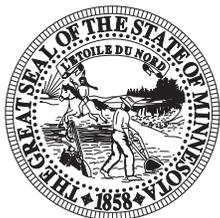




Twin Cities Area  
Economic and Business Conditions Report  
First Quarter 2015



OFFICE OF THE MINNESOTA  
SECRETARY OF STATE



SCHOOL OF PUBLIC AFFAIRS  
RESEARCH INSTITUTE  
ST. CLOUD STATE UNIVERSITY.

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### Executive Summary

**The Twin Cities economy is expected to grow more slowly over the next several months according to the prediction of the Twin Cities Index of Leading Economic Indicators (LEI).** The Twin Cities LEI fell by 5.23 points in this year’s first quarter as three of the five index components declined. The LEI is now 4.1 percent below its level of one year ago. Accounting for the decline in the index are lower residential building permits in the Minneapolis/St. Paul Metropolitan Statistical Area (MSA), higher initial jobless claims at the end of last year, and recent weakness in a general measure of statewide business conditions. A second measure of general business conditions was basically neutral in the first quarter. The one index component with a positive value is a recent increase in new business filings for incorporation and limited liability companies (LLC) in the Twin Cities planning area.

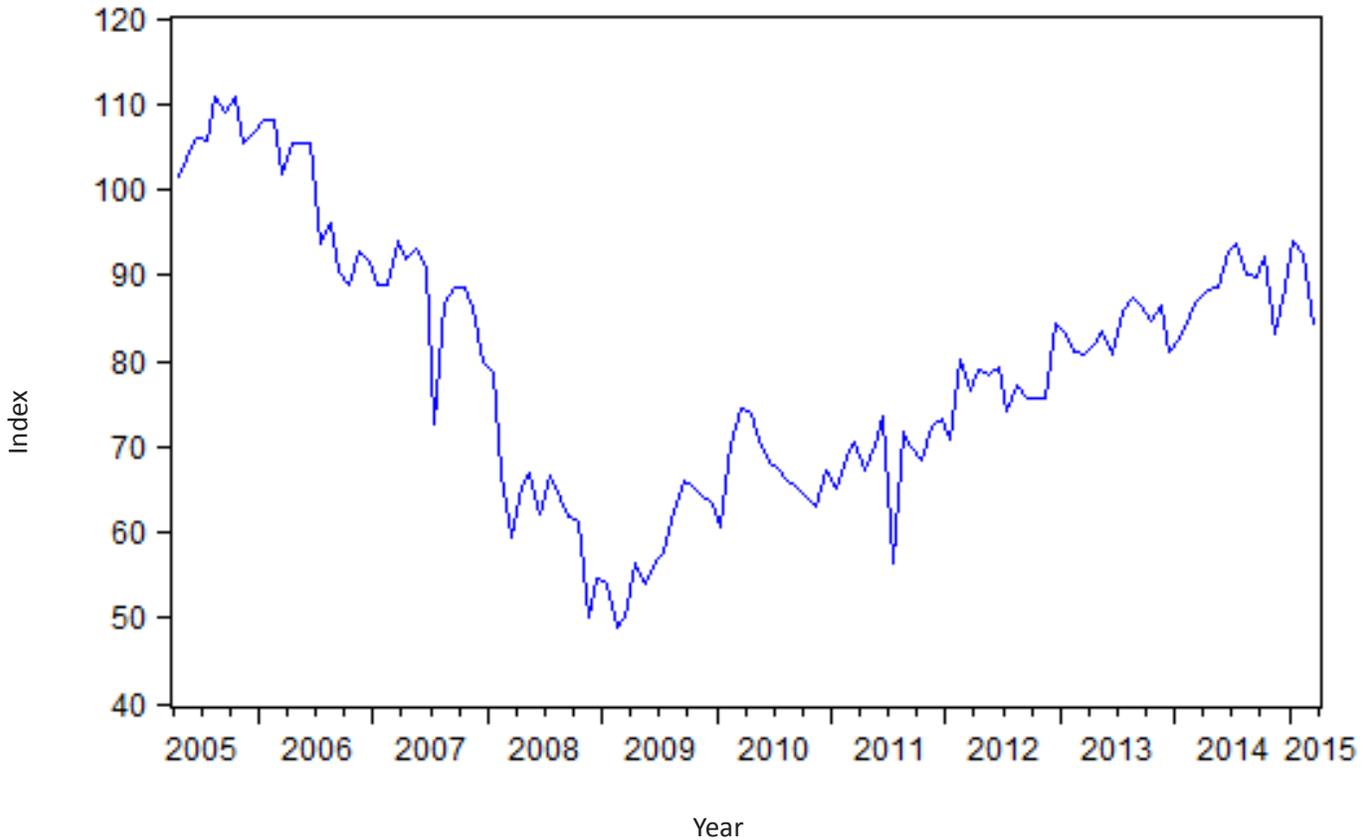
**There were 10,494 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the first quarter of 2015—representing a 0.8 percent increase from one year ago.** There were 1,553 new regional business incorporations in the first quarter, a 2.6 percent decrease over year ago levels. First quarter new LLC filings in the seven-county metro area were up 4.6 percent—rising to 6,385. New assumed names totaled 2,099 in this year’s first quarter—a reduction of 7.5 percent from the first quarter of 2014. There were 457 new filings for non-profits in the Twin Cities in the first quarter of 2015, 4.8 percent more filings than one year earlier.

**Twin Cities employment increased by 1.7 percent over the year ending March 2015.** The regional unemployment rate was 3.8 percent in March, an improvement on its 4.6 percent reading one year earlier. April 2015 initial claims for unemployment insurance were below year ago levels, falling by 13.6 percent to 7,021. Job vacancies have increased in the Twin Cities. There are now 101.39 vacancies for every 100 unemployed in the seven-county metro. The labor force expanded in the Minneapolis-St. Paul area by 0.9 percent over the past year. Average weekly hours worked declined in the metro area, although average hourly earnings rose over the past twelve months. The relative cost of living in both Minneapolis and St. Paul appears to have declined.

## Twin Cities Leading Economic Indicators Index

The SCSU Twin Cities Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI pulled back for the second consecutive quarter in the first three months of the year—dropping by 5.23 points. The LEI is now 4.1 percent lower than one year ago, suggesting a slowing of future growth in the Twin Cities metro.

SCSU Twin Cities Index of Leading Economic Indicators (December 1999 = 100)



### Components of SCSU Twin Cities Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2015	Contribution to LEI, 4th quarter 2014
Minnesota Business Conditions Index	-2.07	-2.33
Twin Cities initial claims for unemployment insurance	-2.11	0.22
Twin Cities new filings of incorporation and LLCs	0.89	-0.49
Mpls.-St. Paul MSA residential building permits	-2.08	0.36
Philadelphia Fed Minnesota leading indicators	0.14	-5.34
<b>TOTAL CHANGE</b>	<b>-5.23</b>	<b>-7.58</b>

The Twin Cities LEI contains five components—two reflecting state business conditions and three for local conditions (the LEI is an index equal to 100 in December 1999). The Federal Reserve Bank of Philadelphia (which creates a leading economic indicator series for each of the 50 states) reported a value for its Minnesota Leading Indicators series that was basically neutral this quarter. On the other hand, the Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—had a negative effect on this quarter’s LEI.

Two of the three local measures were negative in this year’s first quarter. Higher initial jobless claims at the end of last year and weaker residential building permits weighed on the LEI in the first quarter. A recent rise in new Twin Cities filings for incorporation and LLC made a positive contribution to the leading index.

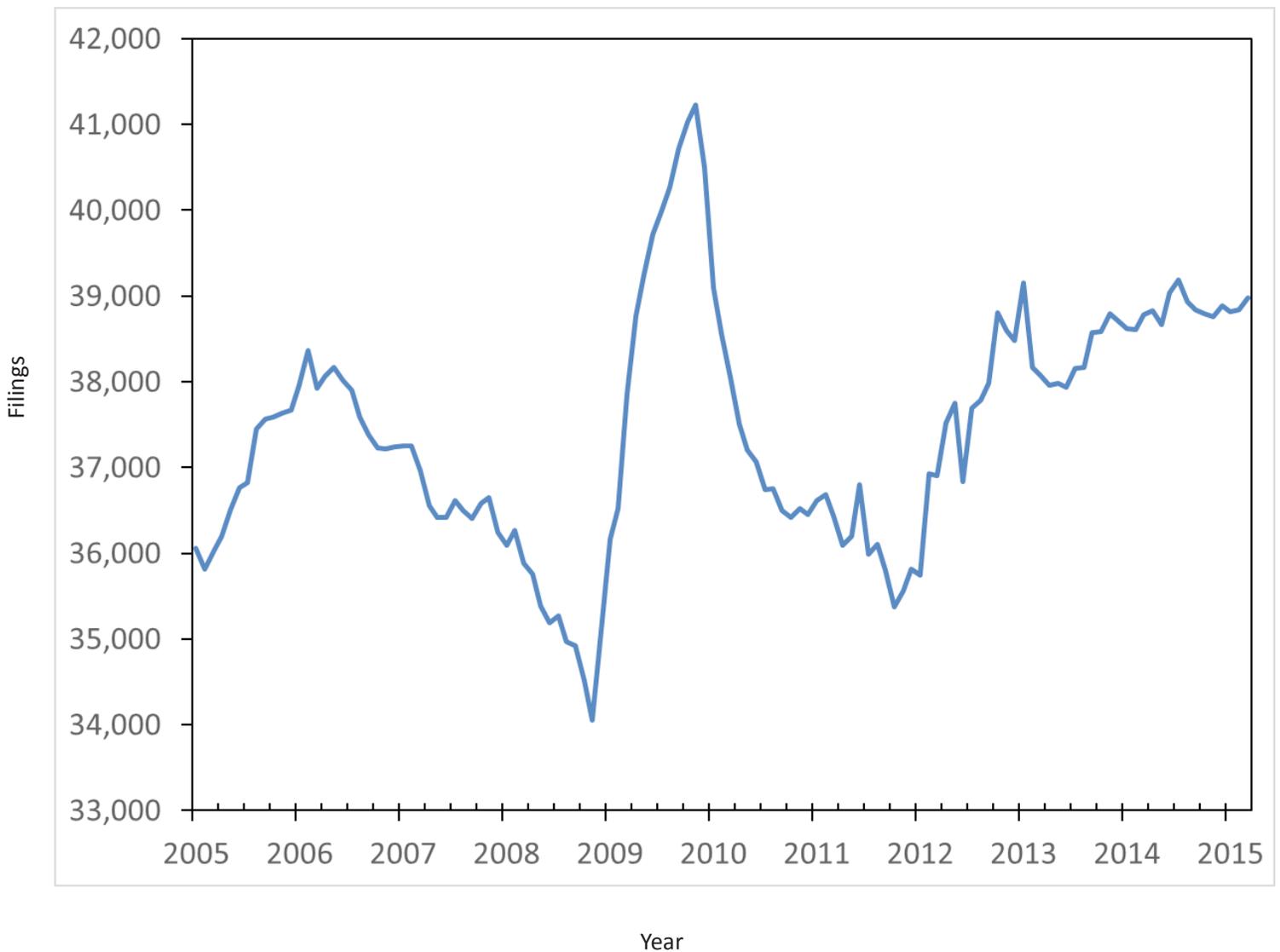
SCSU Twin Cities Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index March	50	66.1	-24.4%
Twin Cities initial claims for unemployment insurance March	7,673	9,271	-17.2%
Twin Cities new filings of incorporation and LLCs First Quarter	7,938	7,700	3.1%
Twin Cities MSA single-family building permits, March	456	493	-7.5%
Index of Leading Economic Indicators Philadelphia Federal Reserve, March	2.00	1.98	1.0%
Twin Cities Leading Economic Indicators Index March (December 1999 = 100)	84.0	87.6	-4.1%

## Twin Cities Business Filings

Total new business filings have generally trended upward since the second half of 2011. This trend continued in the first quarter of this year as filings grew slightly. 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 the Twin Cities that are registered with the Office of the Minnesota Secretary of State. This adjustment removes seasonal patterns in the data.

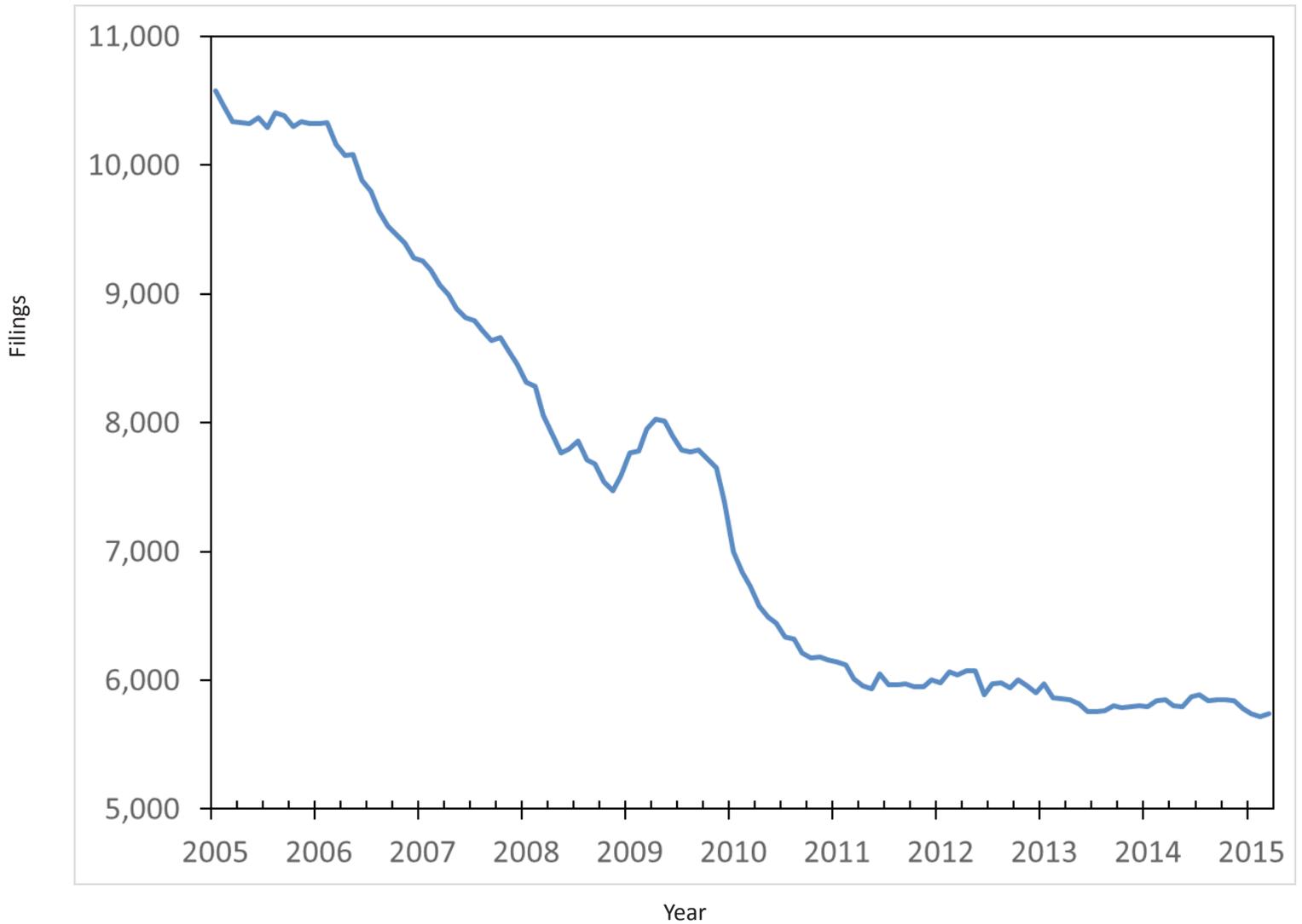
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Twin Cities Total New Business Filings	10,406	10,137	9,223	9,127	10,494	0.8%

New business incorporations trended downward in the Twin Cities from 2005 to 2011, and have been relatively flat since that time. Filings for new business incorporations decreased 2.6 percent from one year earlier in the first quarter of 2015.

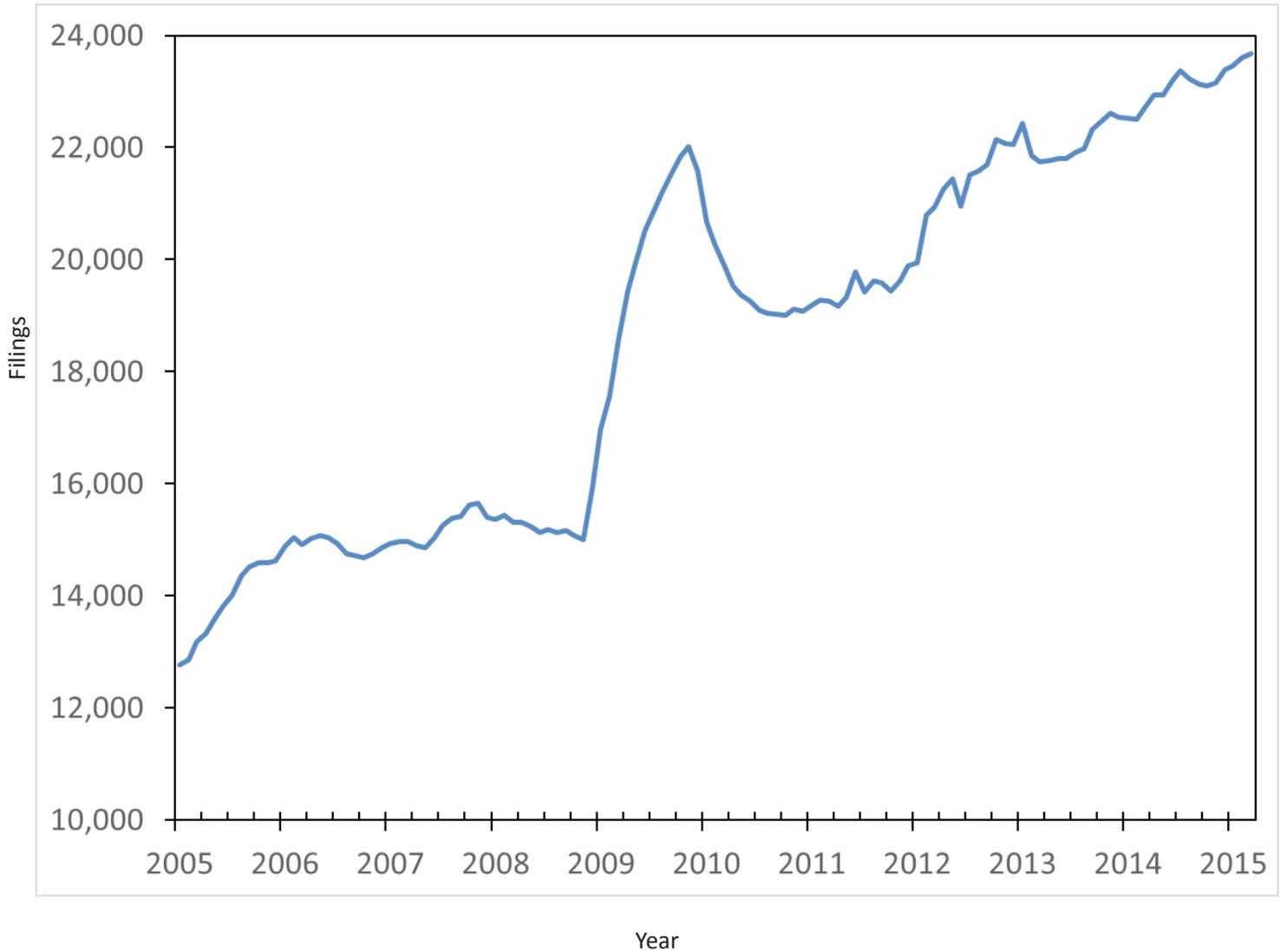
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Twin Cities New Business Incorporations	1,594	1,449	1,394	1,346	1,553	-2.6%

There has been a move in the Twin Cities (and the rest of the state) away from the traditional incorporation form of business organization toward LLCs. While new business incorporations remain an important indicator of new business formation in the Twin Cities, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in the Twin Cities. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2005. At a level of 6,385, new filings for LLC in the first quarter of 2015 were 4.6 percent higher than one year earlier.

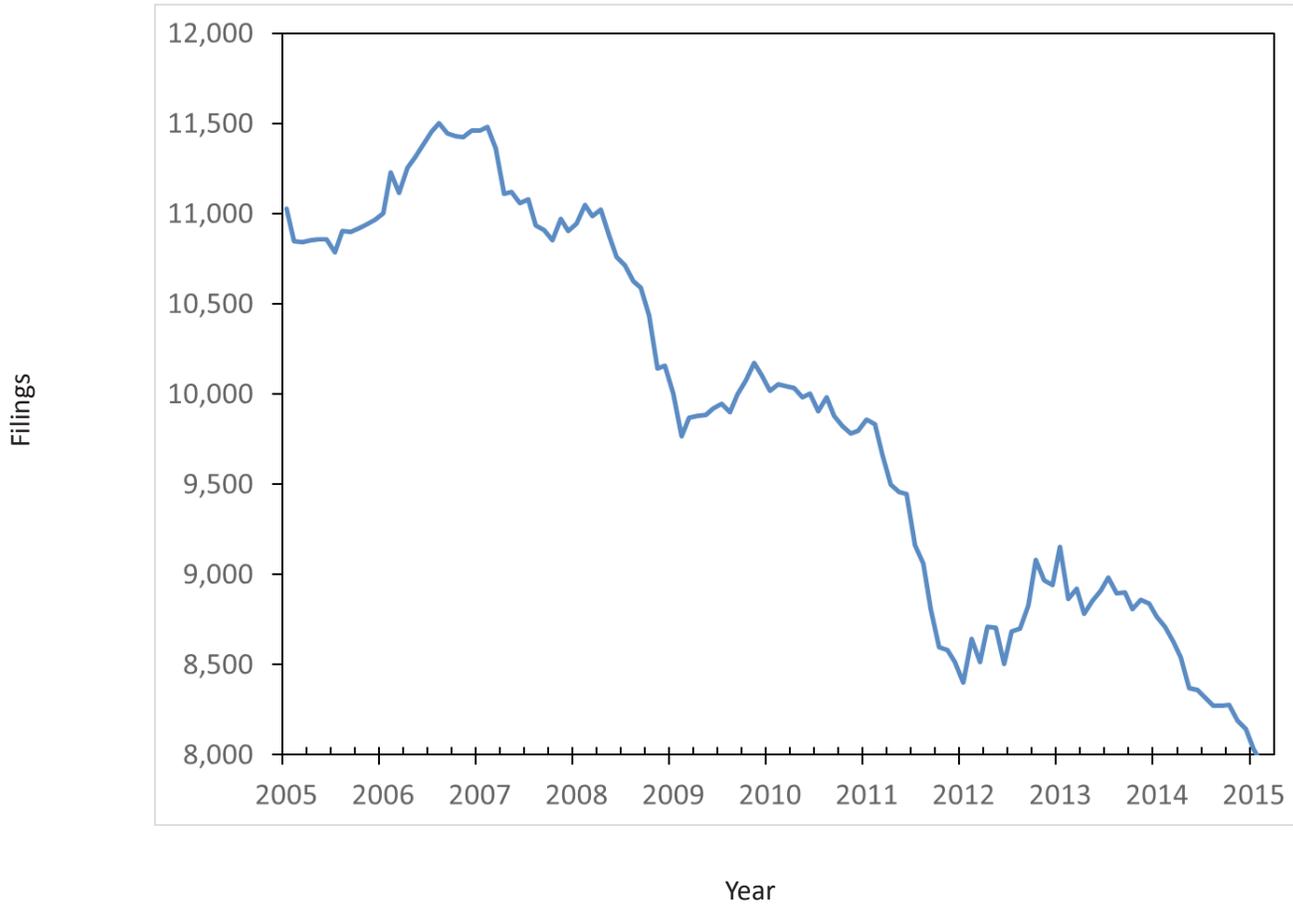
New Limited Liability Companies—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Twin Cities New Limited Liability Companies	6,106	6,146	5,517	5,619	6,385	4.6%

Assumed names, which include sole proprietors or organizations that do not have limited liability, continued their slide by falling 7.5 percent in the first quarter relative to the same period in 2014. This series has not recovered from its peak levels of 2006-2007.

New Assumed Names—Twin Cities 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
Twin Cities New Assumed Names	2,270	2,145	1,938	1,791	2,099	-7.5%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State increased to a level last seen in the mid-2000s. With 457 new non-profits registered in this year's first quarter, this sector added 4.8 percent more firms than one year earlier.

New Non-Profits—Twin Cities 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
Twin Cities New Non-Profits	436	397	374	371	457	4.8%

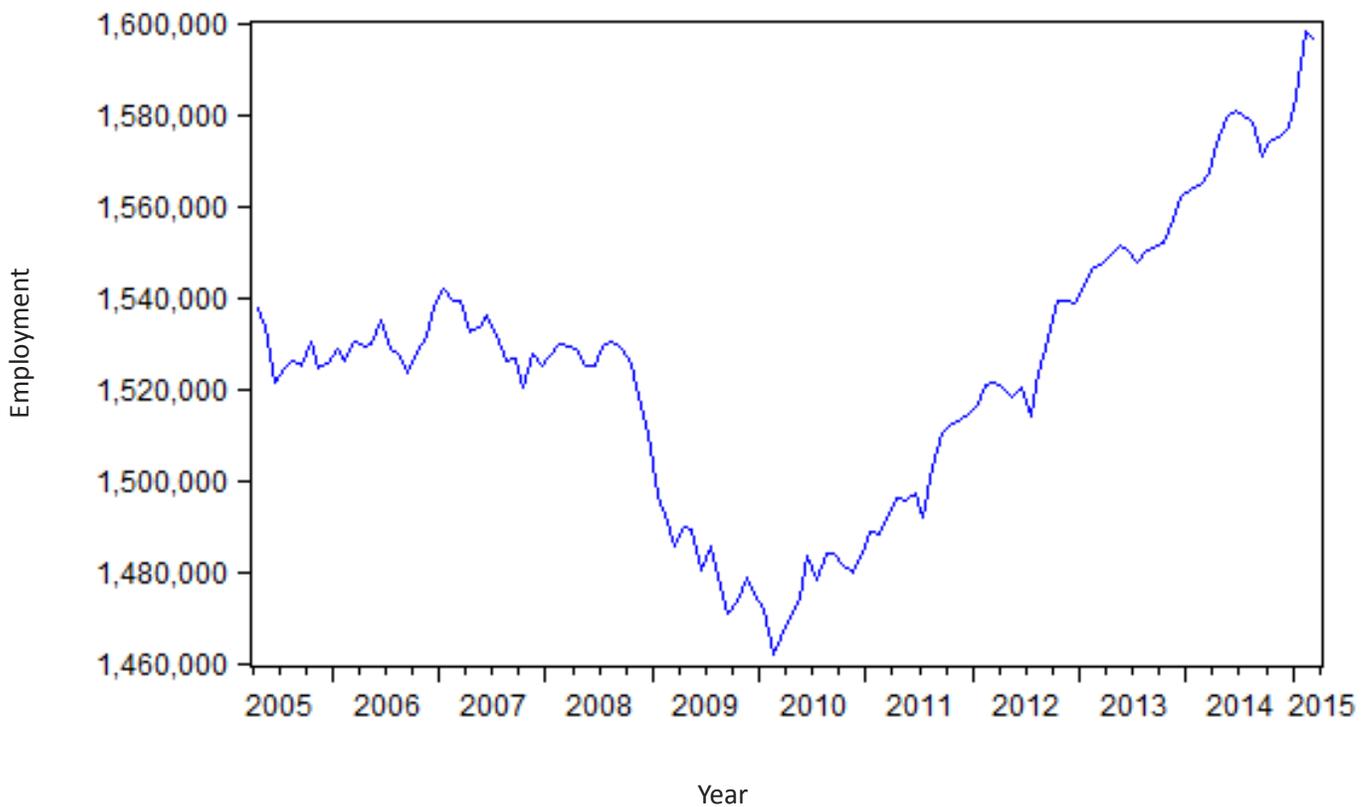


## Twin Cities Labor Market Conditions

Employment of Twin Cities residents grew 1.7 percent over the past year. After relative stagnation through 2007 and a decline during the Great Recession, the area has experienced steady employment growth since the start of 2010.

Note: Seasonally adjusted labor market data are typically not available to evaluate regional economic performance. While there are seasonally adjusted labor market data for the Twin Cities metro area, these data include parts of Wisconsin. These seasonally adjusted data therefore do not accurately capture the Twin Cities planning area (which is confined to seven counties). Some graphs of labor market indicators found in this section of the report are adjusted so as to remove seasonal patterns from the data. 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](mailto:soparesearch@stcloudstate.edu).

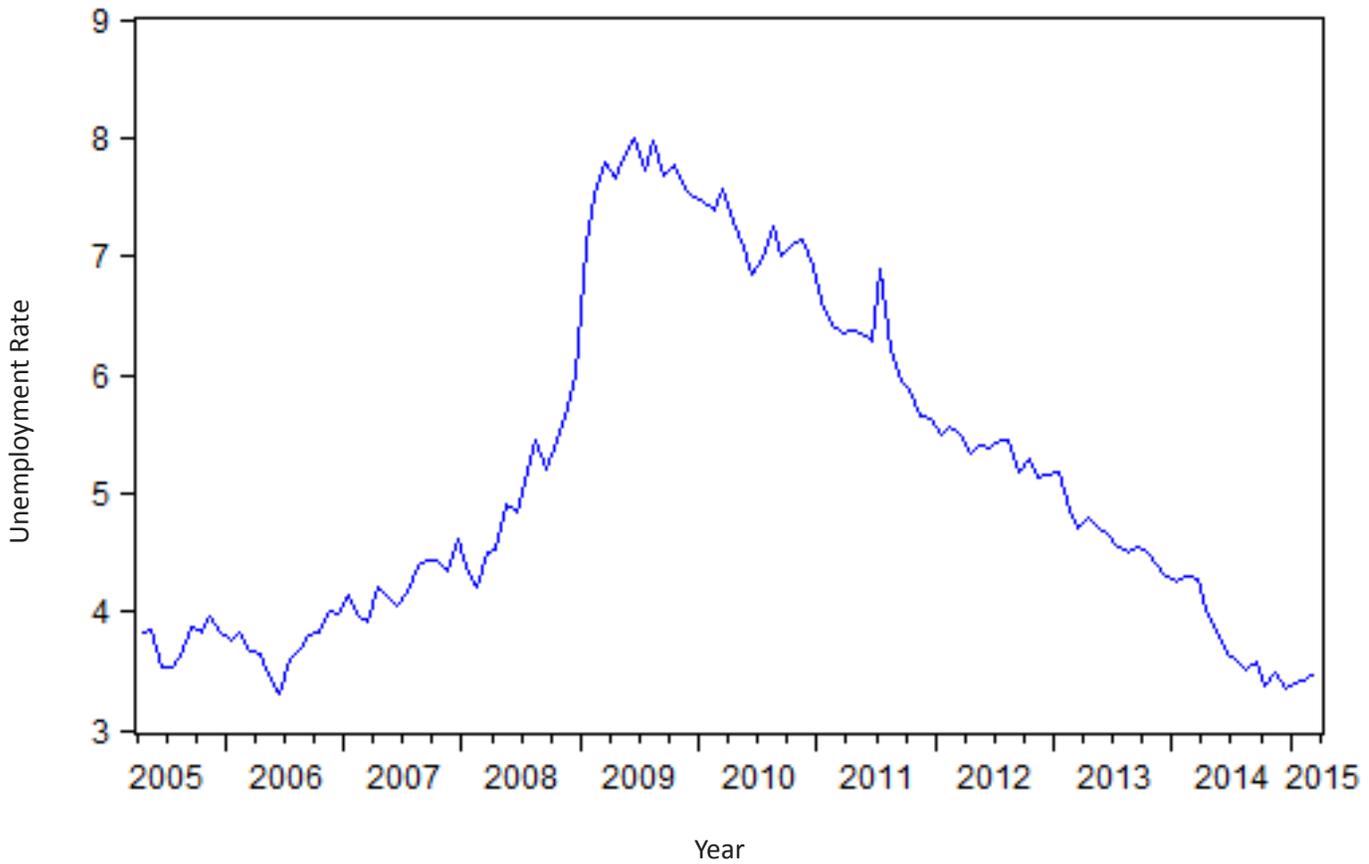
Employment—Twin Cities Planning Area (12-month moving average)



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Employment (Not seasonally adjusted)	1,557,675	1,587,123	1,588,880	1,576,462	1,564,997	1,581,793	1,583,616

The seasonally adjusted unemployment rate in the Twin Cities has declined since the end of the Great Recession in 2009. This series now appears to be flattening out as the Twin Cities approaches full employment. The non-seasonally adjusted unemployment rate now stands at 3.8 percent, substantially lower than the 4.6 percent rate recorded one year ago.

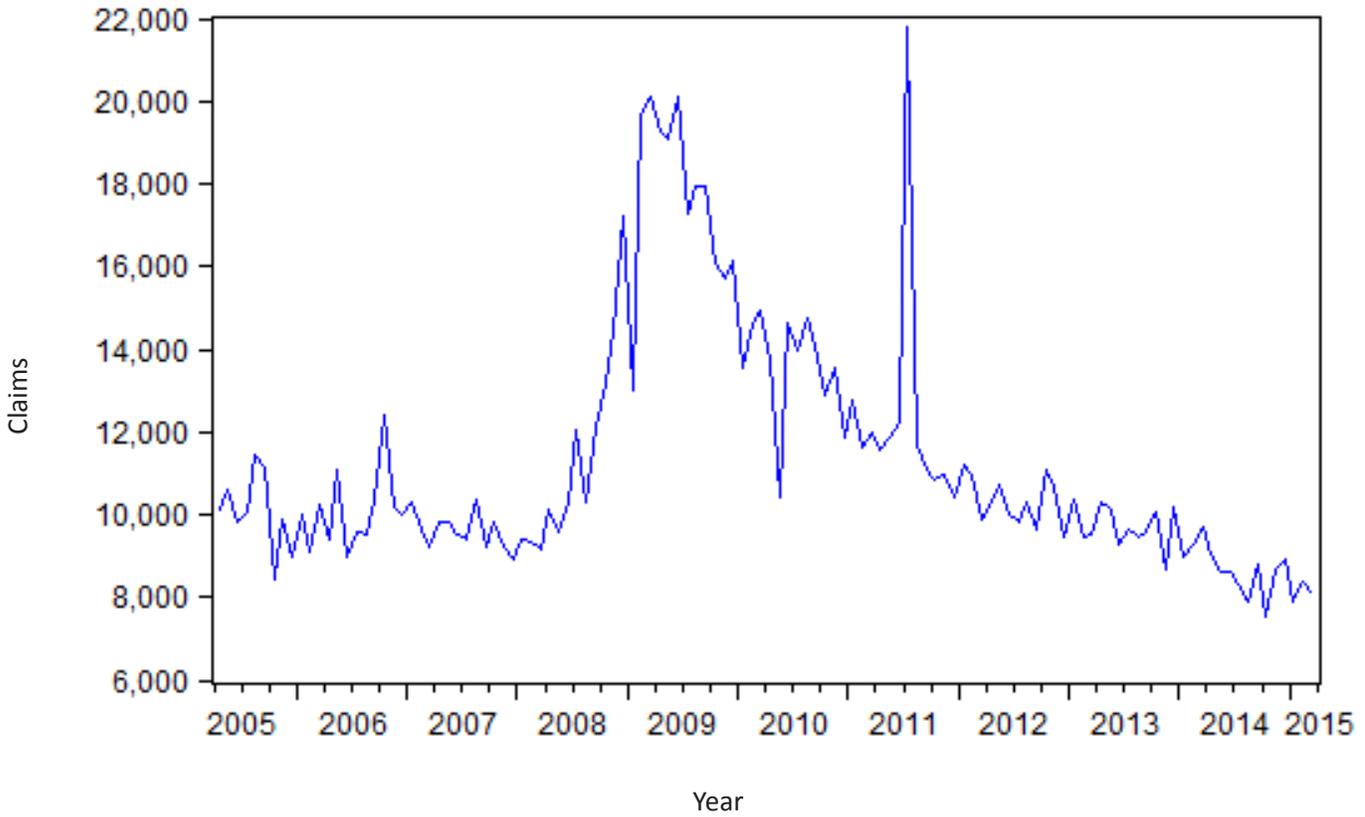
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Unemployment Rate (Not seasonally adjusted)	4.6%	2.9%	2.9%	3.1%	3.9%	3.8%	3.8%

New claims for unemployment insurance were 13.6 percent lower than year ago levels in April 2015. The graph of the seasonally adjusted series suggests claims are now at levels that are the lowest in ten years.

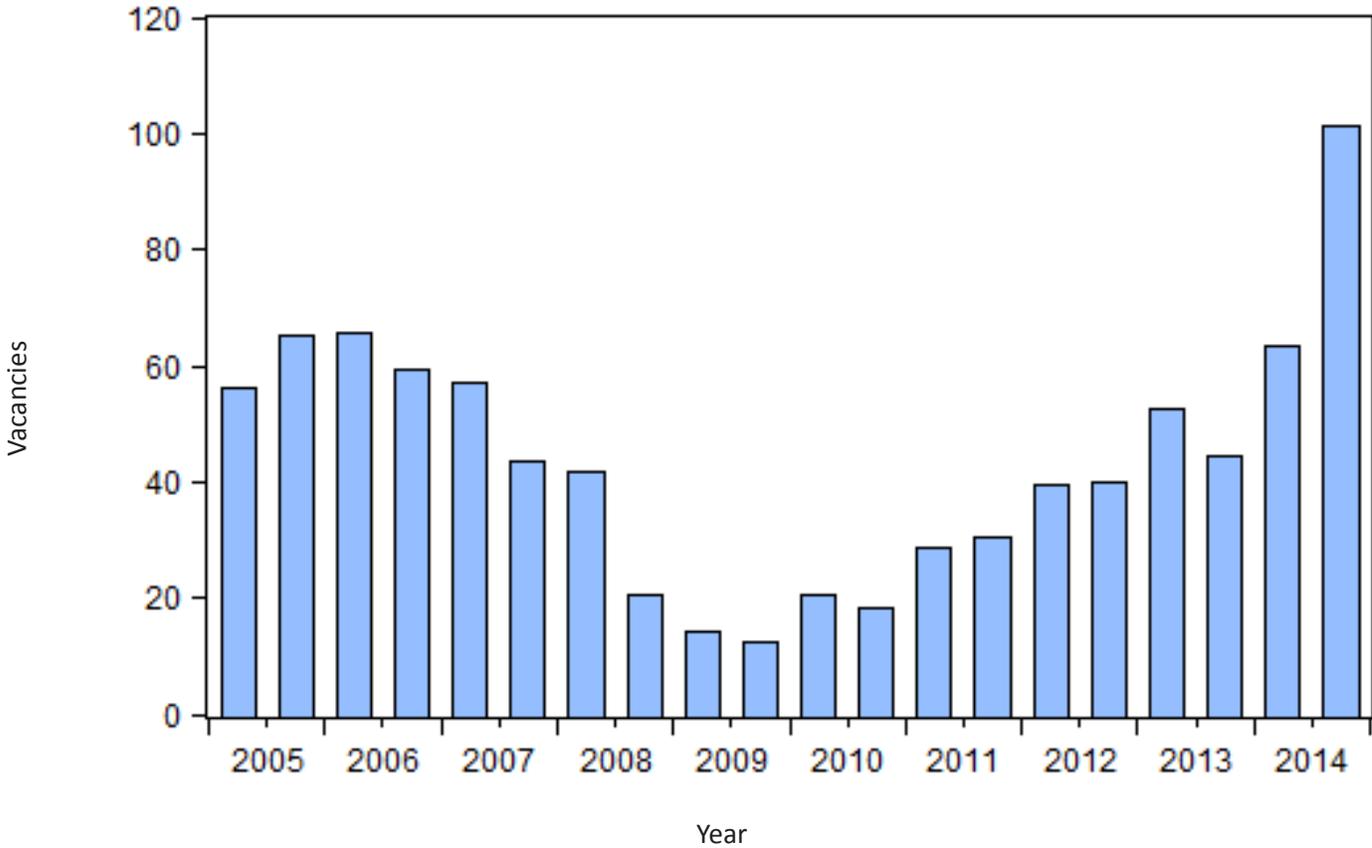
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Twin Cities Planning Area



Month	April 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015
Initial claims (Not seasonally adjusted)	8,127	10,724	12,010	10,089	7,941	7,673	7,021

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Twin Cities planning area the rate of job vacancies per 100 unemployed surged to 101.39 in the fourth quarter of 2014 (this is the most recently available data). This is the highest reading recorded for this series over the past ten years.

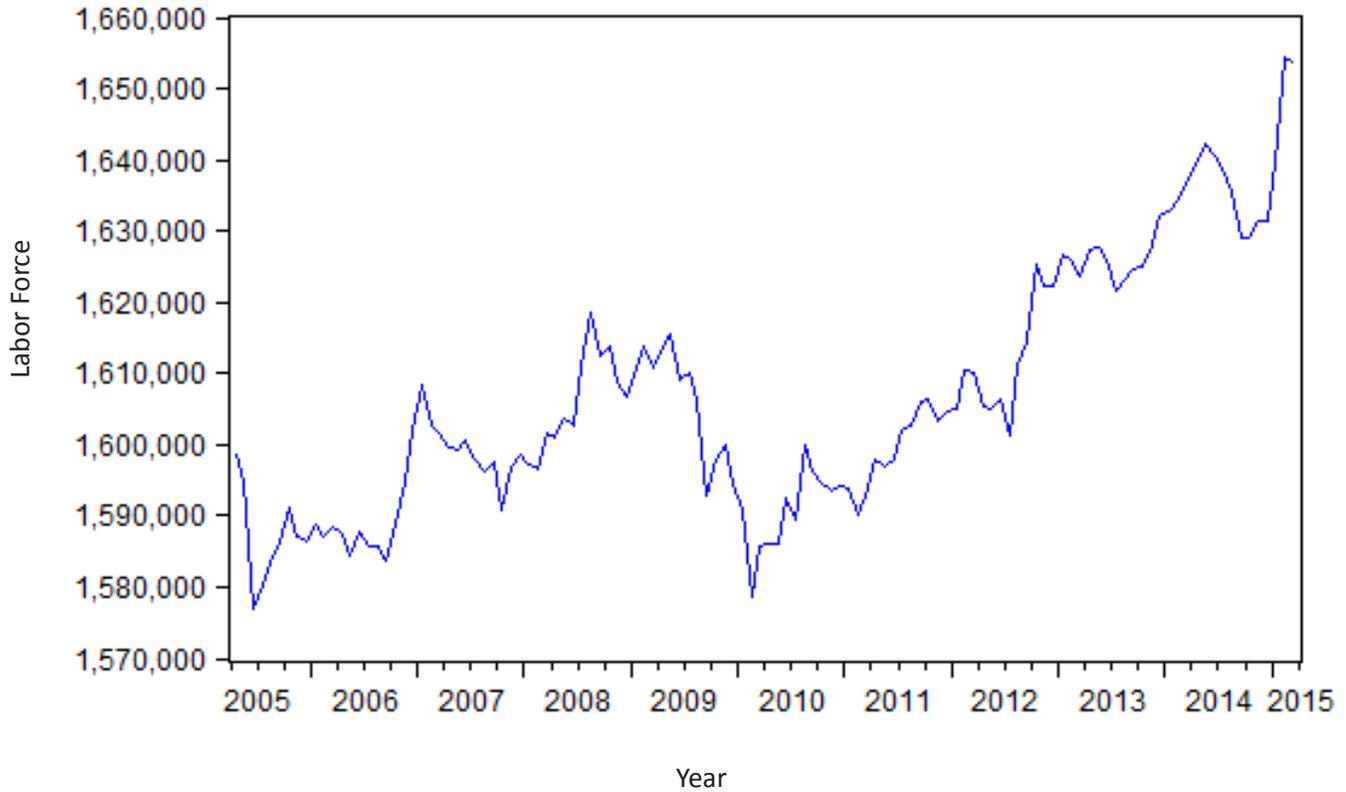
### Job Vacancies per 100 Unemployed—Twin Cities Planning Area



Quarter	2012:II	2012:IV	2013:II	2013:IV	2014:II	2014:IV
Job Vacancies per 100 Unemployed	39.95	43.5	54.11	48.62	68.74	101.39

The size of the Twin Cities labor force continues to rise. Over the last 12 months, the labor force in the Twin Cities metropolitan area expanded by 0.9 percent to 1,646,507.

Labor Force—Twin Cities Planning Area (12-month moving average)



Year (March)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	1,575,176	1,584,582	1,602,322	1,618,302	1,632,596	1,646,507

## Economic Indicators

Twin Cities MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (since 1999 unless noted)
Employment	March 2015 (m)	1,888,514	1,850,141	2.1% ↑	0.6%
Manufacturing Employment	March 2015 (m)	192,142	186,885	2.8% ↑	-1.4%
Average Weekly Work Hours Private Sector	March 2015 (m)	34.3	34.5	-0.6% ↓	33.9 (since 2007)
Average Earnings Per Hour Private Sector	March 2015 (m)	\$27.22	\$26.65	2.1% ↑	1.1% (since 2007)
Average Weekly Work Hours Manufacturing (Production Workers)	March 2015 (m)	40.7	41.8	-2.6% ↓	40.3 (since 2005)
Average Earnings Per Hour Manufacturing (Production Workers)	March 2015 (m)	\$21.12	\$20.23	4.4% ↑	1.7% (since 2005)
Unemployment Rate	March 2015 (m)	4.0%	4.8%	NA ↓	5.1%
Labor Force	March 2015 (m)	1,929,641	1,912,089	0.9% ↑	0.6%
MSP Residential Building Permit Valuation	March 2015 (m)	208,467	223,526	-6.7% ↓	211,361
Minneapolis Cost-of-Living Index	2014 (Annual Average)	107.9	110.1	-2.0% ↓	NA
St. Paul Cost-of-Living Index	2014 (Annual Average)	107.8	109	-1.1% ↓	NA

(m) represents a monthly series

The Minneapolis-St. Paul Metropolitan Statistical Area (an MSA is a grouping of counties and municipalities identified by the Census as having economic and demographic forces in common) includes 11 Minnesota counties: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright. This MSA also includes the Wisconsin counties of Pierce and St. Croix. It is thus much larger than the seven-county Twin Cities planning area.

Still, activity outside of the area influences economic behavior within it, and vice versa. The larger Minneapolis-St. Paul MSA experienced favorable labor market conditions in the last 12 months. Overall employment increased 2.1 percent in the Twin Cities MSA and manufacturing employment rose by 2.8 percent over the same period. Average hourly earnings rose in the private sector and in manufacturing, but average weekly hours declined in these two sectors. The relative cost of living measure for Minneapolis and St. Paul declined in 2014. The Twin Cities MSA is approximately 8 percent more expensive to live in than in the average city in the United States. The value of residential building permits decreased by 6.7 percent in March 2015 relative to the same period one year earlier. Compared to March 2014, the Twin Cities MSA unemployment rate is lower and the labor force is larger.

## 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 Twin Cities 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 Twin Cities Planning Area consists of seven counties: Anoka; Carver; Dakota; Hennepin; Ramsey; Scott; and Washington.

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*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.*