Central Minnesota
Economic and Business Conditions Report
First Quarter 2016

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Central Minnesota Planning Area consists of 13 counties: Benton, Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, Stearns, and Wright.

Office of the Minnesota
Secretary of State

School of Public Affairs
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TABLE OF CONTENTS

Executive Summary

Economic conditions in the Central Minnesota planning area are expected to improve over the next several months according to predictions of the Central Minnesota Index of Leading Economic Indicators (LEI). The leading index surged in the most recent period, with four components producing positive readings. Weakness in national new orders for durable goods was the only index component that registered a negative number. Improvements in a general measure of statewide business conditions and a decrease in initial jobless claims in Central Minnesota helped drive the LEI higher in the first quarter. Also contributing to the improved outlook was a rise in the number of St. Cloud area residential building permits and an uptick in recent months of new filings of business incorporation in Central Minnesota.

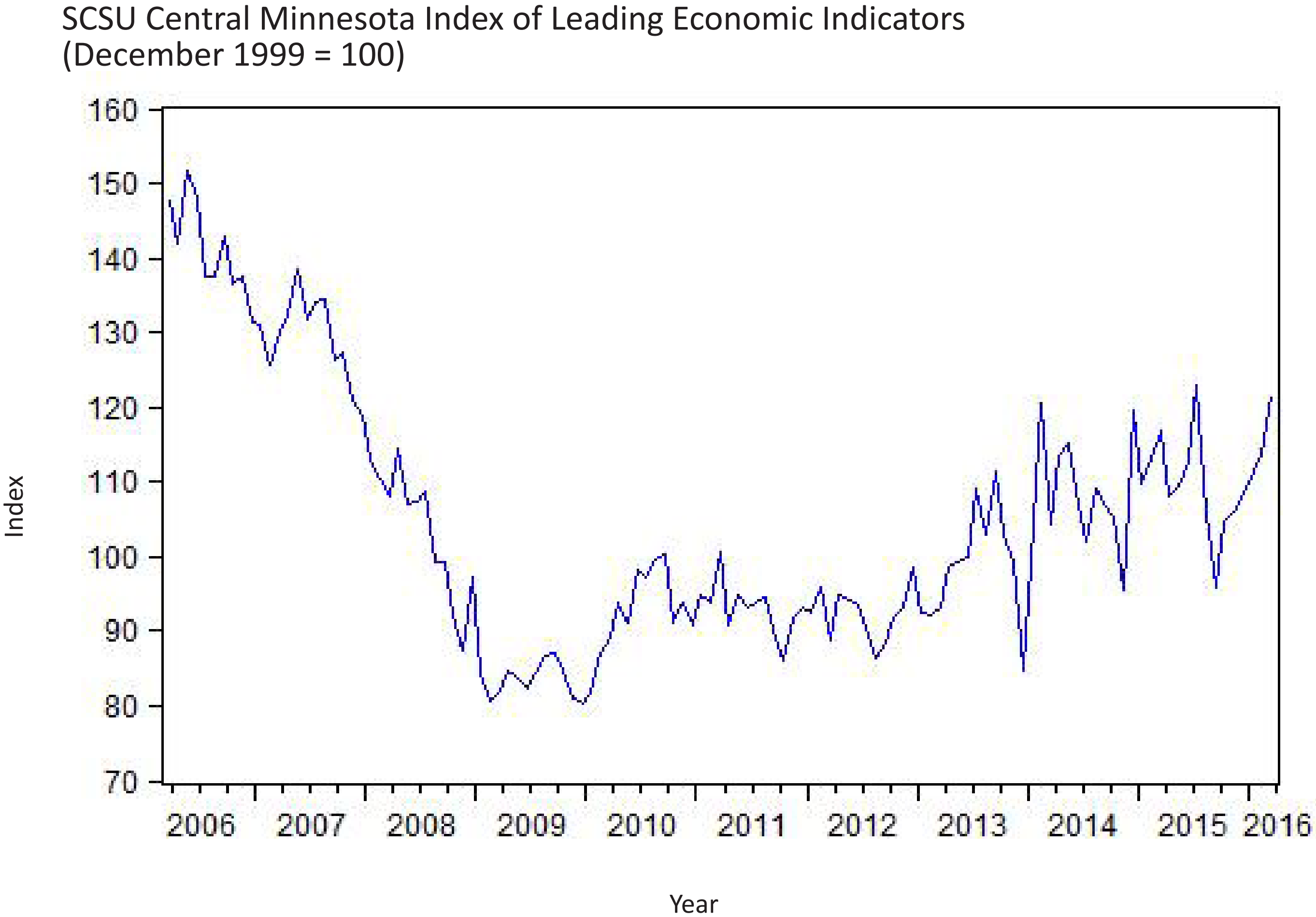
There were 1,529 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the first quarter of 2016 — representing a 3.5 percent increase from one year ago. There were 134 new regional business incorporations in the first quarter, a 4.7 percent decrease from year ago levels. New limited liability company (LLC) filings in Central Minnesota increased 8.7 percent relative to the first quarter of 2015—rising to 840 in this year's first quarter. New assumed names totaled 454 over the recent quarter—a decline of 0.9 percent compared to the same period in 2015. There were 53 new filings for Central Minnesota non-profit in the first quarter—three fewer filings than one year ago.

Central Minnesota employment was 2.2 percent higher in March 2016 than it was one year earlier. Compared to one year ago, 7,888 more residents of Central Minnesota now have jobs. The March regional unemployment rate was 5.5 percent—up from 5.3 percent one year earlier. Initial claims for unemployment insurance were 21.9 percent lower in March than they were in the same month last year. The Central Minnesota labor force continues to grow (rising 2.3 percent over the past year) and job vacancies rose to a rate of 81.91 per 100 unemployed. Central Minnesota bankruptcies continue to fall. The region's 1,565 bankruptcies over the past twelve months are 429 lower than they were one year ago.

Economic performance in the St. Cloud area was mixed, with higher unemployment rates, less help wanted linage, weaker home prices and lower new business filings being offset by accelerating wages, a rising work week, higher employment, fewer jobless claims and a rising labor force. A recent survey of St. Cloud area business leaders was less optimistic about future business activity than one year earlier. However, this same survey suggested improved future labor market and pricing conditions in Central Minnesota's largest market.

Central Minnesota Leading Economic Indicators Index

The SCSU Central 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 increased 11.46 points in the first quarter after rising a revised 12.47 points in the final quarter of 2015. Compared to last year, the LEI is 4.04 percent higher. This strong performance suggests a brighter regional outlook than has been seen in recent editions of this report.



Components of SCSU Central Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2016	Contribution to LEI, 4th quarter 2015
Minnesota Business Conditions Index	1.01	-1.88
Central Minnesota initial claims for unemployment insurance	3.45	-1.40
Central Minnesota new filings of incorporation	0.84	1.11
St. Cloud MSA residential building permits	6.49	13.71
National new order for durable goods, real	-0.33	0.93
TOTAL CHANGE	**11.46**	**12.47**

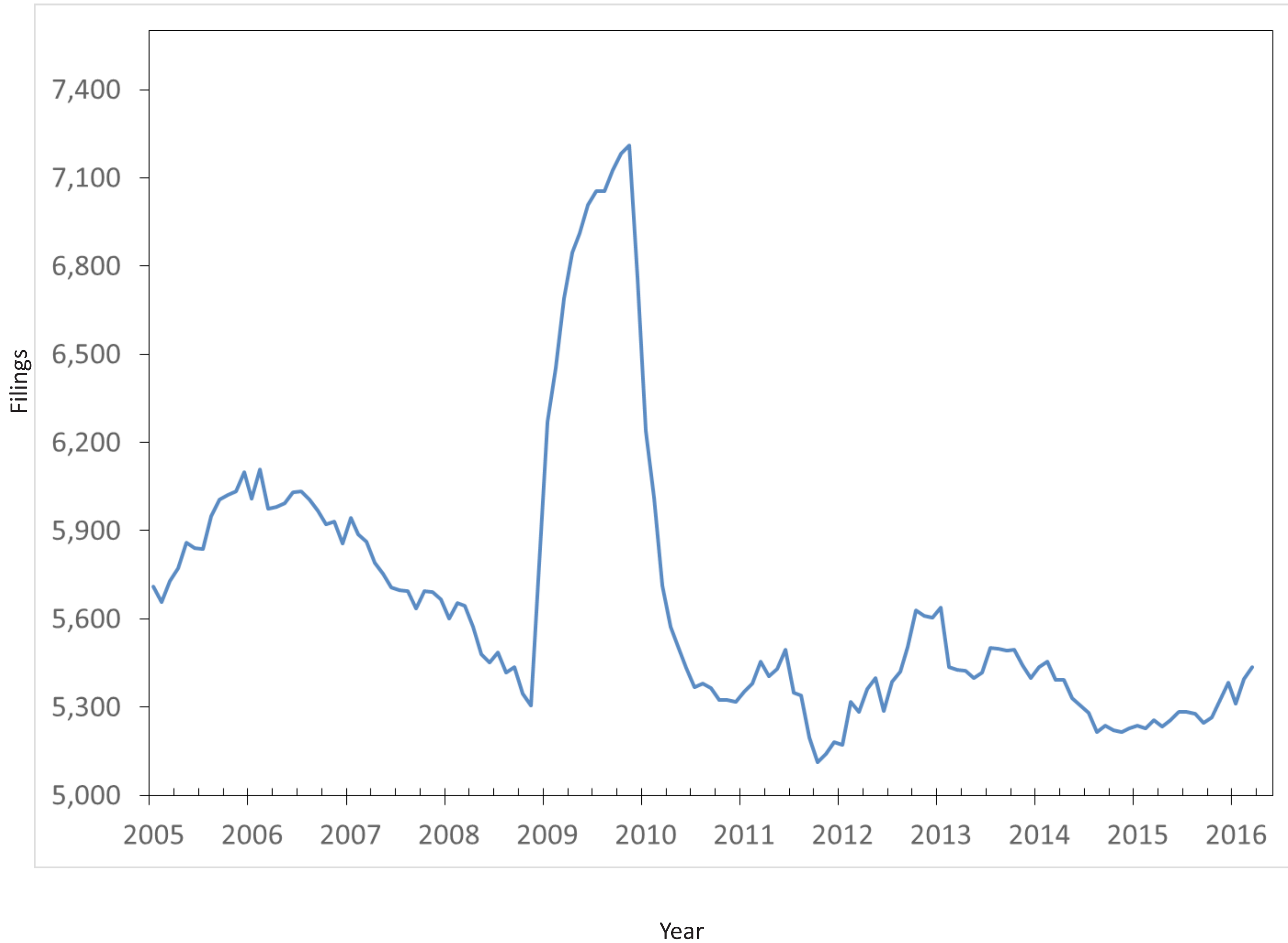
Four index components—Central Minnesota new filings of incorporation, St. Cloud MSA residential building permits, initial jobless claims, and the Minnesota Business Conditions Index all had a positive impact on the LEI in the first quarter. Since Central Minnesota is an exporter of consumer durables, national durable goods orders are used as a proxy for regional economic performance. This indicator was the only one with a negative LEI reading this quarter. As indicated in previous reports, the Bureau of Census tally of St. Cloud MSA residential building permits appears to be underreported, so we now use local data to tally area building permits. This measure showed improved strength in the first quarter. Lower initial jobless claims over the past several months and a recent strengthening of the Minnesota Business Conditions Index also had a favorable impact on this quarter's LEI.

SCSU Central Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Minnesota Business Conditions Index March	50.7	50	1.40%
Central Minnesota initial claims for unemployment insurance March	1,969	2,860	-31.15%
Central Minnesota new filings of incorporation First Quarter	1020	964	5.81%
St. Cloud MSA single family building permits March	33	41	-19.51%
National new orders for durable goods, billions of real 1984 dollars, March	221.8	213.7	3.79%
Central Minnesota Leading Economic Indicators Index March (March 1999 = 100)	121.7	117.0	4.04%

Central Minnesota Business Filings

The graphs in this section show 12-month moving totals for the various new business filings in Central Minnesota that are registered with the Office of the Minnesota Secretary of State. There were 1,529 new business filings in Central Minnesota in the first quarter. This represents a 3.5 percent increase from the same period in 2015. As can be seen in the accompanying graph, there was an abrupt increase in new business filings in mid-2008. This resulted from a sharp increase in new LLC filings at that time. This outlier (resembling a shark fin) 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. The 12-month moving total of new business filings had been fairly steady in recent years, but the measure has slowly increased over the past few quarters.

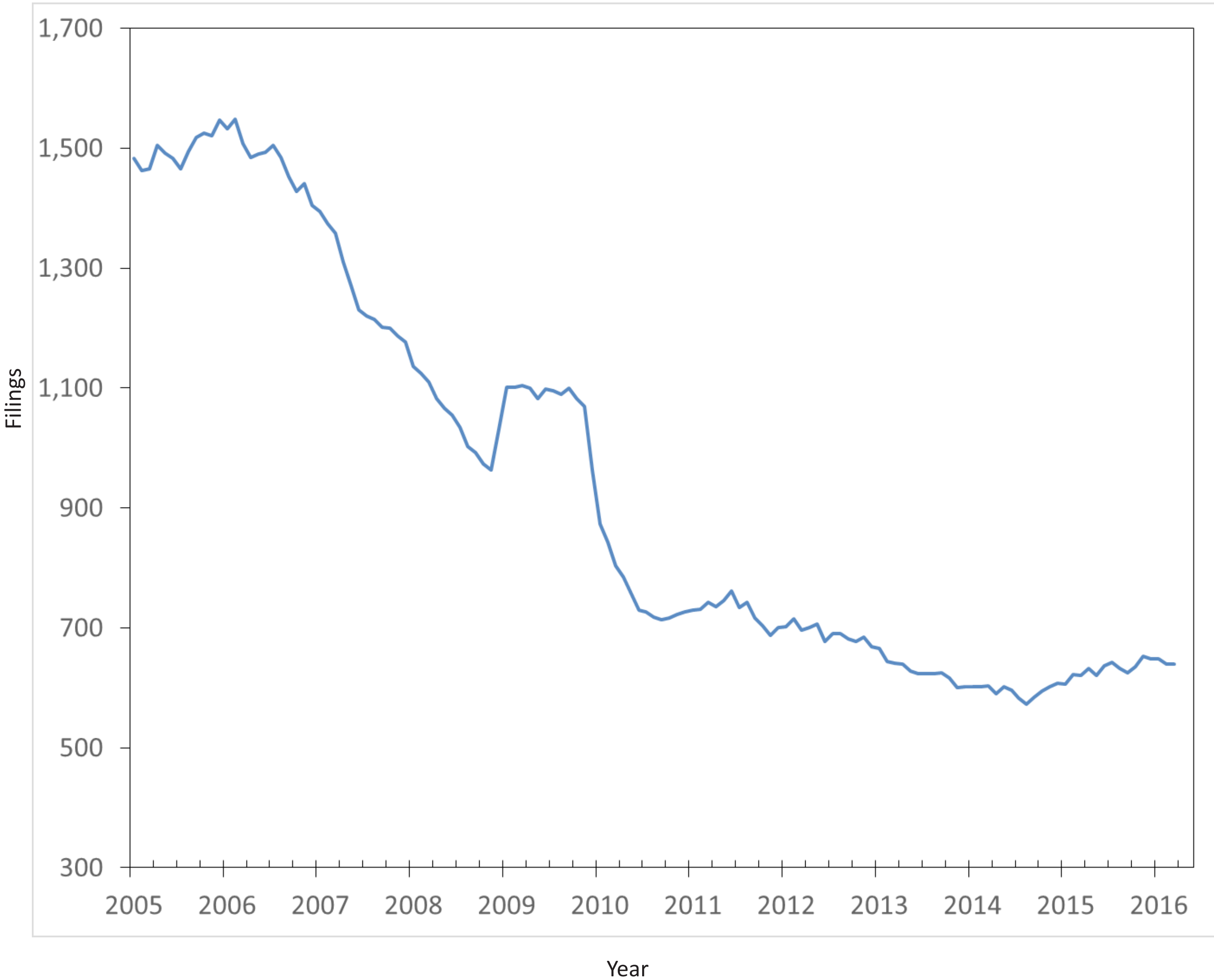
Total New Business Filings—Central Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Central Minnesota Total New Business Filings	1,478	1,396	1,181	1,329	1,529	3.5%

New business incorporations trended downward in Central Minnesota from 2005 to 2015. However, over the past several quarters, the 12-month moving total of this series has slowly risen. Compared to one year ago, quarterly figures of new business incorporations decreased by 4.7 percent in the first quarter—falling from 191 in 2015: I to 182 in the most recent period.

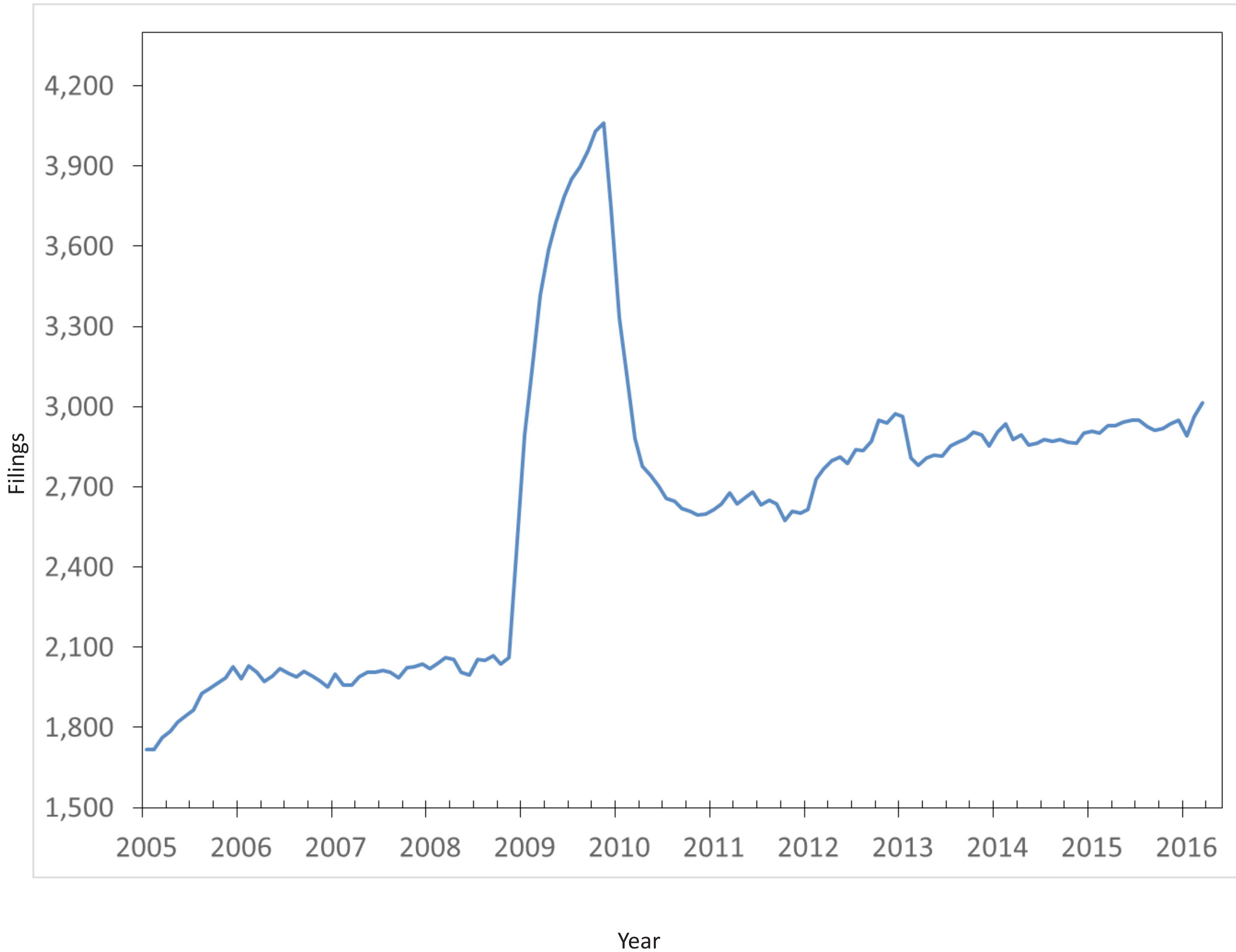
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Central Minnesota New Business Incorporations	191	166	114	177	182	-4.7%

There has been a move away from the traditional incorporation form of business organization towards the LLC throughout Minnesota. While new business incorporations remain an important indicator of new business formation in Central Minnesota, LLCs are increasingly useful in evaluating regional economic performance. The number of new LLCs increased by 8.7 percent (to 840) from one year earlier. As can be seen in the accompanying graph, the number of Central Minnesota LLCs has slowly trended upward in recent years.

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



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Central Minnesota New Limited Liability Companies	773	783	669	723	840	8.7%

Assumed names, which include sole proprietors or organizations that do not have limited liability, were largely unchanged from last year's first quarter. After a decade of decline (other than a brief steady period in 2011-12), this series has been trending upward in recent quarters.

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

Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Central Minnesota New Assumed Names	458	399	348	384	454	-0.9%

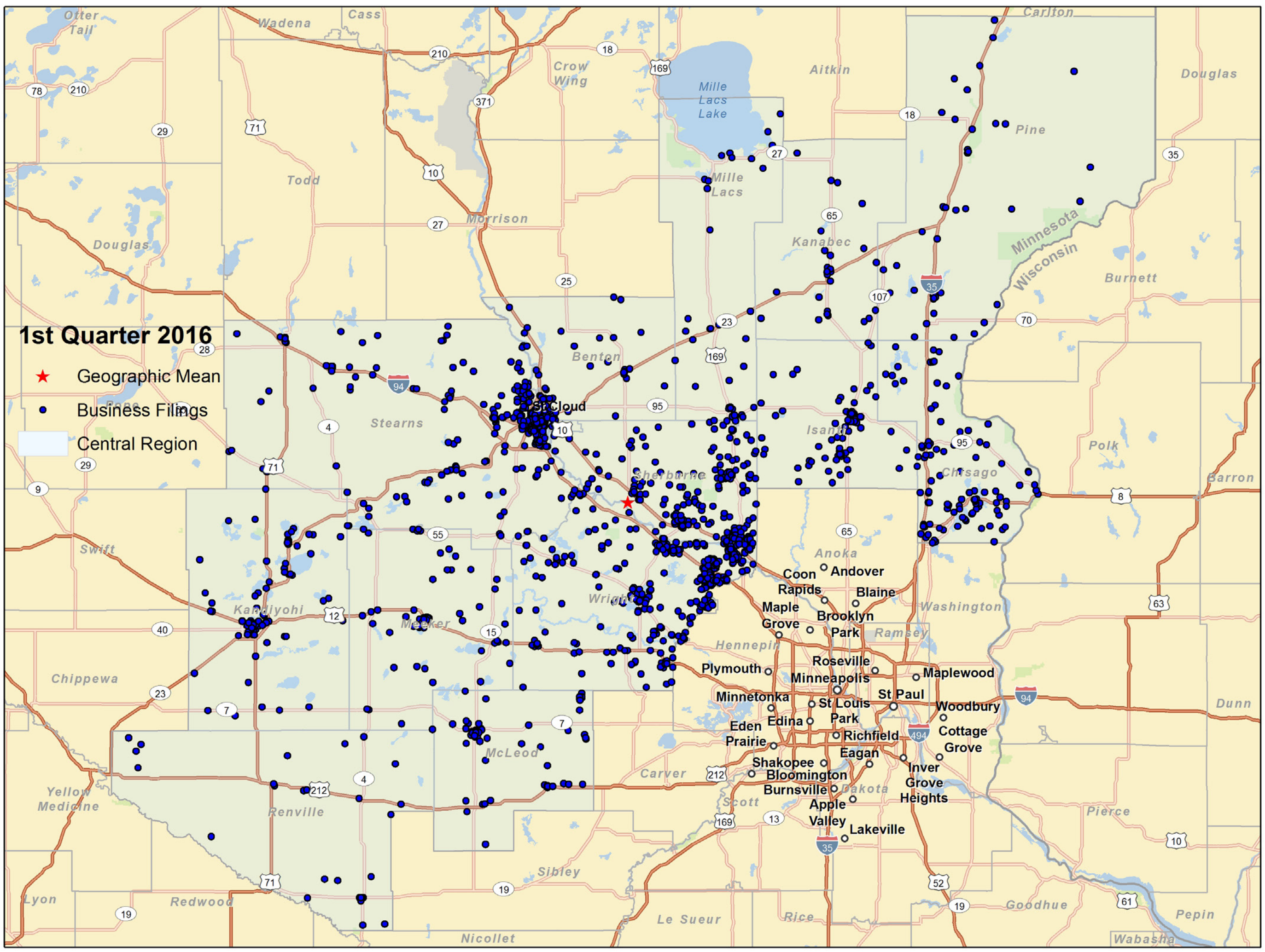
There were 53 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the first quarter of 2016. This was 5.4 percent fewer filings than one year ago.

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

Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Central Minnesota New Non-Profits	56	48	50	45	53	-5.4%

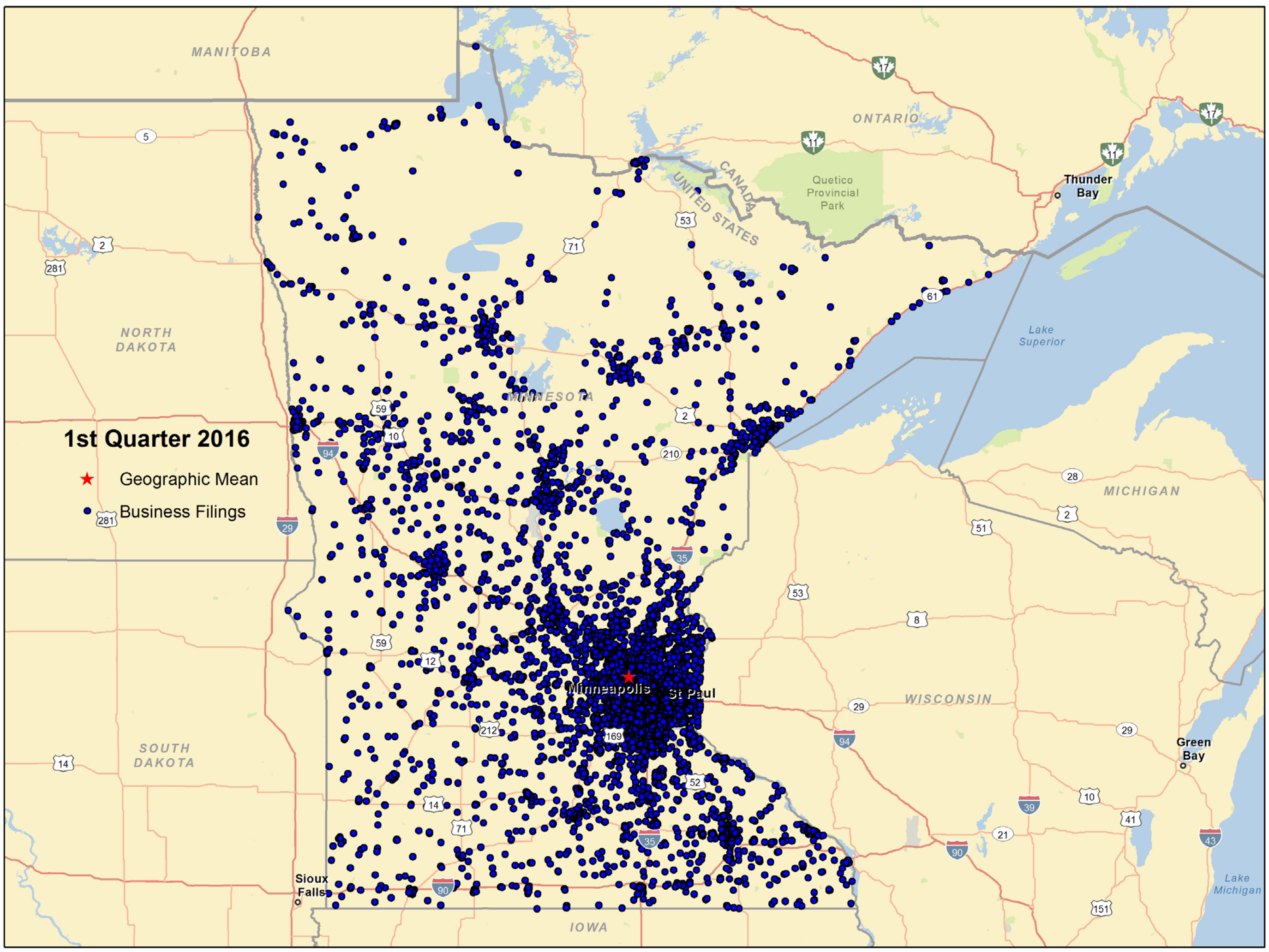
The first map shown below is a visual representation of new business formation around the Central Minnesota planning area in the first quarter of 2016. The densest areas of new business formation are in the St. Cloud metro as well as along the I-94/US-10 corridor approaching the Twin Cities. The geographic center of new filings lies within that I-94/US-10 corridor. Well-traveled roadways are also a predictor of new business formation in Central Minnesota.

Central Minnesota Planning Area--New Business Formation--Quarter 1: 2016



The second map shows new business formation for the state as a whole. This visual aid demonstrates the considerable extent to which the Twin Cities metro area dominates new business formation in the state. The map shows how the Twin Cities metro stretches along roadways into the Southeast, Southwest and Central planning areas. Clusters of new business formation can also be seen in Duluth, Grand Rapids, Bemidji, Brainerd, Moorhead, Alexandria, St. Cloud, Rochester, and Mankato. The latter three cities are slowly losing their independent economic identity as they become increasingly connected to the Twin Cities metro.

Minnesota--New Business Formation--Quarter 1: 2016

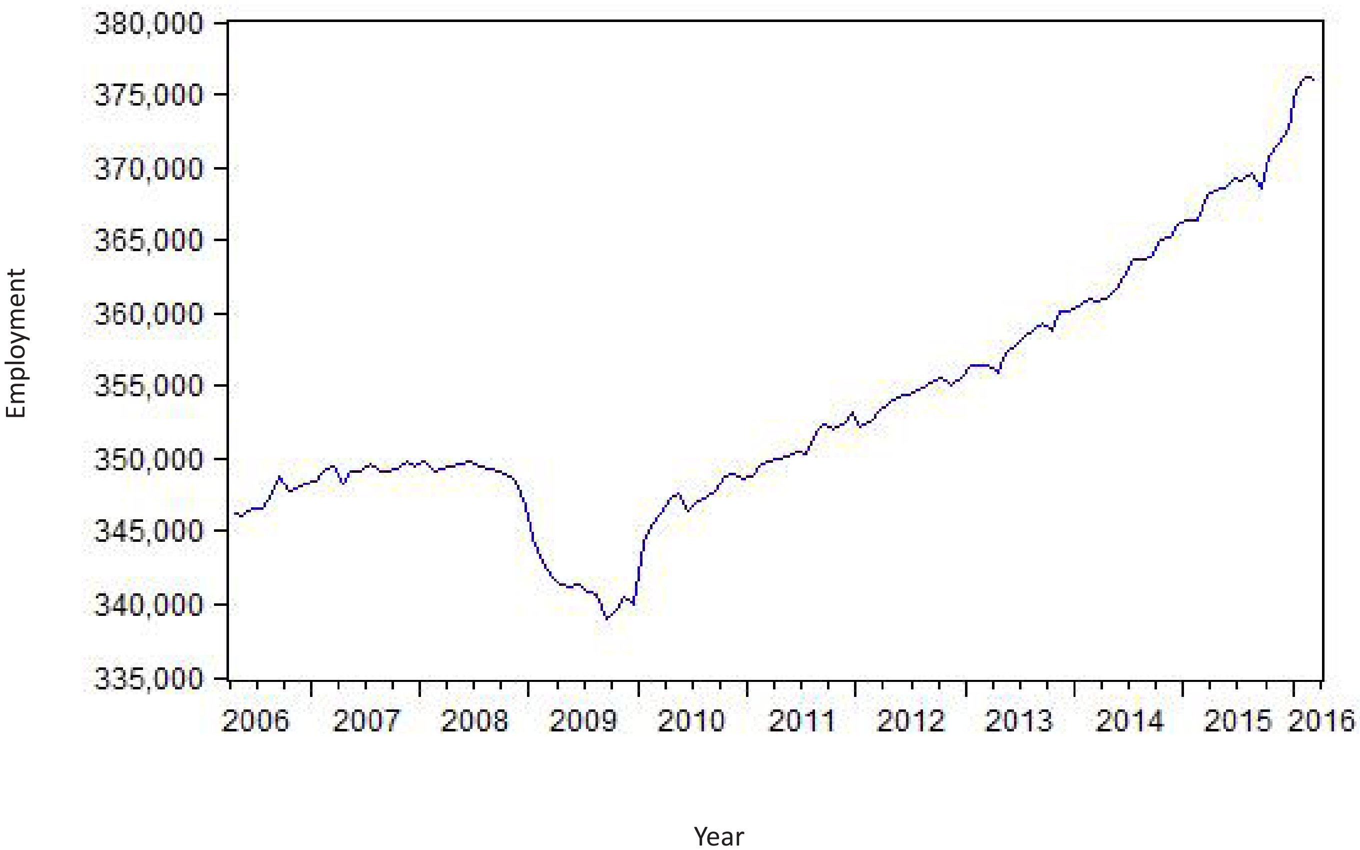


Central Minnesota Labor Market Conditions

Central Minnesota employment grew 2.2 percent over the year ending March 2016. With the exception of the Great Recession of 2008–2009, Central Minnesota has continually demonstrated its ability to create jobs over the past decade. As can be seen in the accompanying graph, the 12-month moving average of Central Minnesota employment has trended upward since the first quarter of 2010.

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.

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



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Employment (Not seasonally adjusted)	364,098	374,639	373,218	371,375	369,854	371,547	371,986

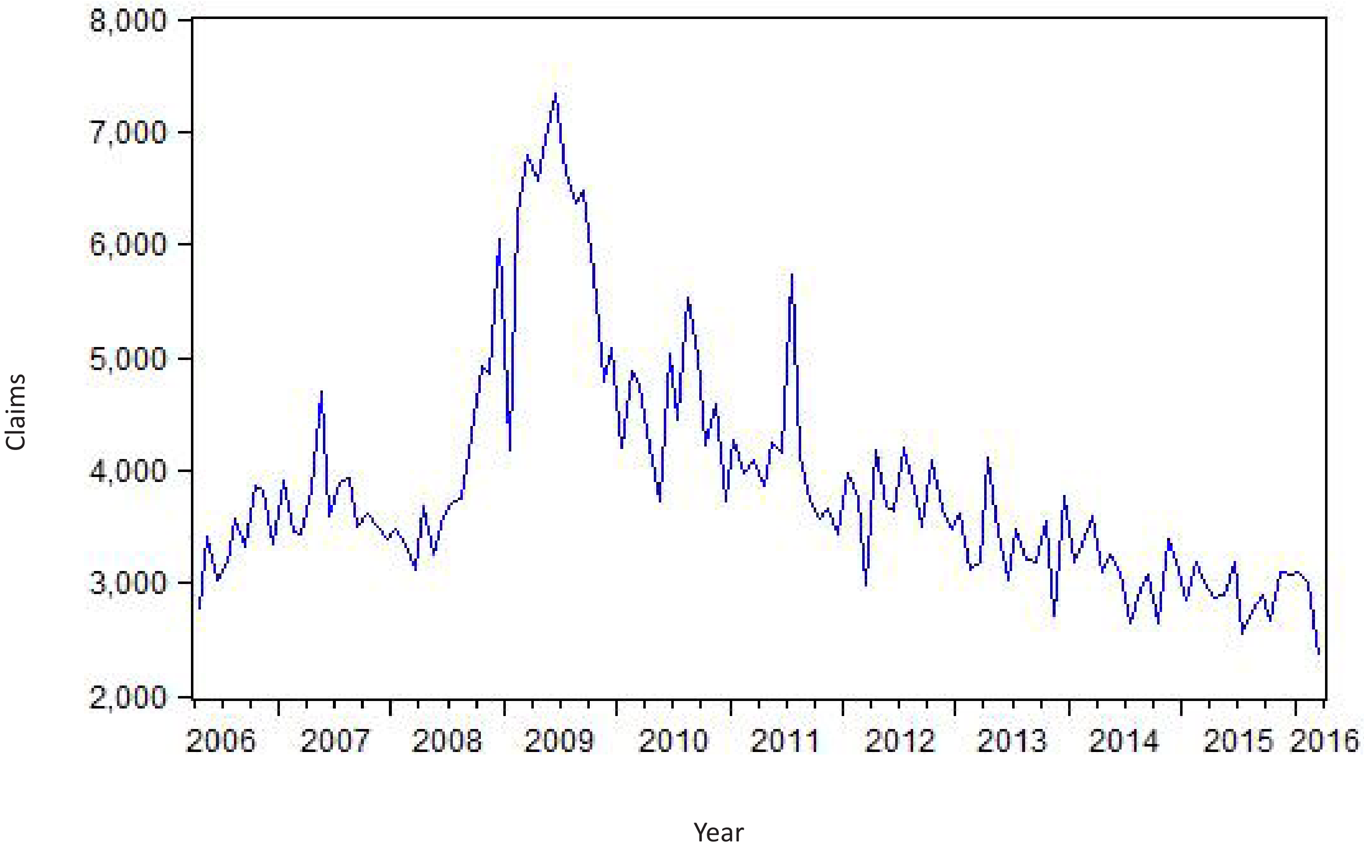
Central Minnesota's unemployment rate was 5.5 percent in March 2016, somewhat higher than one year earlier. This higher unemployment rate can be explained by an increase in the regional labor force. As can be seen in a separate table, the Central Minnesota labor force has grown by more than 9,000 people over the past year. The seasonally adjusted unemployment rate has leveled off in recent quarters.

Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area

Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Unemployment Rate (Not seasonally adjusted)	5.3%	3.0%	3.3%	4.3%	5.4%	5.3%	5.5%

Initial claims for unemployment insurance in the Central Minnesota planning area were 2,235 in March 2016. This was 21.9 percent fewer claims than one year ago. As can be seen in the accompanying graph, the seasonally adjusted initial jobless claims series declined over the past three months.

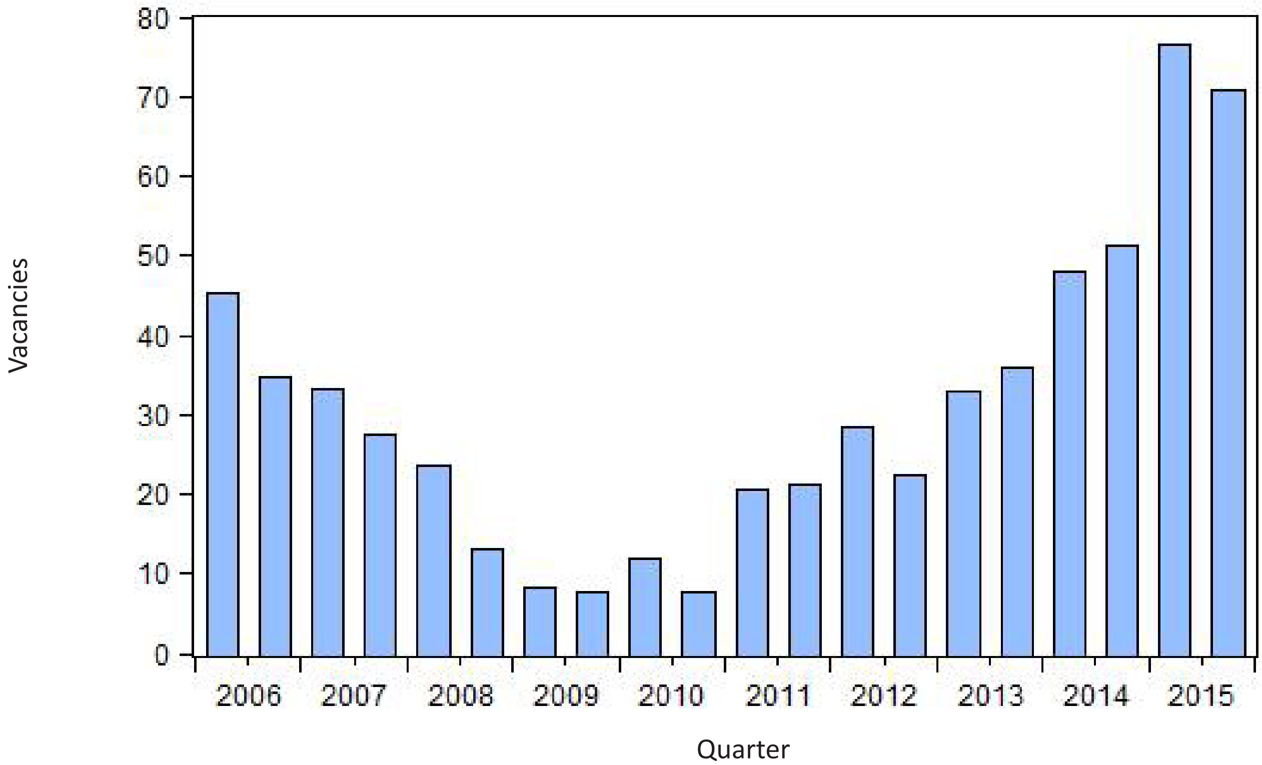
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Central Minnesota Planning Area



Period	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Initial claims (Not seasonally adjusted)	2,860	2,102	5,536	6,358	4,087	2,765	2,235

The number of job vacancies per 100 unemployed inched up in last year's fourth quarter (this is the most recently available data). The labor shortage that has been reported in surveys of St. Cloud area business leaders appears to be affecting the broader Central Minnesota region. Seasonally adjusted unemployment data are used in constructing the chart below. None of the figures reported in the table are seasonally adjusted.

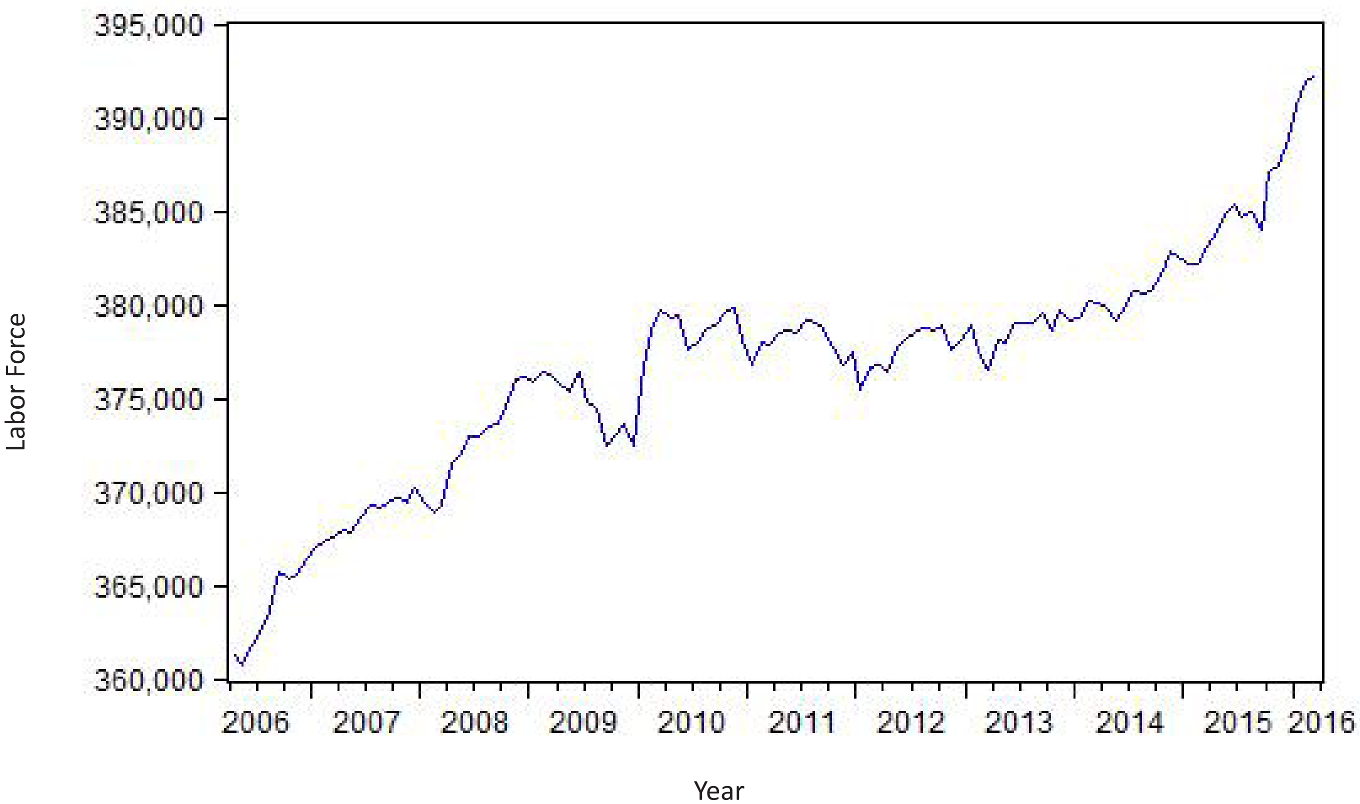
Job Vacancies per 100 Unemployed--Central Minnesota Planning Area



Quarter	2013:II	2013:IV	2014:II	2014:IV	2015:II	2015:IV
Job Vacancies per 100 Unemployed	34.00	42.05	51.89	60.10	79.93	81.91

The Central Minnesota labor force grew at a 2.3 percent rate over the year ending in March 2016. As seen in the accompanying graph, after declining earlier in 2015, the 12-month moving average of the regional labor force picked up over the last three quarters.

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

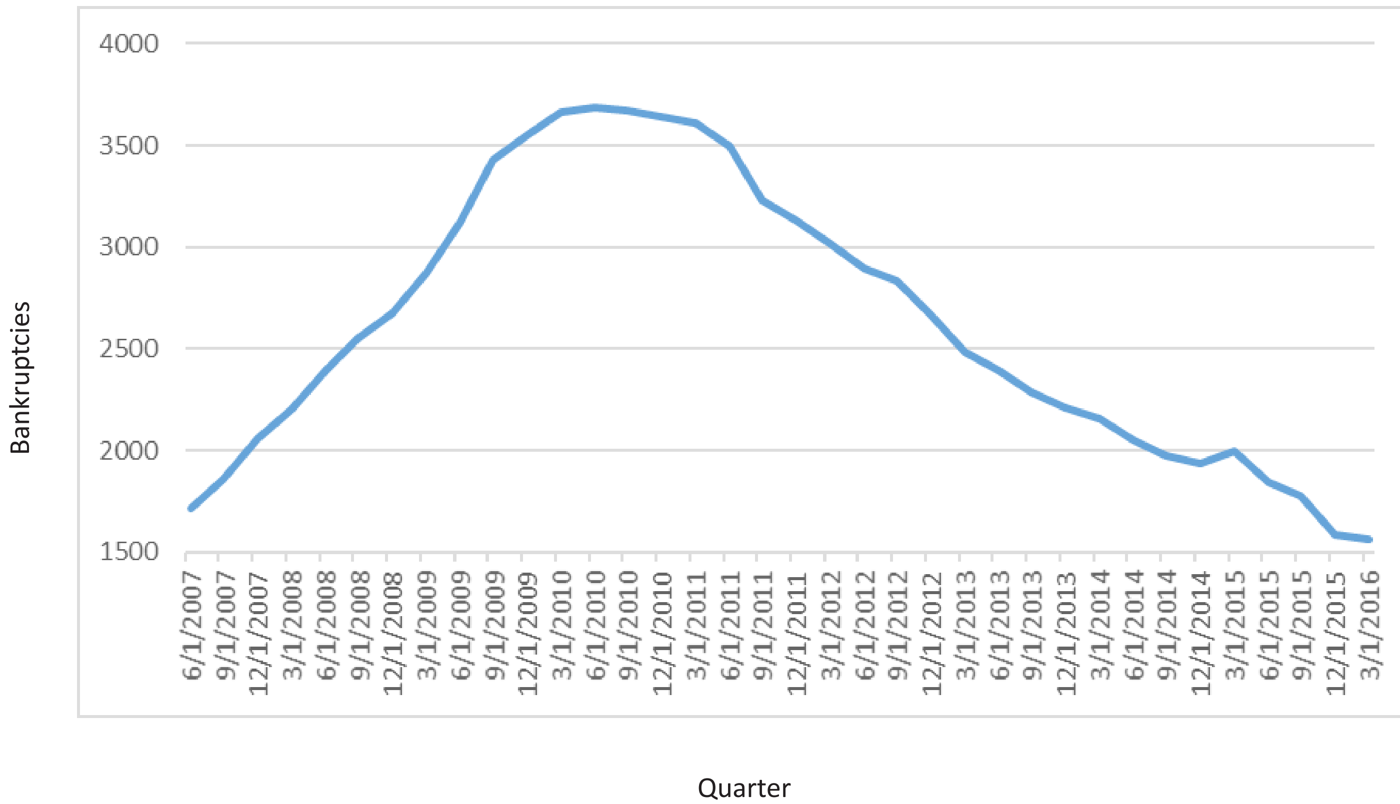


Year (March)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	379,775	378,585	378,073	381,499	384,531	393,535

Central Minnesota Bankruptcies

The figure below shows the 12-month moving total for Central Minnesota bankruptcies since the second quarter of 2007 (shortly before the beginning of the Great Recession). As can be seen in the figure, this moving total increased through the second quarter of 2010, and has continued to decline since that time. With 1,565 bankruptcies over the past twelve months, the level of bankruptcies in Central Minnesota has now returned to a level last seen prior to the Great Recession.

Central Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	3,607	3,016	2,483	2,154	1,994	1,565

Economic Indicators

St. Cloud MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
LABOR MARKET					
Employment	March 2016 (m)	107,554	105,542	1.9% ↑	1.0%
Manufacturing Employment	March 2016 (m)	14,711	15,101	-2.6% ↓	-0.8%
Average Weekly Work Hours--Private Sector	March 2016 (m)	33.0	31.7	4.1% ↑	33.2 (since 2007)
Average Earnings Per Hour--Private Sector	March 2016 (m)	$24.93	$24.10	3.4% ↑	3.3% (since 2007)
Unemployment Rate	March 2016 (m)	4.8%	4.7%	NA ↑	6.0%
Labor Force	March 2016 (m)	113,542	110,646	2.6% ↑	0.9%
SCSU Future Employment Index	February 2016 (q)	31	37.1	-16.4% ↓	31.9 (since 2005)
SCSU Future Length of Workweek Index	February 2016 (q)	13.8	9.7	42.3% ↑	18.4 (since 2005)
SCSU Future Employee Compensation Index	February 2016 (q)	60.3	51.6	16.9% ↑	41.4 (since 2005)
SCSU Future Worker Shortage Index	February 2016 (q)	39.7	32.2	22.9% ↑	18.1 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	March 2016 (m)	2,235	2,860	-21.9% ↓	NA
St. Cloud Times Help Wanted Linage	January 2016 (q)	937.7	2,013.3	-53.4% ↓	NA
BUSINESS FORMATION					
New Business Filings	First Quarter 2016	364	425	-14.4% ↓	365 (since 2000)
Assumed Names	First Quarter 2016	91	95	-4.2% ↓	125 (since 2000)
Business Incorporations	First Quarter 2016	43	83	-48.2% ↓	74 (since 2000)
Limited Liability Companies	First Quarter 2016	196	211	-7.1% ↓	153 (since 2000)
Non-Profits	First Quarter 2016	18	19	-5.3% ↓	14 (since 2000)

(m) represents a monthly series; (q) represents a quarterly series

St. Cloud MSA Indicators, Cont'd.

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
BUSINESS ACTIVITY					
SCSU Future Business Activity Index	February 2016 (q)	44.9	53.2	-15.6% ↓	53.3 (since 2005)
SCSU Future Capital Expenditures Index	February 2016 (q)	22.5	25.8	-12.8% ↓	27.4 (since 2005)
SCSU Future National Business Activity Index	February 2016 (q)	18.9	22.5	-16.0% ↓	25.6 (since 2005)
St. Cloud Index of Leading Economic Indicators	January 2016 (m)	102.5	102.4	0.1% ↑	NA
PRICES					
St. Cloud Cost of Living Index	Annual Average 2015	96.1	94.8	1.4% ↑	NA
St. Cloud Median Home Sales Prices	March 2016 (m)	138,750	147,000	-5.6% ↓	NA
SCSU Future Prices Received Index	February 2016 (q)	32.8	24.2	35.5% ↑	22.1 (since 2005)

(m) represents a monthly series; (q) represents a quarterly series

Central Minnesota contains the St. Cloud MSA, where mixed signals of the future economic health of this metropolitan area have emerged in recent months. For example, the outlook for future business activity from a survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University was somewhat weaker than one year ago. In addition, new business filings fell, median home sales prices declined, Help Wanted linage in the St. Cloud Times is down and the unemployment rate rose. But several labor market indicators have improved. Average hourly earnings rose, employment expanded, the labor force increased and initial jobless claims declined. Survey items related to the area labor market and pricing also suggest a favorable outlook.

State and National Indicators

MINNESOTA Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,876,500	2,875,700	2,845,500	0.3%	1.1%
Average weekly hours worked, private sector	33.5	33.7	33.9	-0.6%	-1.2%
Unemployment rate, seasonally adjusted	3.7%	3.7%	3.6%	NA	NA
Earnings per hour, private sector	$26.82	$26.36	$26.32	1.7%	1.9%
Philadelphia Fed Coincident Indicator, MN	177.73	176.69	173.74	0.6%	2.3%
Philadelphia Fed Leading Indicator, MN	1.42	1.06	1.89	33.4%	-24.9%
Minnesota Business Conditions Index	50.7	39.4	50.0	28.7%	1.4%
Price of milk received by farmers (cwt)	$15.80	$17.00	$17.40	-7.1%	-9.2%
Enplanements, MSP airport, thousands	1,662.9	1,429.0	1,629.6	16.4%	2.0%

NATIONAL Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	143,774	143,146	140,972	0.4%	2.0%
Industrial production, index, SA	103.4	104.1	105.5	-0.7%	-2.0%
Real retail sales, SA ($)	187,831	188,936	186,219	-0.6%	0.9%
Real personal income less transfers ($, bill.)	11,821.5	11,737.8	11,422.4	0.7%	3.5%
Real personal consumption expenditures ($, bill.)	11,397.1	11,358.5	11,104.4	0.3%	2.6%
Unemployment rate, SA	5.0%	5.0%	5.5%	NA	NA
New building permits, SA, thousands	19,300	17,620	17,477	9.5%	10.4%
Standard & Poor's 500 stock price index	2,022	2,054.1	2,080	-1.6%	-2.8%
Oil, price per barrel in Cushing, OK	$37.55	$37.19	$47.82	1.0%	-21.5%

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate inched up over the past twelve months and average weekly hours worked in the private sector declined. Indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy (although the leading indicators index was lower than last year). The Minnesota Business Conditions index surged in recent months. Milk prices were 9.2 percent lower than one year ago in March. This has been a particularly difficult period for those who make a living in milk production. Enplanements at the Minneapolis-St. Paul airport increased by 2 percent over the last twelve months.

On balance, the national economic indicators reported in the table suggest improved economic activity in recent months. While industrial production was lower and stock prices fell, most of the indicators showed strength. Employment, consumer expenditures, and income all experienced growth over the recent quarter and the national unemployment rate stabilized. Retail sales have shown some recent weakness and oil prices have stabilized in recent months (which is a welcome sign in the domestic energy sector). New building permits were much stronger than one year ago as residential construction continues to recover from historically low levels during the Great Recession.

The Central 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.

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Metropolitan Airports Commission: MSP Enplanements.

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Office of the Minnesota Secretary of State: Assumed Names, Business Incorporations, Limited Liability Companies, Non-Profits.

SCSU School of Public Affairs Research Institute: SCSU Central Minnesota Index of Leading Economic Indicators, SCSU Future Business Activity Index, SCSU Future Capital Expenditures Index, SCSU Future Employee Compensation Index, SCSU Future Employment Index, SCSU Future Length of Workweek Index, SCSU Future National Business Activity Index, SCSU Future Prices Received Index, SCSU Future Worker Shortage Index, St. Cloud Index of Leading Economic Indicators.

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St. Cloud Times: St. Cloud Times Help Wanted Linage.

Standard & Poor's: Standard & Poor's 500 Stock Price Index.

Thomson Reuters and University of Michigan: Index of Consumer Sentiment

U.S. Bankruptcy Courts: Bankruptcies

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.

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