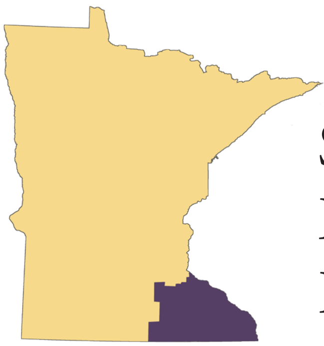

Southeast Minnesota
Economic and Business Conditions Report
First Quarter 2015

OFFICE OF THE MINNESOTA
SECRETARY OF STATE

SCHOOL OF PUBLIC AFFAIRS
RESEARCH INSTITUTE
ST. CLOUD STATE UNIVERSITY

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Executive Summary

Southeast Minnesota business conditions are expected to slow over the next several months according to the most recent prediction of the Southeast Minnesota Index of Leading Economic Indicators (LEI). Four of the five LEI components turned negative in the first quarter of 2015 as the index fell -9.67 points after recording a positive reading in last year's fourth quarter. The LEI is now 7.5 percent lower than one year ago. A reduction in Southeast Minnesota initial jobless claims was the one favorable indicator that contributed positively to this quarter's index. Dragging down the LEI was weakness in the Minnesota Business Conditions Index (which serves as a general measure of state business conditions), lower new business filings in 2014, a decline last year in Rochester area residential building permits, and a small reduction in consumer confidence.

There were 887 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the first quarter of 2015 — representing a 4.7 percent improvement from one year ago. There were 72 new regional business incorporations in the first quarter, a 14.3 percent rise over year ago levels. First quarter new limited liability company (LLC) filings in Southeast Minnesota increased by 14.2 percent—rising to 540 in the most recent period. New assumed names totaled 245 in this year's first quarter—a reduction of 10.3 percent from the same quarter in 2014. There were 30 new filings for Southeast Minnesota non-profits in the first three months of 2015—eight fewer filings than one year ago.

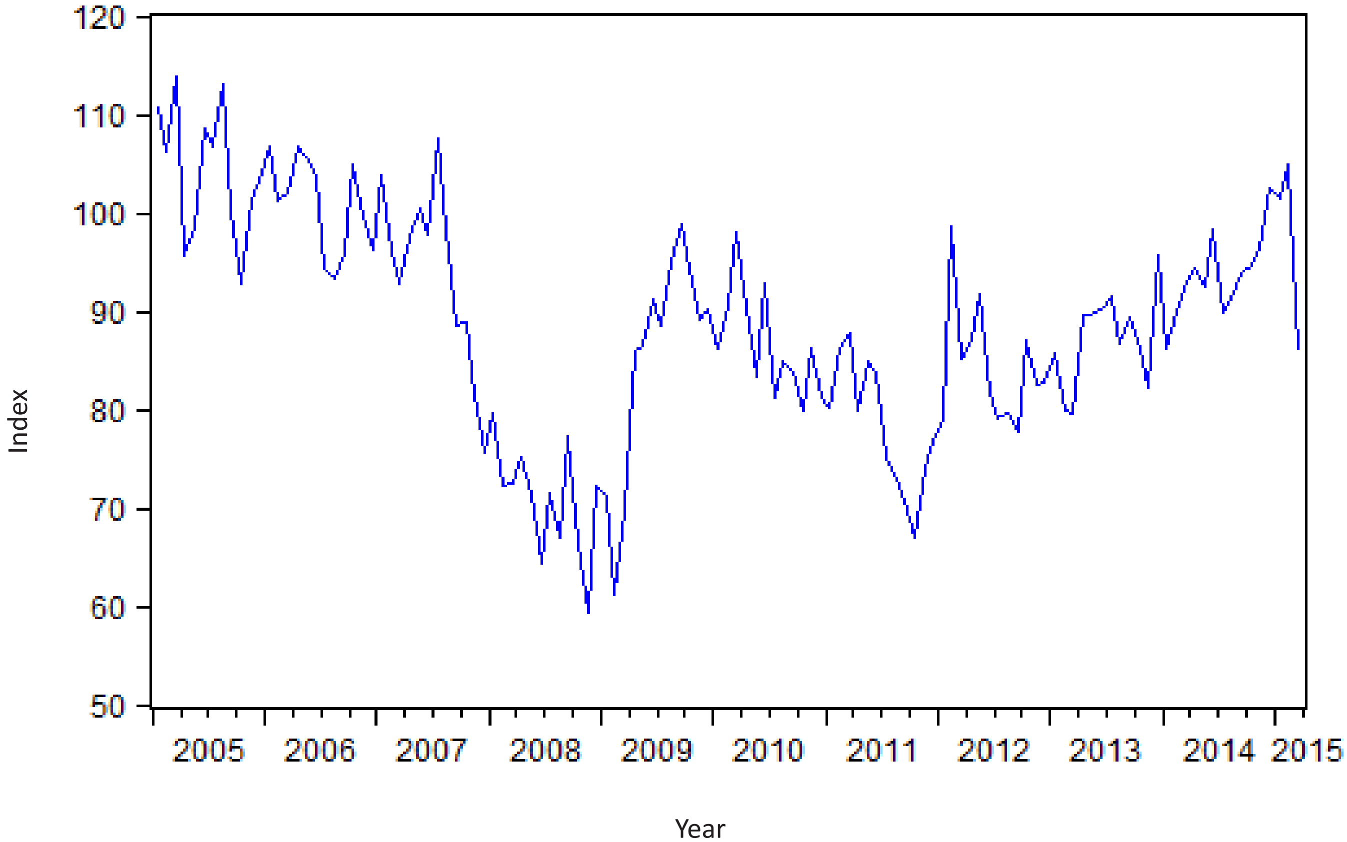
Employment of Southeast Minnesota residents increased by 2.4 percent over the year ending March 2015. Compared to March 2014, 6,360 more residents of Southeast Minnesota now have jobs. The regional unemployment rate was 4.3 percent in March, an improvement from 4.9 percent in the year earlier period. Initial claims for unemployment insurance in April 2015 were 371 lower (a 26.4 percent decline) than one year ago. The Southeast Minnesota labor force expanded by 4,743 over the past year, representing a 1.7 percent increase over the past 12 months. Regional job vacancies surged in the most recent period. There are now 81.99 Southeast Minnesota job vacancies for every 100 unemployed workers—a 50 percent increase over the prior six month period.

Data from the Rochester area—the largest market in Southeast Minnesota—were largely improved, with an increase in overall employment, a rise in the length of the workweek, a lower unemployment rate, increased labor force, lower initial jobless claims, increased new business filings, and a rising value of residential building permits leading the way. The only negative indicators in this area were lower average hourly earnings and a decline in manufacturing employment.

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 finished 9.67 points lower in this year's first quarter, and is now 7.5 percent below its level of one year ago. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility so this period's negative reading is unlikely to signal sustained future economic weakness. Economic fundamentals remain strong in Southeast Minnesota and the LEI has trended upward for the last three years.

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



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2015	Contribution to LEI, 4th quarter 2014
Minnesota Business Conditions Index	-7.36	-2.77
Southeast Minnesota initial claims for unemployment insurance	3.93	-3.82
Southeast Minnesota new filings of incorporation and LLCs	-1.19	-0.73
Rochester MSA residential building permits	-4.67	2.25
Consumer Sentiment, University of Michigan	-0.38	8.56
TOTAL CHANGE	**-9.67**	**3.49**

Only one of the five components of the LEI—lower initial jobless claims—had a favorable reading 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 weakened in the most recent quarter. Lower residential building permits in 2014 in the Rochester metropolitan area were also a drag on the index in the first quarter. Last year's slower growth in new filings for business incorporations and LLCs in Southeast Minnesota and a reduction in the Minnesota Business Conditions survey (conducted by Creighton University), which serves as a general measure of state business conditions, also contributed to the first quarter drop in the LEL.

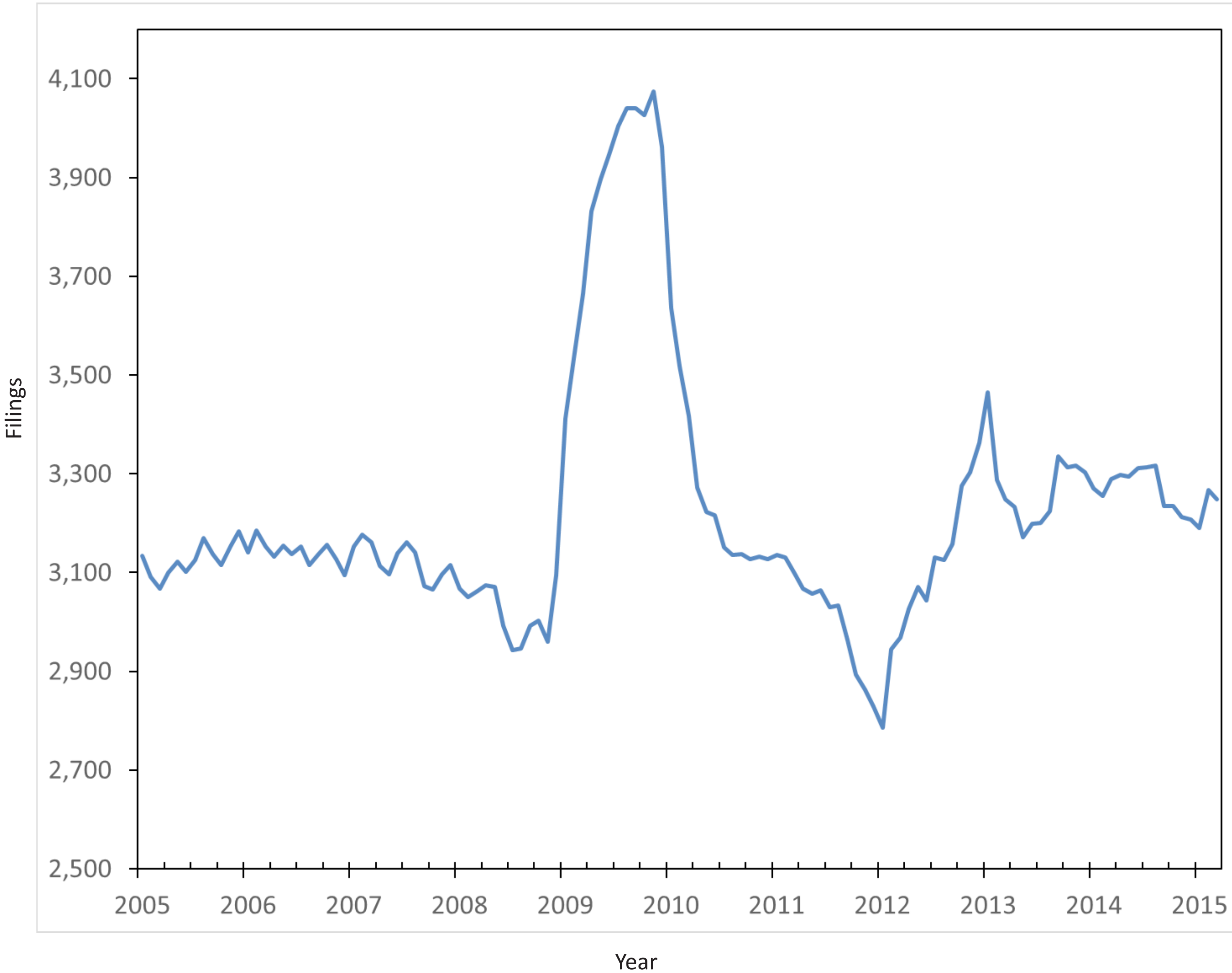
SCSU Southeast Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index March	50	66.1	-24.4%
Southeast Minnesota initial claims for unemployment insurance March	1,335	1,599	-16.5%
Southeast Minnesota new filings of incorporation and LLCs First Quarter	612	536	14.2%
Rochester MSA single-family building permits March	32	46	-30.4%
Consumer Sentiment, University of Michigan March	93.0	80.0	16.3%
Southeast Minnesota Leading Economic Indicators Index March (December 1999 = 100)	85.8	92.8	-7.5%

Southeast Minnesota Business Filings

Other than a large rise in total new business filings in mid-2008, these new filings are little changed over the last decade. 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. First quarter total new business filings were 4.7 percent higher than in the first quarter of 2014.

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.

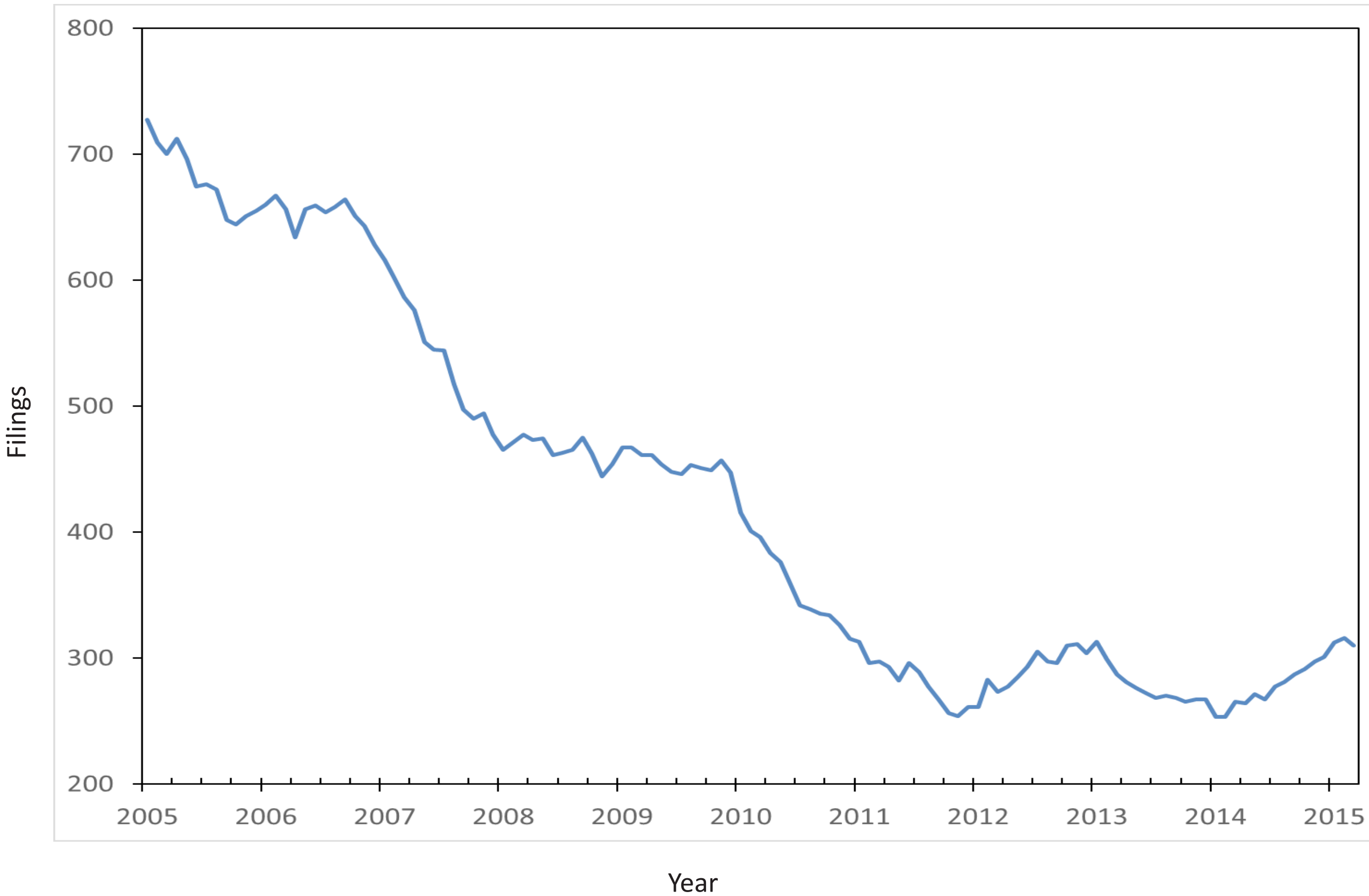
Total New Business Filings—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Southeast Minnesota Total New Business Filings	847	842	765	754	887	4.7%

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 first quarter of 2015, this series increased by 14.3 percent from one year earlier.

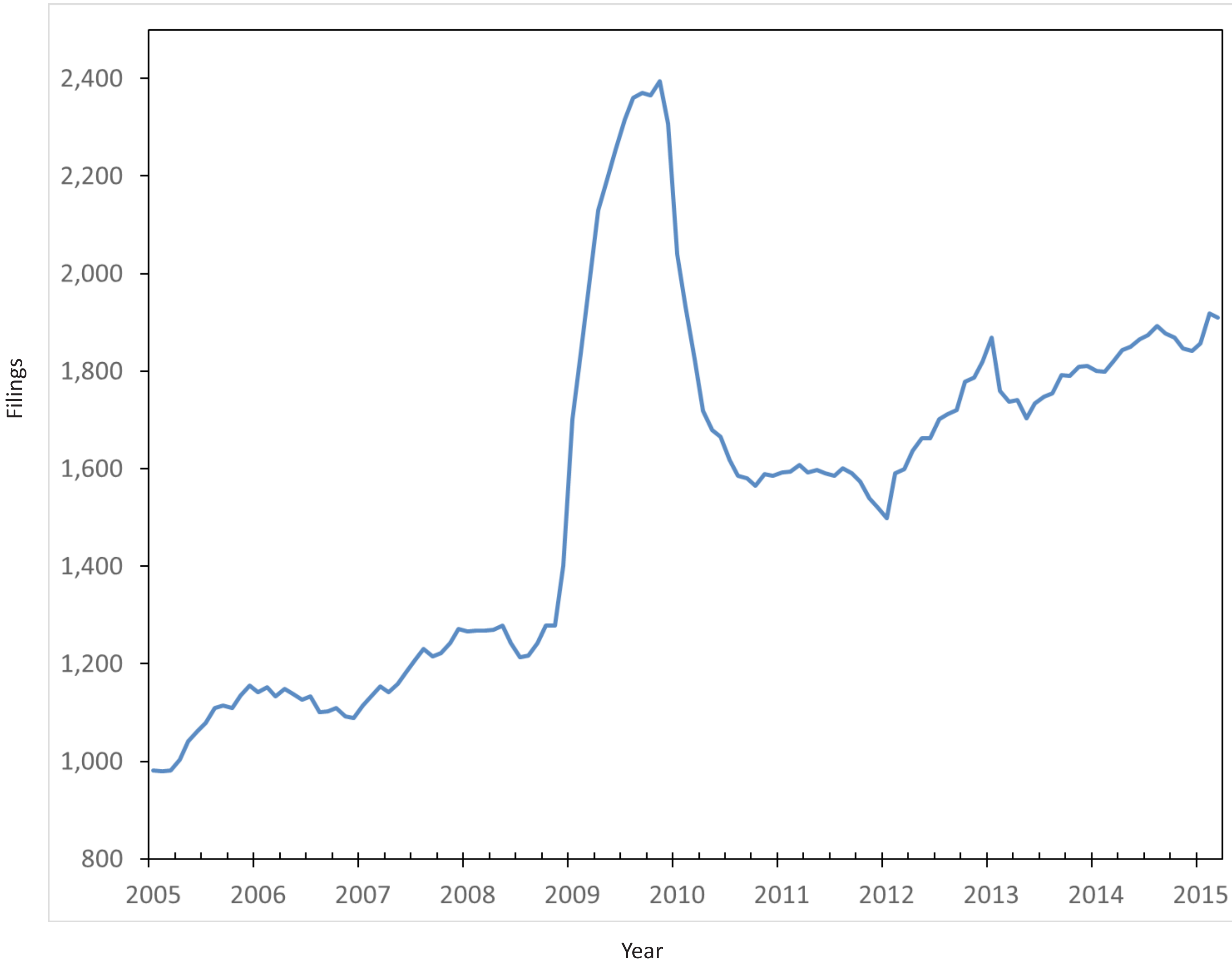
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Southeast Minnesota New Business Incorporations	63	75	74	89	72	14.3%

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 2000. First quarter LLC filings increased by 14.2 percent over their year ago level.

New Limited Liability Companies—Southeast 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
Southeast Minnesota New Limited Liability Companies	473	513	442	414	540	14.2%

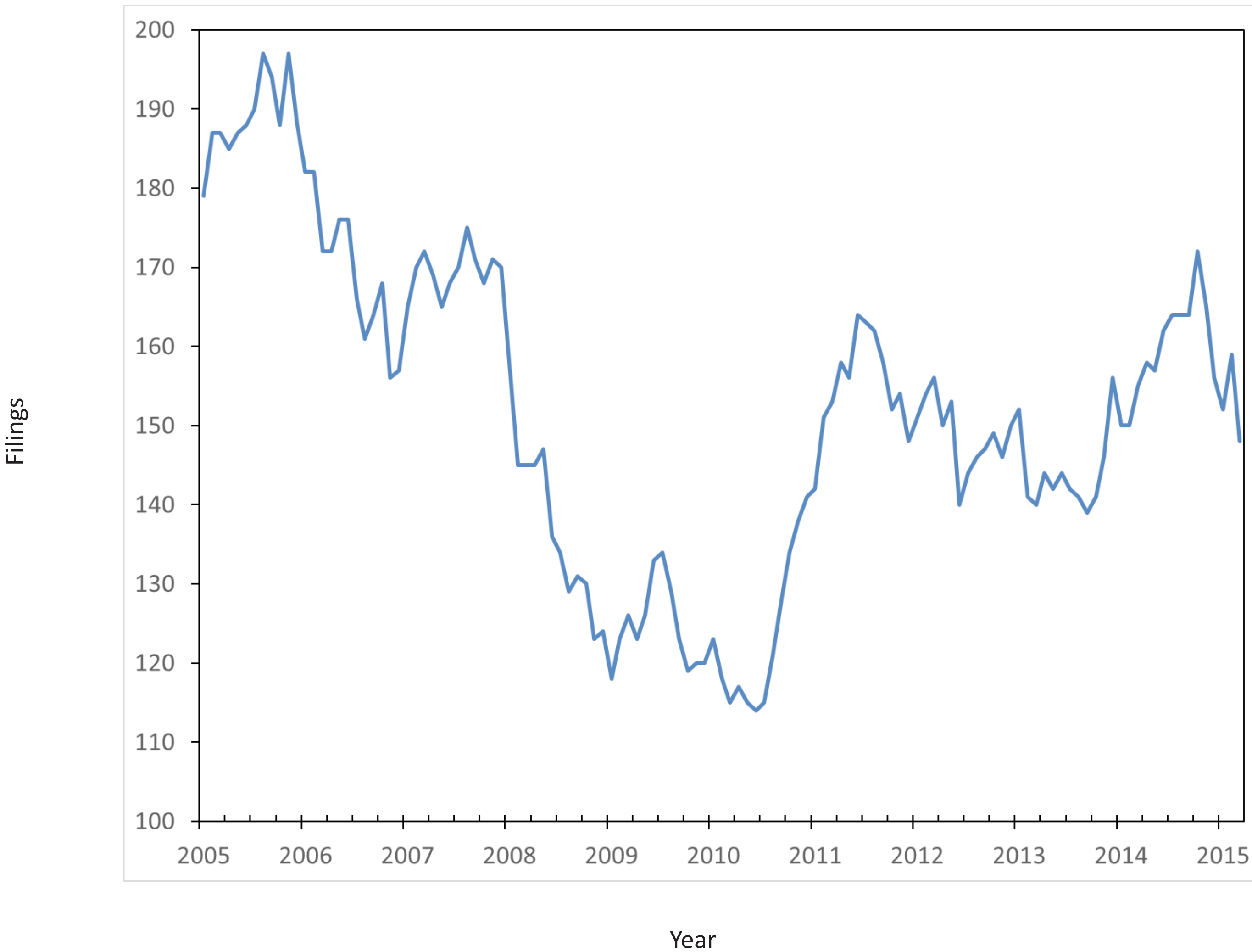
Assumed names, which include sole proprietors or organizations that do not have limited liability, declined in Southeast Minnesota in the first quarter. As can be seen in the accompanying graph, after increasing in 2012, this series has now resumed its downward trend and has declined for more than one year.

New Assumed Names—Southeast 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
Southeast Minnesota New Assumed Names	273	213	212	211	245	-10.3%

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 30 in the recent quarter (a 21.1 percent decrease from last year's first quarter). This series has shown weakness in recent quarters.

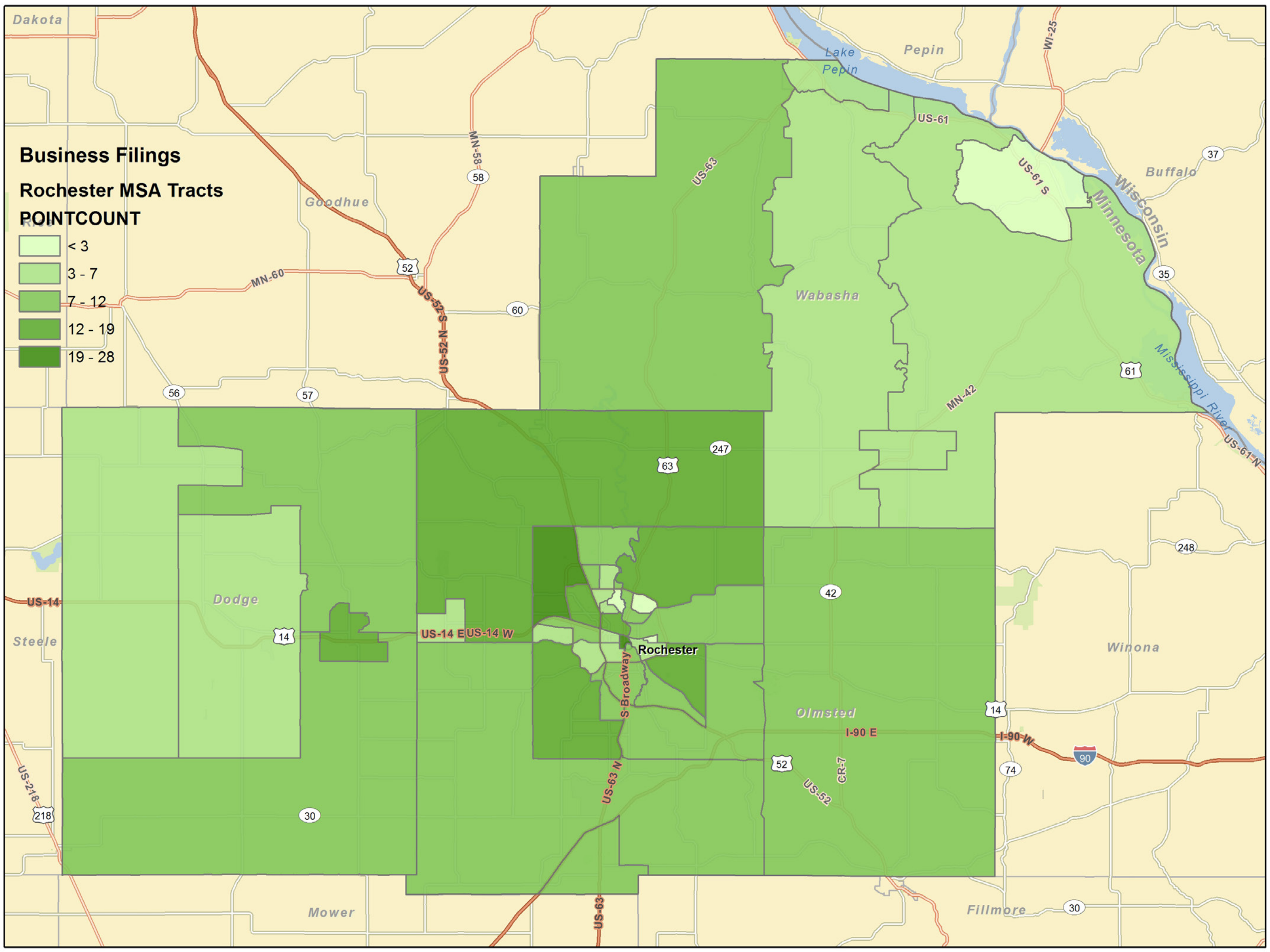
New Non-Profits—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Southeast Minnesota New Non-Profits	38	41	37	40	30	-21.1%

The map below highlights new business formation by census tract in this year's first quarter in the Rochester Metropolitan Statistical Area (MSA). This MSA consists of three counties—Wabasha, Olmsted, and Dodge. While there were 404 new business filings in the Rochester 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 the Rochester 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 Southeast 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—Rochester MSA

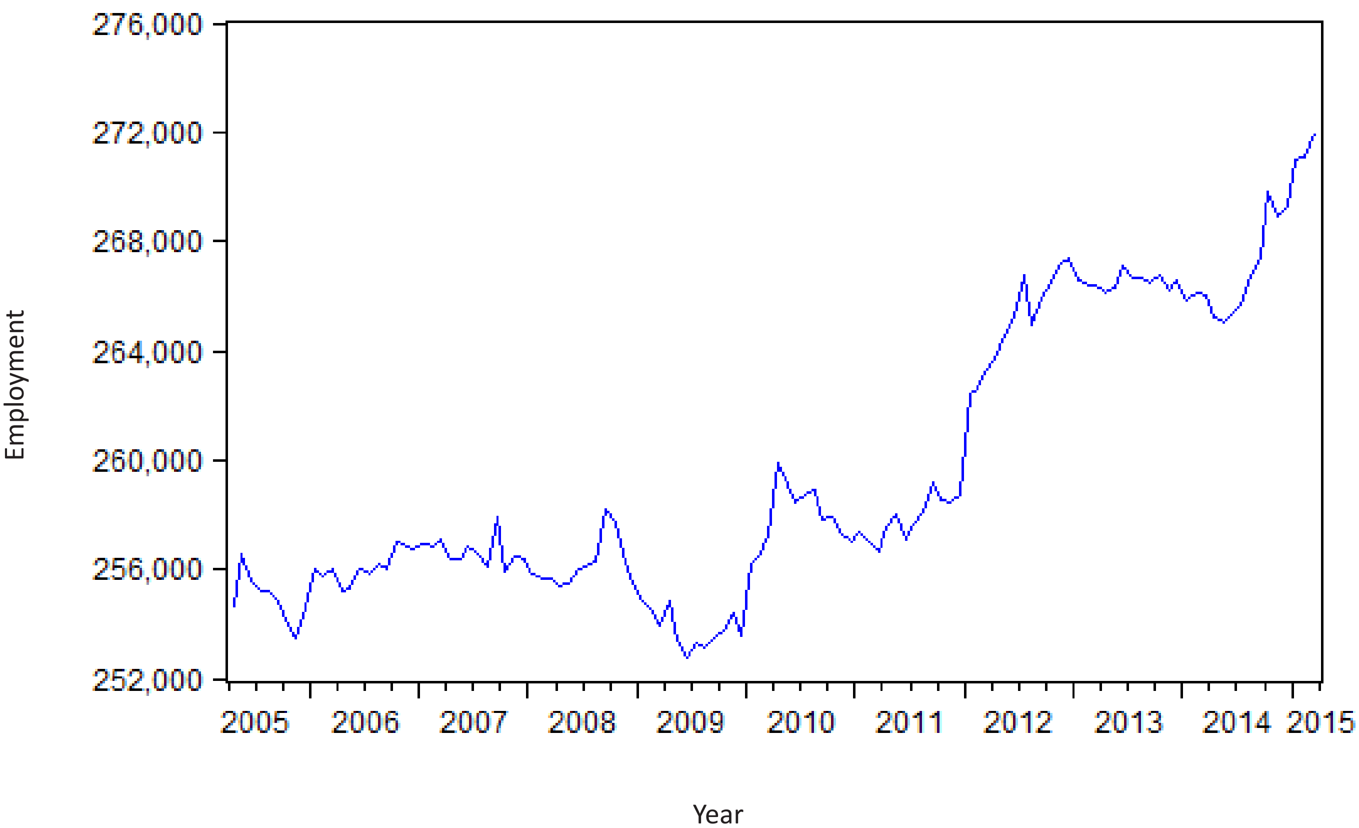


Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area grew 2.4 percent over the past year. As shown in the accompanying graph, the 12-month moving average of total employment has trended upward 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.

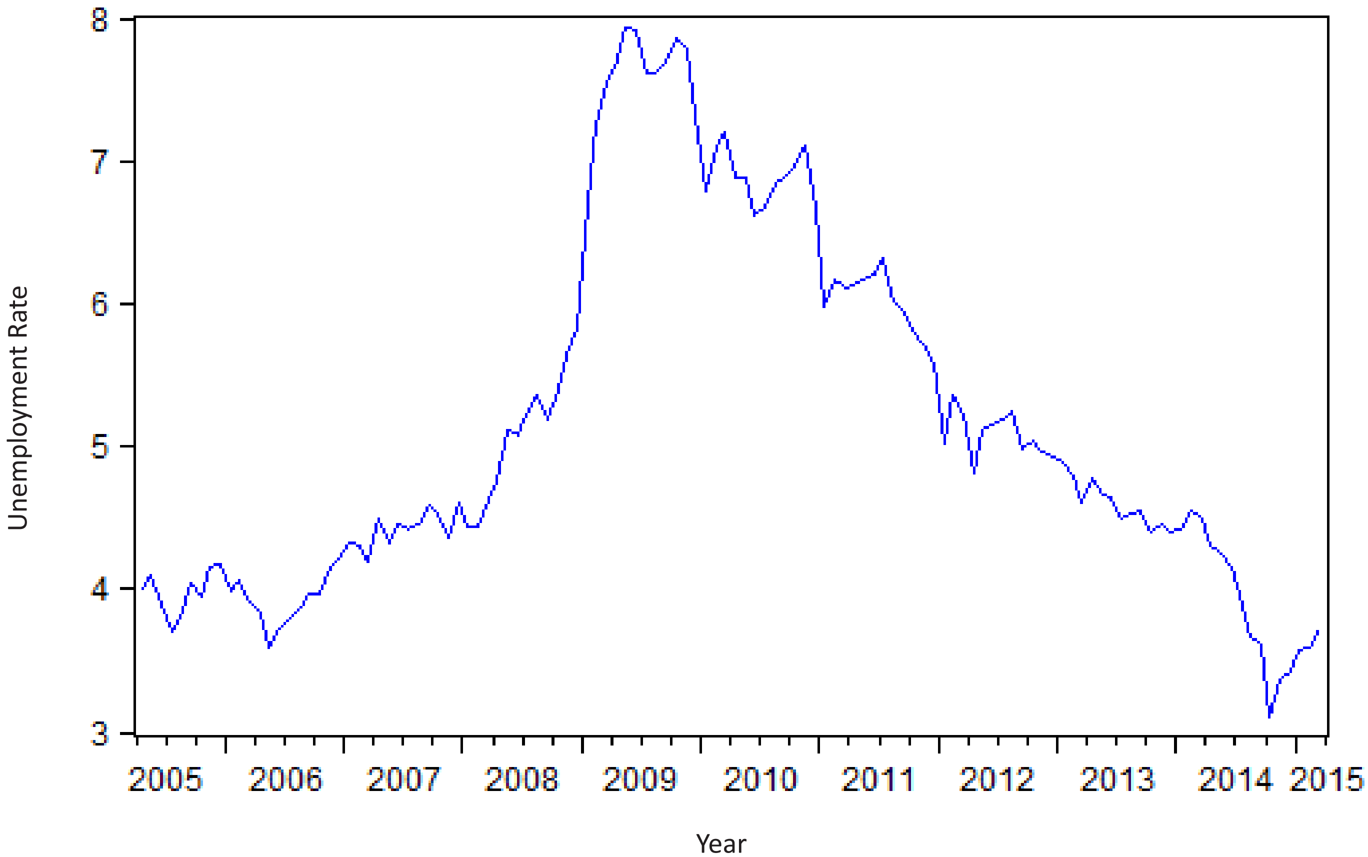
Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Employment (Not seasonally adjusted)	262,732	270,332	269,433	268,072	266,718	266,595	269,092

The seasonally adjusted unemployment rate in Southeast Minnesota has started to rise in the Southeast Minnesota planning area. The unemployment rate in this part of Minnesota had declined since peaking out at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 4.3 percent, lower than the 4.9 percent rate observed one year ago.

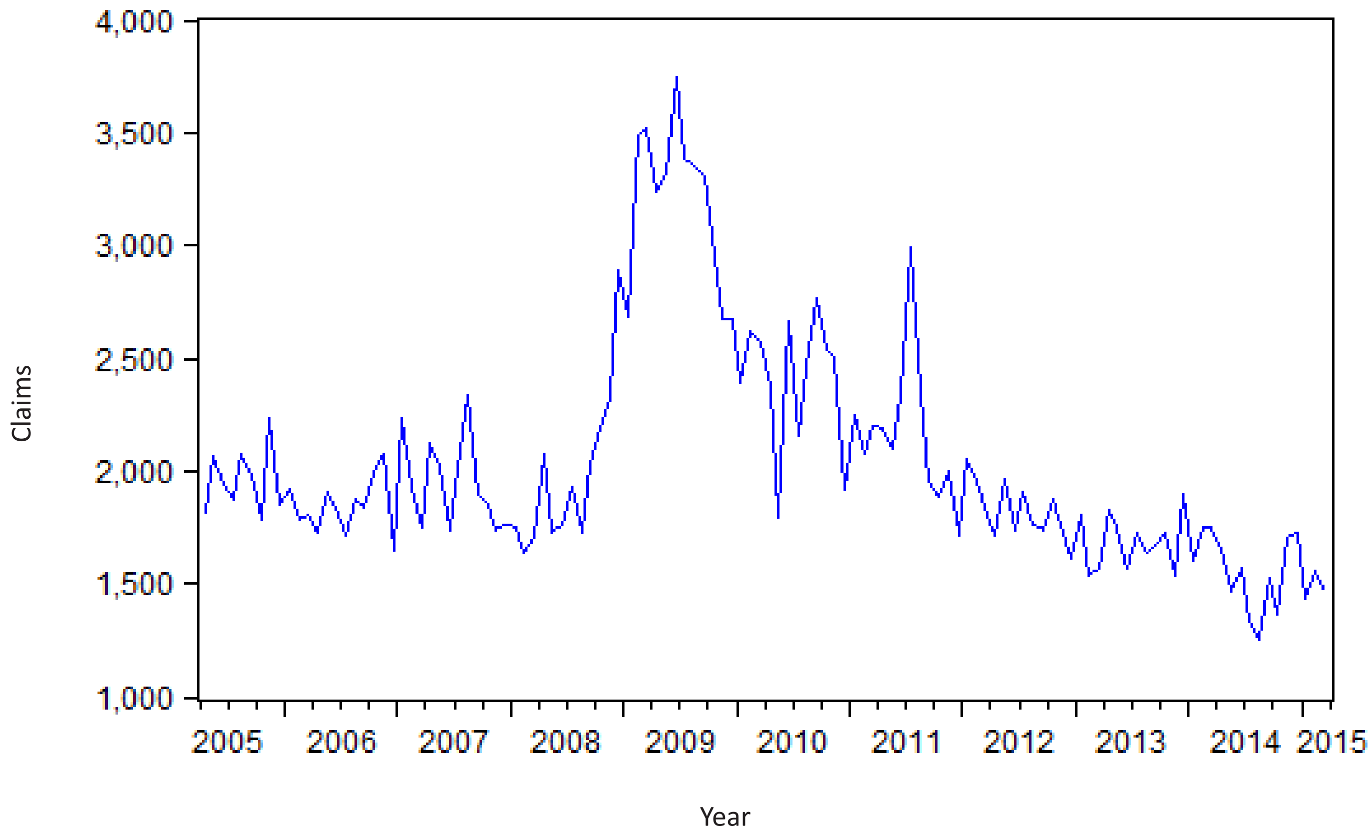
Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Unemployment Rate (Not seasonally adjusted)	4.9%	2.7%	2.8%	3.2%	4.3%	4.2%	4.3%

New claims for April 2015 unemployment insurance were 371 lower than one year ago. This represents a 26.4 percent annual decline. On a seasonally adjusted basis, these claims remain much lower than the period in which they peaked—the middle months of 2009.

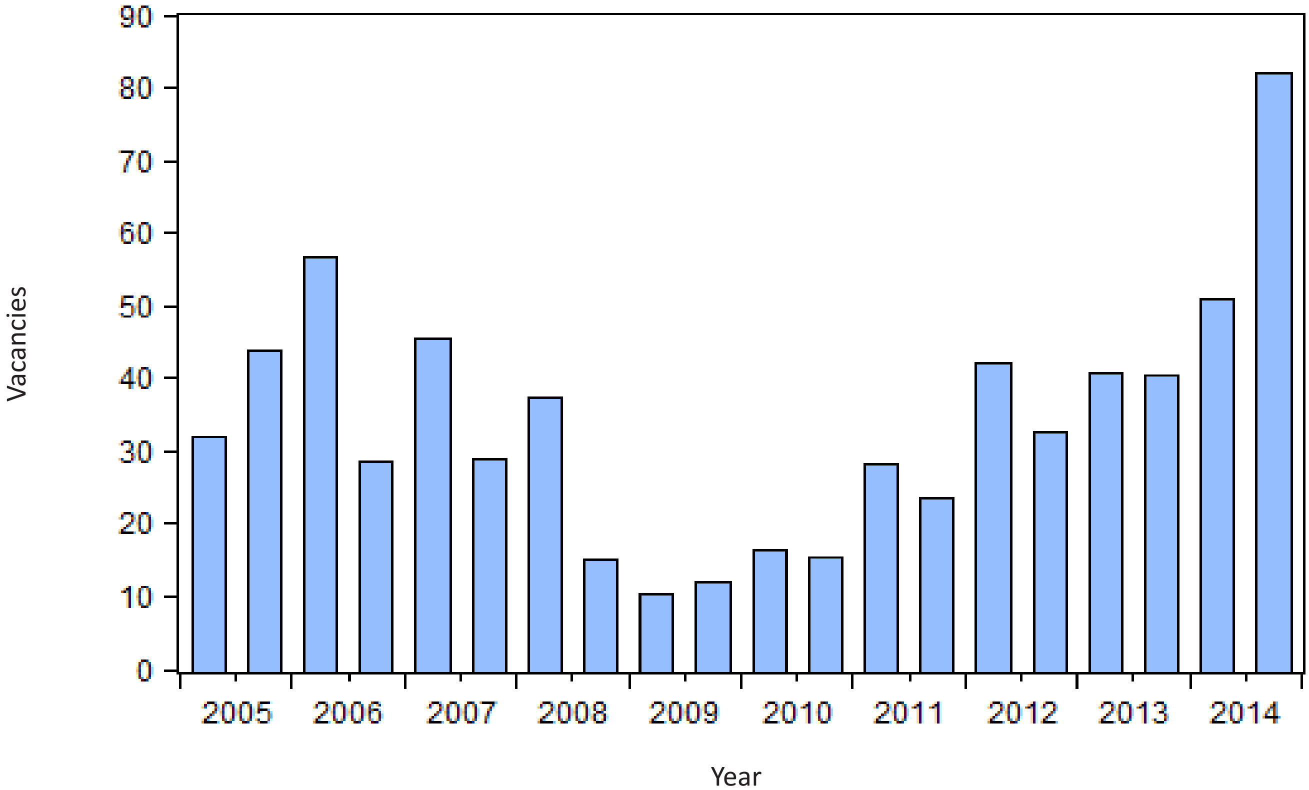
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southeast Minnesota Planning Area



Month	April 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015
Initial claims (Not seasonally adjusted)	1,405	2,418	3,203	1,939	1,485	1,335	1,034

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Southeast Minnesota planning area the rate of job vacancies per 100 unemployed surged from 54.52 in the second quarter of 2014 to 81.99 in last year's fourth quarter (this is the most recently available data). This is the highest reading for this series in recent years.

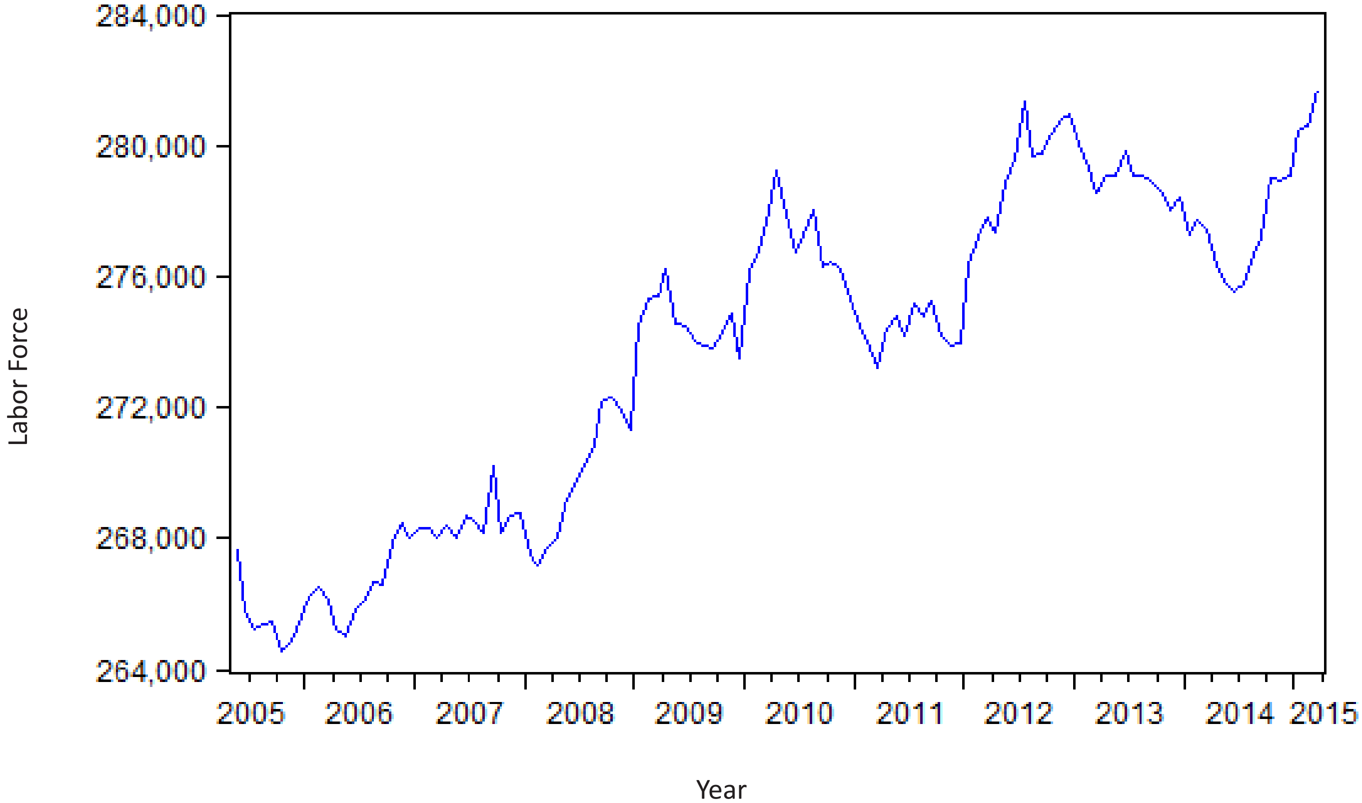
Job Vacancies per 100 Unemployed—Southeast Minnesota Planning Area



Quarter	2012:II	2012:IV	2013:II	2013:IV	2014:II	2014:IV
Job Vacancies per 100 Unemployed	43.64	37.24	41.85	48.21	54.52	81.99

The Southeast Minnesota labor force increased over the last year. With a 1.7 percent increase, the Southeast Minnesota labor force is now 4,743 higher than in March 2014.

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



Year (March)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	277,895	275,052	276,507	277,258	276,308	281,051

Economic Indicators

Rochester MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)	
Labor Market							
Employment	March 2015 (m)	113,332	112,278	0.9%	↑	0.9%	
Manufacturing Employment	March 2015 (m)	10,670	10,808	-1.3%	↓	-3.0%	
Educational and Health Employment	March 2015 (m)	44,897	44,792	0.2%	↑	2.8%	
Average Weekly Work Hours Private Sector	March 2015 (m)	35.2	34.1	3.2%	↑	33.2	(since 2007)
Average Earnings Per Hour Private Sector	March 2015 (m)	$33.60	$33.92	-0.9%	↓	4.1%	(since 2007)
Unemployment Rate	March 2015 (m)	4.2%	4.7%	NA	↓	4.9%	
Labor Force	March 2015 (m)	118,740	117,017	1.5%	↑	0.8%	
Initial Jobless Claims	April 2015 (m)	354	536	-34.0%	↓	NA	
Business Formation							
Total New Business Filings	First Quarter 2015	404	349	15.8%	↑	359	(since 2000)
New Business Incorporations	First Quarter 2015	30	17	76.5%	↑	55	(since 2000)
New Limited Liability Companies	First Quarter 2015	248	209	18.7%	↑	166	(since 2000)
New Assumed Names	First Quarter 2015	110	106	3.8%	↑	119	(since 2000)
New Non-profits	First Quarter 2015	16	17	-5.9%	↓	18	(since 2000)
Rochester Residential Building Permit Valuation	March 2015 (m)	48,768	15,011	224.9%	↑	13,454	

(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). While year-over-year overall employment in the Rochester area increased by 0.9 percent, employment in this key sector increased by only 0.2 percent. This is well below the 2.8 percent long-term annualized growth of employment in this sector. This is worth noting, since the share of employment in Rochester's educational and health sector has increased from 29.4 percent of employment to 39.4 percent since 1999. Average earnings per hour in the private sector fell by 0.9 percent over the year ending March 2015, which is also well below the average annual rate since 2007. With the exception of a decline in Rochester area manufacturing employment, all other economic indicators in the above table seem solid. The length of the workweek increased, the unemployment rate fell, the labor force expanded, new initial jobless claims were lower, nearly all categories of new business filings were higher, and the value of residential building permits surged.

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

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Thomson Reuters and University of Michigan, Index of Consumer Sentiment

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