# Southeast 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

**Southeast Minnesota business conditions are expected to improve over the first several months of 2015 according to a variety of economic indicators.** Driven by improvements in consumer sentiment and an increase in Rochester area residential building permits, the Southeast Minnesota Index of Leading Economic Indicators (LEI) increased by 3.49 points in the fourth quarter of 2014. The LEI is now 7.3 percent above its December 2013 value. A decline in new filings for business incorporation and limited liability company (LLC) combined with increased initial jobless claims earlier in 2014 were negative factors in the December 2014 LEI. A fall in the Minnesota Business Conditions index also unfavorably impacted the Southeast Minnesota economic outlook.

**There were 754 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the fourth quarter of 2014 — representing a 3.3 percent decline from one year earlier.** There were 89 new regional business incorporations in the fourth quarter, an 18.7 percent increase from the fourth quarter of 2013. New limited liability company filings in Southeast Minnesota fell by 8 percent from the prior year. Regional new LLC filings totaled 414 in the fourth quarter of 2014. New assumed name filings increased by 1.9 percent to 211 and there were 40 new filings for Southeast Minnesota non-profit in the fourth quarter—a 16.7 percent decline from the same quarter in 2013.

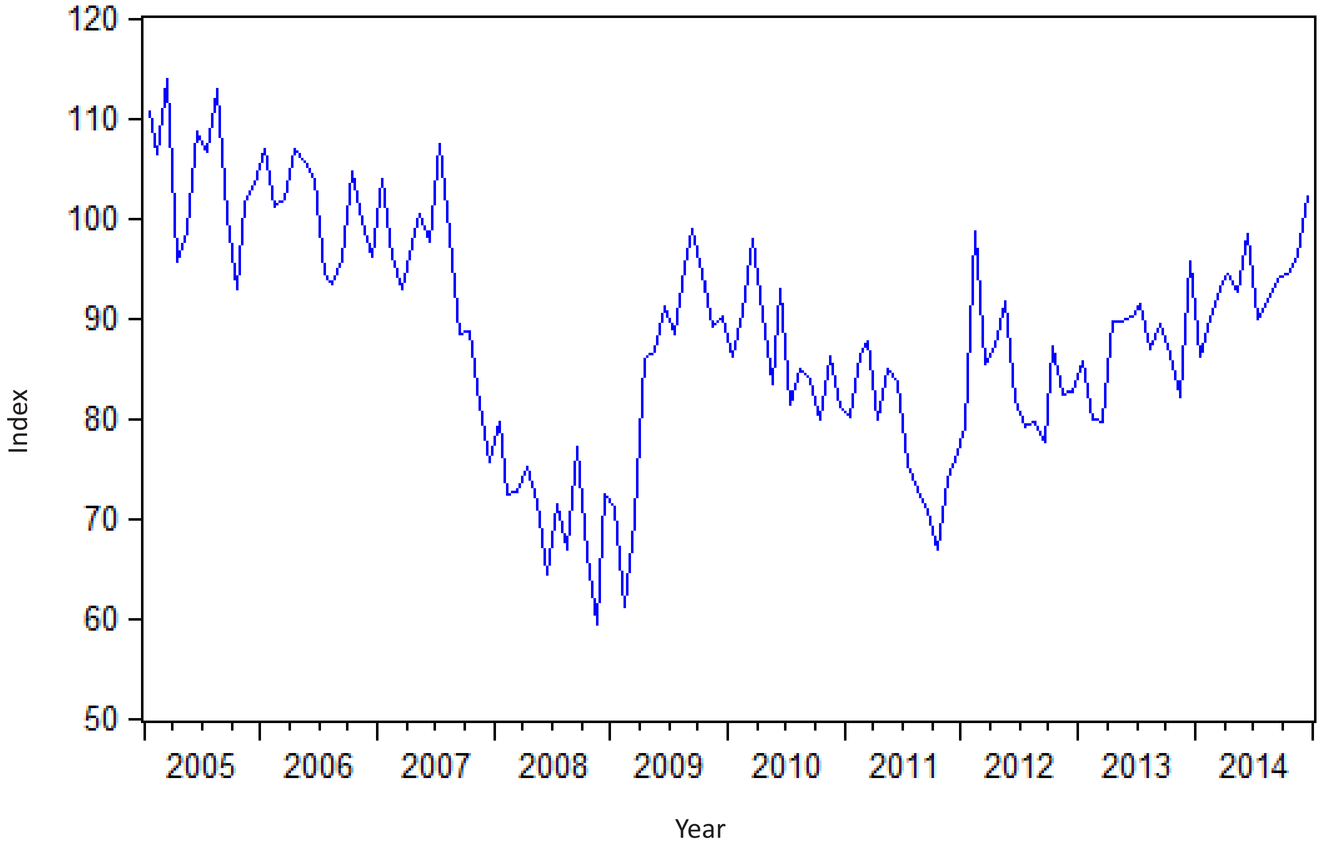
**Employment of Southeast Minnesota residents increased by 1 percent over the year ending December 2014.** Compared to December 2013, 2,756 more residents of Southeast Minnesota now have jobs. The regional unemployment rate was 3.2 percent in December, an improvement from 4 percent in the year earlier period. Initial claims for unemployment insurance in January 2015 were 244 lower (an 11.2 percent decline) than one year earlier. The Southeast Minnesota labor force increased slightly over the year ending December 2014 and average weekly wages rose by 1.3 percent to $857 in the most recent reporting period.

**Data from the Rochester area—the largest market in Southeast Minnesota—were fairly strong, with recent weakness in average hourly earnings and slightly lower new business filings being offset by a number of improved economic indicators.** These favorable indicators include increased employment (including increases in the key manufacturing and education/health sectors), a longer average workweek, a reduced unemployment rate, lower jobless claims, an increased labor force, and a rise in the value of residential building permits.

## Southeast Minnesota Leading Economic Indicators Index

The SCSU Southeast 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 was 3.49 points higher in the fourth quarter of 2014, and is now 7.3 percent above its level one year ago.

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




### Components of SCSU Southeast Minnesota Leading Economic Indicators Index

| Component of Index | Contribution to LEI, 4th quarter 2014 | Contribution to LEI, 3rd quarter 2014 |
|---|---|---|
| Minnesota Business Conditions Index | -2.77 | -2.01 |
| Southeast Minnesota initial claims for unemployment insurance | -3.82 | 1.57 |
| Southeast Minnesota new filings of incorporation and LLCs | -0.73 | -0.99 |
| Rochester MSA residential building permits | 2.25 | -1.44 |
| Consumer Sentiment, University of Michigan | 8.56 | -4.53 |
| **TOTAL CHANGE** | **3.49** | **-7.4** |

Only two of the five components in the LEI had favorable readings this quarter. Southeast Minnesota contains Rochester, a medical destination. Decisions to consume medical services depend in part on consumer choice, so consumer sentiment is used as a national-level indicator of Southeast Minnesota business activity. Sentiment improved in the most recent quarter. A rise in Rochester area residential building permits also had a positive impact on the LEI. A rise in initial jobless claims earlier in the year and reduced new business filings were two of the negative components of the fourth quarter LEI. A reduction in the Minnesota Business Conditions Index (constructed from a survey conducted by Creighton University), which is used as a general measure of state business conditions, also served as a drag on the index.

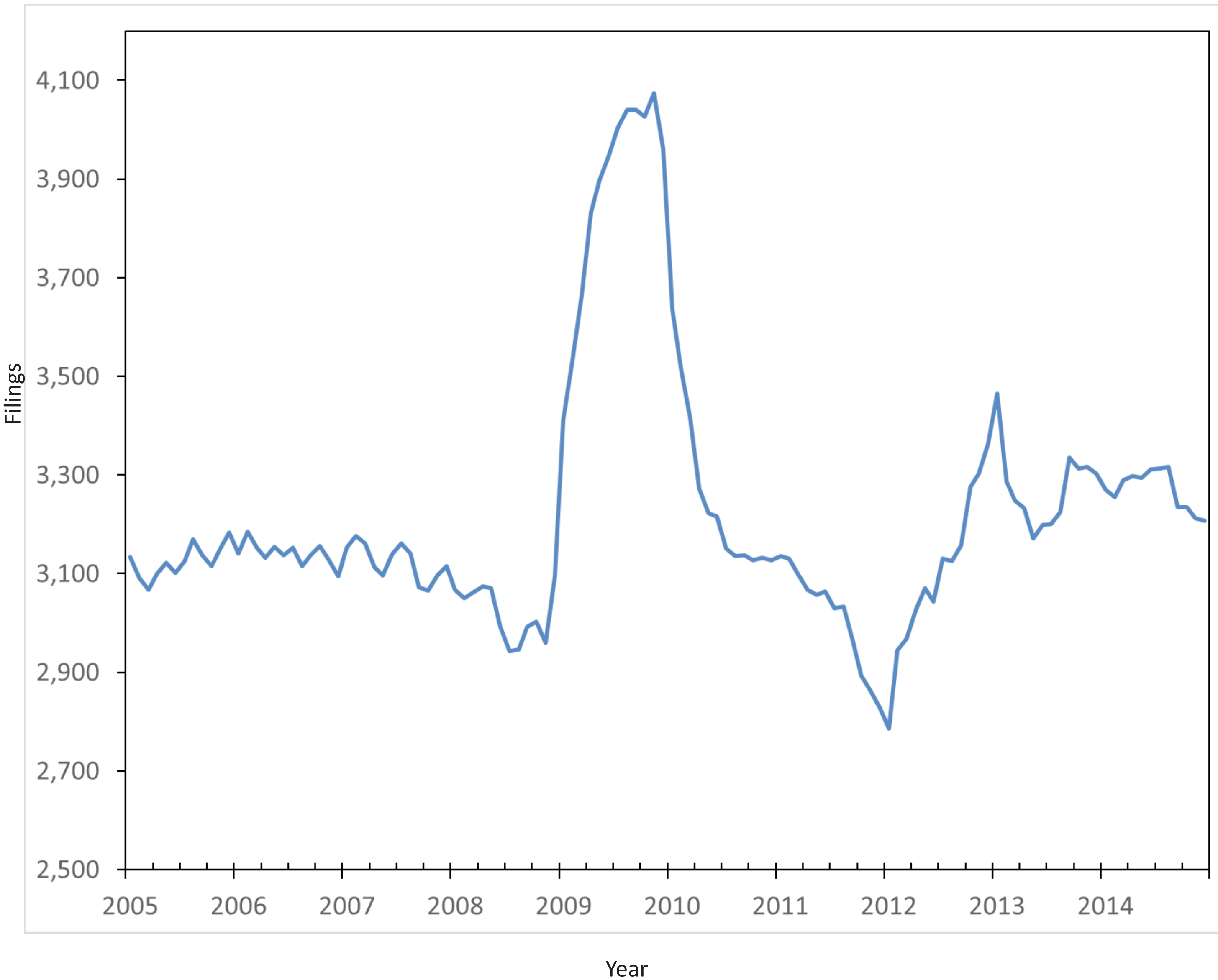
| SCSU Southeast Minnesota Leading Economic Indicators Index | 2014 | 2013 | Percentage change |
|---|---|---|---|
| Minnesota Business Conditions Index December | 61.4 | 58.9 | 4.2% |
| Southeast Minnesota initial claims for unemployment insurance December | 3,203 | 3,466 | -7.6% |
| Southeast Minnesota new filings of incorporation and LLCs Fourth Quarter | 503 | 525 | -4.2% |
| Rochester MSA single-family building permits December | 37 | 31 | 19.4% |
| Consumer Sentiment, University of Michigan December | 93.6 | 82.5 | 13.5% |
| Southeast Minnesota Leading Economic Indicators Index December (December 1999 = 100) | 102.3 | 95.3 | 7.3% |

## Southeast Minnesota Business Filings

Other than a large increase in new business filings in mid-2008, the moving total of Southeast Minnesota new business filings has remained fairly flat over the last decade. As can be seen in the accompanying table, there was a small decline (filings fell by 3.3 percent) in regional new business filings in the fourth quarter of 2014 compared to the same period in 2013. 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 due to legal and regulatory issues and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

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

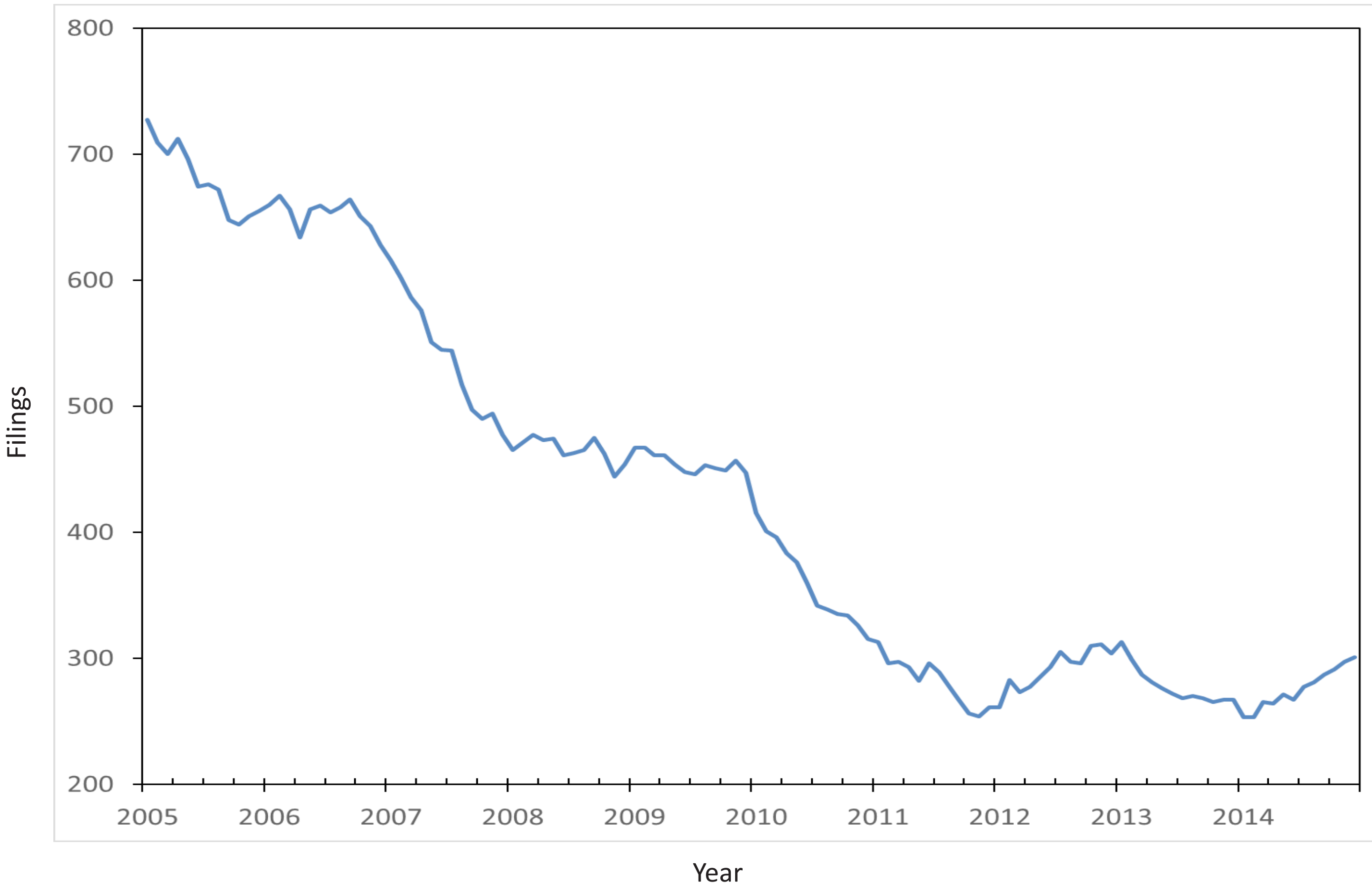
Total New Business Filings—Southeast Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2013 | I: 2014 | II: 2014 | III: 2014 | IV: 2014 | 2014 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Southeast Minnesota Total New Business Filings | 780 | 847 | 842 | 765 | 754 | -3.3% |

New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but they appear to have leveled off over the past three years. In the fourth quarter of 2014, this series increased by 18.7 percent from one year earlier.

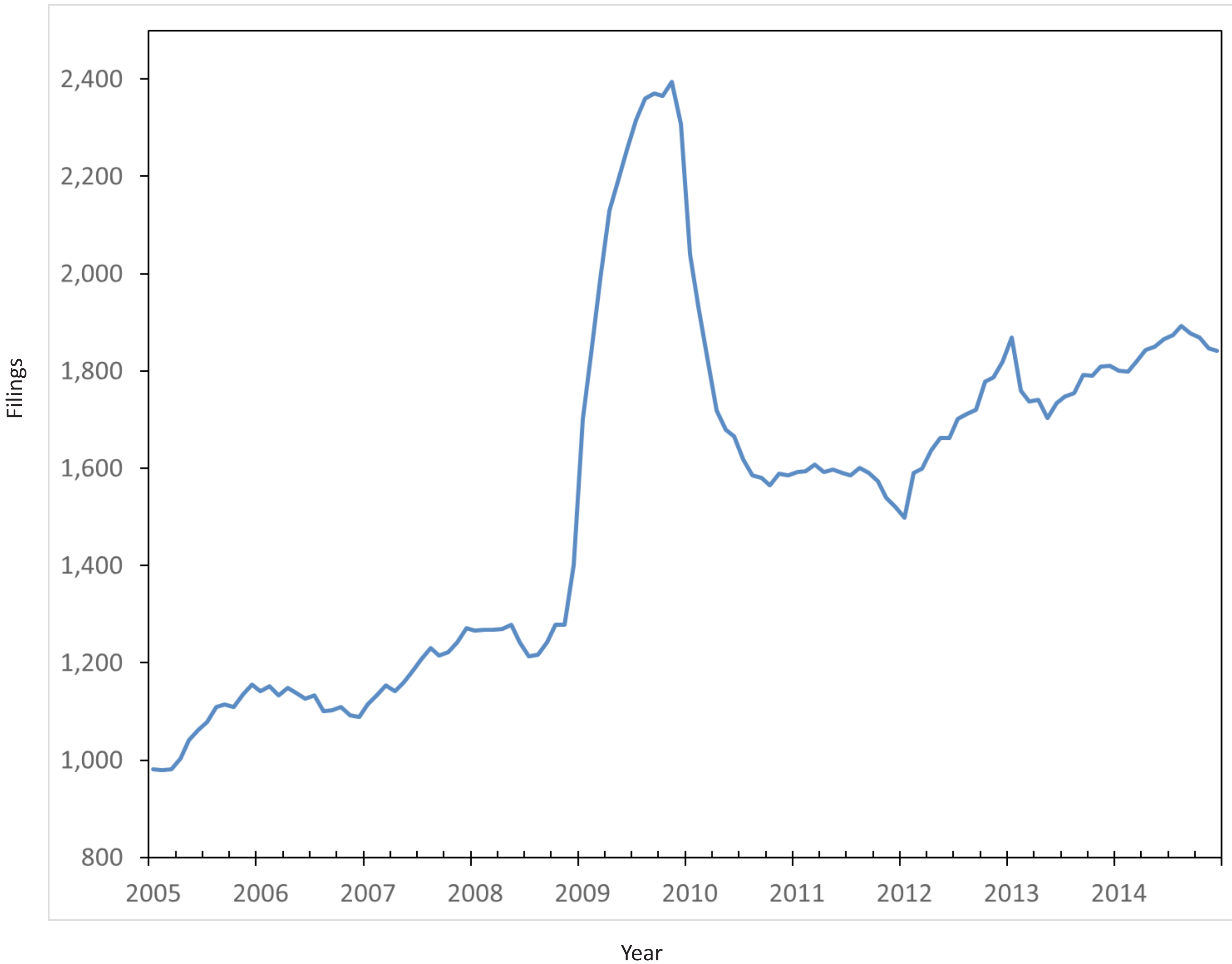
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2013 | I: 2014 | II: 2014 | III: 2014 | IV: 2014 | 2014 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Southeast Minnesota New Business Incorporations | 75 | 63 | 75 | 74 | 89 | 18.7% |

There has been a move in Southeast Minnesota, as in all 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 Southeast Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southeast 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 new LLC filings fell 8 percent over their year earlier level.

New Limited Liability Companies—Southeast 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 |
|---|---|---|---|---|---|---|
| Southeast Minnesota New Limited Liability Companies | 450 | 473 | 513 | 442 | 414 | -8.0% |

Assumed names, which include sole proprietors or organizations that do not have limited liability, were slightly higher in the fourth quarter than they were one year earlier. As can be seen in the accompanying graph, this series has been very volatile since the beginning of 2012.

## New Assumed Names—Southeast 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 |
|---|---|---|---|---|---|---|
| Southeast Minnesota New Assumed Names | 207 | 273 | 213 | 212 | 211 | 1.9% |

After bottoming out in 2010, the number of new Southeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State increased to levels seen just before the Great Recession. The number of newly formed non-profits totaled 40 in the recent quarter (a 16.7 percent reduction from the fourth quarter of 2013).

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

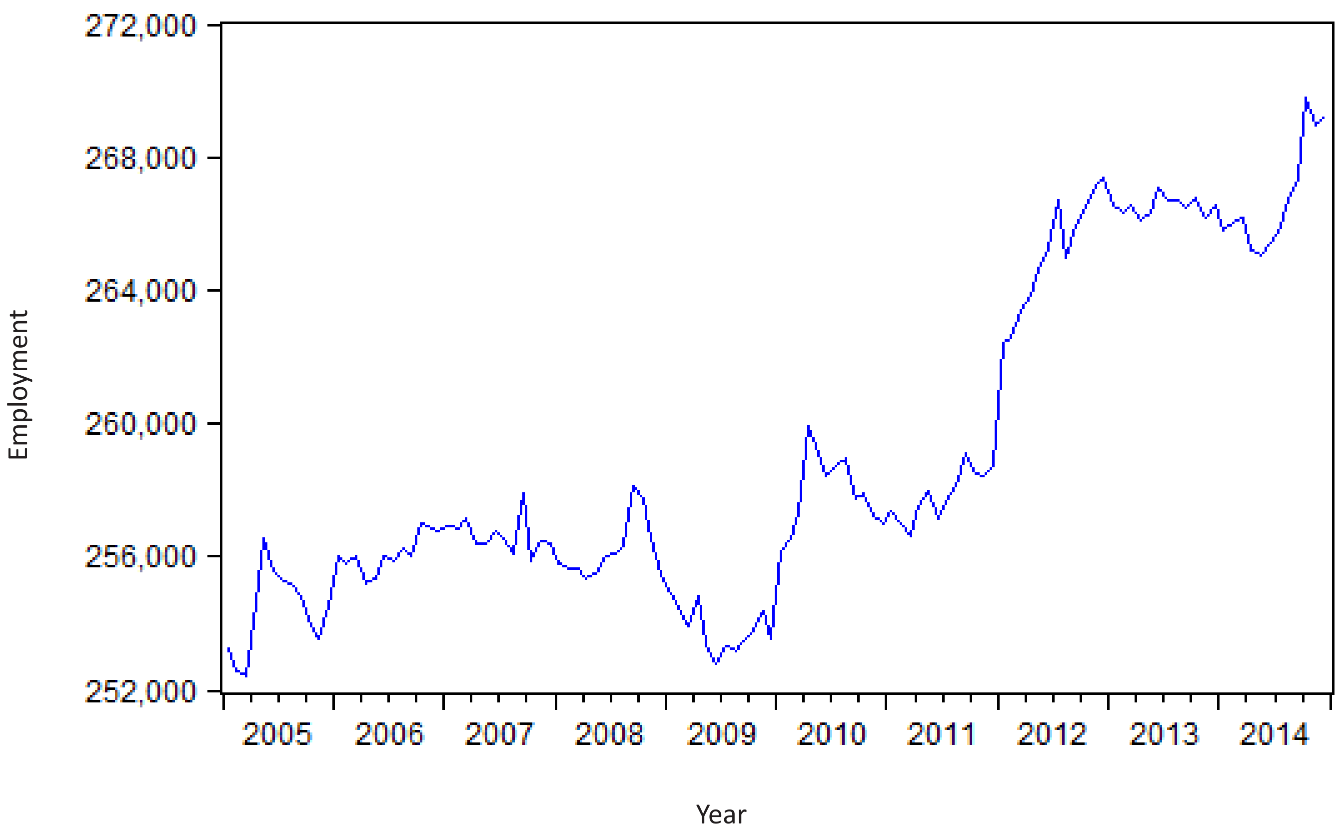

| Quarter | IV: 2013 | I: 2014 | II: 2014 | III: 2014 | IV: 2014 | 2014 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Southeast Minnesota New Non-Profits | 48 | 38 | 41 | 37 | 40 | -16.7% |

## Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area grew 1.0 percent over the year ending in December 2014. As shown in the accompanying graph, the 12-month moving average of total employment has increased considerably since the end of the Great Recession.

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.

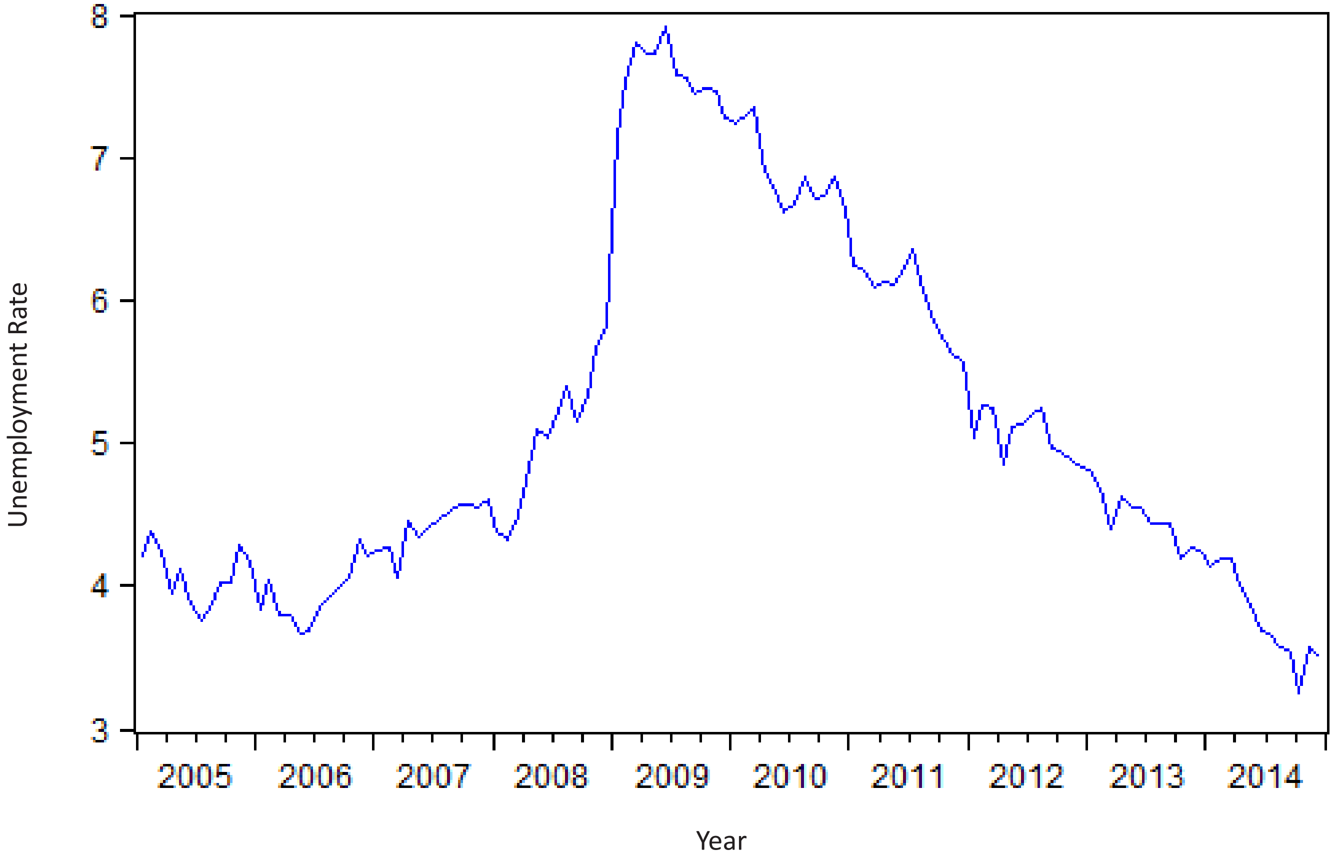
Employment—Southeast Minnesota Planning Area (12-month moving average)




| Month | December 2013 | July 2014 | August 2014 | September 2014 | October 2014 | November 2014 | December 2014 |
|---|---|---|---|---|---|---|---|
| Employment (Not seasonally adjusted) | 265,710 | 269,583 | 270,092 | 267,855 | 270,731 | 269,835 | 268,466 |

The seasonally adjusted unemployment rate in Southeast Minnesota continued to decline in the fourth quarter of 2014. The seasonally adjusted unemployment rate in this part of Minnesota has declined since peaking out at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 3.2 percent, considerably lower than the 4.0 percent rate observed one year ago.

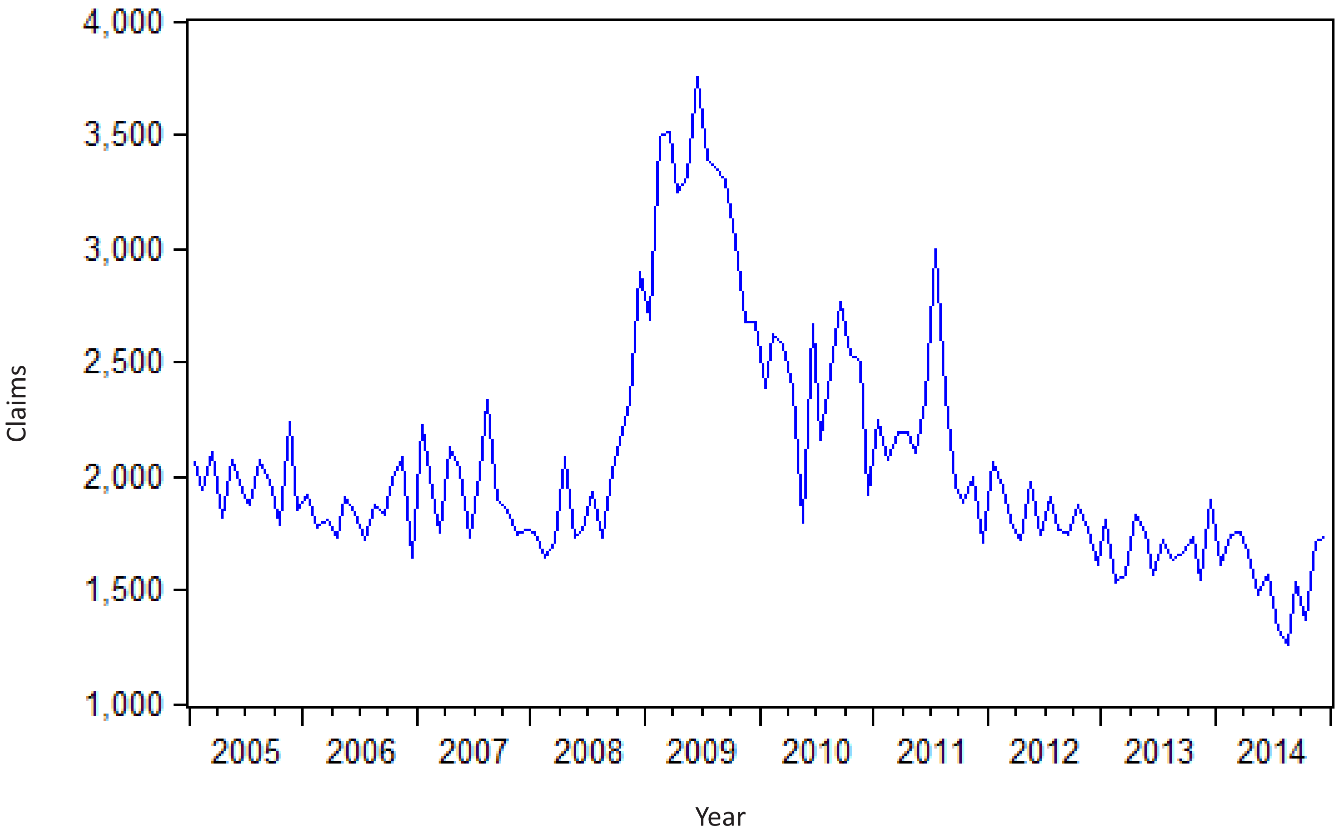
## Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area




| Month | December 2013 | July 2014 | August 2014 | September 2014 | October 2014 | November 2014 | December 2014 |
|---|---|---|---|---|---|---|---|
| Unemployment Rate (Not seasonally adjusted) | 4.0% | 3.7% | 3.3% | 3.1% | 2.7% | 2.8% | 3.2% |

New claims for January 2015 unemployment insurance were 244 lower than one year earlier. This represents an 11.2 percent annual decline. On a seasonally adjusted basis, these claims appear to have leveled out in 2014 after continually falling since the middle months of 2009

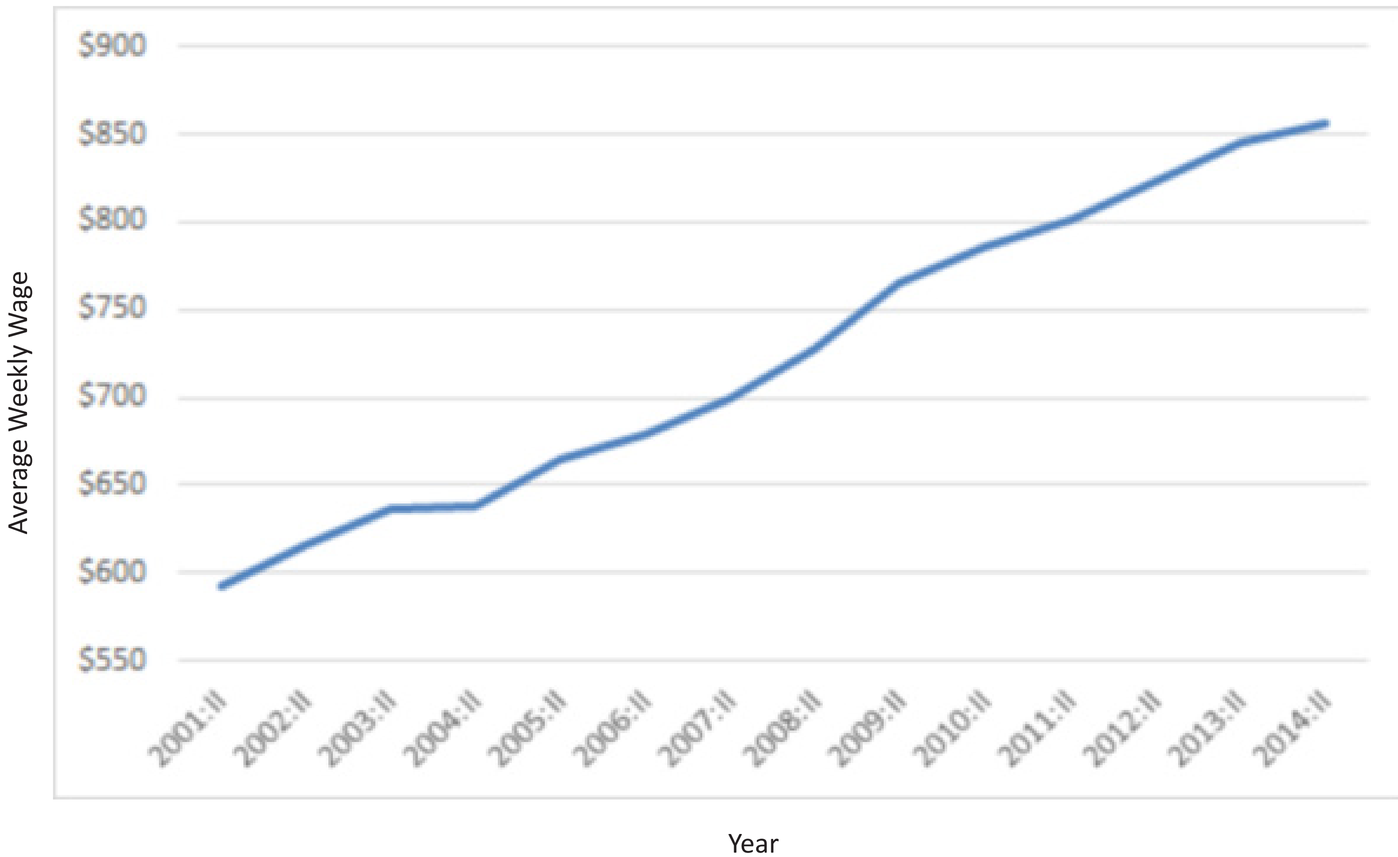
## Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southeast Minnesota Planning Area




| Month | January 2014 | August 2014 | September 2014 | October 2014 | November 2014 | December 2014 | January 2015 |
|---|---|---|---|---|---|---|---|
| Initial claims (Not seasonally adjusted) | 2,183 | 817 | 995 | 1,174 | 2,418 | 3,203 | 1,939 |

Average weekly wages in Southeast Minnesota increased to $857 in the most recent reporting period (a 1.3 percent increase over the previous year).  Southeast Minnesota workers enjoy the second highest (trailing only the Twin Cities) average weekly earnings of Minnesota's six planning areas.

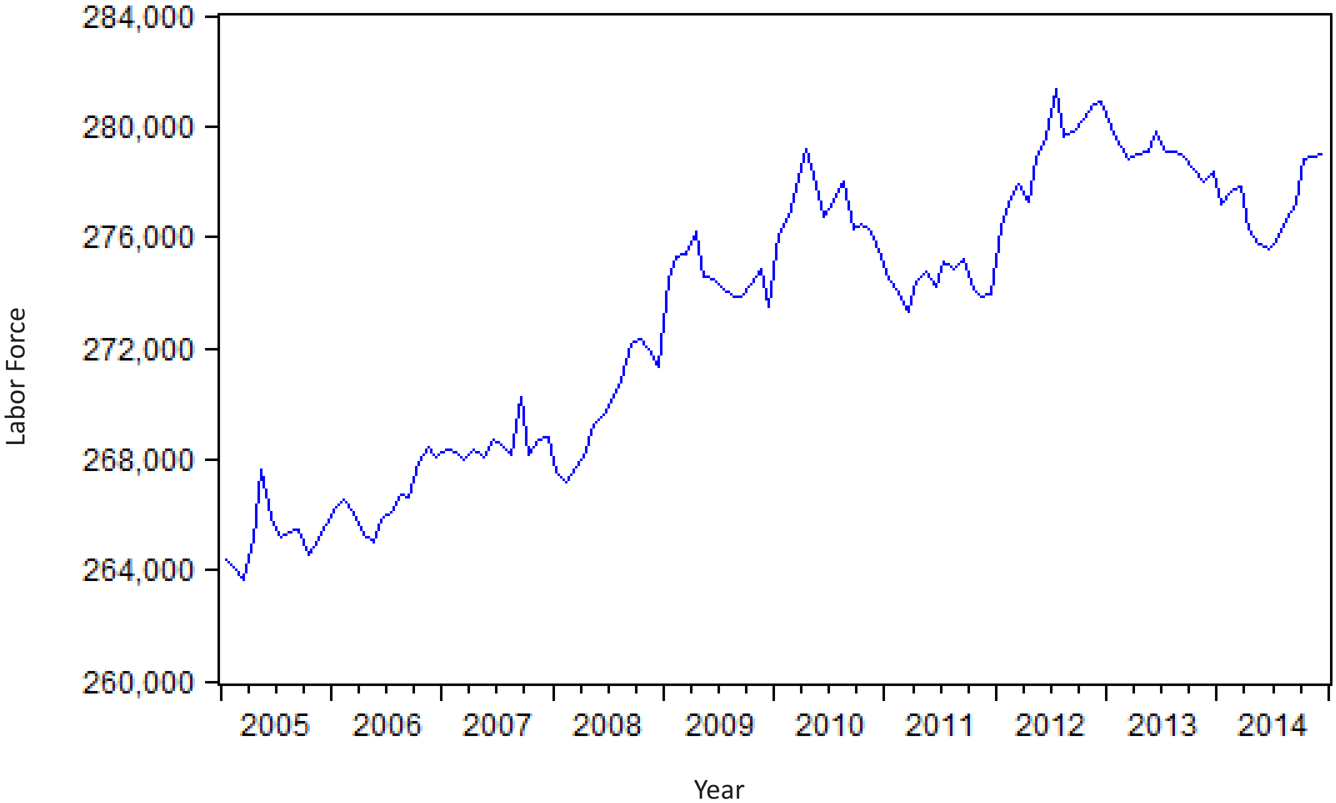
## Average Weekly Wage—Southeast Minnesota Planning Area




| Quarter | 2009:II | 2010:II | 2011:II | 2012:II | 2013:II | 2014:II |
|---|---|---|---|---|---|---|
| Average Weekly Wage | $766 | $786 | $802 | $823 | $846 | $857 |

The Southeast Minnesota labor force increased by 0.3 percent over the year ending December 2014. Since December 2010, the labor force in the Southeast Minnesota planning area has risen by 3,266 people—a 1.2 percent increase.

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




| Year (December) | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Labor Force (Not seasonally adjusted) | 271,009 | 273,769 | 274,091 | 278,871 | 276,301 | 277,035 |

## Southeast Minnesota Economic Indicators

### Rochester MSA Indicators

| | Period Covered | Current Period | Prior Year | Annual Percent Change | | Long-Term Average (since 1999, unless noted) | |
|---|---|---|---|---|---|---|---|
| **Labor Market** | | | | | | | |
| Employment | December 2014 (m) | 115,374 | 114,664 | 0.6% | ↑ | 0.7% | |
| Manufacturing Employment | December 2014 (m) | 10,819 | 10,711 | 1.0% | ↑ | -3.1% | |
| Educational and Health Employment | December 2014 (m) | 45,604 | 45,257 | 0.8% | ↑ | 2.6% | |
| Average Weekly Work Hours Private Sector | December 2014 (m) | 35.1 | 34.6 | 1.4% | ↑ | 33 | (since 2006) |
| Average Earnings Per Hour Private Sector | December 2014 (m) | $33.52 | $34.22 | -2.0% | ↓ | 2.3% | (since 2006) |
| Unemployment Rate | December 2014 (m) | 3.1% | 3.7% | NA | ↓ | 4.0% | |
| Labor Force | December 2014 (m) | 116,698 | 115,978 | 0.6% | ↑ | 0.6% | |
| Initial Jobless Claims | January 2015 (m) | 737 | 833 | -11.5% | ↓ | NA | |
| **Business Formation** | | | | | | | |
| Total New Business Filings | Fourth Quarter 2014 | 358 | 360 | -0.6% | ↓ | 303 | (since 2000) |
| New Business Incorporations | Fourth Quarter 2014 | 41 | 31 | 32.3% | ↑ | 49 | (since 2000) |
| New Limited Liability Companies | Fourth Quarter 2014 | 212 | 218 | -2.8% | ↓ | 140 | (since 2000) |
| New Assumed Names | Fourth Quarter 2014 | 84 | 89 | -5.6% | ↓ | 97 | (since 2000) |
| New Non-profits | Fourth Quarter 2014 | 21 | 22 | -4.5% | ↓ | 17 | (since 2000) |
| Rochester Residential Building Permit Valuation | December 2014 (m) | 17,598 | 6,908 | 154.7% | ↑ | 11,920 | |

(m) represents a monthly series

Southeast Minnesota contains the Rochester MSA, an area that derives much of its employment from the educational and health sector. This sector continues to be a pillar of economic vitality for Rochester (and for Southeast Minnesota). Year-over-year overall employment in the Rochester area increased by 0.6 percent and employment in this key sector increased by 0.8 percent. Note that this is still well below the 2.6 percent long-term annualized growth of employment in the education/health sector. Manufacturing employment increased by 1 percent over the year ending December 2014. Average weekly hours rose by 1.4 percent, but average hourly earnings contracted. Nevertheless, a falling unemployment rate, reduced initial jobless claims, and a rising labor force suggest the Southeast Minnesota labor market remains strong. Rochester area new business filings declined slightly from year earlier levels in the fourth quarter of 2014. Finally, Rochester saw a significant year-over-year increase in the valuation of residential building permits 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 Southeast 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 Southeast Minnesota Planning Area consists of 11 counties: Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona.

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.*

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