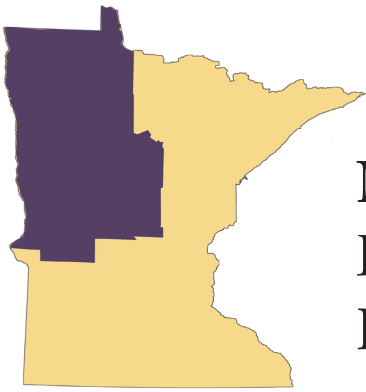

Northwest Minnesota
Economic and Business Conditions Report
Fourth Quarter 2014

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 slow over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI). An improvement in consumer sentiment and a small gain in a general measure of rural economic health contributed favorably to the fourth quarter LEI. A fall in new incorporations and limited liability companies (LLCs) as well as recent increases in initial jobless claims and a decline in residential building permits earlier in 2014 in Northwest Minnesota's metropolitan areas had a negative influence on the leading index. The SCSU Northwest Minnesota Index of Leading Economic Indicators decreased 1.31 points in the fourth quarter.

There were 863 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the fourth quarter of 2014 — representing a 1.1 percent decline from one year earlier. Ninety-one new regional businesses were incorporated in the fourth quarter, an 11.7 percent reduction from the fourth quarter of 2013. Over the past twelve months, new LLC filings in Northwest Minnesota were up 1.7 percent—increasing to 475 in the fourth quarter of 2014. New assumed names totaled 263 — an increase of 8.2 percent over the fourth quarter of 2013. There were 34 new filings for Northwest Minnesota non-profits in the fourth quarter—43.3 percent fewer filings than one year earlier.

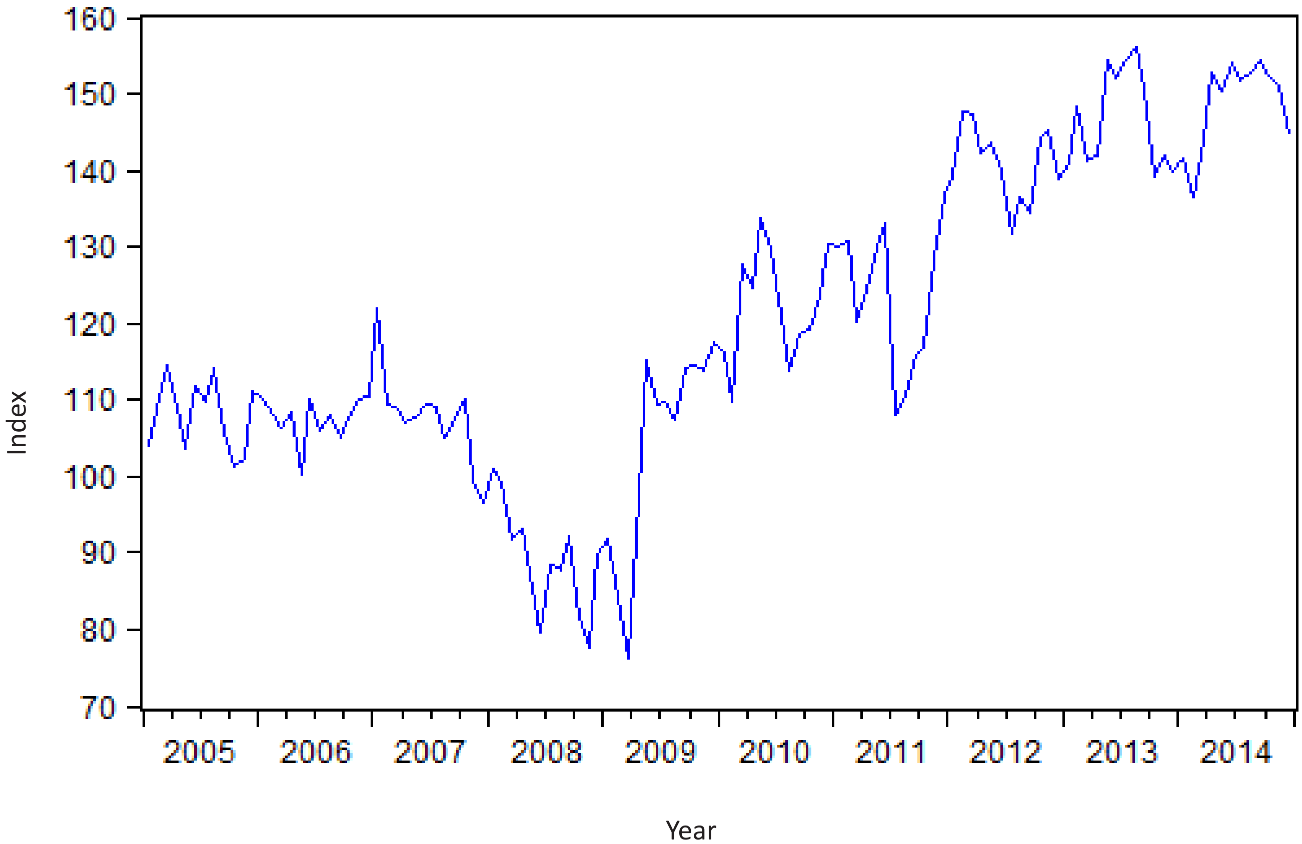
Employment of Northwest Minnesota residents increased by 2.9 percent over the year ending December 2014. The regional unemployment rate was 4.9 percent in December, an improvement on its 5.7 percent reading one year earlier. Initial claims for unemployment insurance in January 2015 were 200 more (an increase of 8.8 percent) than in January 2014. The regional labor force was 1.9 percent higher at the end of 2014 than it was one year earlier. The average weekly wage earned in Northwest Minnesota experienced an annual increase of 2.6 percent in the most recent reporting period.

The Fargo/Moorhead Metropolitan Statistical Area (MSA) experienced a strong fourth quarter. Employment, the unemployment rate, the labor force, residential building permits, average hourly earnings, and initial jobless claims were improved from December 2013. The only indicators exhibiting weakness were the length of the workweek and the area cost of living. The Grand Forks/East Grand Forks MSA also had a strong fourth quarter of 2014. Increased employment, a lower unemployment rate, an expanded labor force, lower initial jobless claims, and an increase in the length of the workweek contributed favorably to the regional outlook. A decline in regional residential building permits and a reduction in average hourly earnings were the only regional indicators that contributed unfavorably to the Grand Forks/East Grand Forks economic outlook.

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 two consecutive quarters of increases, the LEI in the Northwest Minnesota planning area declined by 1.31 points in the fourth quarter of 2014. Despite this, the LEI still stands 8.2 percent higher than one year earlier. As shown in the accompanying graph, the LEI has basically trended upward since the end of the Great Recession, demonstrating the ongoing strength of the regional economy.

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, 4th quarter 2014	Contribution to LEI, 3rd quarter 2014
Rural Mainstreet Index	0.06	-1.67
Northwest Minnesota initial claims for unemployment insurance	-0.50	0.77
Northwest Minnesota new filings of incorporation and LLCs	-1.72	0.52
Fargo-Moorhead + Grand Forks-EGF MSA residential building permits	-3.40	-0.21
Consumer Sentiment, University of Michigan	4.25	1.06
TOTAL CHANGE	-1.31	0.47

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 had a positive influence on the LEI in the fourth quarter. Weaker residential building permits in the Fargo/Moorhead and Grand Forks/East Grand Forks earlier in 2014 negatively influenced the LEI, as did slower new incorporations and LLCs. Increased initial claims for unemployment insurance also served as a drag on the 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 was basically neutral in the last quarter of 2014.

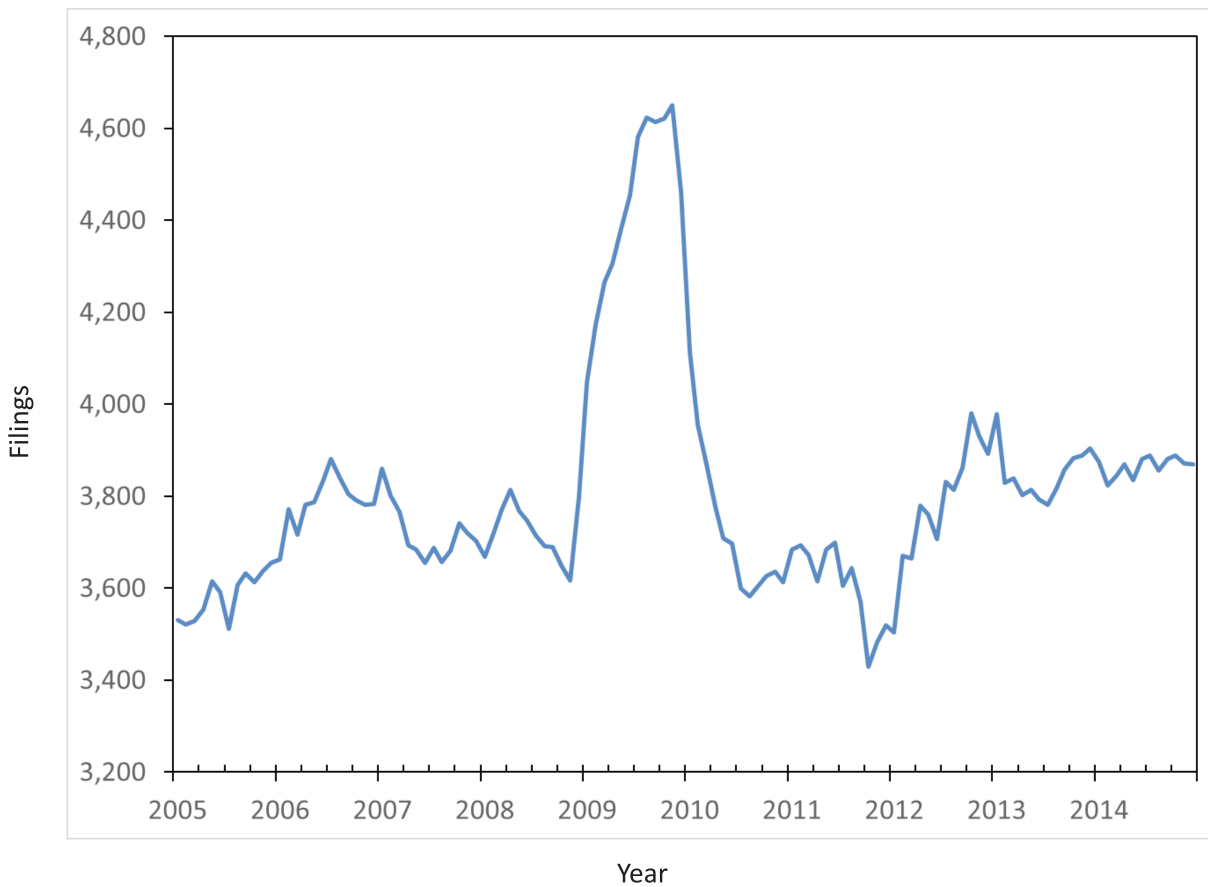
SCSU Northwest Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Rural Mainstreet Index, Creighton University, December	51.0	56.1	-9.1%
Northwest Minnesota initial claims for unemployment insurance, December	4,764	5,875	-18.9%
Northwest Minnesota new filings of incorporation and LLCs, Fourth Quarter	197	196	0.5%
Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, December	14	20	-30.0%
Consumer Sentiment, University of Michigan, December	93.6	82.5	13.5%
Northwest Minnesota Leading Economic Indicators Index December (December 1999 = 100)	151.8	140.3	8.2%

Northwest Minnesota Business Filings

Total new business filings in this region totaled 863 in the fourth quarter of 2014. This is ten new filings fewer than were tallied in the fourth quarter one year earlier—a 1.1 percent decline. The accompanying graph shows an abrupt increase in new filings in the middle of 2008. This 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.

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

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



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northwest Minnesota Total New Business Filings	873	1024	1089	894	863	-1.1%

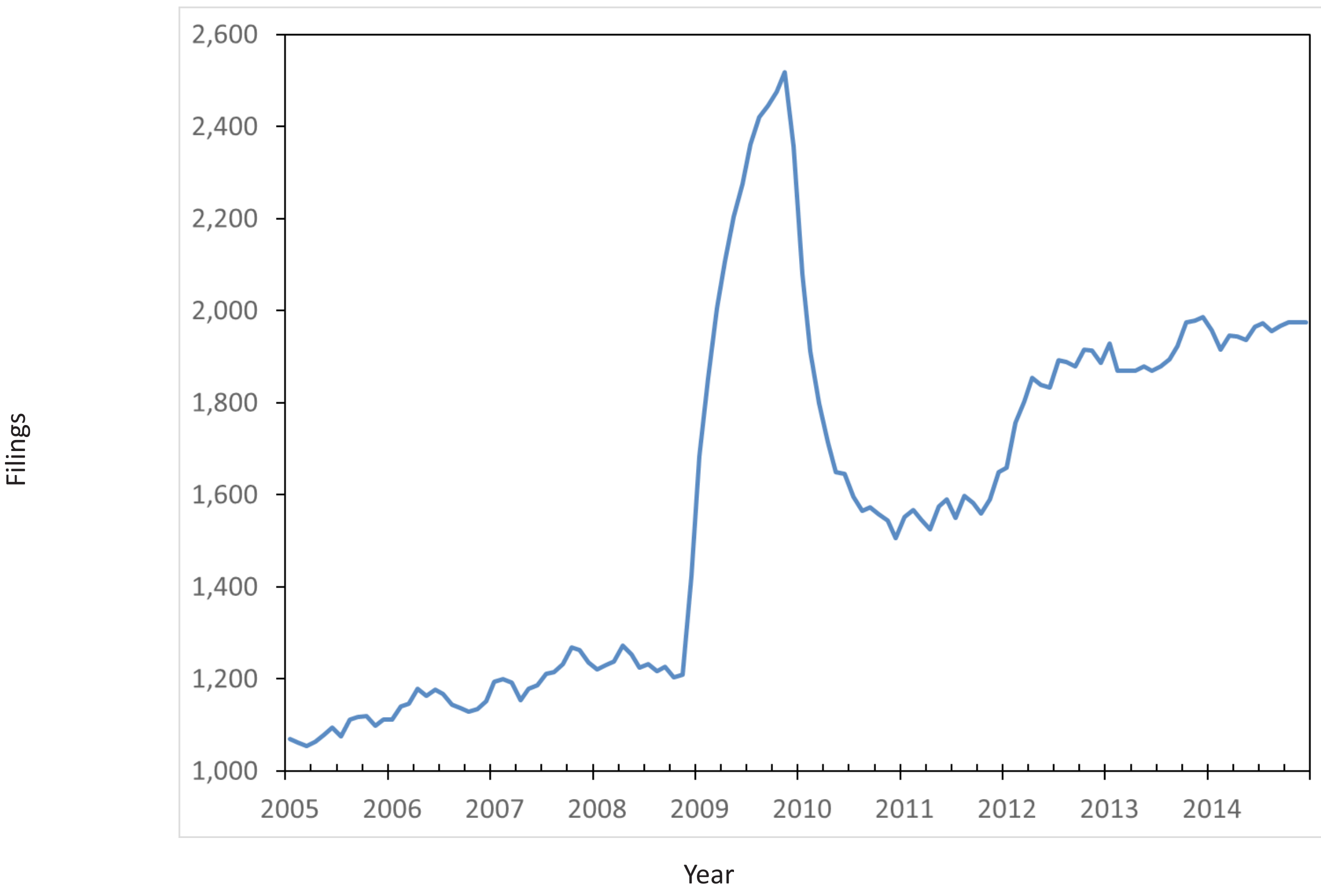
New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, then rose in 2012, but declined again in 2013. New business incorporations declined in the fourth quarter of 2014—falling by 11.7 percent to 91 new filings.

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

Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northwest Minnesota New Business Incorporations	103	120	124	100	91	-11.7%

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 2005. Fourth quarter 2014 LLCs increased by 1.7 percent compared to the same period in 2013.

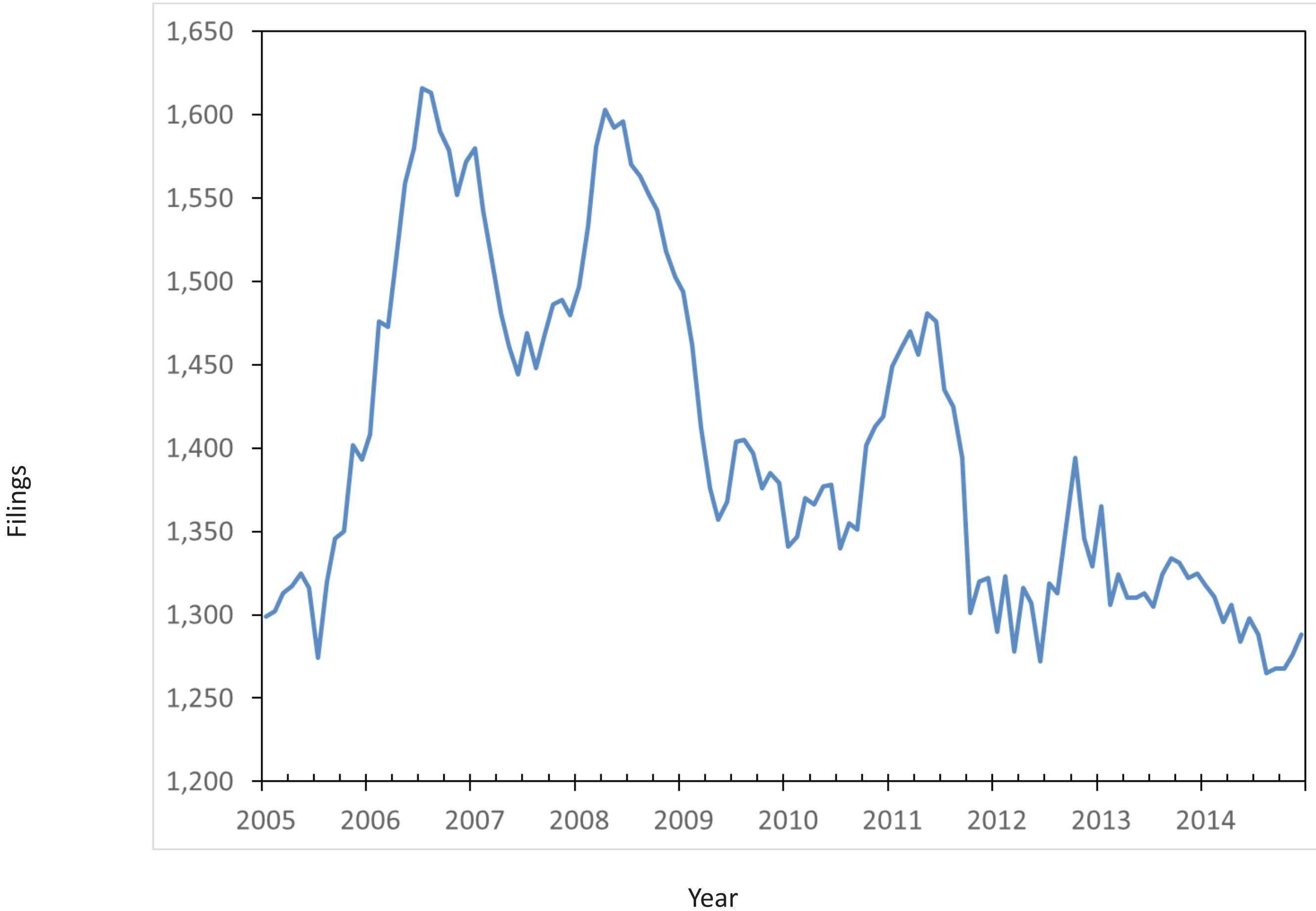
New Limited Liability Companies—Northwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	467	514	539	447	475	1.7%

Assumed names, which include sole proprietors or organizations that do not have limited liability, increased 8.2 percent from the same period last year. This series has not yet recovered from its peak levels of 2006–2007.

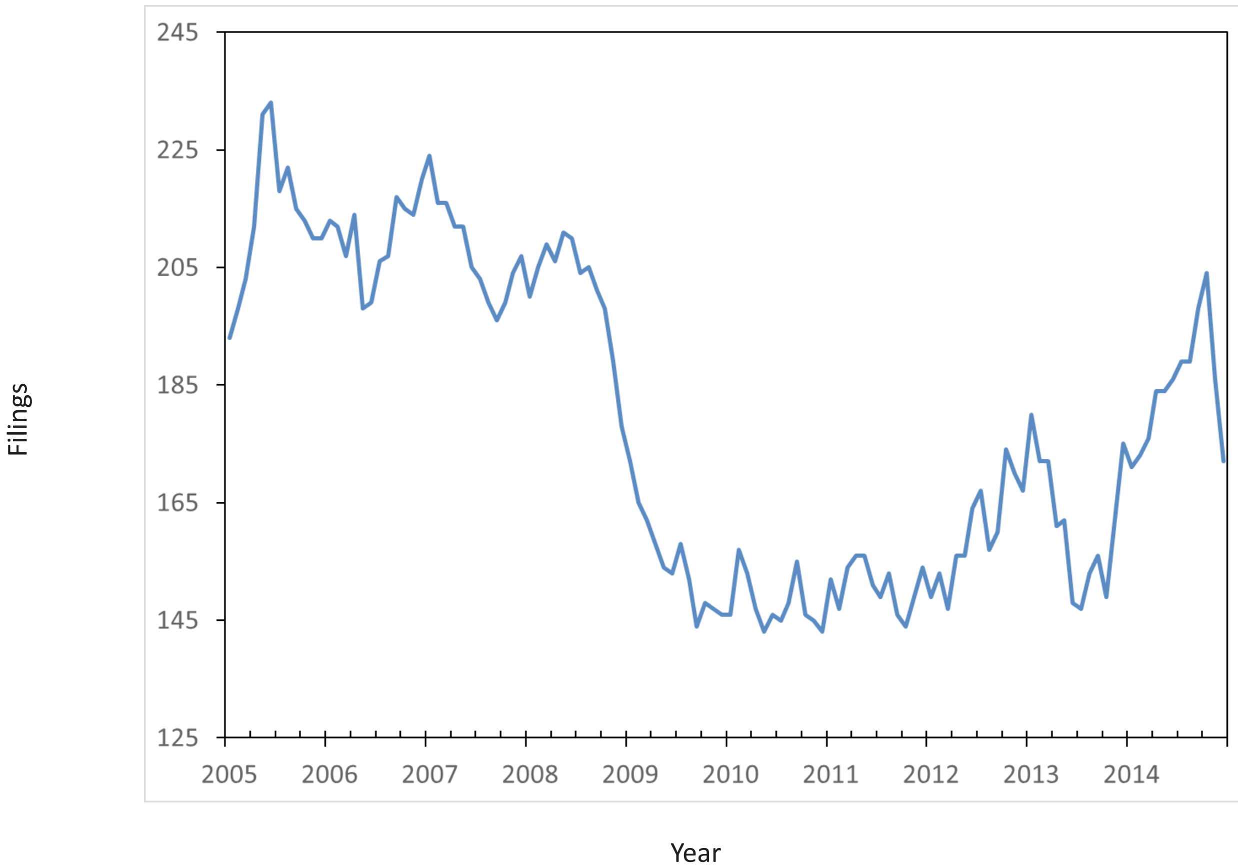
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northwest Minnesota New Assumed Names	243	345	385	295	263	8.2%

The number of newly formed non-profits in the Northwest Minnesota planning area expanded throughout most of 2014, but contracted sharply in the fourth quarter. The number of new non-profits decreased by 43.3 percent over last year's fourth quarter.

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



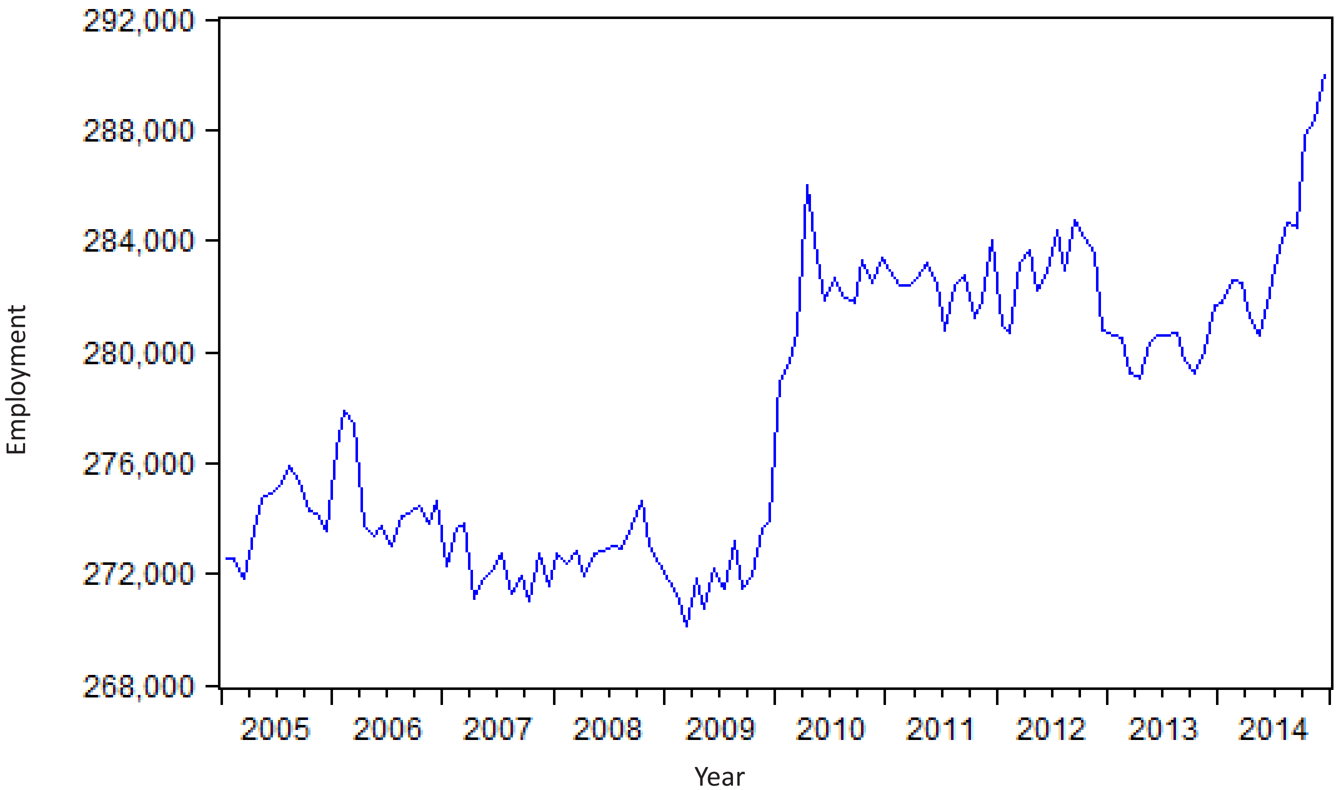
Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter IV: Percent change from prior year
Northwest Minnesota New Non-Profits	60	45	41	52	34	-43.3%

Northwest Minnesota Labor Market Conditions

Employment in the Northwest Minnesota planning area grew 2.9 percent over the year ending December 2014. The area has settled into a steady job growth rate since the beginning of 2013. Note that Northwest (and Southwest) Minnesota employment did not decline during the Great Recession as much as was observed in other Minnesota planning areas.

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

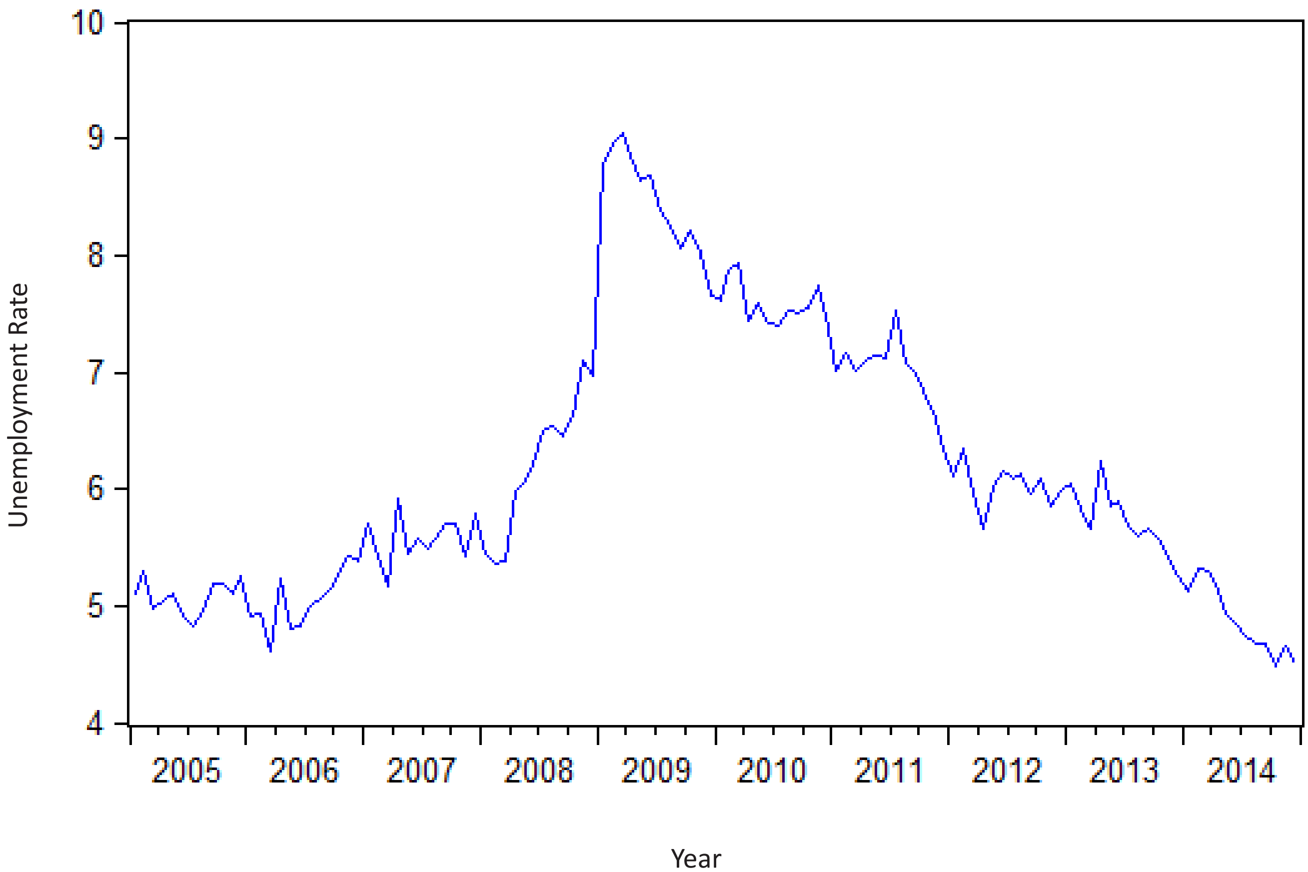
Employment—Northwest Minnesota Planning Area (12-month moving average)



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Employment (Not seasonally adjusted)	277,556	290,894	291,559	288,631	291,625	288,537	285,722

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 4.9 percent, well below its 5.7 percent level in December 2013.

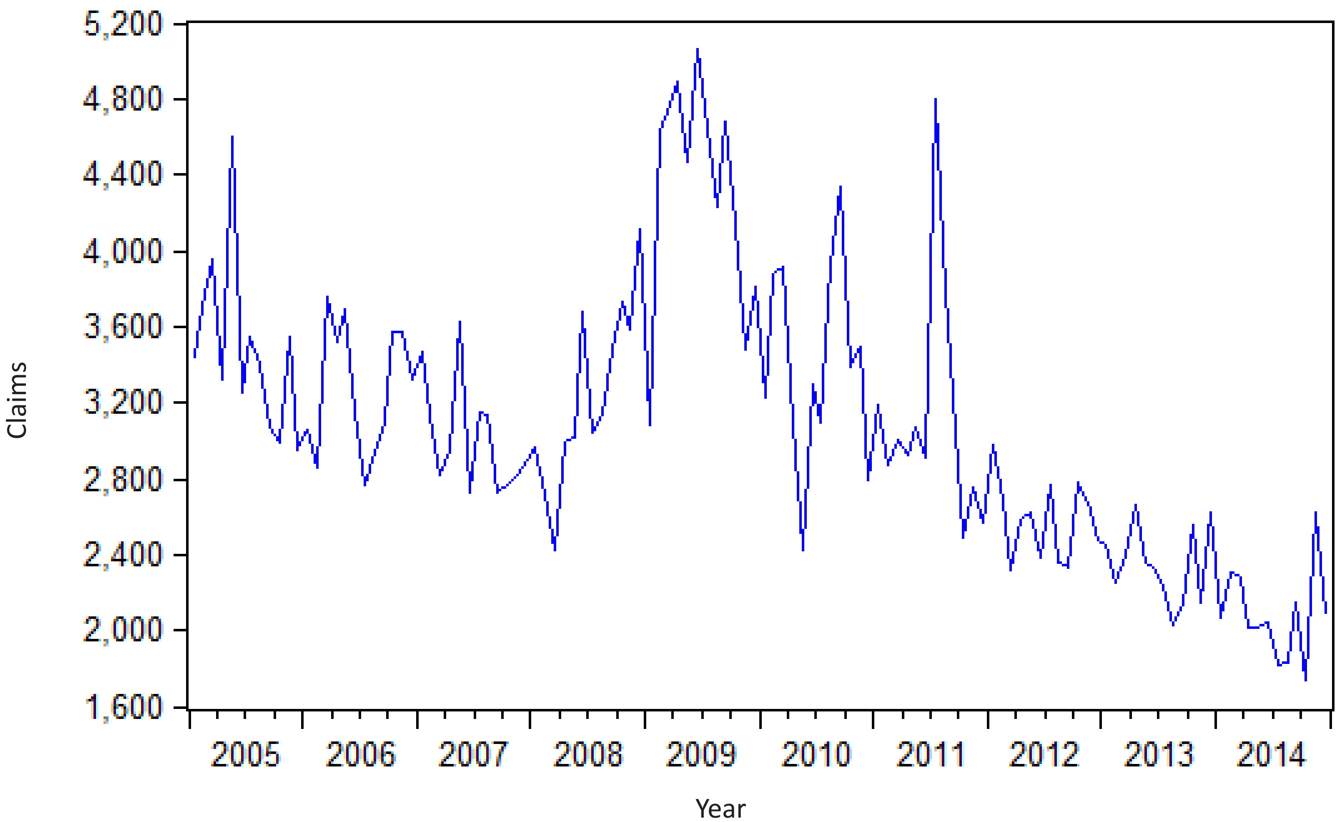
Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Unemployment Rate (Not seasonally adjusted)	5.7%	4.2%	3.7%	3.5%	3.1%	3.9%	4.9%

New claims for January 2015 unemployment insurance increased by 200 from year earlier levels. This represented an 8.8 percent increase from January 2014. Initial jobless claims are still well below their heightened levels during the Great Recession.

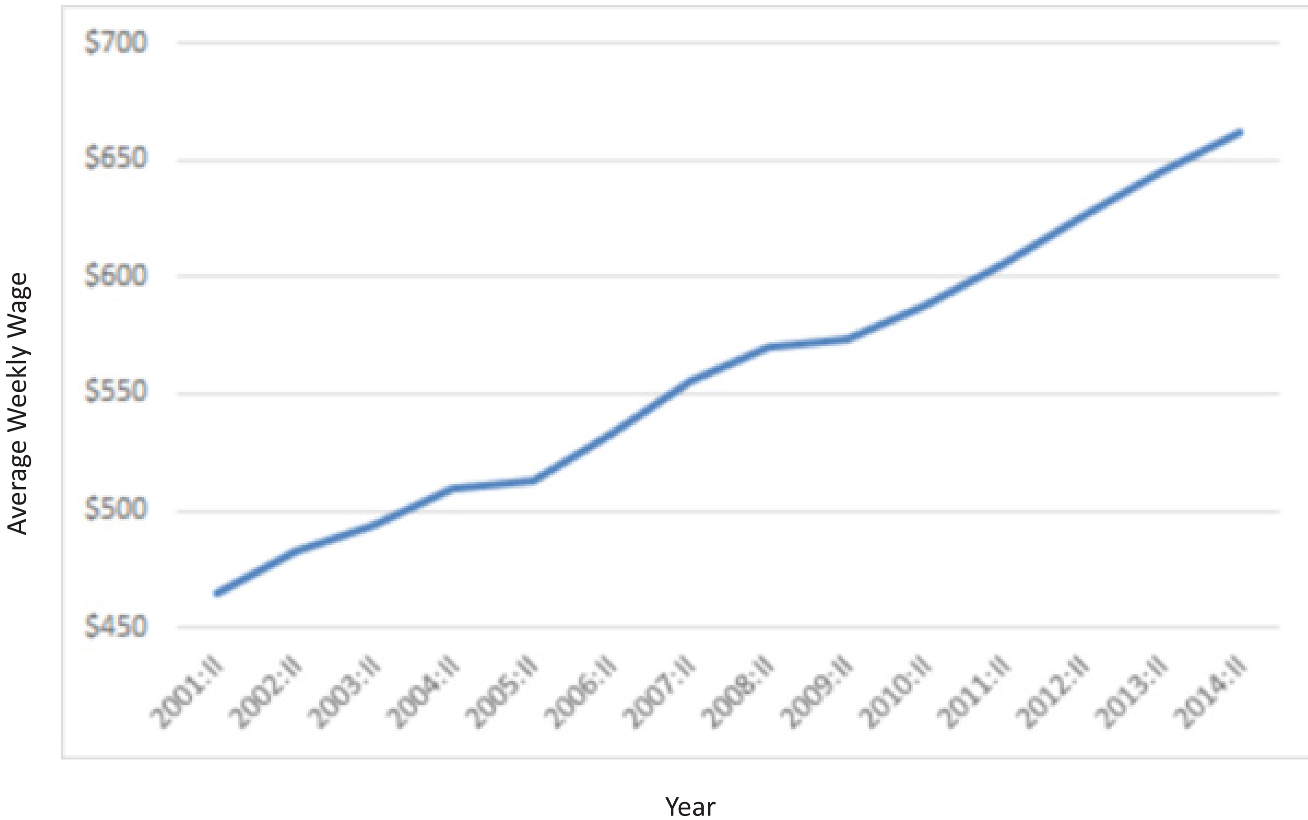
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	January 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015
Initial claims (Not seasonally adjusted)	2,282	911	1,079	1,621	4,978	4,734	2,482

The average weekly wage in Northwest Minnesota increased by an annual amount of $17 (from $645 to $662) over the most recent reporting period. This represented a 2.6 percent increase. Note that the average weekly wage in the Northwest Minnesota planning area is the lowest of Minnesota's six planning areas.

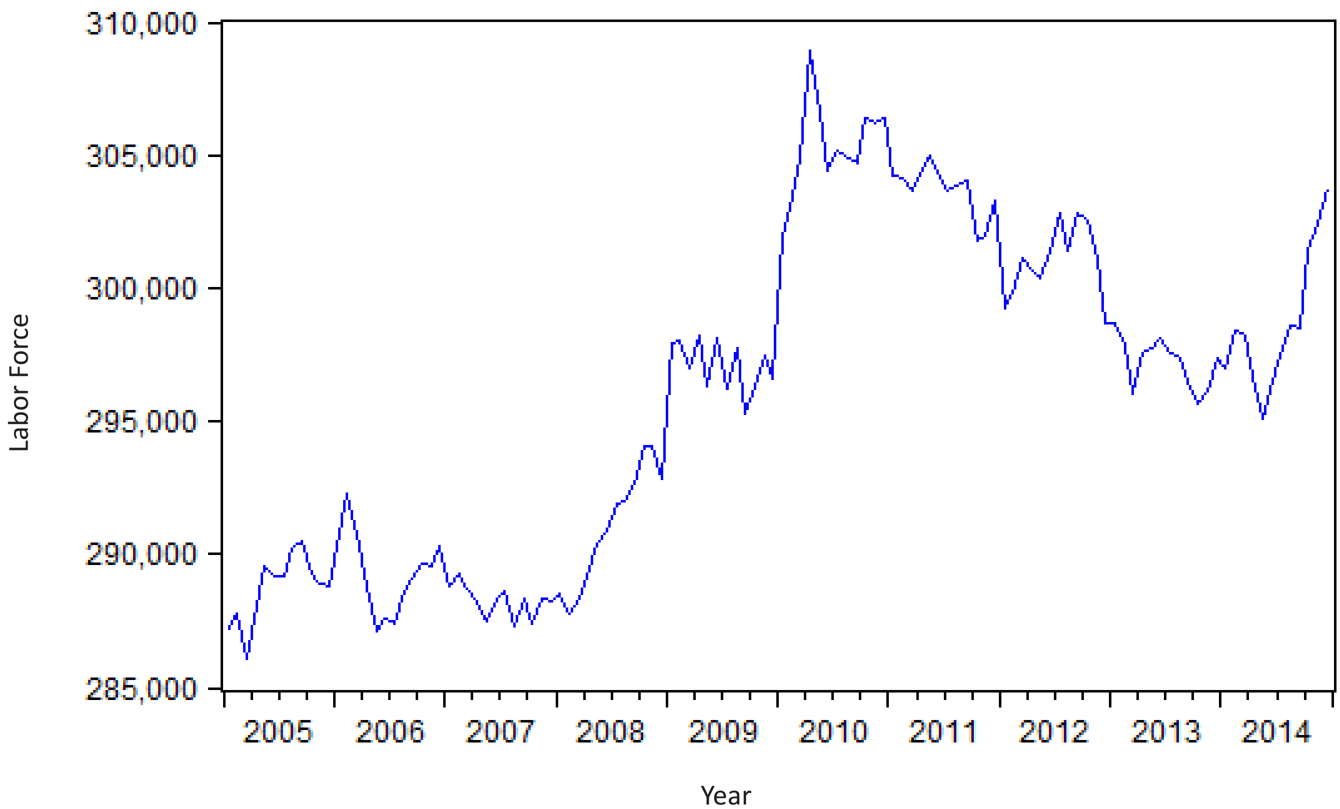
Average Weekly Wage—Northwest Minnesota Planning Area



Quarter	2009:II	2010:II	2011:II	2012:II	2013:II	2014:II
Average Weekly Wage	$573	$588	$606	$626	$645	$662

The size of the Northwest Minnesota labor force increased considerably over the year ending December 2014. At 298,626 the regional labor force is 5,547 larger than in December 2013 (a 1.9 percent increase). As shown in the accompanying graph, the regional labor force has grown considerably since 2005.

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



Year (December)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	293,101	295,937	293,862	294,625	293,079	298,626

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	December 2014 (m)	141,000	134,900	4.5% ↑	2.1%
Manufacturing Employment	December 2014 (m)	10,300	10,200	1.0% ↑	1.9%
Mining, Logging, Construction Employment	December 2014 (m)	8,200	7,400	10.8% ↑	2.5%
Average Weekly Work Hours, Private Sector	December 2014 (m)	33.9	34.3	-1.2% ↓	32.6 (since 2007)
Average Earnings Per Hour, Private Sector	December 2014 (m)	$23.56	$22.71	3.7% ↑	3.2% (since 2007)
Unemployment Rate	December 2014 (m)	2.7%	2.9%	NA ↓	3.0%
Labor Force	December 2014 (m)	131,007	126,236	3.8% ↑	1.6%
Initial Jobless Claims	December 2014 (m)	1,101	1,141	-3.5% ↓	NA
Fargo-Moorhead Residential Building Permit Valuation	December 2014 (m)	21,786	2,632	727.7% ↑	6,636
Fargo-Moorhead Cost of Living Index	Third Quarter 2014	94.1	93.7	0.4% ↑	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	December 2014 (m)	58,200	57,100	1.9% ↑	1.0%
Maufacturing Employment	December 2014 (m)	4,000	3,700	8.1% ↑	0.5%
Mining, Logging, Construction Employment	December 2014 (m)	2,900	2,800	3.6% ↑	0.2%
Average Weekly Work Hours, Private Sector	December 2014 (m)	32.8	32.6	0.6% ↑	31.8 (since 2007)
Average Earnings Per Hour, Private Sector	December 2014 (m)	$20.39	$21.87	-6.8% ↓	1.6% (since 2007)
Unemployment Rate	December 2014 (m)	3.1%	3.4%	NA ↓	3.6%
Labor Force	December 2014 (m)	55,132	54,287	1.6% ↑	0.2%
Initial Jobless Claims	December 2014 (m)	482	641	-24.8% ↓	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation	December 2014 (m)	313	1,287	-75.7% ↓	704

(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 3.7 percent increase in average hourly earnings. There was also a reduction in initial jobless claims, a lower unemployment rate, a rising labor force, and a large increase in the value of residential building permits. The only negative factors in the Fargo/Moorhead area were lower average hours worked and a slight increase in the relative regional cost of living.

The Grand Forks/East Grand Forks MSA also enjoyed a strong fourth quarter. Grand Forks/East Grand Forks employment rose at an annual pace of 1.9 percent and manufacturing employment grew 8.1 percent over twelve months. Average weekly hours increased, although average hourly earnings declined. A rising labor force and a declining unemployment rate bode well for this area. There was also a large decline in initial jobless claims. One thing to watch is Grand Forks/ East Grand Forks residential building permits, which declined by 75.7 percent from year earlier levels in the last month of 2014.

State and National Economic Indicators

MINNESOTA Indicators	Dec 2014	Sept 2014	Dec 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,831,400	2,819,200	2,795,800	0.4%	1.3%
Average weekly hours worked, private sector	33.9	34.1	34.0	-0.6%	-0.3%
Unemployment rate, seasonally adjusted	3.7%	3.7%	4.5%	NA	NA
Earnings per hour, private sector	$25.82	$25.75	$25.93	0.3%	-0.4%
Philadelphia Fed Coincident Indicator, MN	166.07	165.19	161.31	0.5%	3.0%
Philadelphia Fed Leading Indicator, MN	1.65	0.58	1.51	184.5%	9.3%
Minnesota Business Conditions Index	61.4	66.3	53.7	-7.4%	14.3%
Price of milk received by farmers (cwt)	$20.60	$26.70	$22.00	-22.8%	-6.4%
Enplanements, MSP airport, thousands	1,387.6	1,411.3	1,392.1	-1.7%	-0.3%

NATIONAL Indicators	Dec 2014	Sept 2014	Dec 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	140,592	139,619	137,476	0.7%	2.3%
Industrial production, index, SA	106.2	105.2	101.6	1%	4.5%
Real retail sales, SA	187,553	186,773	182,764	0.4%	2.6%
Real personal Income less transfers	11,435	11,266	11,008	1.5%	3.9%
Real personal consumption expenditures	11,145	11,035	10,827	1%	2.9%
Unemployment rate	5.6%	5.9%	6.7 %	NA	NA
New building permits, SA, thousands	1,060	1,039	1,022	2.0%	3.7%
Standard & Poor's 500 stock price index	2,054.27	1,993.23	1,807.78	3.1%	13.6%
Oil, price per barrel in Cushing, OK	$59.29	$93.21	$97.63	-36.4%	-39.3%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. However, average weekly hours worked fell, as did earnings per hour in the private sector. All three broader indicators of state economic activity were higher at the end of 2014 than they were one year earlier. Minnesota farmers struggled with 6.4 percent lower milk prices at the end of 2014 than was received twelve months earlier. December 2014 enplanements at the Minneapolis-St. Paul airport were virtually unchanged from one year earlier.

The national economy continued to grow at a solid pace in the fourth 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 declined by 39.3 percent over the year ending December 2014. While this precipitous decline in oil prices has created some dislocation in energy sensitive sectors of the national (and Midwest) economy, it has provided a "consumer dividend" to households who are enjoying higher discretionary income.

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

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

Thomson Reuters and University of Michigan, Index of Consumer Sentiment

U.S. Bankruptcy Courts

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U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income, Real Wages and Salaries.

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