Southwest 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

TABLE OF CONTENTS

Executive Summary 1

Southwest Minnesota Leading Economic Indicators Index 2

Southwest Minnesota Business Filings.. 4

Southwest Minnesota Labor Market Conditions.................................. 9

Economic Indicators 14

Sources 16

Executive Summary

Southwest Minnesota business conditions are expected to slow over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI). An increase in initial jobless claims earlier in 2014 combined with weakness in the general outlook for rural economies helped push down the fourth quarter 2014 LEI for the Southwest Minnesota planning area. While there has been a recent increase in new business filings of business incorporation and limited liability company (LLC) and higher residential building permits in the Mankato area, these indicators were insufficient to push the LEI higher in the fourth quarter. The Southwest Minnesota Index of Leading Economic Indicators declined by 4.15 points in the fourth quarter of 2014. The LEI for this part of the state is now 17.1 percent below its level at the end of 2013.

There were 563 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the fourth quarter of 2014 — representing 4.5 percent more new filings than one year earlier. There were 47 new regional business incorporations in the fourth quarter, a 21.7 percent decline from one year earlier. End of the year new LLC filings in Southwest Minnesota increased by 2.9 percent—rising to 319 in the fourth quarter of 2014. New assumed names totaled 177 in the fourth quarter—7.9 percent higher than the prior year. There were twenty new filings for Southwest Minnesota non-profits in the fourth quarter—a 300 percent increase from the final quarter of 2013.

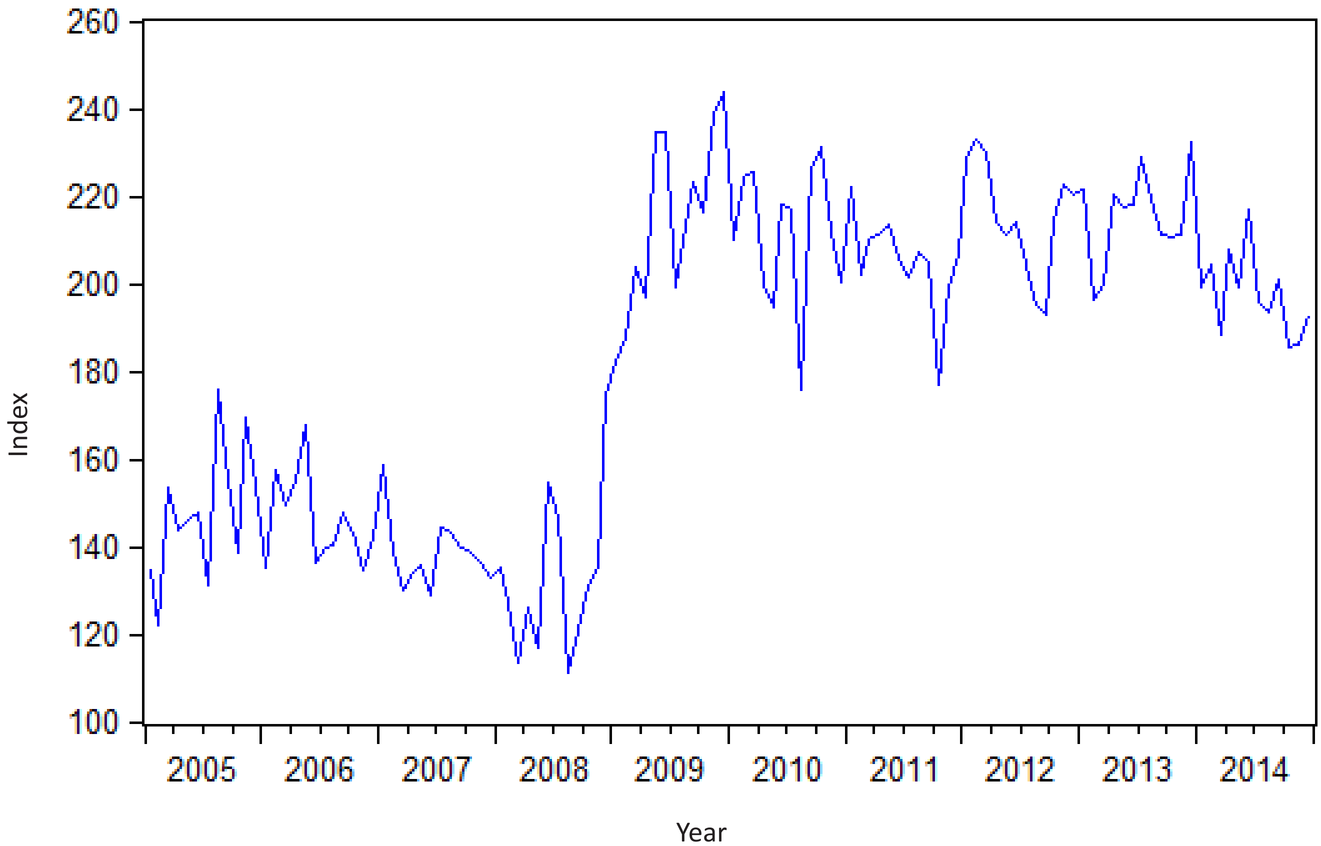
Employment of Southwest Minnesota residents increased by 1.8 percent over the year ending December 2014. Three thousand eight hundred and sixty-nine more Southwestern Minnesotans had jobs at the end of 2014 than did at the end of the prior year. The regional unemployment rate was 3.6 percent in December, an improvement on its 4.3 percent reading in December 2013. Initial claims for unemployment insurance fell by 311 from year-earlier levels—a 15.7 percent decrease. The Southwest Minnesota labor force increased by 1.3 percent over the year ending December 2013 and average weekly wages increased 3 percent to $684 in the most recent reporting period.

There was improved economic performance in the Mankato/North Mankato area—the largest market in Southwest Minnesota—in the fourth quarter of 2014. The only negative indicators for Mankato were a reduced length of the workweek and a small increase in the relative cost of living.

Southwest Minnesota Leading Economic Indicators Index

The SCSU Southwest 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 for Southwest Minnesota declined by 4.15 points in the fourth quarter of 2014. For the year as a whole, the index decreased by 17.1 percent, suggesting a continuing cautionary outlook for the Southwest Minnesota regional economy in the coming months. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has bounced around a lot in recent years, but trended down in 2014.

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



Components of SCSU Southwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2014	Contribution to LEI, 3rd quarter 2014
Rural Mainstreet Index	-0.81	-4.13
Southwest Minnesota initial claims for unemployment insurance	-6.26	1.78
Southwest Minnesota new filings of incorporation and LLCs	2.85	-3.25
Mankato MSA single-family building permits	0.07	-2.12
TOTAL CHANGE	**-4.15**	**-7.72**

The Southwest Minnesota LEI has four components, two of which experienced a decline in the fourth quarter and one that was largely neutral. An increase in the new business filings component of the index was the one positive factor in the LEI. Dragging down the index was a rise in initial jobless claims earlier in 2014 and a decline in a general indicator of the rural economy. This latter indicator--the Rural Mainstreet Index from Creighton University--uses survey data from rural bankers and business leaders in towns with average population of 1,300 in ten Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. This index has now declined over the past six months.

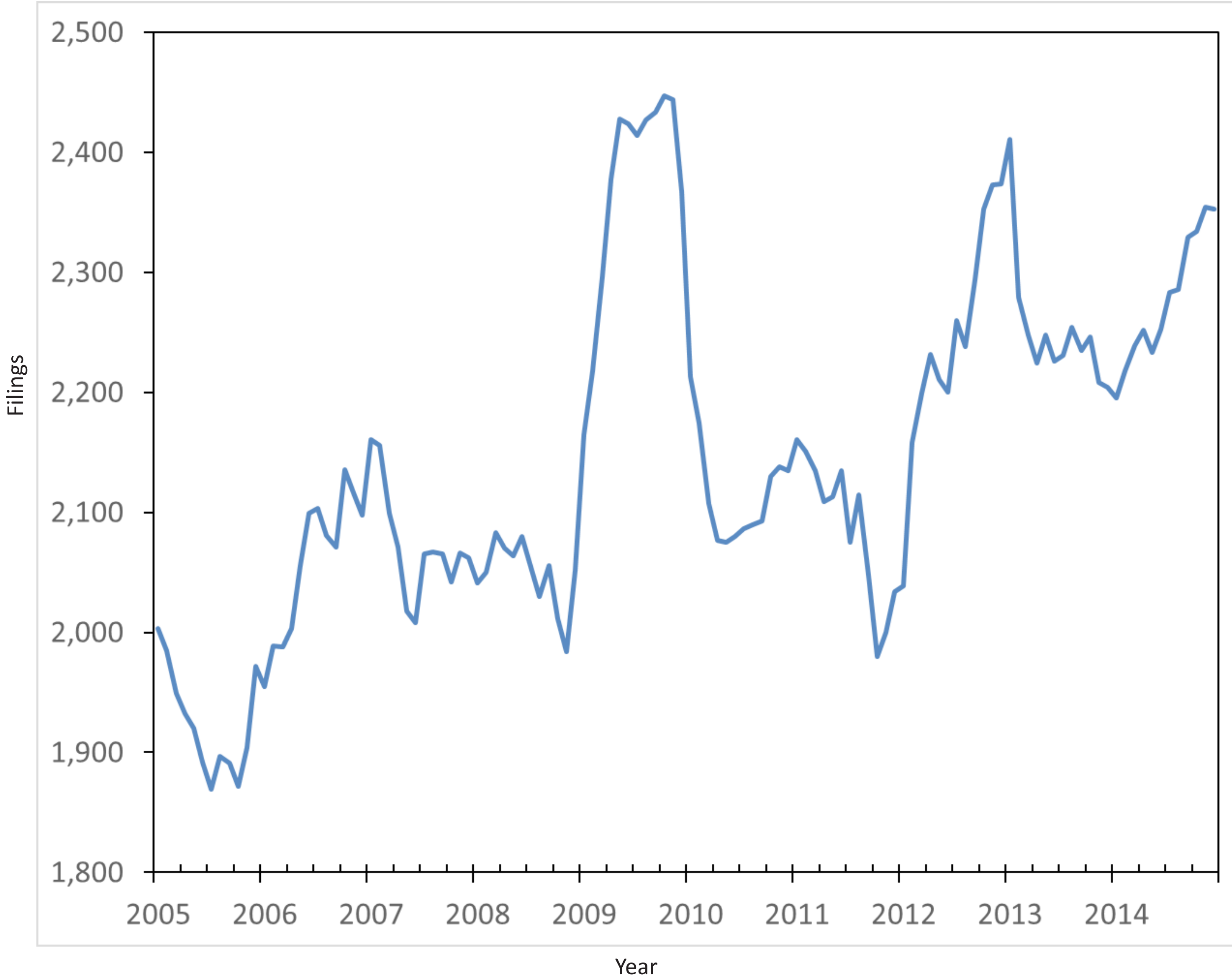
SCSU Southwest Minnesota
Leading Economic Indicators Index

	2014	2013	Percentage Change
Rural Mainstreet Index, Creighton University December	51	56.1	-9.1%
Southwest Minnesota initial claims for unemployment insurance December	3,138	4,296	-27.0%
Southwest Minnesota new filings of incorporation and LLCs Fourth Quarter	366	370	-1.1%
Mankato MSA single-family building permits December	4	9	-55.6%
Southwest Minnesota Leading Economic Indicators Index December (December 1999 = 100)	192.8	232.5	-17.1%

Southwest Minnesota Business Filings

The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings rose by 4.5 percent from year earlier levels in the fourth quarter of 2014. These new business filings have been rather volatile in recent years, although they did trend upward in 2014. Note that the abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier 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—Southwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter 4: Percent change from prior year
Southwest Minnesota Total New Business Filings	539	631	594	565	563	4.5%

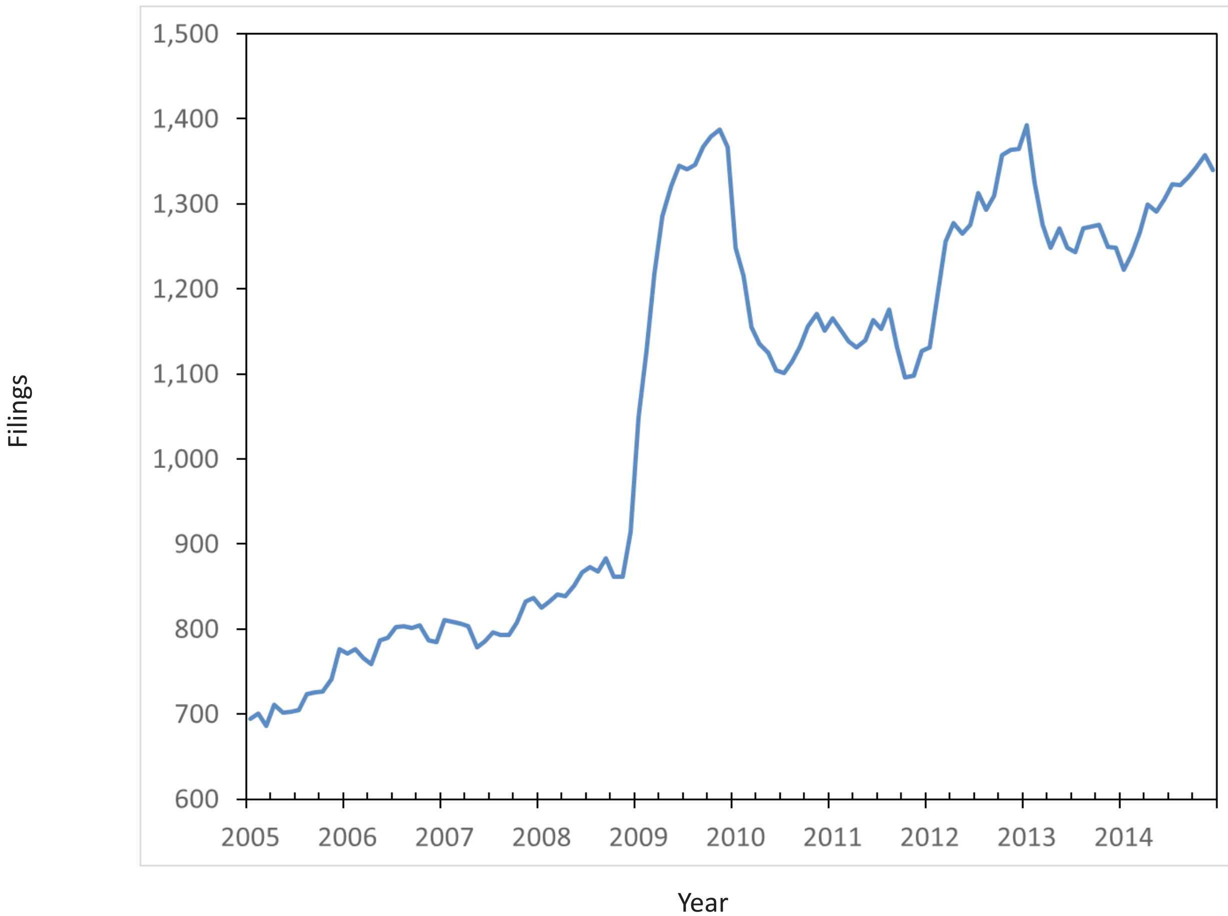
New business incorporations trended downward in Southwest Minnesota from 2005 to 2011, but they appear to have leveled off over the past several years. New regional incorporations totaled 47 in the fourth quarter of this year—a 21.7 percent reduction from last year.

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

Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter 4: Percent change from prior year
Southwest Minnesota New Business Incorporations	60	59	53	47	47	-21.7%

There has been a move in Southwest Minnesota, as in the rest of the state, away from the traditional form of incorporation and towards the limited liability company (LLC). While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Southwest Minnesota since 2005. This trend continued with a 2.9 percent increase from year earlier levels in the most recent quarter.

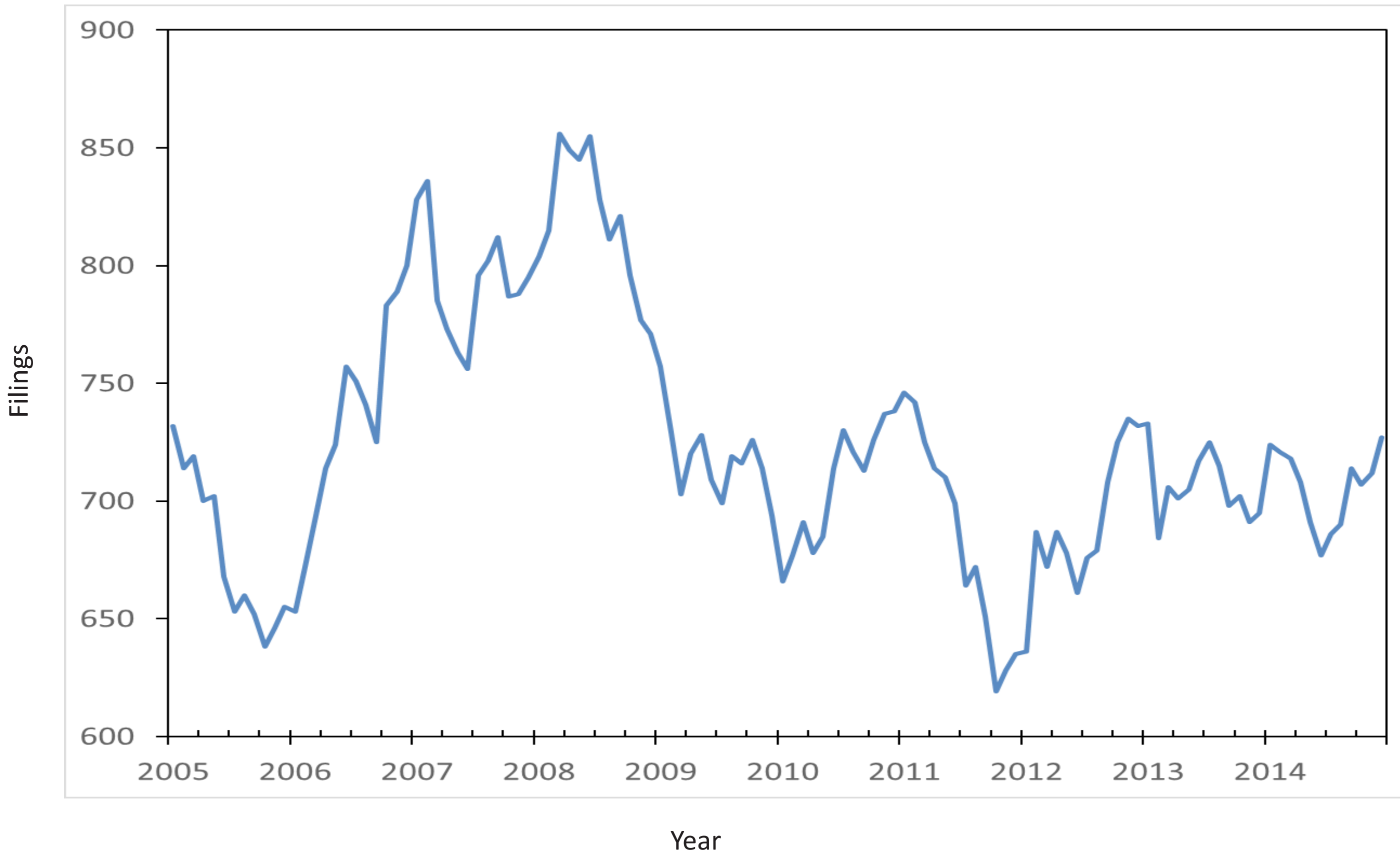
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter 4: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	310	352	360	309	319	2.9%

Fourth quarter assumed names increased by 7.9 percent compared to the same period in 2013. This series has slowly trended upward in Southwest Minnesota since the end of 2011. By comparison, the other five planning areas in the state have experienced a downward trend in this series over this time frame.

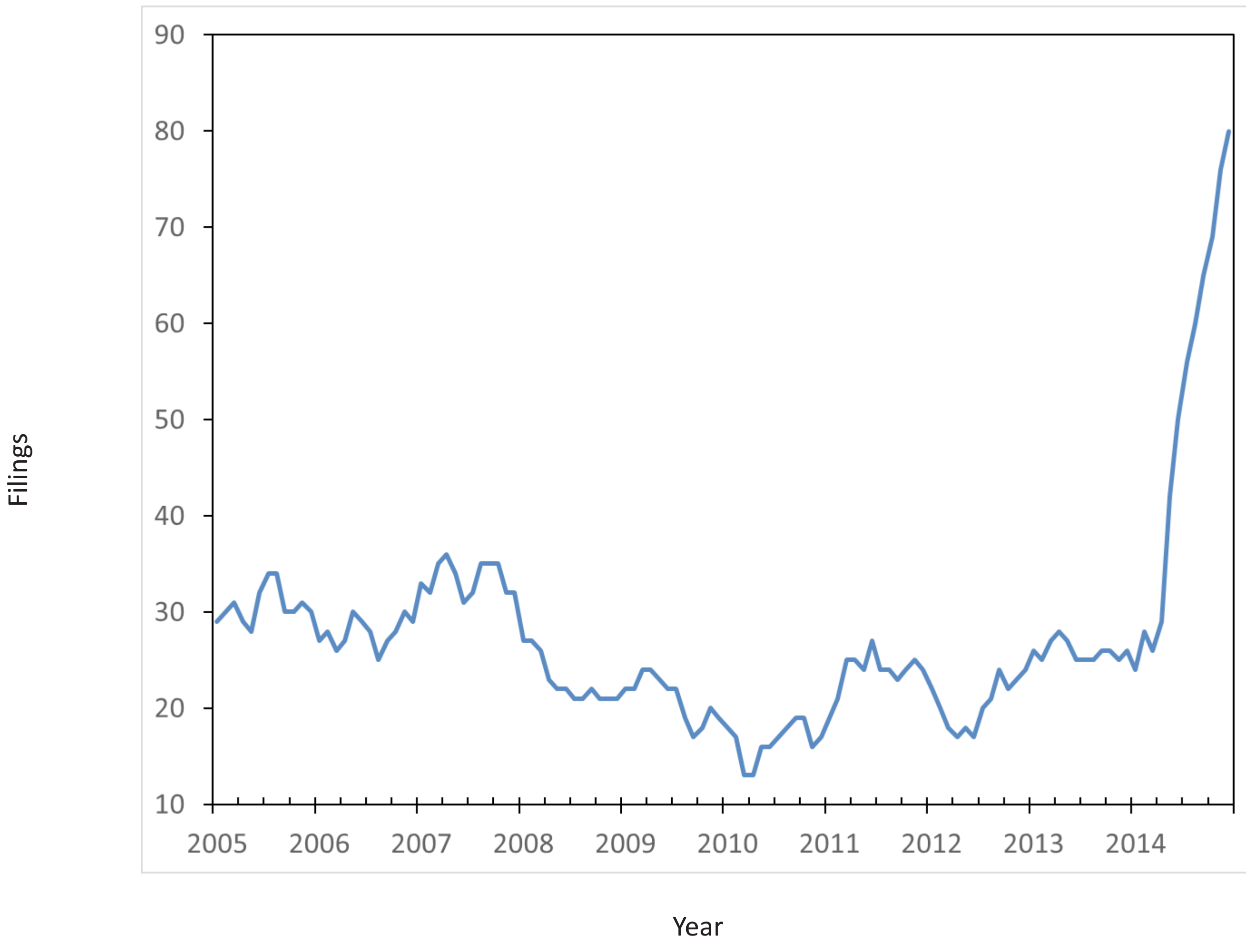
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter 4: Percent change from prior year
Southwest Minnesota New Assumed Names	164	213	153	184	177	7.9%

For the third straight quarter, Southwest Minnesota experienced a significant jump in the number of new non-profits registered with the Office of the Minnesota Secretary of State. With 20 newly registered non-profits, this series increased by 300 percent from one year earlier.

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



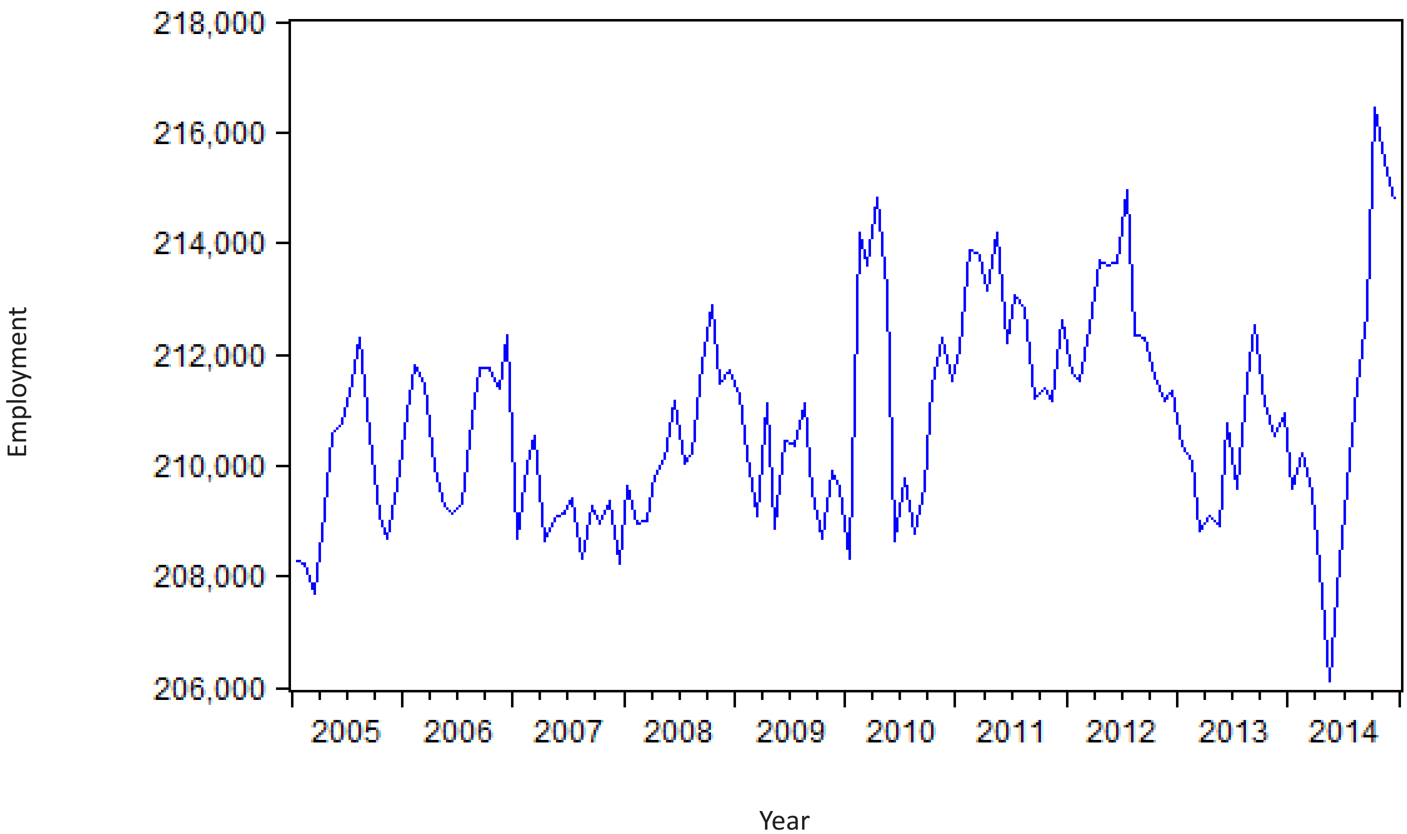
Quarter	IV: 2013	I: 2014	II: 2014	III: 2014	IV: 2014	2014 Quarter 4: Percent change from prior year
Southwest Minnesota New Non-Profits	5	7	28	25	20	300%

Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 1.8 percent over the year ending December 2014. While the 12-month moving employment average for this region of the state had a nice upward movement in 2014, average employment has not changed much from 10 years ago. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in December 2014 (see accompanying table) was 214,359.

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, soparesearch@stcloudstate.edu.

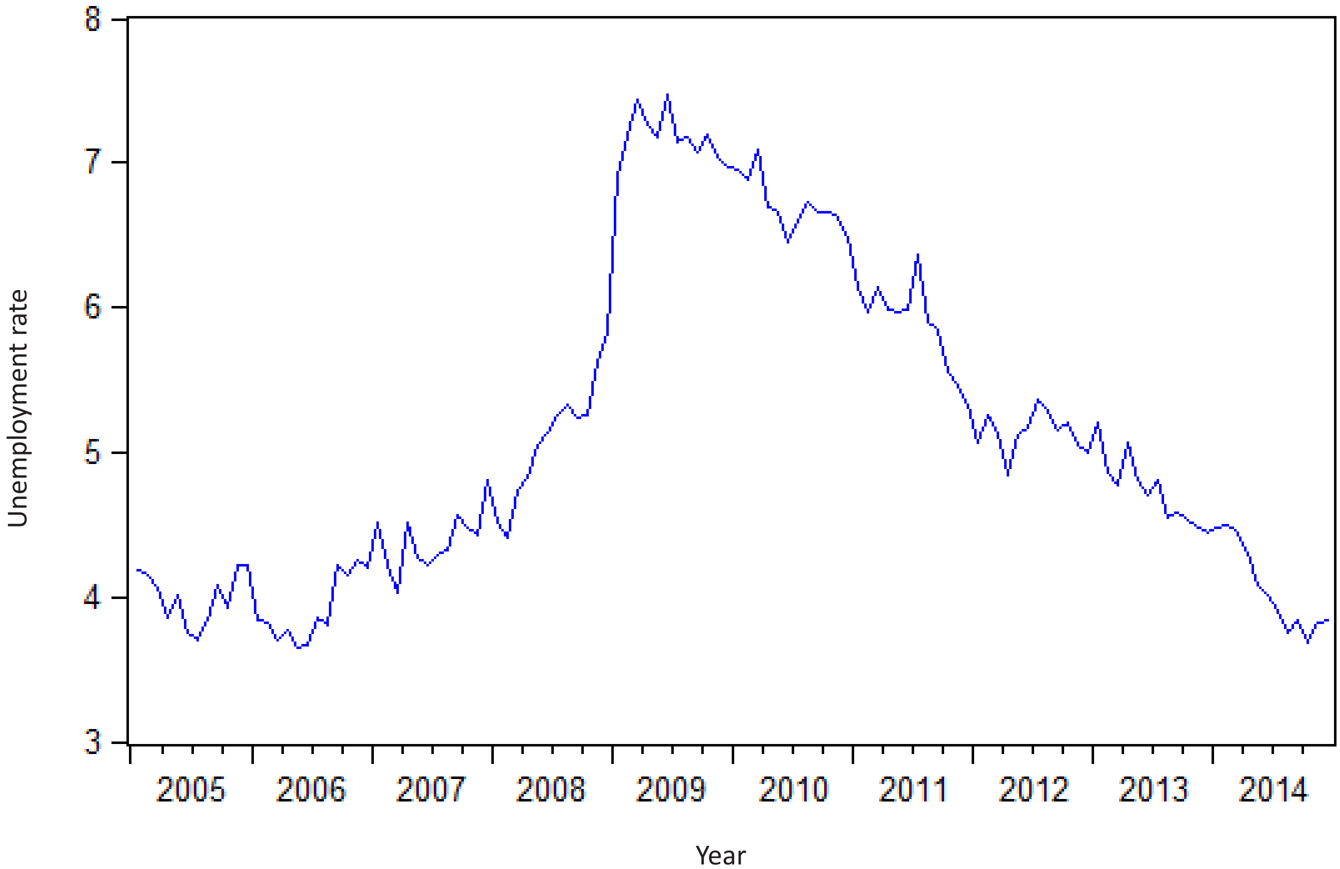
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Employment (Not seasonally adjusted)	210,490	212,384	212,058	211,587	216,885	215,747	214,359

Seasonally adjusted unemployment rates in Southwest Minnesota continued to decline from a peak in late 2009. The non-seasonally adjusted unemployment rate now stands at 3.6 percent — an improvement on the 4.3 percent rate recorded in December 2013.

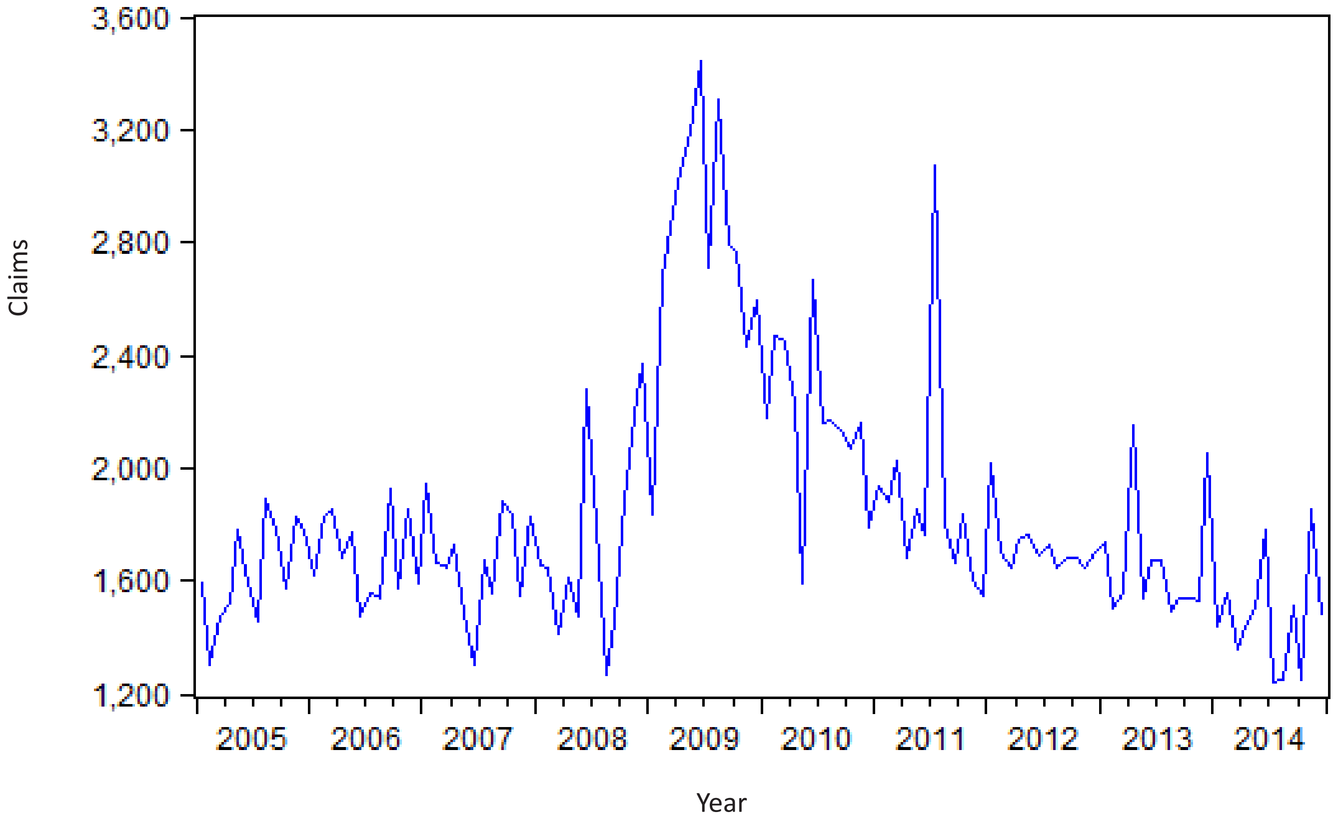
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	December 2013	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014
Unemployment Rate (Not seasonally adjusted)	4.3%	3.9%	3.4%	3.2%	3.0%	2.9%	3.6%

New claims for unemployment insurance in January 2015 were below levels from one year earlier. There were 1,675 initial claims for unemployment benefits in this most recent month, 311 fewer than one year earlier — a 15.7 percent decrease. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series remains volatile, but has drifted downward since the end of the Great Recession.

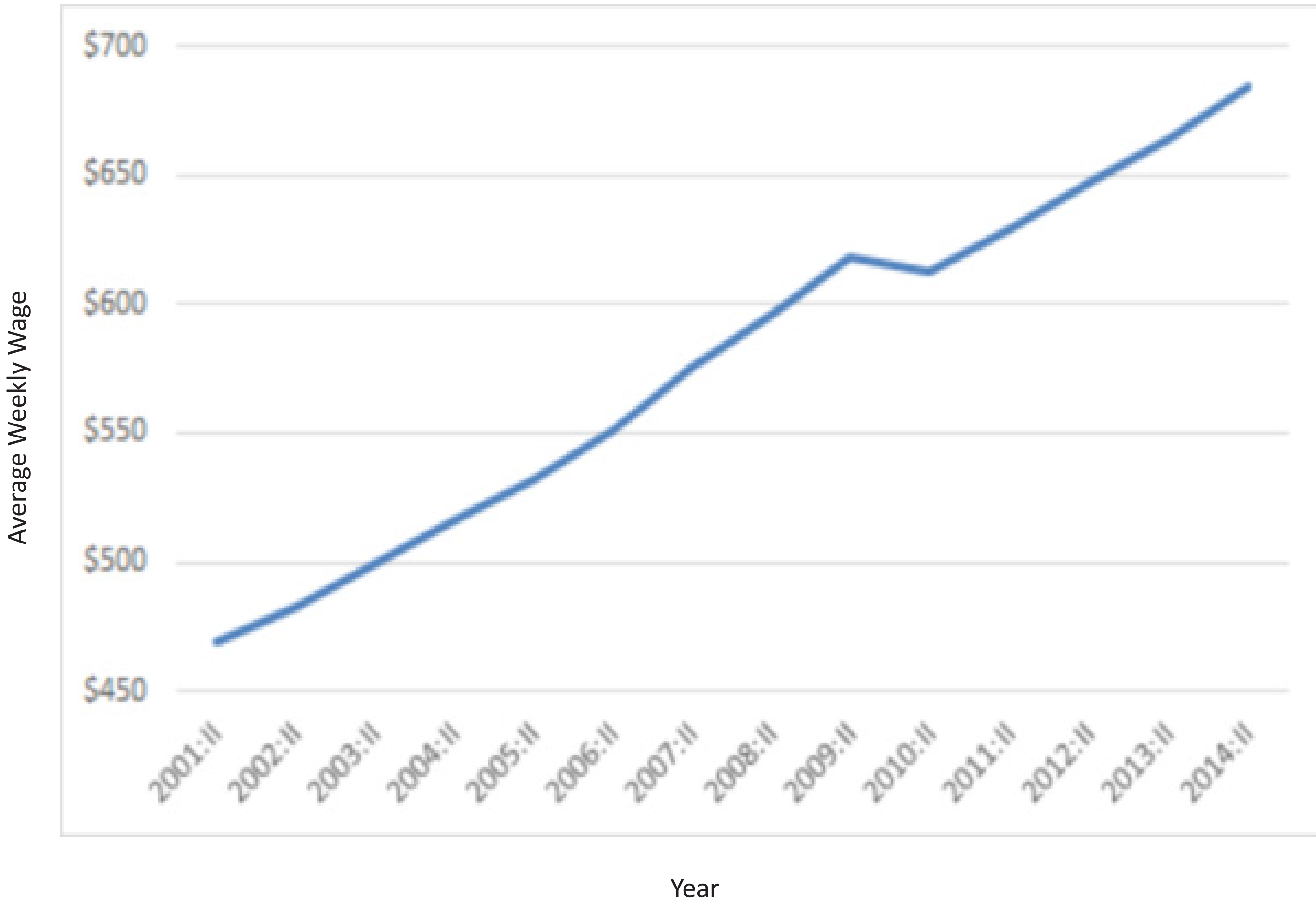
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Month	January 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015
Initial claims (Not seasonally adjusted)	1,986	677	1,074	1,147	2,655	3,138	1,675

Average weekly wages in Southwest Minnesota increased by $20—to $684—in the most recent period. This increase represents a 3 percent boost in weekly paychecks for workers in this region. Despite this, Southwest Minnesota workers receive the second lowest average pay (only Northwest Minnesota workers are paid less) of Minnesota's six planning areas.

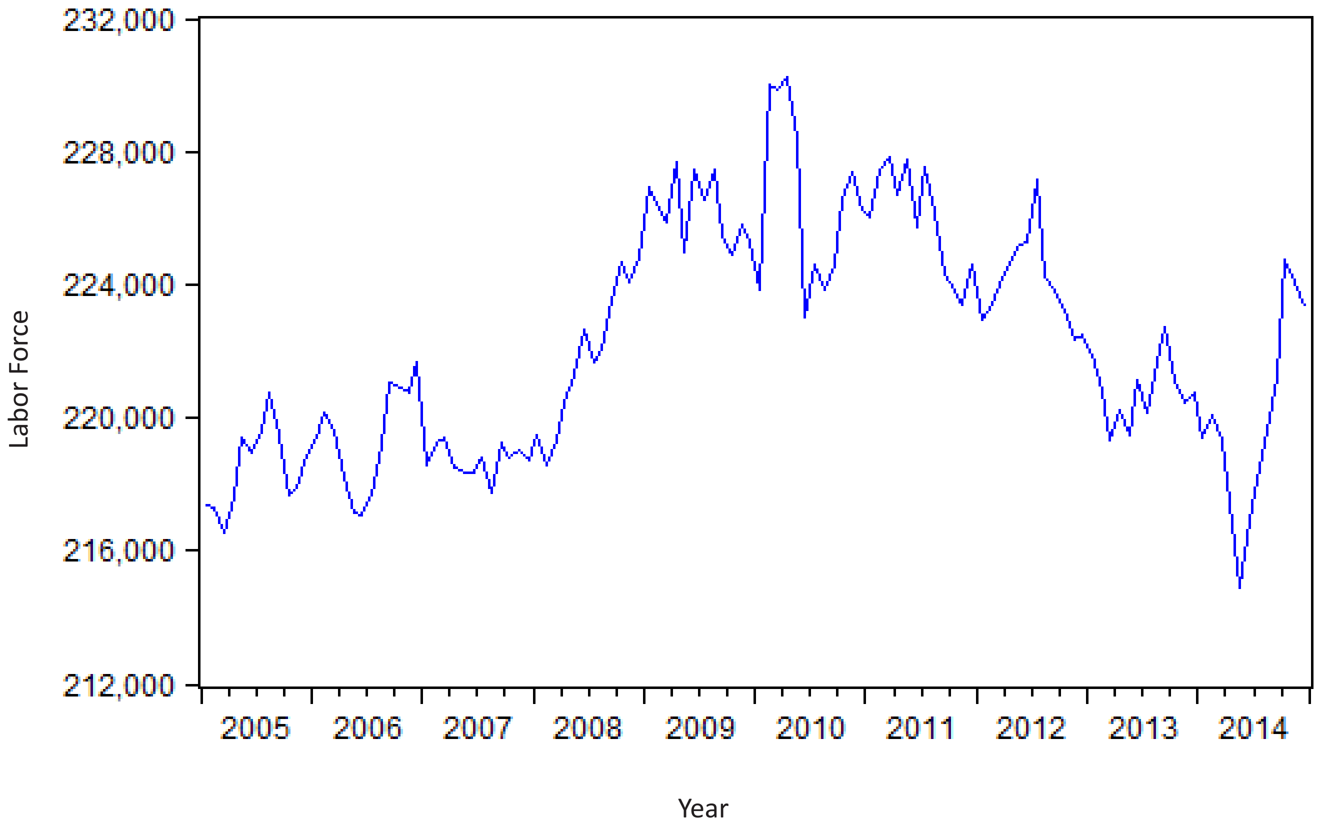
Averge Weekly Wage—Southwest Minnesota Planning Area



Quarter	2009:II	2010:II	2011:II	2012:II	2013:II	2014:II
Average Weekly Wage	$618	$613	$630	$648	$664	$684

Using a 12-month moving average to remove some of the seasonal patterns in labor force activity, the Southwest Minnesota labor force has had a nice increase over the last half of 2014. Until very recently, the regional labor force was not much changed from its level ten years ago. It will be interesting to see if Southwest Minnesota can sustain this recent increase in its labor force. While there were 2,862 more workers (see table below) in the regional labor force in December 2014 than were there at the end of 2013, the overall size of the labor force is still lower than was recorded in 2010.

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



Year (December)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	222,679	223,007	221,867	219,971	218,618	221,480

Mankato-North Mankato MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	December 2014 (m)	56, 387	56,119	0.5% ↑	0.7%
Goods-Producing Employment	December 2014 (m)	10,093	9,990	1.0% ↑	-0.5%
Average Weekly Work Hours - Private Sector	December 2014 (m)	30.1	32.9	-8.5% ↓	32.8 (since 2008)
Average Earnings Per Hour - Private Sector	December 2014 (m)	$23.05	$21.98	4.9% ↑	1.3% (since 2008)
Unemployment Rate	December 2014 (m)	2.6%	3.4%	NA ↓	3.8%
Labor Force	December 2014 (m)	59,014	58,806	0.3% ↑	0.7%
Initial Jobless Claims	January 2015 (m)	316	377	-16.2% ↓	NA
Business Formation					
Total New Business Filings	Fourth Quarter 2014	171	159	7.5% ↑	144 (since 2000)
New Business Incorporations	Fourth Quarter 2014	12	7	71.4% ↑	26 (since 2000)
New Limited Liability Companies	Fourth Quarter 2014	96	96	0.0% ↔	67 (since 2000)
New Assumed Names	Fourth Quarter 2014	58	54	7.4% ↑	46 (since 2000)
New Non-Profits	Fourth Quarter 2014	5	2	150.0% ↑	5 (since 2000)
Mankato / North Mankato Residential Building Permit Valuation	December 2014 (m)	11,609	3,331	248.5% ↑	3,471 (since 2009)
Mankato / North Mankato Cost of Living Index	Third Quarter 2014 (q)	96.2	95.2	1.1% ↑	NA

(m) represents a monthly series

Southwest Minnesota contains the Mankato/North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. As the accompanying table shows, Mankato was a bright spot in the regional labor market in the fourth quarter of 2014. Mankato experienced annualized employment growth of 0.5 percent over the year ending December 2014, and employment in its goods-producing sector grew at a 1 percent rate over this same period. The unemployment rate fell, initial jobless claims declined and the labor force expanded. There does appear to be some cost of living pressures that are being felt in Mankato, but the area still is very affordable compared to other U.S. metropolitan areas. The value of residential building permits in Mankato increased substantially in December 2014 compared to one year earlier. The one negative indicator in Mankato was an 8.5 percent reduction in average weekly work hours. But, average hourly earnings increased at a 4.9 percent annual pace in December 2014.

State and National 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 Southwest 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 Southwest Minnesota Planning Area consists of 23 counties: Big Stone; Blue Earth; Brown; Chippewa; Cottonwood; Faribault; Jackson; Lac qui Parle; Le Sueur; Lincoln; Lyon; Martin; Murray; Nicollet; Nobles; Pipestone; Redwood; Rock; Sibley; Swift; Waseca; Watonwan; and Yellow Medicine.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Katie Kotschevar. Professor David Wall of the SCSU Geography Department provided GIS assistance.

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Federal Reserve Board of Governors: Industrial Production.

Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.

Metropolitan Airports Commission: MSP Enplanements.

Minnesota Department of Employment and Economic Development (and U.S. Department of Labor Bureau of Labor Statistics): Average Hourly Earnings, Average Weekly Work Hours, Employment, Initial Claims for Unemployment Insurance, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.

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

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

Thomson Reuters and University of Michigan: Index of Consumer Sentiment

U.S. Bankruptcy Courts

U.S. Bureau of Census: 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.