per 100 Unemployed	24.95	47.86	33.29	47.22	44.72	71.69

The size of the Northwest Minnesota labor force was largely unchanged from one year ago, At 303,065, the regional labor force is 1,590 lower than in September 2010 (a 0.5 percent decrease). Since 2000, however, the labor force has grown considerably.

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

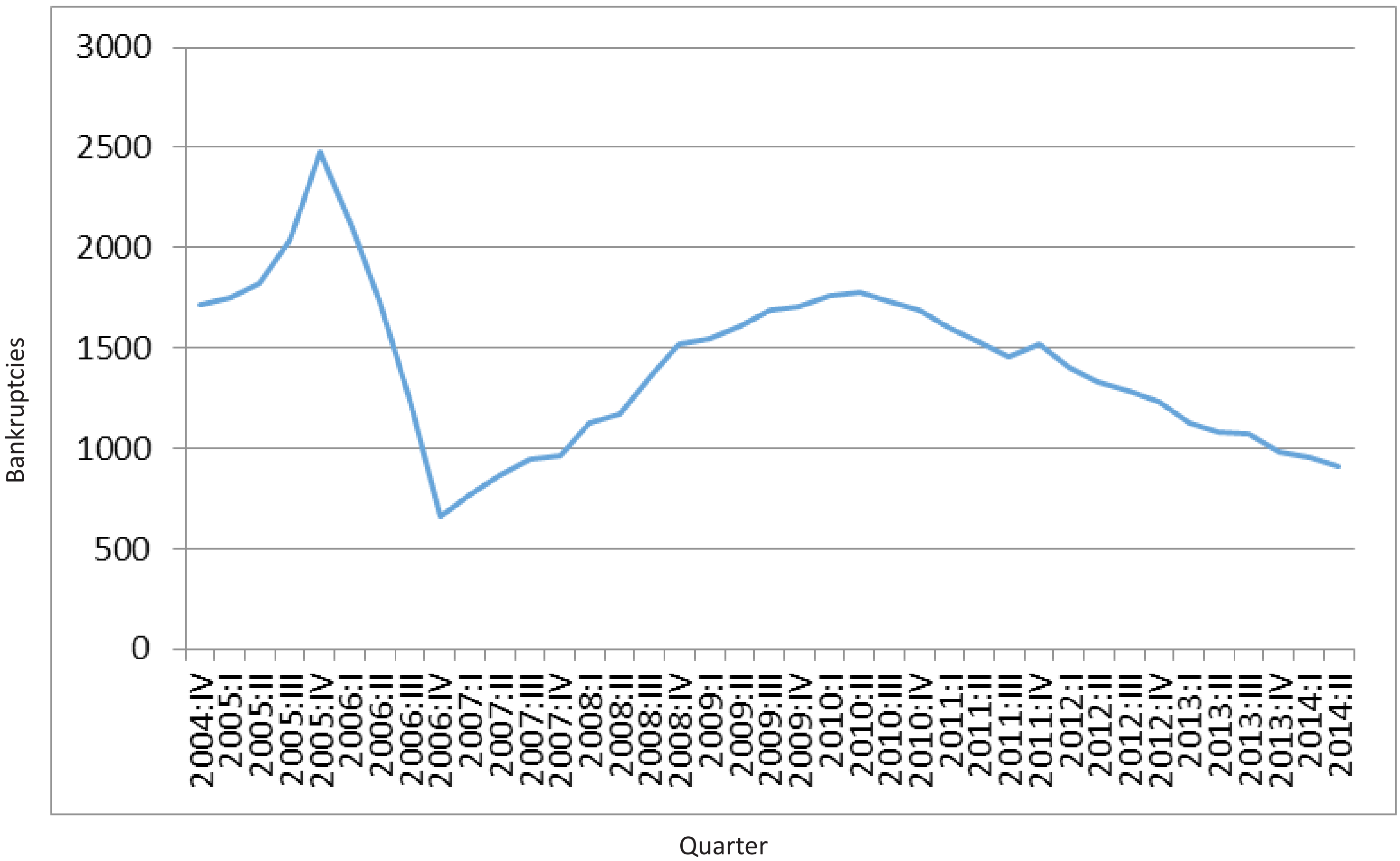


Year (September)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	295,051	304,655	304,212	303,246	303,118	303,065

Northwest Minnesota Bankruptcies

This quarter's report includes a measure of bankruptcies in Northwest Minnesota. The 12-month moving total shown below illustrates the annual number of bankruptcies in the since 2004. After trending upward since 2007, the annual number of bankruptcies has steadily declined since the mid-2010. The region appears to be slowly returning 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—Northwest Minnesota Planning Area (12-month moving total)



Year (Second Quarter)	2009	2010	2011	2012	2013	2014
Annual Bankruptcies (Not seasonally adjusted)	1,608	1,781	1,532	1,335	1,081	914

Northwest Minnesota Economic Indicators

Fargo-Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	September 2014 (m)	138,300	134,600	2.7% ↑	2.1%
Manufacturing Employment	September 2014 (m)	10,200	10,200	0.0% ↔	1.9%
Mining, Logging, Construction Employment	September 2014 (m)	10,700	8,900	20.2% ↑	3.1%
Average Weekly Work Hours, Private Sector	September 2014 (m)	34.9	35.1	-0.6% ↓	33.0 (since 2007)
Average Earnings Per Hour, Private Sector	September 2014 (m)	$23.69	$22.40	5.8% ↑	3.5% (since 2007)
Unemployment Rate	September 2014 (m)	2.3%	2.5%	NA ↓	2.5%
Labor Force	September 2014 (m)	123,815	121,929	1.5% ↑	1.1%
Initial Jobless Claims	September 2014 (m)	334	235	42.1% ↑	NA
Fargo-Moorhead Residential Building Permit Valuation	September 2014 (m)	38,412	45,089	-14.8% ↓	22,977
Fargo-Moorhead Cost of Living Index	Second Quarter 2014	94.0	94.0	0.0% ↔	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 2014 (m)	57,200	56,600	1.1% ↑	1.0%
Maufacturing Employment	September 2014 (m)	3,700	3,700	0.0% ↔	0.0%
Mining, Logging, Construction Employment	September 2014 (m)	3,800	3,500	8.6% ↑	0.9%
Average Weekly Work Hours, Private Sector	September 2014 (m)	33.8	34.5	-2.0% ↓	33.2 (since 2007)
Average Earnings Per Hour, Private Sector	September 2014 (m)	$21.38	$21.20	0.8% ↑	1.2% (since 2007)
Unemployment Rate	September 2014 (m)	2.8%	2.9%	NA ↓	3.0%
Labor Force	September 2014 (m)	53,563	53,790	-0.4% ↓	0.0%
Initial Jobless Claims	September 2014 (m)	91	108	-15.7% ↓	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation	September 2014 (m)	16,996	10,442	62.8% ↑	5,121

(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 in this report, a variety of economic measures can be analyzed. The data in the table show strong employment gains in the Fargo-Moorhead area (with an extremely large increase in mining/logging/construction employment) and a 5.8 percent increase in average hourly earnings. Despite an increase in initial jobless claims, lower average hours worked, and a reduction in the valuation of residential building permits, the Fargo-Moorhead MSA seems poised to experience strong growth through the first quarter of 2015.

The Grand Forks-East Grand Forks MSA enjoyed a strong third quarter. Grand Forks-East Grand Forks employment rose at an annual pace of 1.1 percent and mining/logging/construction employment grew 8.6 percent over 12 months. Average hourly earnings increased, although the length of the workweek declined. This area suffers from a declining labor force, which helps explain the small reduction in the area unemployment rate. Two bright spots for the Grand Forks-East Grand Forks area are declining initial jobless claims and an impressive increase in the value of residential building permits.

State and National Economic 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 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.

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Thomson Reuters and University of Michigan, Index of Consumer Sentiment

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