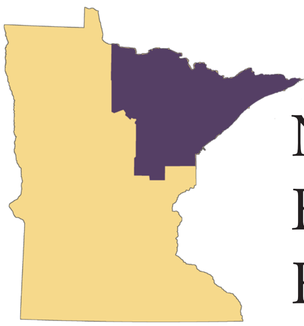

Northeast Minnesota
Economic and Business Conditions Report
First Quarter 2015

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Business conditions in Northeast Minnesota are expected to soften over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). Four of the five components of the LEI declined in this year's first quarter as the overall index fell by 16.49 points. This marks two consecutive quarters in which the LEI has been in negative territory, suggesting slower future growth in the Northeast Minnesota planning area. Reduced initial jobless claims in the region are the one bright spot in this quarter's index. A recent decline in residential building permits in the Duluth/Superior area caused the greatest drag on the first quarter LEI. Also contributing to the weaker outlook was a decline in a general measure of state business conditions, lower filings for business incorporation over the past several months, and a decline in a supply managers' survey index.

There were 547 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the first quarter of 2015 — representing a 1.5 percent improvement from one year ago. Fifty-five new regional business incorporations were filed in the first quarter, a 1.9 percent increase from 2014. New limited liability company (LLC) filings in Northeast Minnesota fell by 2.3 percent to 260. New assumed names totaled 206 in this year's first quarter—a 7.3 percent increase from the third quarter of 2014. There were 26 new filings for Northeast Minnesota non-profit in the 2015 first quarter—one fewer than one year earlier.

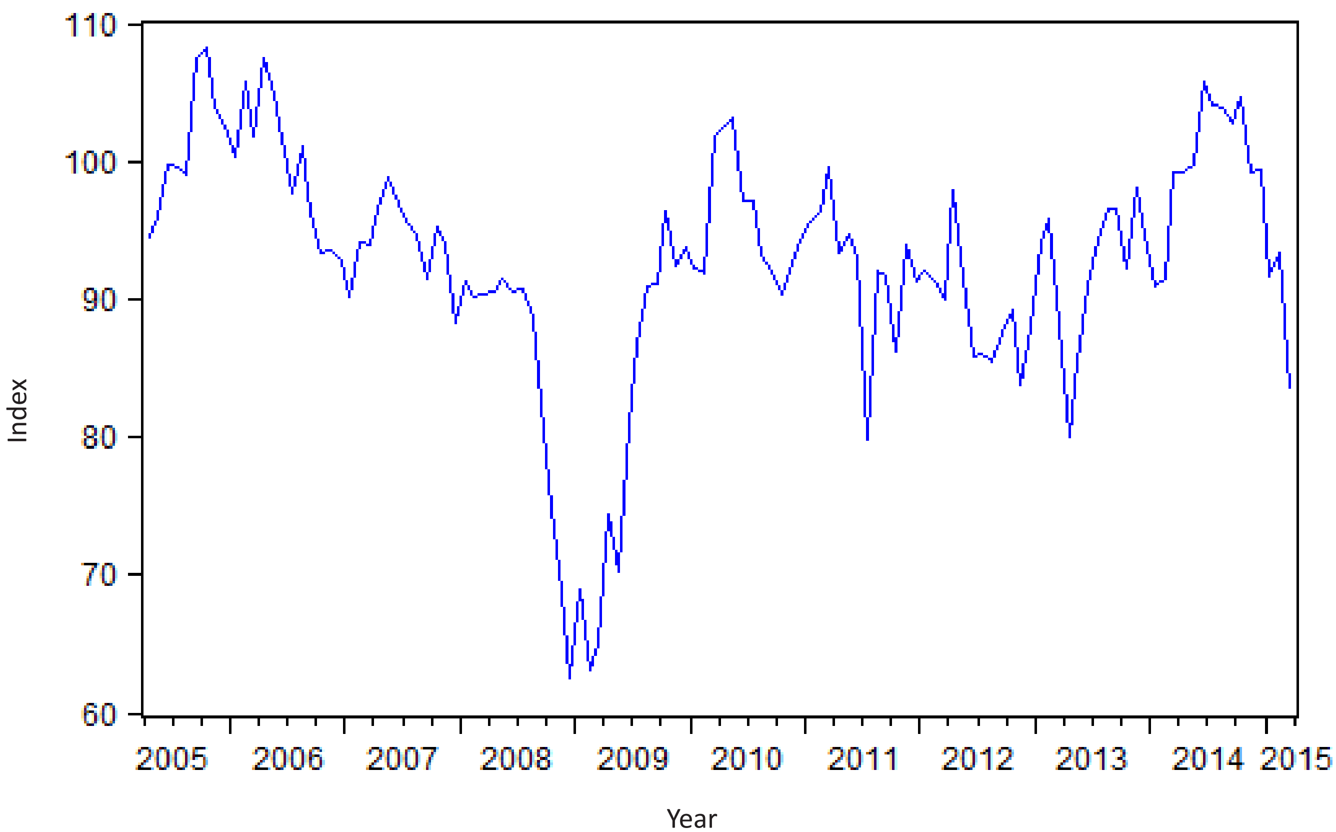
Northeast Minnesota employment was 0.6 percent higher than year earlier levels in March. The regional unemployment rate fell to 6.1 percent as the Northeast Minnesota labor force contracted by 0.4 percent. The regional labor force is now 2,943 lower than in March 2010. April 2015 initial claims for unemployment insurance were 200 less than the year earlier (a 13.9 percent decline) and the level of job vacancies has surged in this region.

Economic performance in the Duluth/Superior Metropolitan Statistical Area (MSA) is mixed. Northeast Minnesota's largest market experienced a 0.4 percent rise in overall employment over the year ending March 2015, but the key sectors of manufacturing and education/health shed jobs. The length of the workweek fell, but average hourly earnings rose. The area unemployment rate fell by one percent to 5.6 percent, but the labor force fell by 0.8 percent. Residential building permits were 38.1 percent lower in March than one year earlier.

Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast 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 16.49 points lower in this year's first quarter, and is now 15.7 percent below its level one year ago. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility since the end of the Great Recession, so the recent negative readings on the index could be reversed in coming quarters.

The SCSU Northeast Minnesota Leading Economic Indicators Index



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2015	Contribution to LEI, 4th quarter 2014
Minnesota Business Conditions Index	-4.26	-1.60
Northeast Minnesota initial claims for unemployment insurance	0.48	0.89
Northeast Minnesota new filings of incorporation	-0.36	-0.50
Duluth-Superior MSA residential building permits	-11.24	0.64
Institute of Supply Management Purchasing Managers Index for manufacturing	-1.11	-0.90
TOTAL CHANGE	**-16.49**	**-1.47**

The only favorable component of the LEI that increased in the first quarter of 2015 was initial jobless claims in the region. All other components had negative readings. Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This indicator declined in the first quarter. Decreased new filings for business incorporation in Northeast Minnesota over the past several months also dragged down the index, as did recent weakness in the Minnesota Business Conditions Index (which is used as an indicator of general statewide business conditions). By far, the largest negative component of this quarter's LEI was Duluth-Superior MSA residential building permits. A decline in this component caused an 11.24 point drop in the LEI.

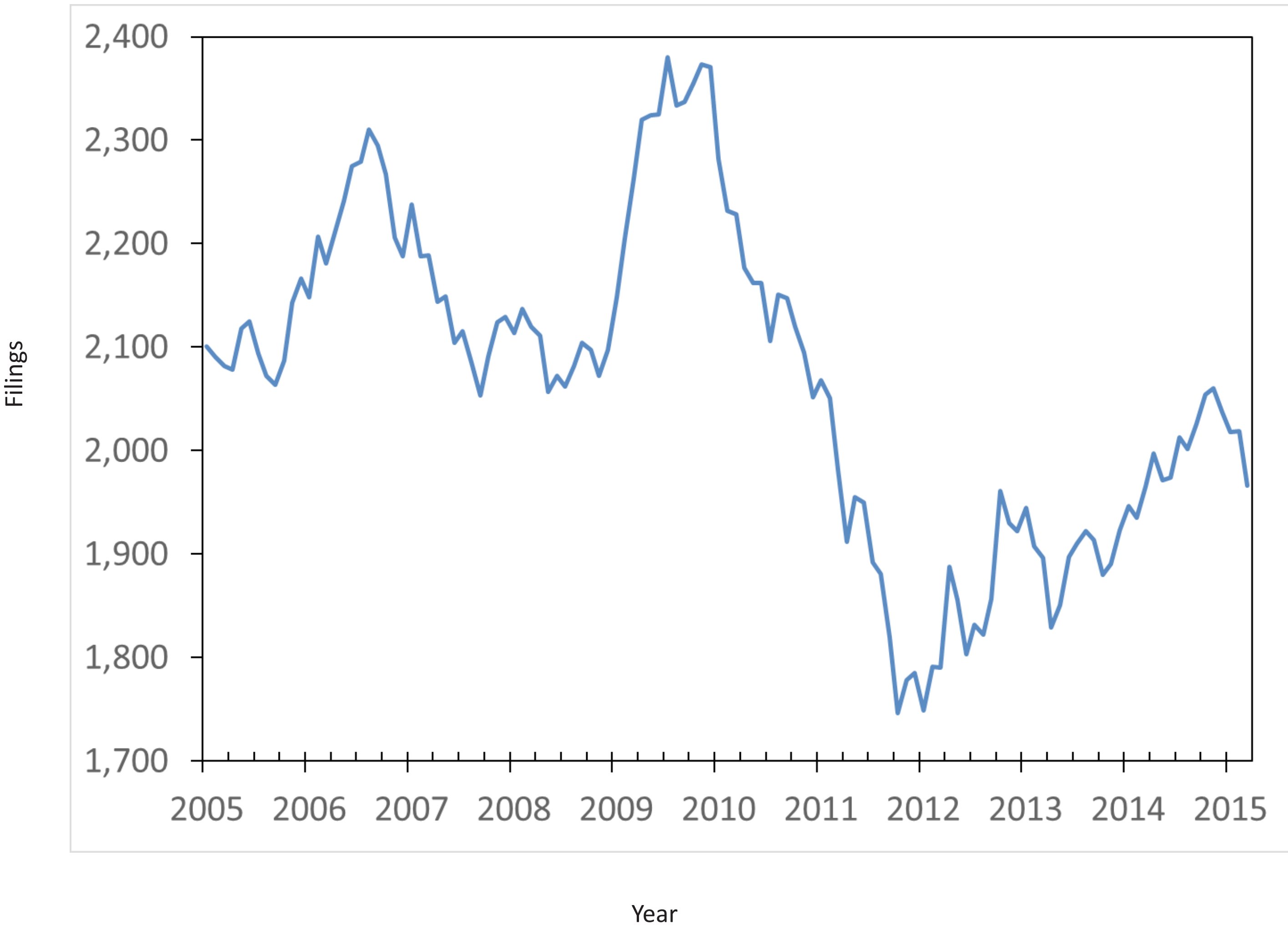
SCSU Northeast Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index March	50	66.1	-24.4%
Northeast Minnesota initial claims for unemployment insurance March	1,537	1,554	-1.1%
Northeast Minnesota new filings of incorporation First Quarter	55	54	1.9%
Duluth-Superior MSA single-family building permits March	53.9	53.7	-88.2%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, March	2	17	-88.2%
Northeast Minnesota Leading Economic Indicators Index March (December 1999 = 100)	83.5	99.1	-15.7%

Northeast Minnesota Business Filings

Total new business filings increased by 1.5 percent compared to the first quarter of 2014. This series has trended upward since the end of 2011, but has weakened over the last couple of quarters. After a precipitous drop in the pace of new business formation during the Great Recession, new business filings in Northeast Minnesota still have not returned to the pace observed ten years ago.

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

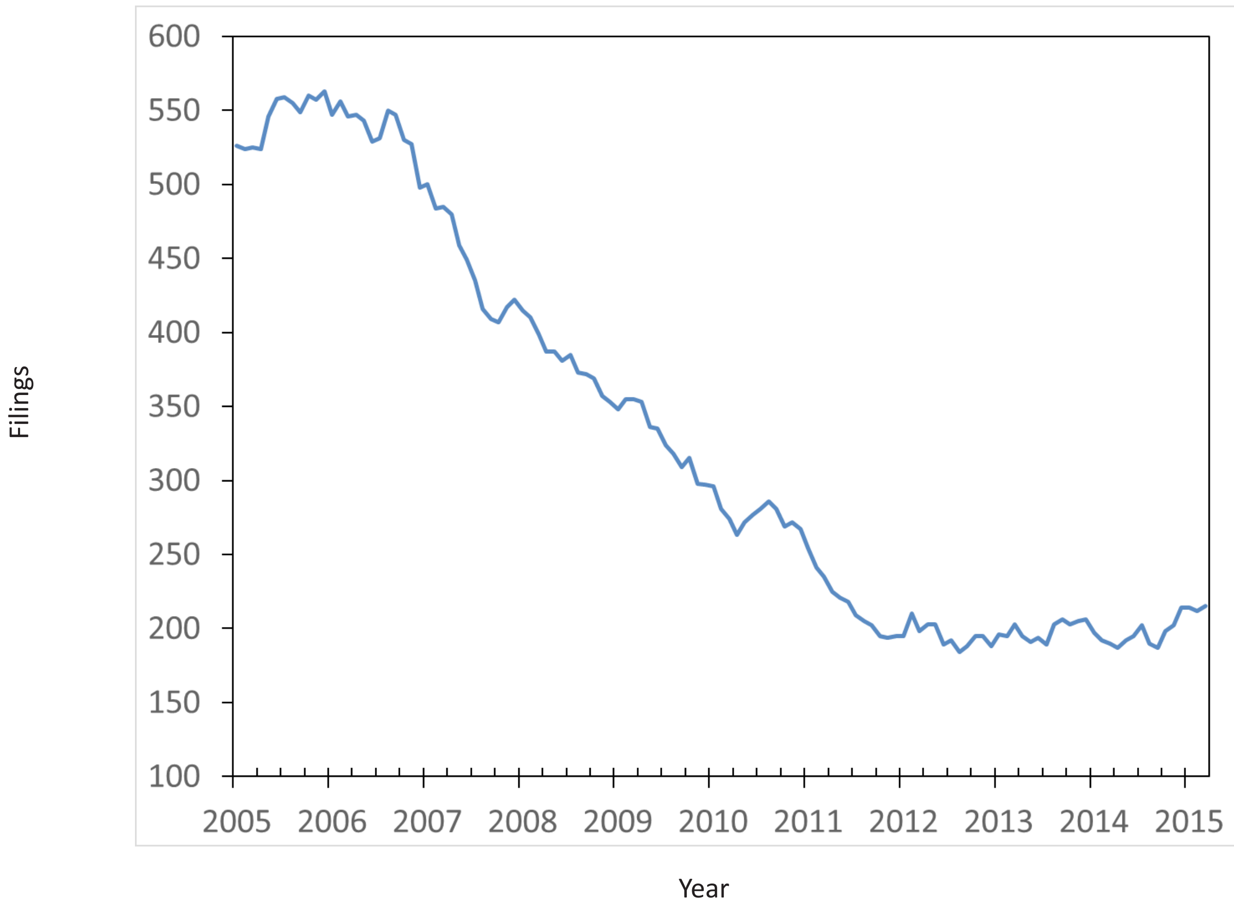
Total New Business Filings—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northeast Minnesota Total New Business Filings	539	548	472	478	547	1.5%

New filings for business incorporation have flattened out since the beginning of 2012. There were 55 new filings for incorporation in this year's first quarter. This is one more filing than one year ago, representing a 1.9 percent increase.

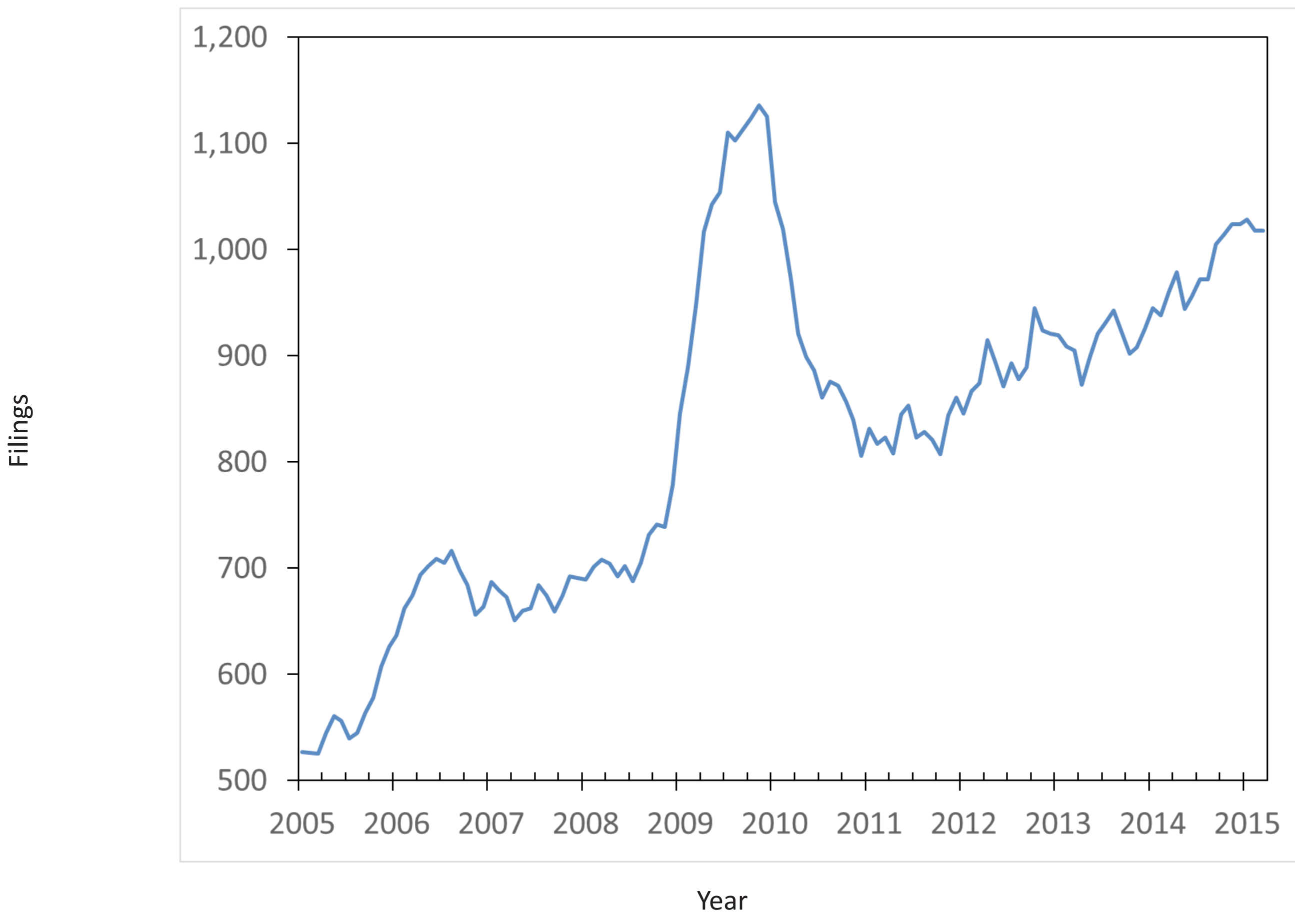
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northeast Minnesota New Business Incorporations	54	52	39	69	55	1.9%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. This trend was reversed in the first quarter as filings declined by 2.3 percent compared to the first three months of last year. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was 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.

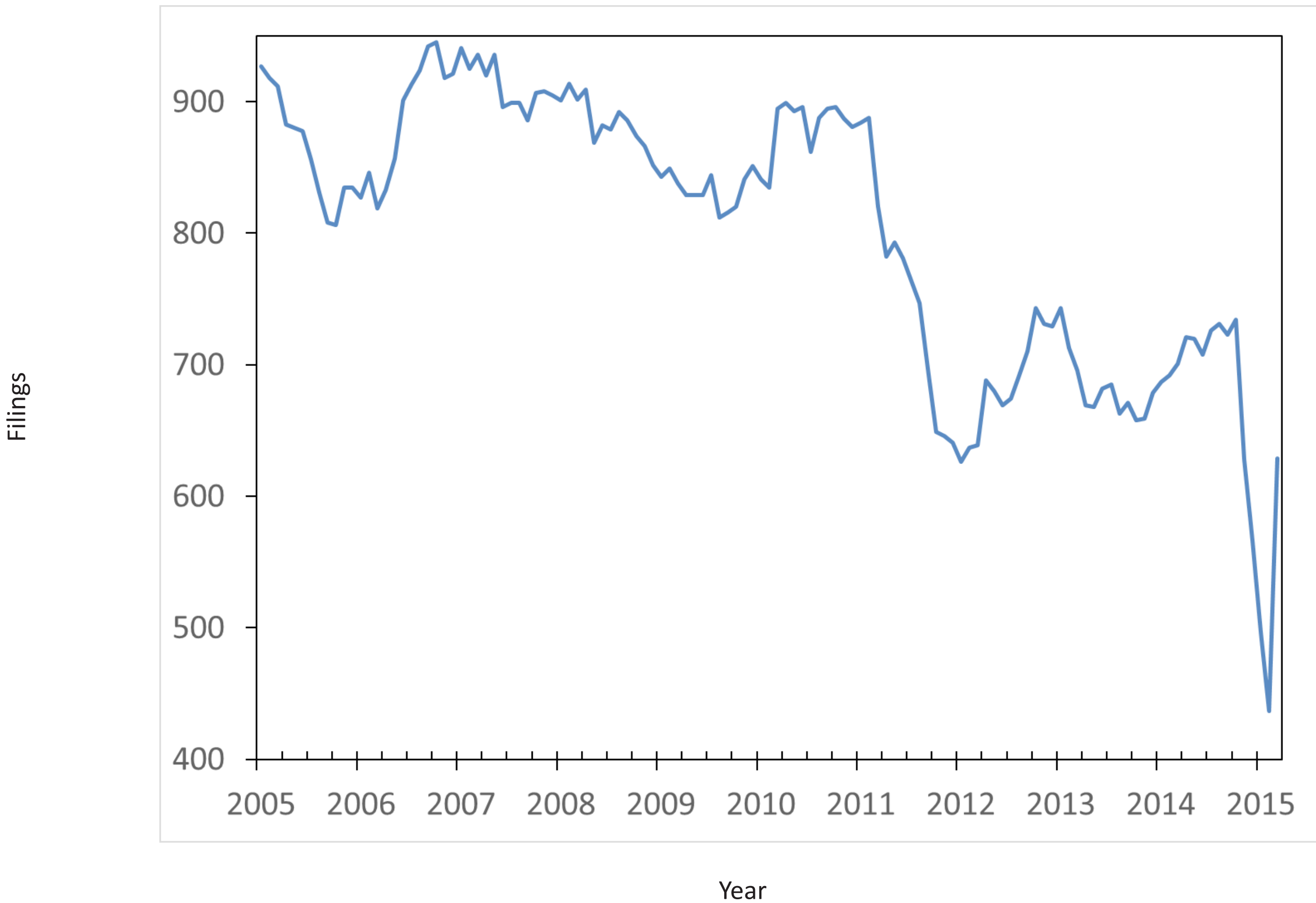
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	266	255	244	259	260	-2.3%

Compared to last year's first quarter, assumed names grew 7.3 percent in Northeast Minnesota. This is the only one of Minnesota's six planning areas that experienced a rise in assumed names. Note that the recent increase in new assumed names in Northeast Minnesota is only a partial catch-up for the major decline in this series that occurred in 2011 and 2014.

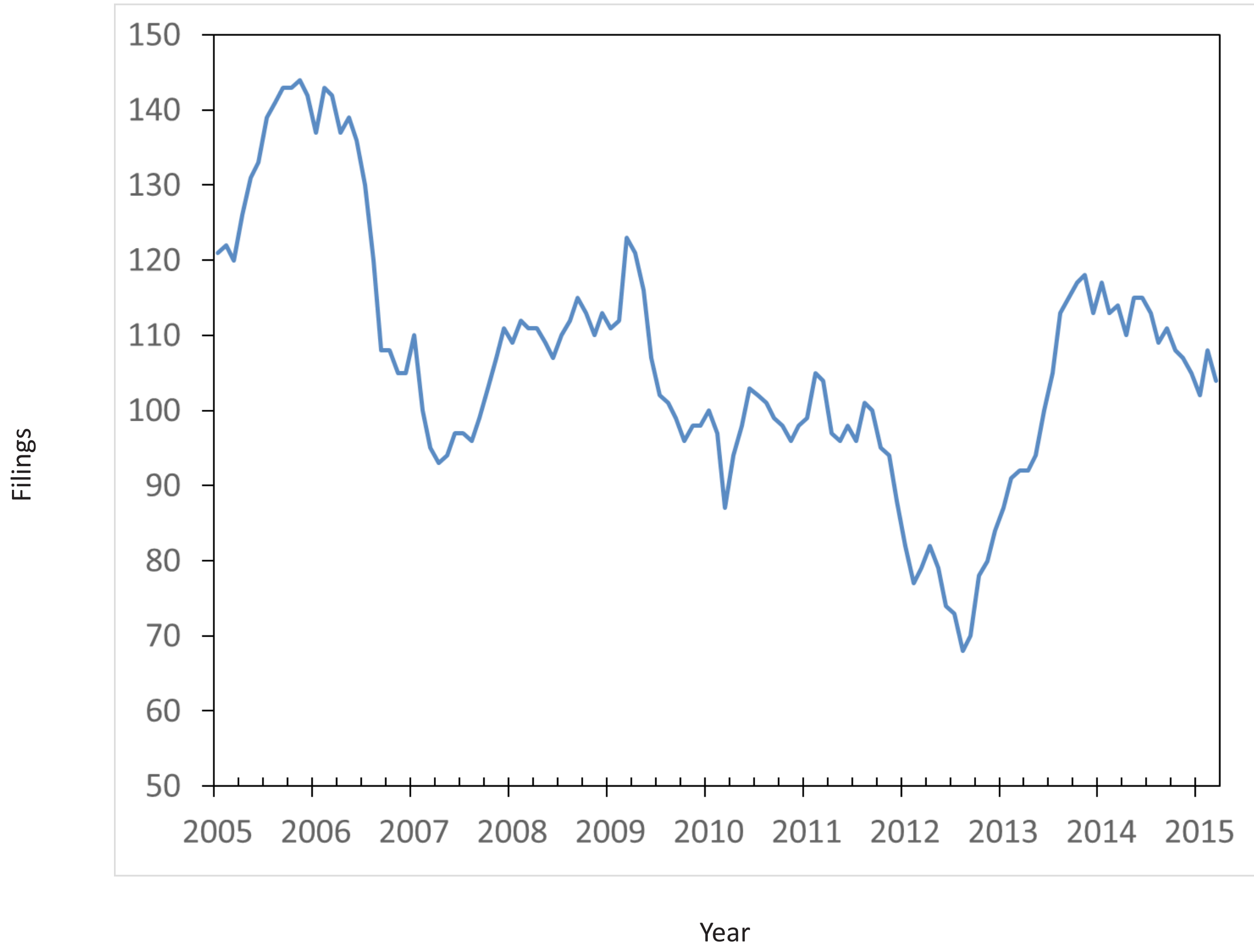
New Assumed Names—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northeast Minnesota New Assumed Names	192	210	164	128	206	7.3%

There were 26 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the first quarter of 2015, one fewer than were recorded one year ago.

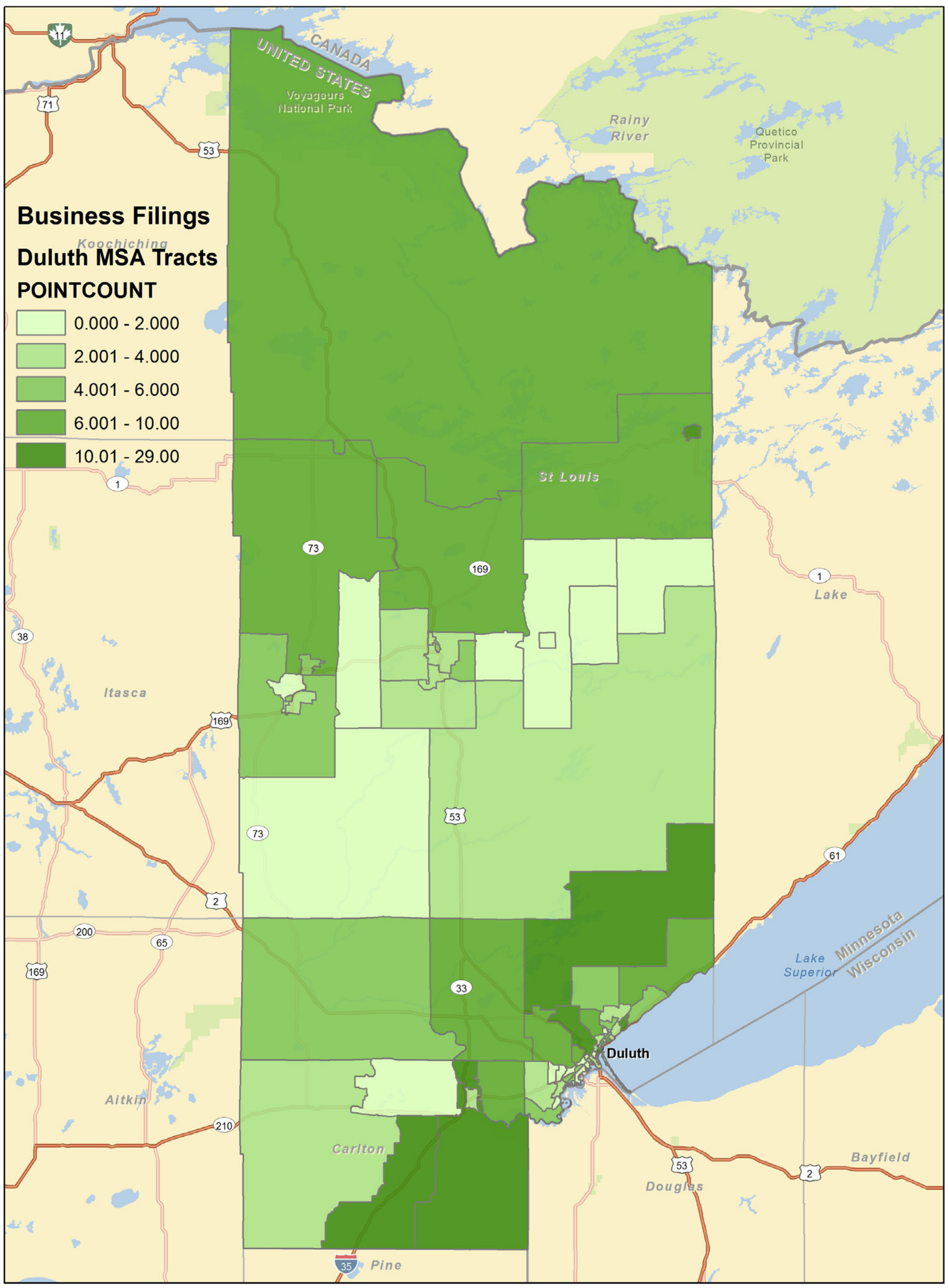
New Non-Profits—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northeast Minnesota New Non-Profits	27	31	25	22	26	-3.7%

The map below highlights new business formation by census tract in this year's first quarter in the two Minnesota counties that are part of the Duluth/Superior Metropolitan Statistical Area (MSA). Note that data are not available on business filings in Wisconsin. The Minnesota portion of this MSA consists of two counties—Carlton and St. Louis. While there were many new business filings in these two counties in this year's first quarter, the distribution of new filings is clearly uneven over the metro area. Some portions (represented by the lighter colored blocks) of the Duluth/Superior MSA experienced relatively little new business formation in this period, while others (the darker colored blocks) enjoyed fairly strong gains. This mapping tool has the potential to focus on those areas within each MSA that are most likely to experience growth of new businesses, which can inform regional economic development efforts. For example, it is striking to see the strong pace of new business filings in the northern portion of St. Louis County. In coming issues of the Northeast Minnesota Quarterly Economic and Business Conditions Report, we hope to extend this analysis of targeted business formation by controlling for differences in population and households across the region.

New Business Formation Between 2000 and 2004: III Duluth-Superior MSA

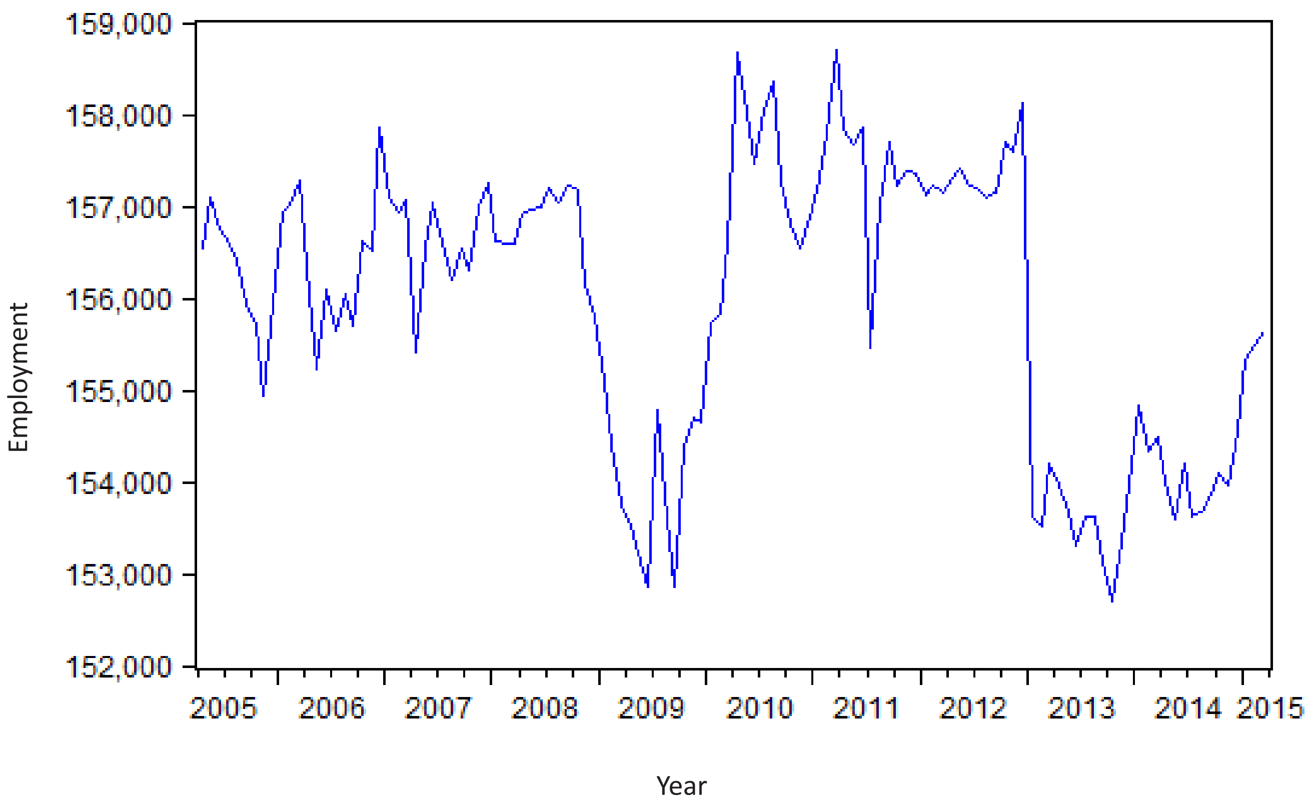


Northeast Minnesota Labor Market Conditions

March 2015 employment in the Northeast Minnesota planning area was 0.6 percent higher than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment is approximately the same as it was at the beginning of 2010, but is considerably improved from the levels 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.

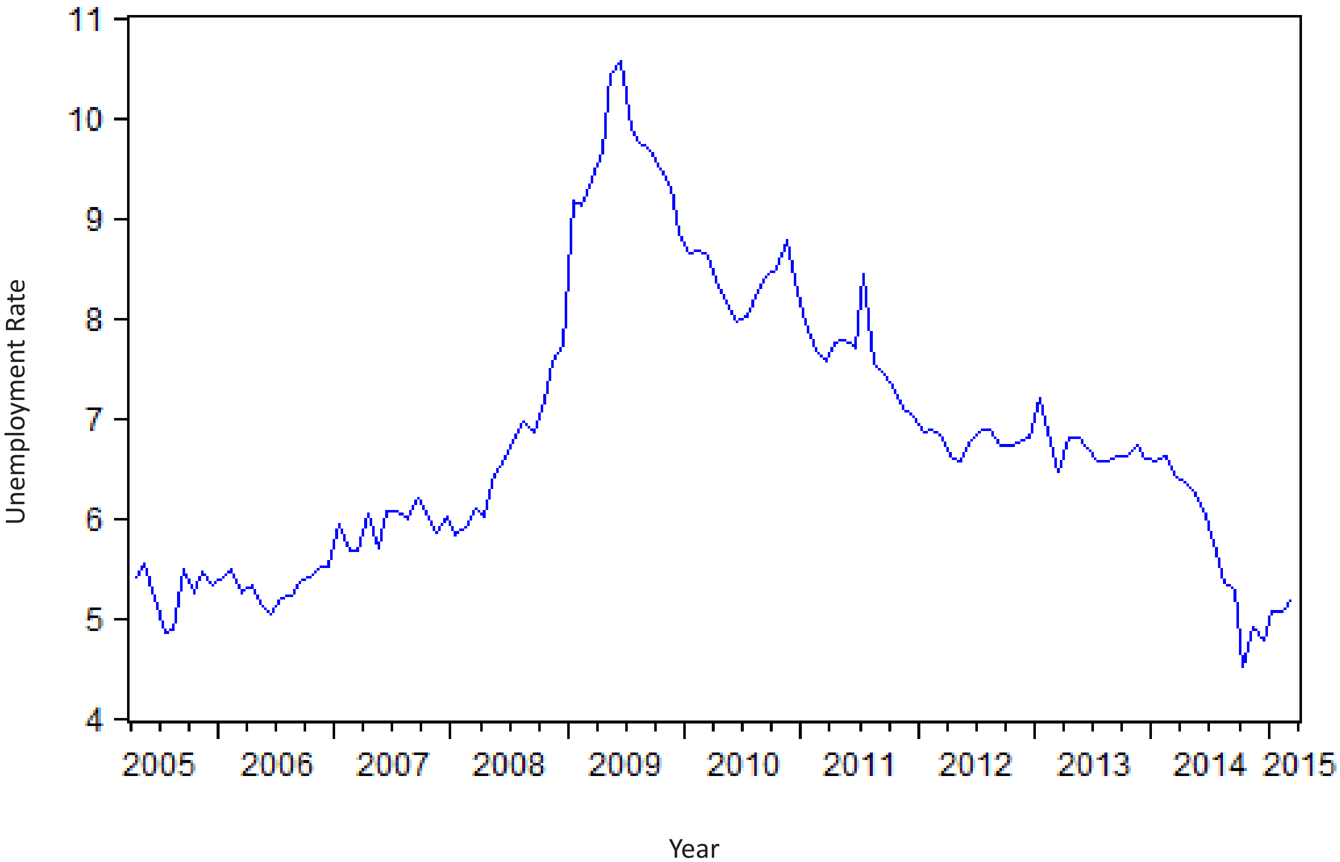
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Employment (Not seasonally adjusted)	152,470	156,191	154,600	153,398	151,067	152,981	153,341

The seasonally adjusted unemployment rate in Northeast Minnesota inched upward in the first quarter of 2015. At 6.1 percent, the non-seasonally adjusted rate is considerably lower than its level one year ago. Despite this, the Northeast Minnesota planning area shares the highest unemployment rate of any of Minnesota's six planning areas with Northwest Minnesota.

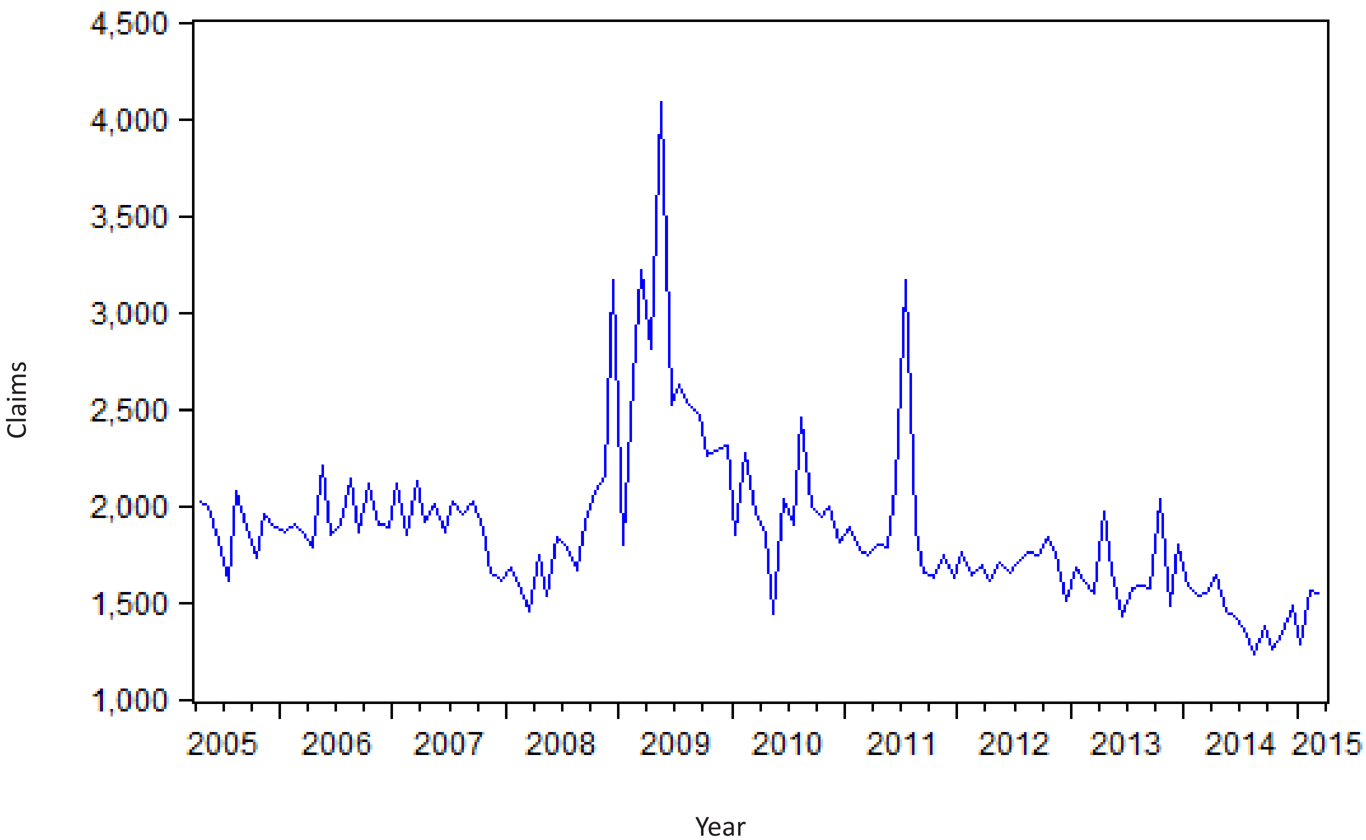
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Unemployment Rate (Not seasonally adjusted)	7.0%	3.8%	4.4%	4.7%	5.9%	5.9%	6.1%

On a seasonally adjusted basis, initial jobless claims in the Northeast region are near a 10-year low. As indicated in the table below, there were 200 fewer initial claims in April than one year earlier.

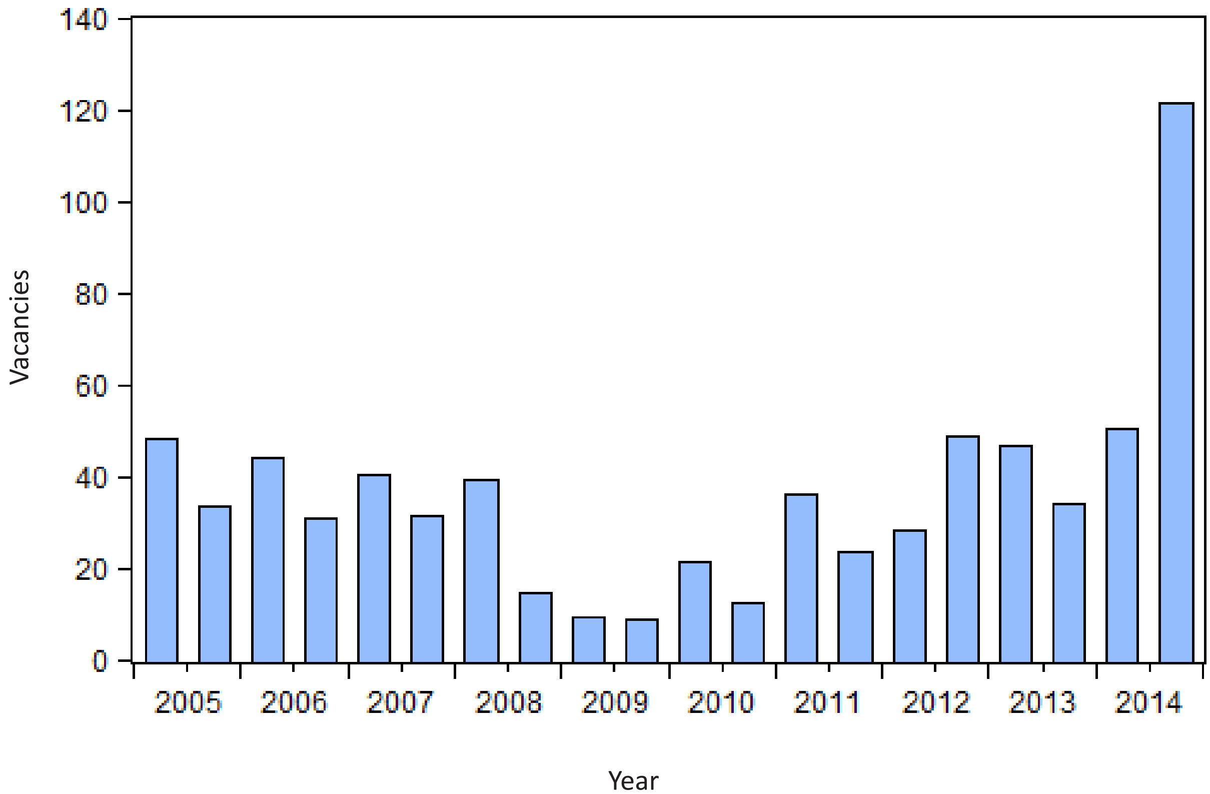
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Month	April 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015
Initial claims (Not seasonally adjusted)	1,437	2,072	2,337	1,547	1,366	1,537	1,237

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Northeast Minnesota planning area the rate of job vacancies per 100 unemployed surged to 121.47 (meaning there were more vacancies than unemployed people in the Northeast region) in the fourth quarter of 2014—which is the most recently available data. This rate of job vacancies is the highest in any of Minnesota's six planning areas.

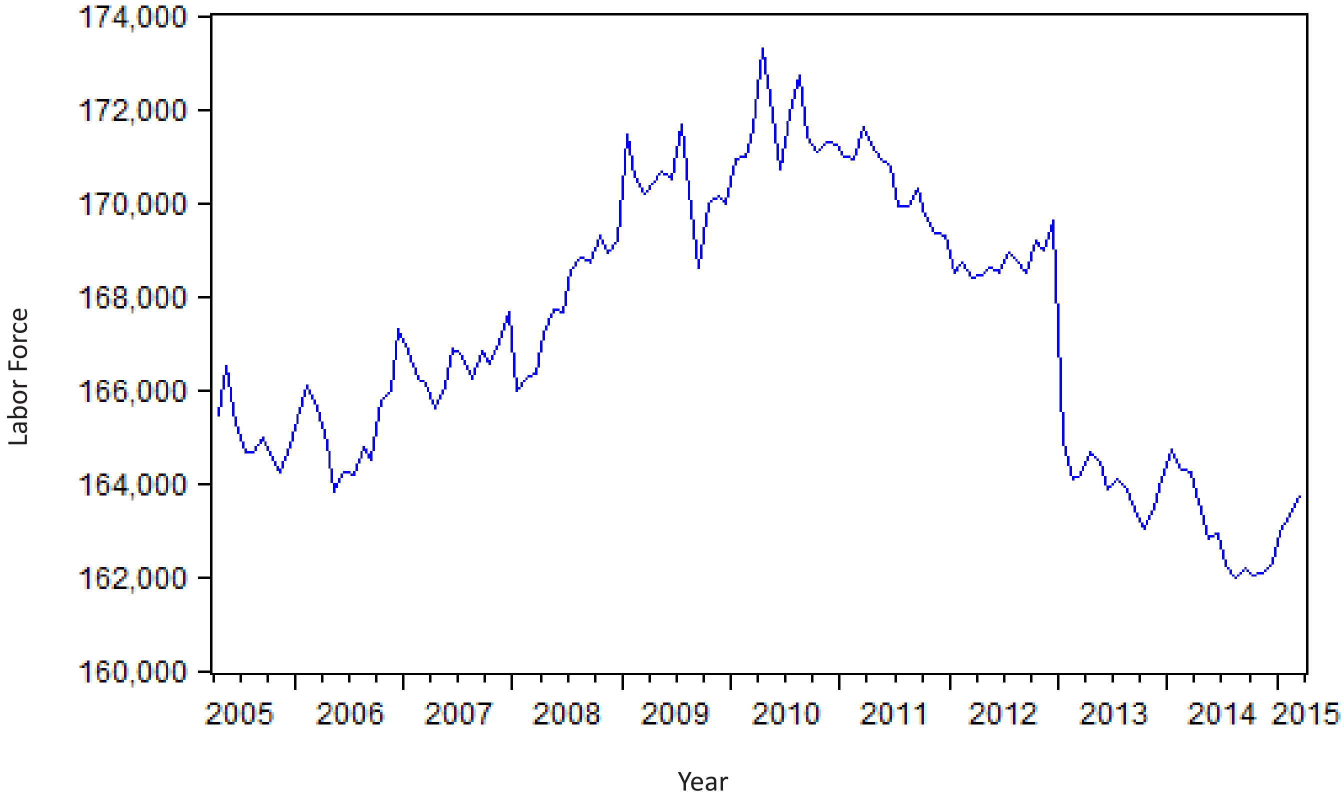
Job Vacancies per 100 Unemployed—Northeast Minnesota Planning Area



Quarter	2012:II	2012:IV	2013:II	2013:IV	2014:II	2014:IV
Job Vacancies per 100 Unemployed	28.36	54.13	46.50	37.37	52.68	121.47

The Northeast labor force continues to decline. The labor force has fallen by 2,943 since March 2010.

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



Year (March)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	166,168	165,505	162,879	163,999	163,954	163,225

Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2015 (m)	132,798	132,290	0.4% ↑	0.3%
Manufacturing Employment	March 2015 (m)	7,115	7,135	-0.3% ↓	-1.9%
Educational and Health Sector Employment	March 2015 (m)	31,332	31,871	-1.7% ↓	2.9%
Average Weekly Work Hours-Private Sector	March 2015 (m)	33.1	33.4	-0.9% ↓	32.1 (since 2007)
Average Earnings Per Hour-Private Sector	March 2015 (m)	$25.03	$23.76	5.3% ↑	3.5% (since 2007)
Unemployment Rate	March 2015 (m)	5.6%	6.6%	NA ↓	6.9%
Labor Force	March 2015 (m)	142,936	144,073	-0.8% ↓	0.1%
Duluth-Superior Residential Building Permit Valuation	March 2015 (m)	2,258	3,646	-38.1% ↓	7,814

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where there are mixed results from the most recently available economic indicators. While overall employment increased by 0.4 percent over the year ending March 2015, employment in the key sectors of manufacturing and education/health (where more than 30,000 people are employed) fell. The length of the average work week fell, but average hourly earnings rose. While the area unemployment rate fell from 6.6 percent in March 2014 to 5.6 percent one year later, this was accompanied by a 0.8 percent decline in the area labor force. Finally, the value of residential building permits in the Duluth/Superior MSA declined by 38.1 percent from its level one year ago.

State and National Indicators

MINNESOTA Indicators	Mar 2015	Dec 2014	Mar 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,844,600	2,831,400	2,795,400	0.5%	1.8%
Average weekly hours worked, private sector	33.9	33.9	34.0	0%	-0.3%
Unemployment rate, seasonally adjusted	3.8%	3.7%	4.4%	NA	NA
Earnings per hour, private sector	$26.32	$25.82	$25.83	1.9%	1.9%
Philadelphia Fed Coincident Indicator, MN	167.33	166.07	162.38	0.8%	3.0%
Philadelphia Fed Leading Indicator, MN	1.81	1.73	2.04	4.6%	-11.3%
Minnesota Business Conditions Index	50.0	61.4	66.1	-18.6%	-24.4%
Price of milk received by farmers (cwt)	$17.10	$20.50	$26.10	-16.6%	-34.5%
Enplanements, MSP airport, thousands	1,629.6	1,387.6	1,615.7	17.4%	0.9%

NATIONAL Indicators	Mar 2015	Dec 2014	Mar 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	141,144	140,592	138,055	0.4%	2.2%
Industrial production, index, SA	105.2	106.2	103.1	-0.9%	2%
Real retail sales, SA	185,279	185,197	182,093	0%	1.7%
Real personal Income less transfers	11,506	11,435	11,161	0.6%	3.1%
Real personal consumption expenditures	11,193	11,145	10,903	0.4%	2.7%
Unemployment rate	5.5%	5.6%	6.6%	NA	NA
New building permits, SA, thousands	1,038	1,077	1,061	-3.6%	-2.2%
Standard & Poor's 500 stock price index	2,079.99	2,054.27	1,863.52	1.3%	11.6%
Oil, price per barrel in Cushing, OK	$47.82	$59.29	$100.80	-19.3%	-52.6%

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 softening in the state economy in the first quarter. Milk prices were 34.5 percent lower than one year ago in March. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 0.9 percent over the last twelve months.

The national economic indicators reported in the table suggest continued strong economic performance at the national level—yet there are emerging signs of softness in national economic activity that have been reported since this table was constructed. Still, compared to year earlier levels, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment, and the unemployment rate are all improved. Oil prices have declined significantly over the past year. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. While there is little concern that the national economy will be entering recession in the coming months, observers will be wise to keep a watchful eye out for any continuation of the recent soft patch that seems to have emerged in the last couple of months.

The Northeast 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 Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

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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

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U.S. Energy Information Administration: Oil Prices.