Southwest 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

Southwest Minnesota business conditions are expected to soften over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI). A decline in Mankato area residential building permits and last year's weakness in new business filings helped push down the index in this year's first three months. The LEI fell 22.22 points in the first quarter and is now 18.1 percent below its level one year ago. On a positive note, lower initial jobless claims in 2014 in the Southwest Minnesota planning area and a small improvement in the general outlook for rural economies contributed favorably to this quarter's LEI.

There were 690 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the first quarter of 2015 — representing 9.4 percent more new filings than one year ago. There were 62 new regional business incorporations in the first quarter, a 5.1 percent increase from one year ago. New LLC filings in Southwest Minnesota increased by 15.1 percent—rising to 405 in the first quarter of 2015. New assumed names totaled 194 in this year's first quarter—8.9 percent fewer than last year. There were 29 new filings for Southwest Minnesota non-profits in the first quarter—a 314 percent increase from one year ago.

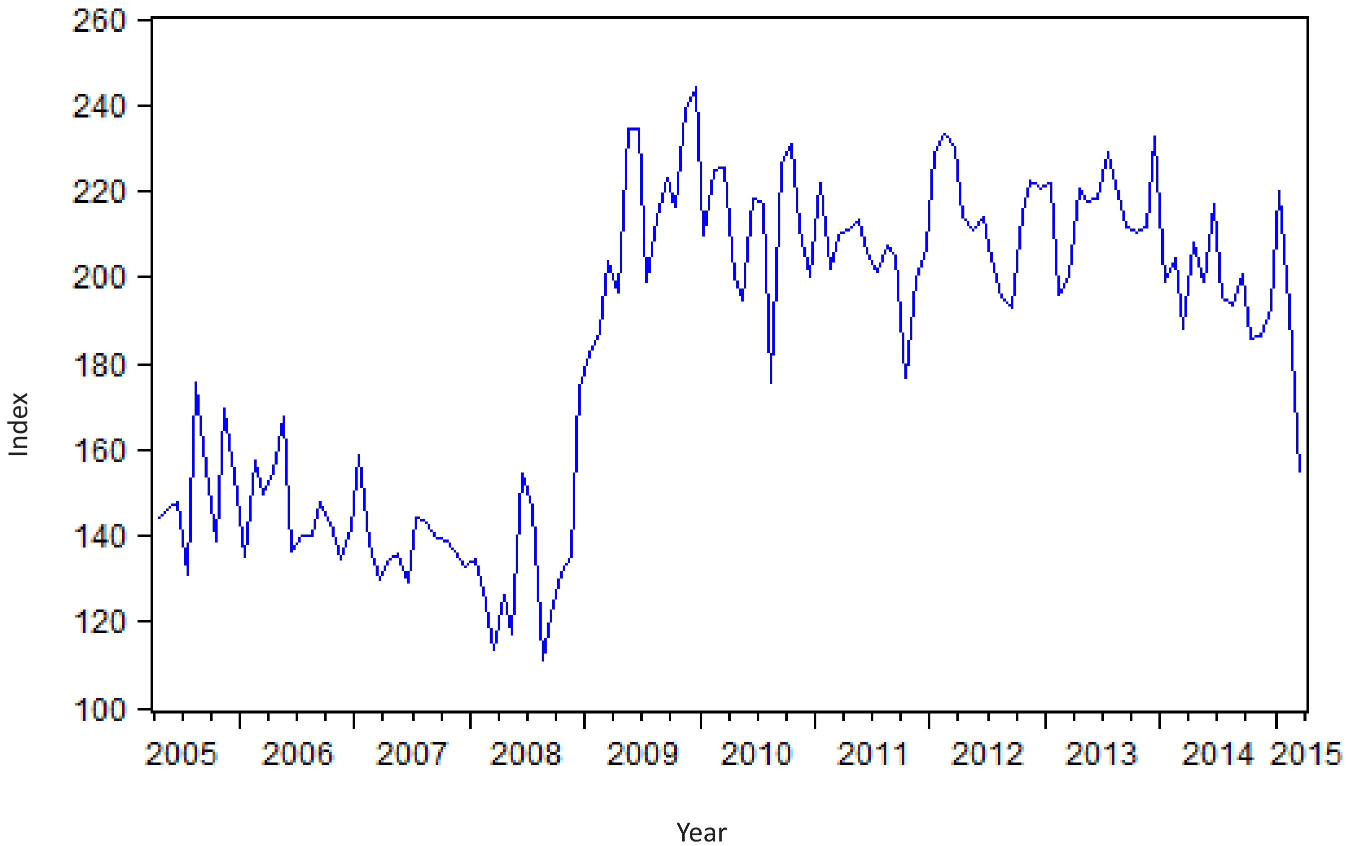
Employment of Southwest Minnesota residents jumped 5 percent over the year ending March 2015. More than 10,000 additional Southwest Minnesota residents have jobs than did one year ago. The regional unemployment rate was 4.8 percent in March, an improvement on its 5.4 percent reading in March 2014. Initial claims for unemployment insurance rose by 303 from year-ago levels—a 30.5 percent increase. The Southwest Minnesota labor force increased substantially over the past 12 months and job vacancies per 100 unemployed surged.

There was mixed economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota. On the positive side, overall employment grew at an annual rate of 2 percent (led by rapid growth in goods-producing employment), the unemployment rate fell, the labor force expanded, and nearly all categories of new business filings rose. Showing weakness was Mankato area residential building permits, average weekly work hours, and average hourly earnings. Initial jobless claims in the Mankato area were also higher and the relative cost of living in the MSA appeared to rise.

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 has now declined over the last three quarters and its level is 18.1 percent lower than one year ago. With a decline of 22.22 points in this year's first quarter, the LEI suggests weaker future economic conditions in Southwest Minnesota.

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, 1st quarter 2015	Contribution to LEI, 4th quarter 2014
Rural Mainstreet Index	1.37	-0.81
Southwest Minnesota initial claims for unemployment insurance	5.47	-6.26
Southwest Minnesota new filings of incorporation and LLCs	-8.3	2.85
Mankato MSA single-family building permits	-20.76	0.07
TOTAL CHANGE	**-22.22**	**-4.15**

The Southwest Minnesota LEI has four components, two of which experienced a decline in the first quarter. Last year's decline in new business filings for incorporation and LLC weighed on this quarter's LEI, and recent weakness in Mankato/North Mankato Metropolitan Statistical Area (MSA) residential building permits had a particularly negative effect on the LEI. 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 had a small favorable impact on the LEI in the most recent quarter. The other factor that contributed positively to the regional outlook was initial claims for unemployment insurance in the planning region. These claims fell in 2014 which had a favorable impact on this quarter's LEI.

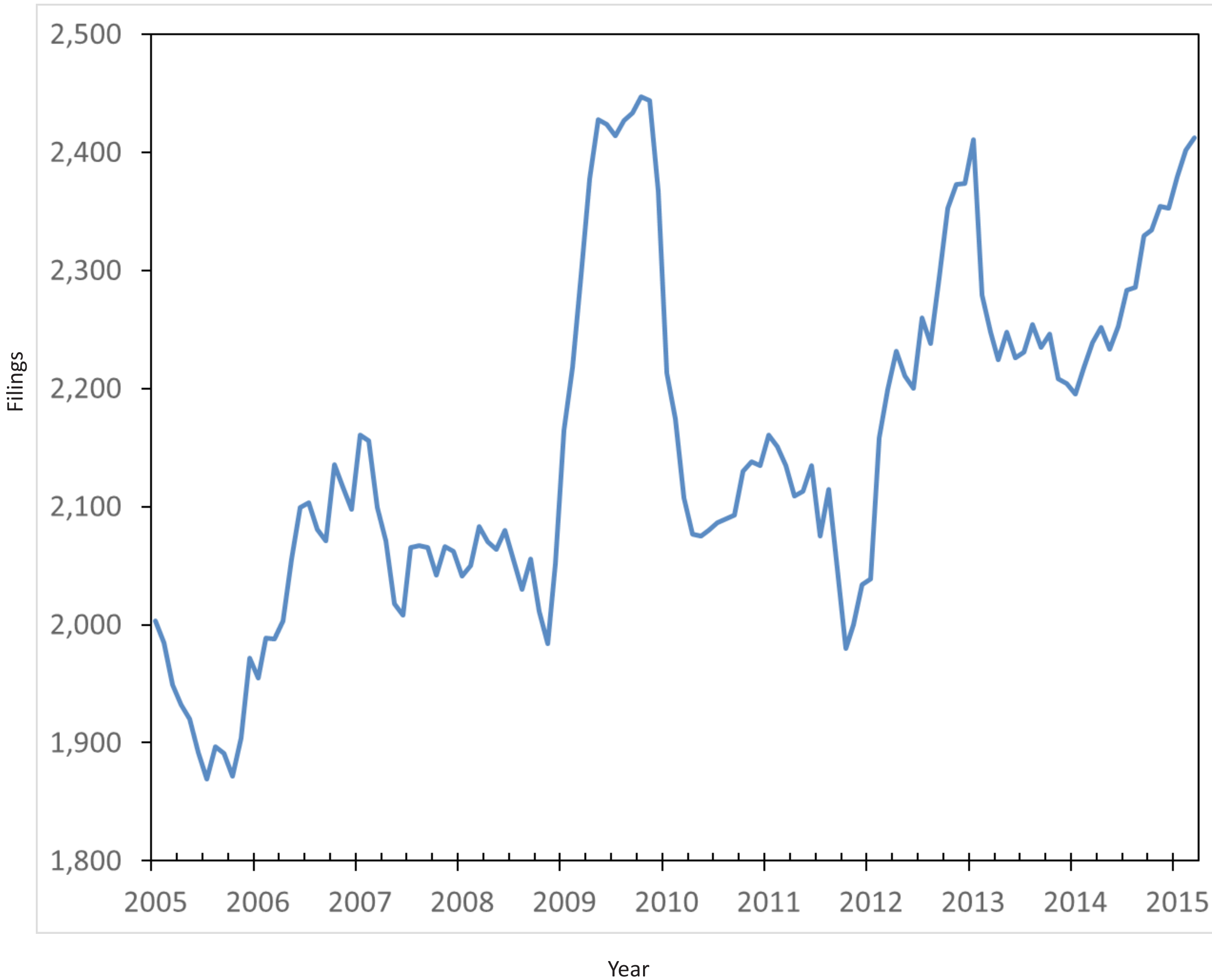
SCSU Southwest Minnesota Leading Economic Indicators Index

	2015	2014	Percentage change
Rural Mainstreet Index, Creighton University March	26.8	50.1	-46.5%
Southwest Minnesota initial claims for unemployment insurance March	1,333	1,185	12.5%
Southwest Minnesota new filings of incorporation and LLCs First Quarter	467	411	13.6%
Mankato MSA single-family building permits March	6	4	-57.1%
Southwest Minnesota Leading Economic Indicators Index March (December 1999 = 100)	154.3	188.3	-18.1%

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 9.4 percent from year earlier levels in the first quarter of this year. 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	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Southwest Minnesota Total New Business Filings	631	594	565	563	690	9.4%

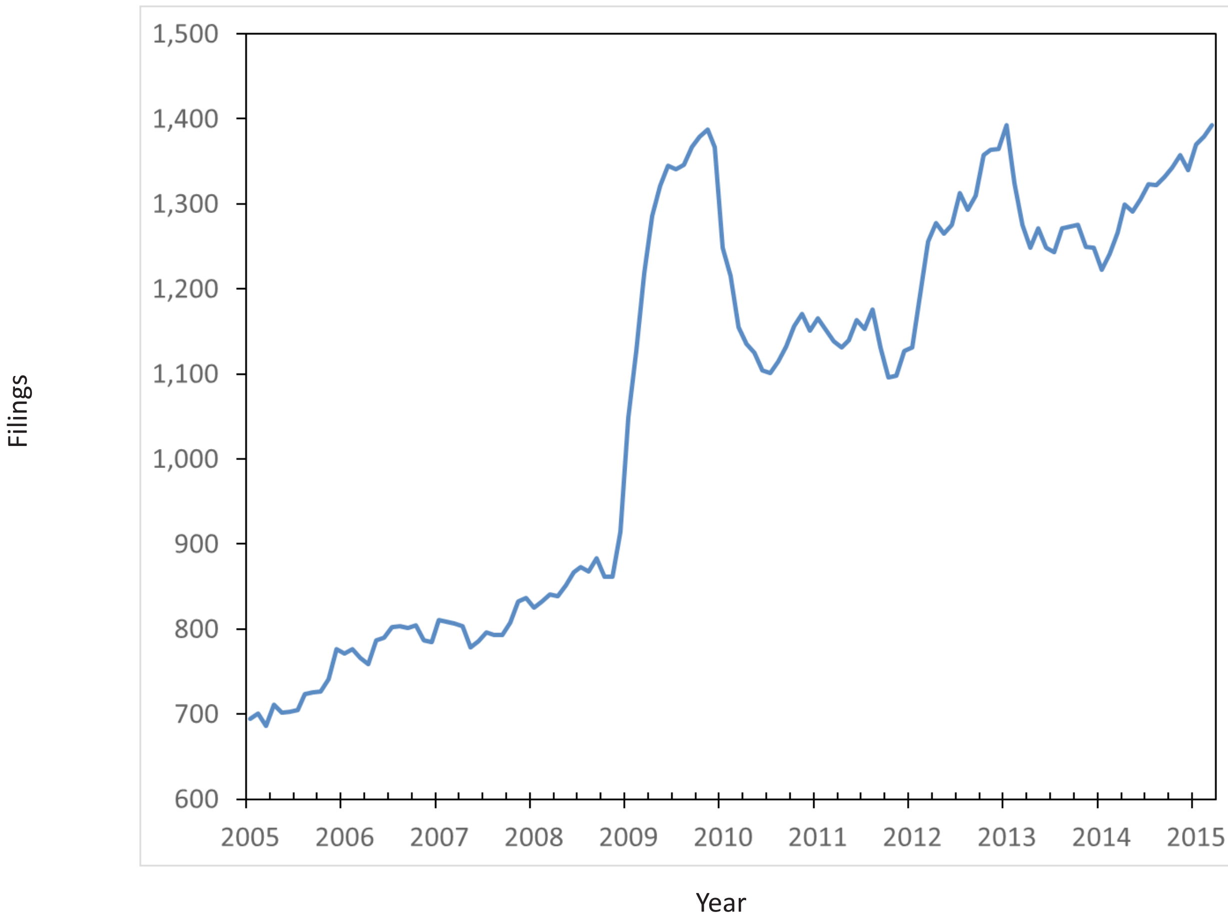
New business incorporations trended downward in Southwest Minnesota from 2005 to 2011, but they appear to have leveled off over the past several years. New regional incorporations totaled 62 in the first quarter of this year—a 5.1 percent improvement from last year.

New Incorporations—Southwest 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
Southwest Minnesota New Business Incorporations	59	53	47	47	62	5.1%

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 strong 15.1 percent increase from year earlier levels in the most recent quarter.

New Limited Liability Companies—Southwest 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
Southwest Minnesota New Limited Liability Companies	352	360	309	319	405	15.1%

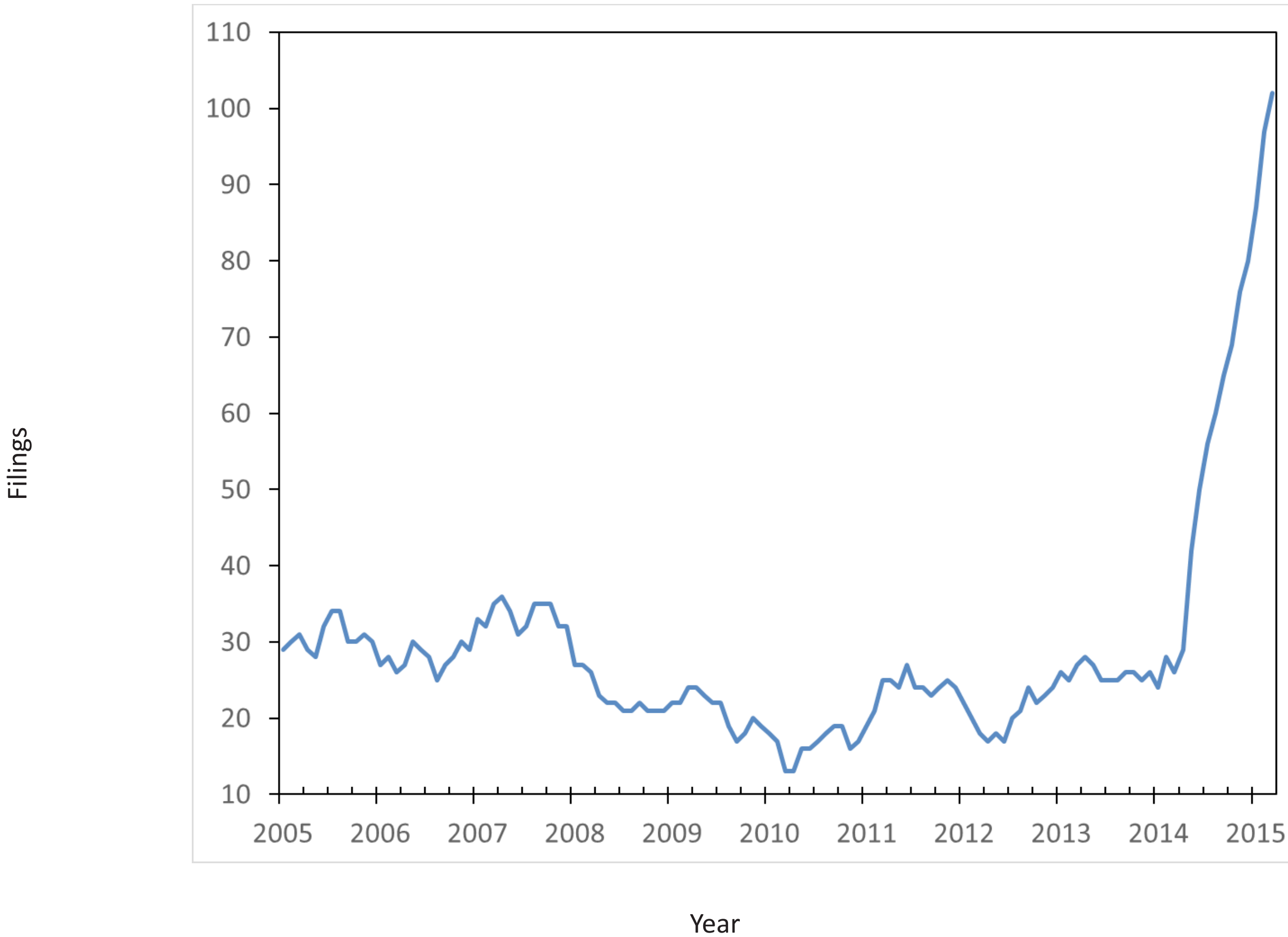
First quarter assumed names decreased by 8.9 percent compared to the same period in 2014. As can be seen in the accompanying figure, while this series has been very volatile in recent years, new assumed names are little changed since the beginning of 2013.

New Assumed Names—Southwest 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
Southwest Minnesota New Assumed Names	213	153	184	177	194	-8.9%

For the fourth 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 29 newly registered non-profits, this series increased by 314 percent from one year ago.

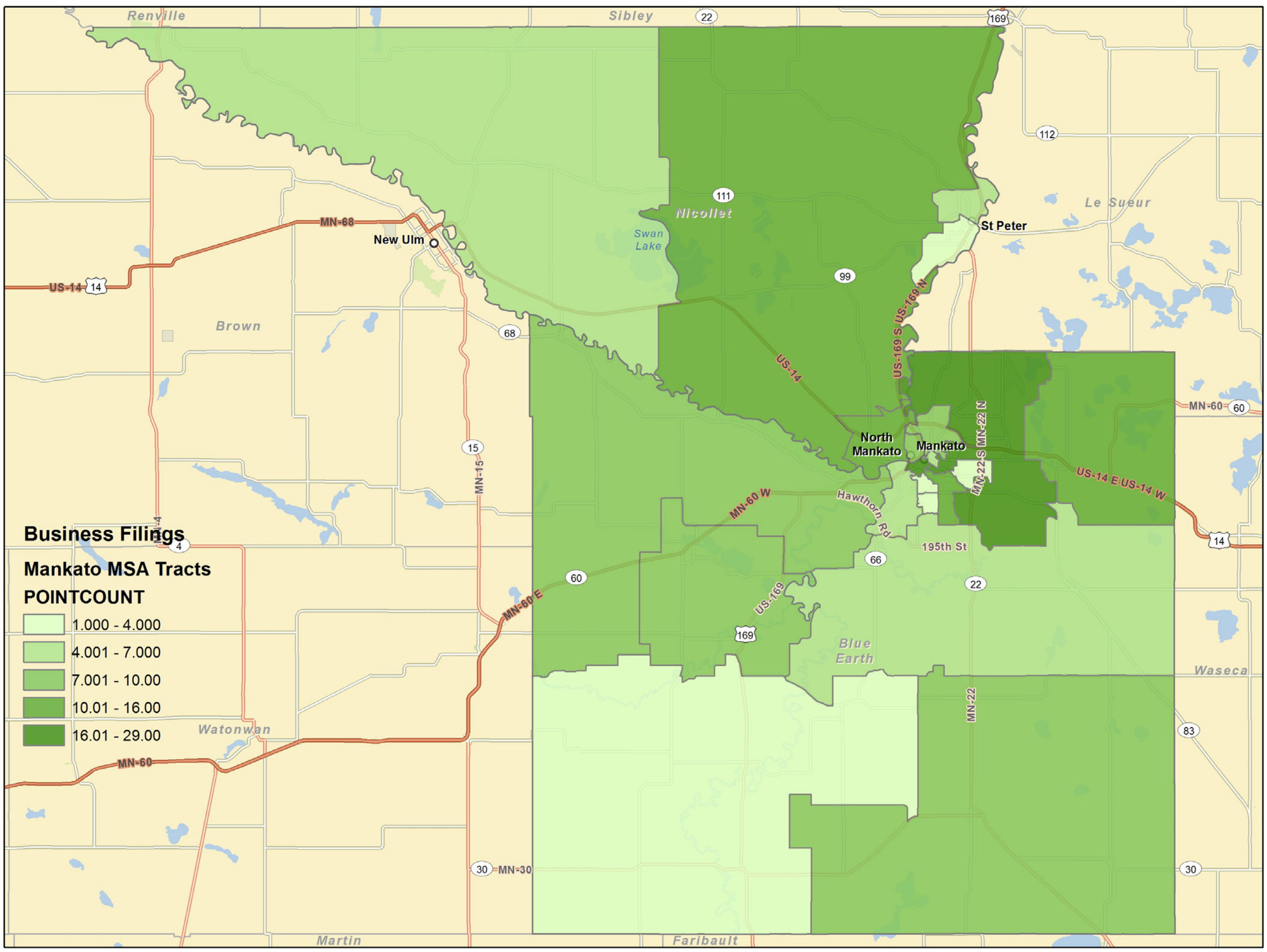
New Non-Profits—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Southwest Minnesota New Non-Profits	7	28	25	20	29	314%

The map below highlights new business formation by census tract in this year's first quarter in the Mankato/North Mankato Metropolitan Statistical Area (MSA). This MSA consists of two counties—Blue Earth and Nicollet. While there were 215 new business filings in the Mankato/North Mankato MSA 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 this 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. In coming issues of the Southwest 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 By Census Tract in 2015, Quarter 1—Mankato-North Mankato MSA

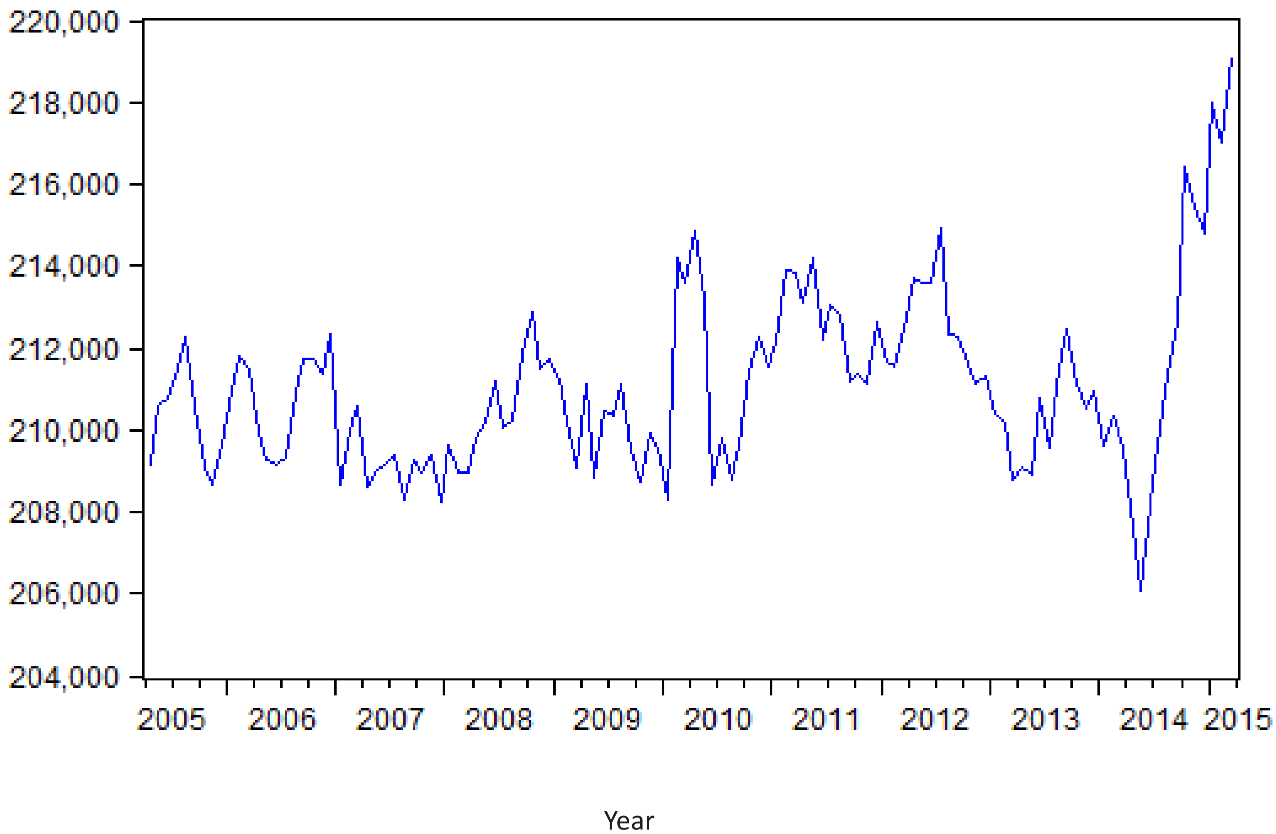


Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 5 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average has increased substantially since the first quarter of 2014. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in March 2015 (see accompanying table) was 217,318.

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.

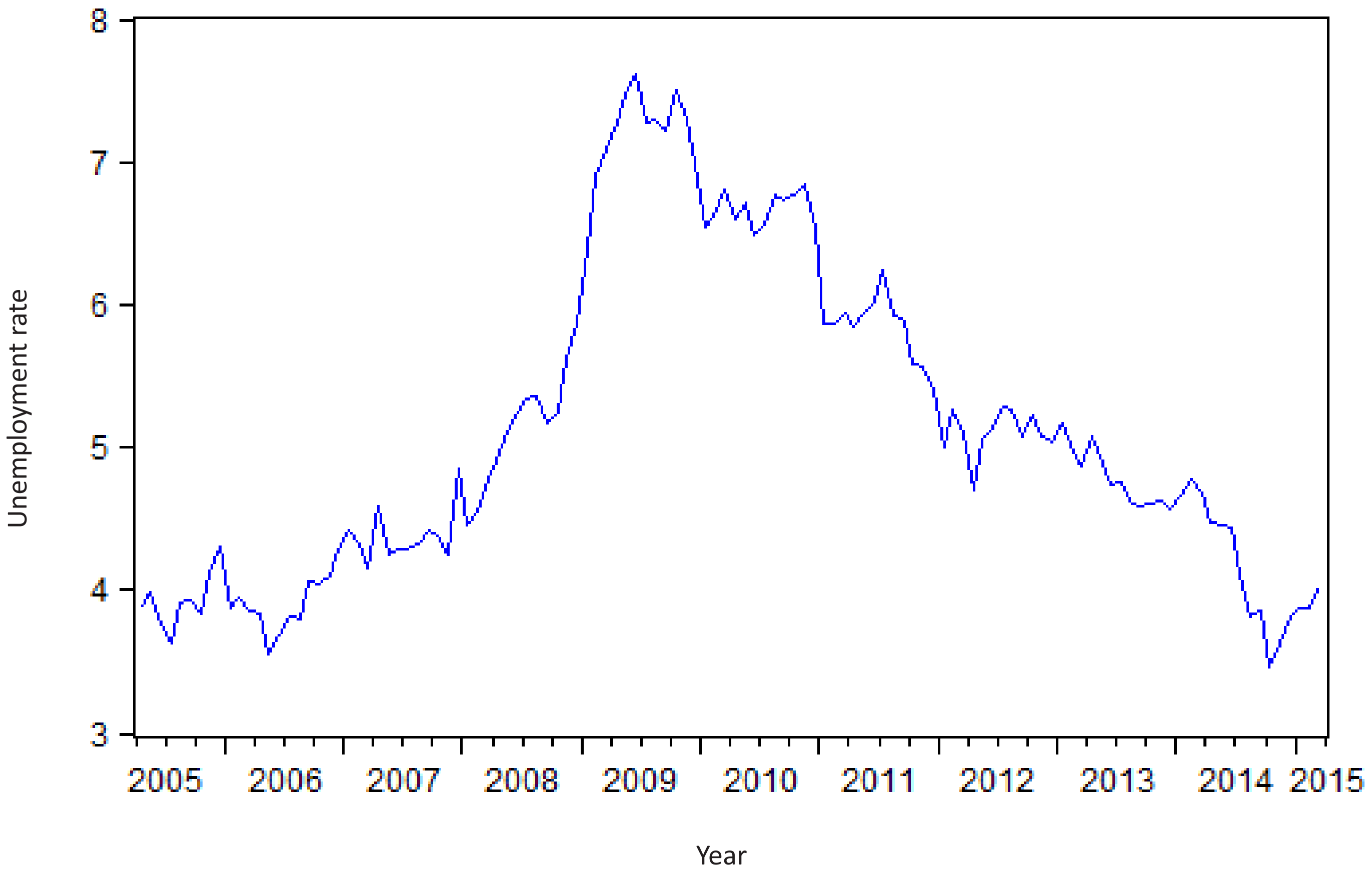
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Employment (Not seasonally adjusted)	206,915	215,926	214,757	213,369	214,333	213,190	217,318

Seasonally adjusted unemployment in Southwest Minnesota has started to inch up after its continual decline from its late 2009 peak. The non-seasonally adjusted unemployment rate now stands at 4.8 percent — an improvement on the 5.4 percent rate recorded in March 2014.

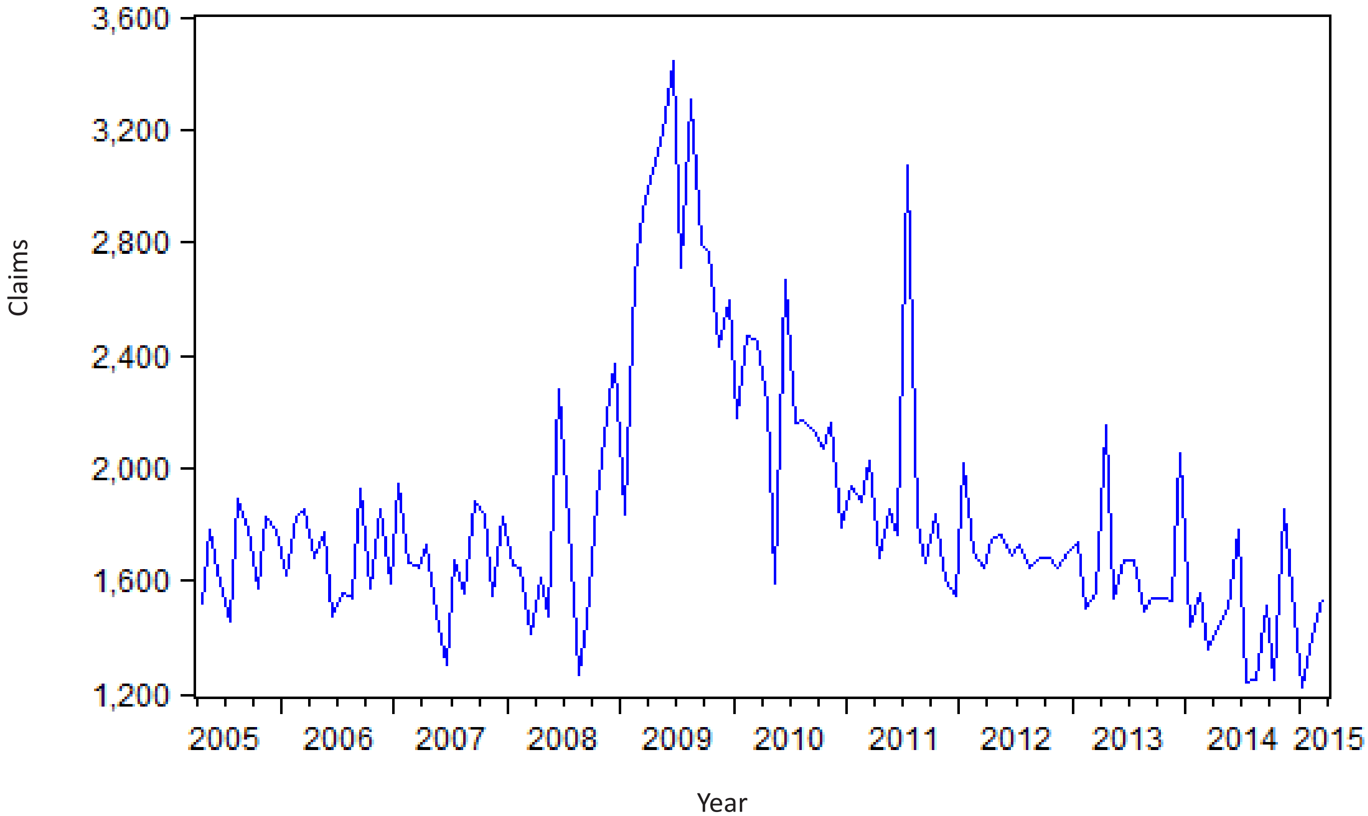
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Unemployment Rate (Not seasonally adjusted)	5.4%	3.0%	3.0%	3.7%	4.9%	4.7%	4.8%

New claims for unemployment insurance in April 2015 were higher than one year earlier. There were 1,298 initial claims for unemployment benefits in this most recent month, 303 more than one year ago — a 30.5 percent increase. 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.

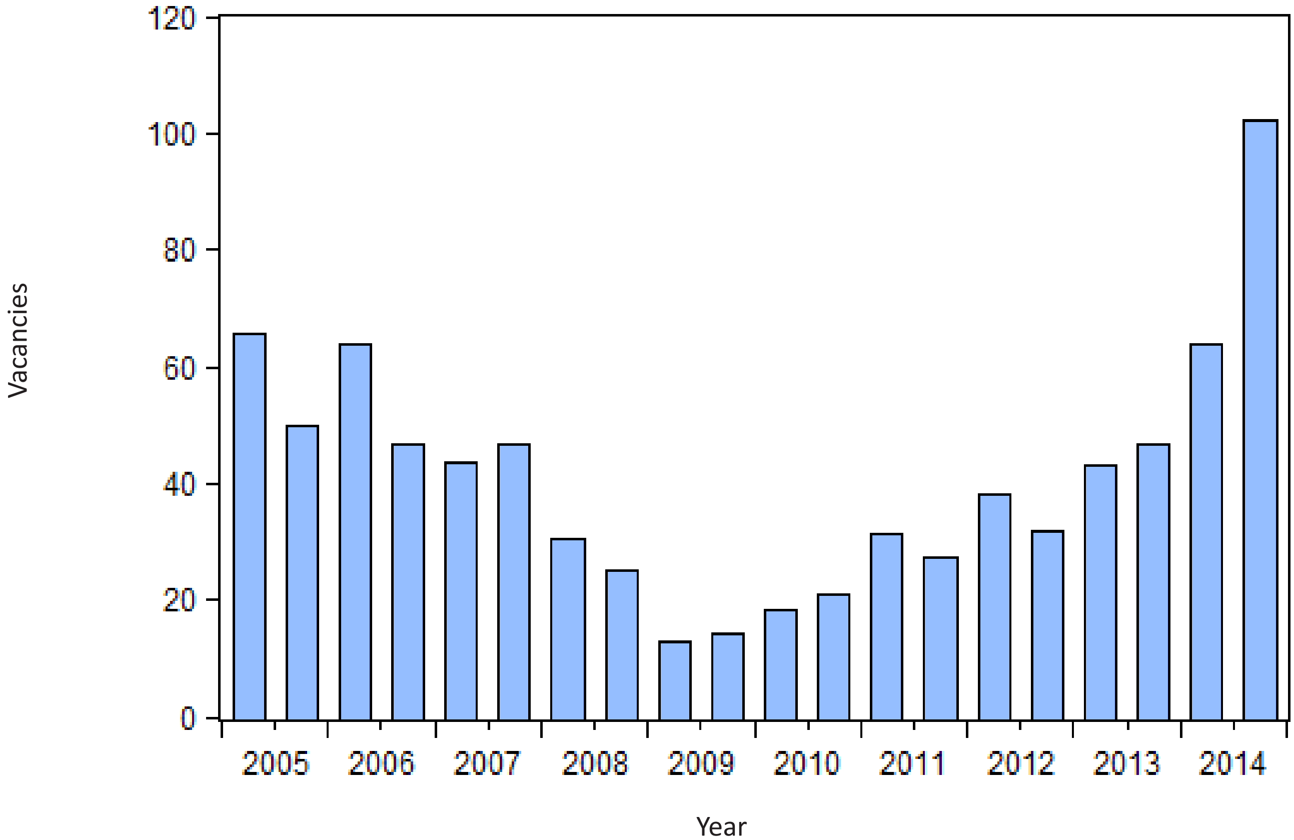
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Month	April 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015
Initial claims (Not seasonally adjusted)	995	2,655	3,138	1,675	1,178	1,333	1,298

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Southwest Minnesota planning area the rate of job vacancies per 100 unemployed was 101.99 in the fourth quarter of 2014 (this is the most recently available data). This is the highest reading for this series in several years and is the second highest job vacancy rate of any of Minnesota's six planning areas (only Northeast Minnesota has a higher job vacancy rate).

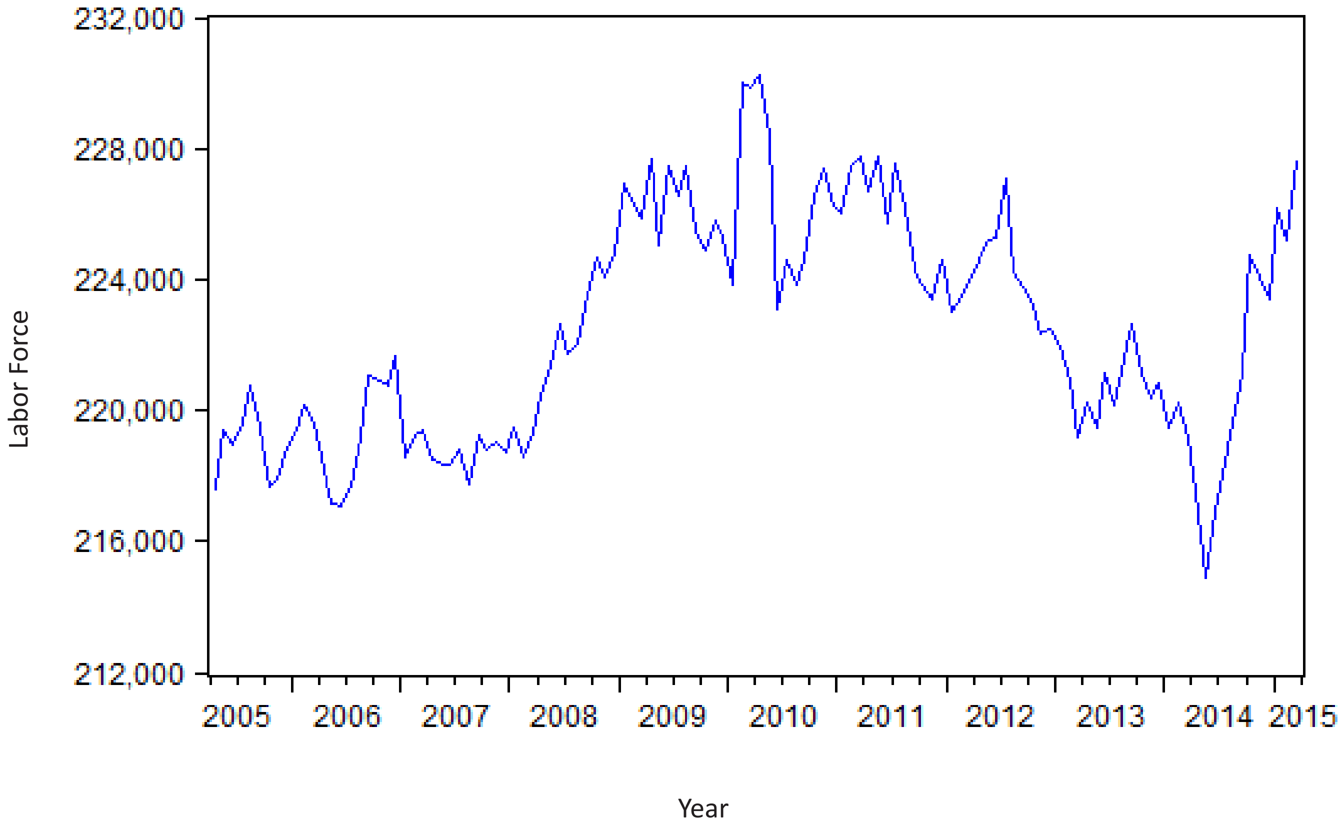
Job Vacancies per 100 Unemployed—Southwest Minnesota Planning Area



Quarter	2012:II	2012:IV	2013:II	2013:IV	2014:II	2014:IV
Job Vacancies per 100 Unemployed	39.84	36.33	44.92	53.66	68.24	101.99

The Southwest Minnesota labor force increased by 9,392–a 4.3 percent annual increase—over the year ending March 2015. As can be seen in the accompanying figure, recent increases in this planning area's labor force appear to have reversed the five year slide that began in 2009.

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



Year (March)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	229,558	227,356	223,691	218,693	218,794	228,186

Economic Indicators

Mankato-North Mankato MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	March 2015 (m)	55,685	54,575	2.0% ↑	0.9%
Goods-Producing Employment	March 2015 (m)	9,918	9,523	4.1% ↑	-0.4%
Average Weekly Work Hours - Private Sector	March 2015 (m)	31.0	31.7	-2.2% ↓	32.7 (since 2008)
Average Earnings Per Hour - Private Sector	March 2015 (m)	$22.04	$22.12	-0.4% ↓	-0.7% (since 2008)
Unemployment Rate	March 2015 (m)	3.4%	4.1%	NA ↓	4.4%
Labor Force	March 2015 (m)	60,104	58,804	2.2% ↑	0.8%
Initial Jobless Claims	April 2015 (m)	251	239	5.0% ↑	NA
Business Formation					
Total New Business Filings	First Quarter 2015	215	200	7.5% ↑	160 (since 2000)
New Business Incorporations	First Quarter 2015	18	16	12.5% ↑	28 (since 2000)
New Limited Liability Companies	First Quarter 2015	123	112	9.8% ↑	72 (since 2000)
New Assumed Names	First Quarter 2015	65	60	8.3% ↑	54 (since 2000)
New Non-profits	First Quarter 2015	9	12	-25.0% ↓	7 (since 2000)
Mankato / North Mankato Residential Building Permit Valuation	March 2015 (m)	3,569	4,815	-25.9% ↓	3,392 (since 2009)
Mankato / North Mankato Cost of Living Index	Annual 2014	95.3	94	1.4% ↑	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 enjoyed a 2 percent increase in employment over the year ending March 2015—and the goods-producing sector created jobs at a 4.1 percent rate. The unemployment rate fell, the labor force expanded, and nearly all categories of new business filings rose. However, initial jobless claims increased while the length of the workweek and average hourly earnings fell. 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 declined in March 2015 compared to one year earlier.

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 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, Paul Ryan, and Joseph Kucan. Professor David Wall of the SCSU Geography Department provided GIS assistance.

Sources

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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

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.