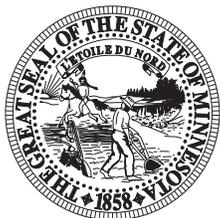




Twin Cities Area Economic and Business Conditions Report First Quarter 2016

This issue is part of a series for the six planning areas of Minnesota: Central; Northeast; Northwest; Southeast; Southwest; and Twin Cities. The Twin Cities Planning Area consists of seven counties: Anoka; Carver; Dakota; Hennepin; Ramsey; Scott; and Washington.



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Executive Summary

Twin Cities economic performance is expected to improve over the next several months according to the prediction of the St. Cloud State University Twin Cities Index of Leading Economic Indicators (LEI). The Twin Cities LEI rose by 11.19 points in the first quarter, as all five index components increased. Among the factors accounting for the improved outlook is an increase in new filings for LLC and incorporation in the first quarter as well as an improvement in a general measure of statewide business conditions. Lower initial claims for unemployment insurance, an increase in the number of residential building permits in the Twin Cities MSA, and a second measure of general business conditions also made a positive contribution to the first quarter LEI.

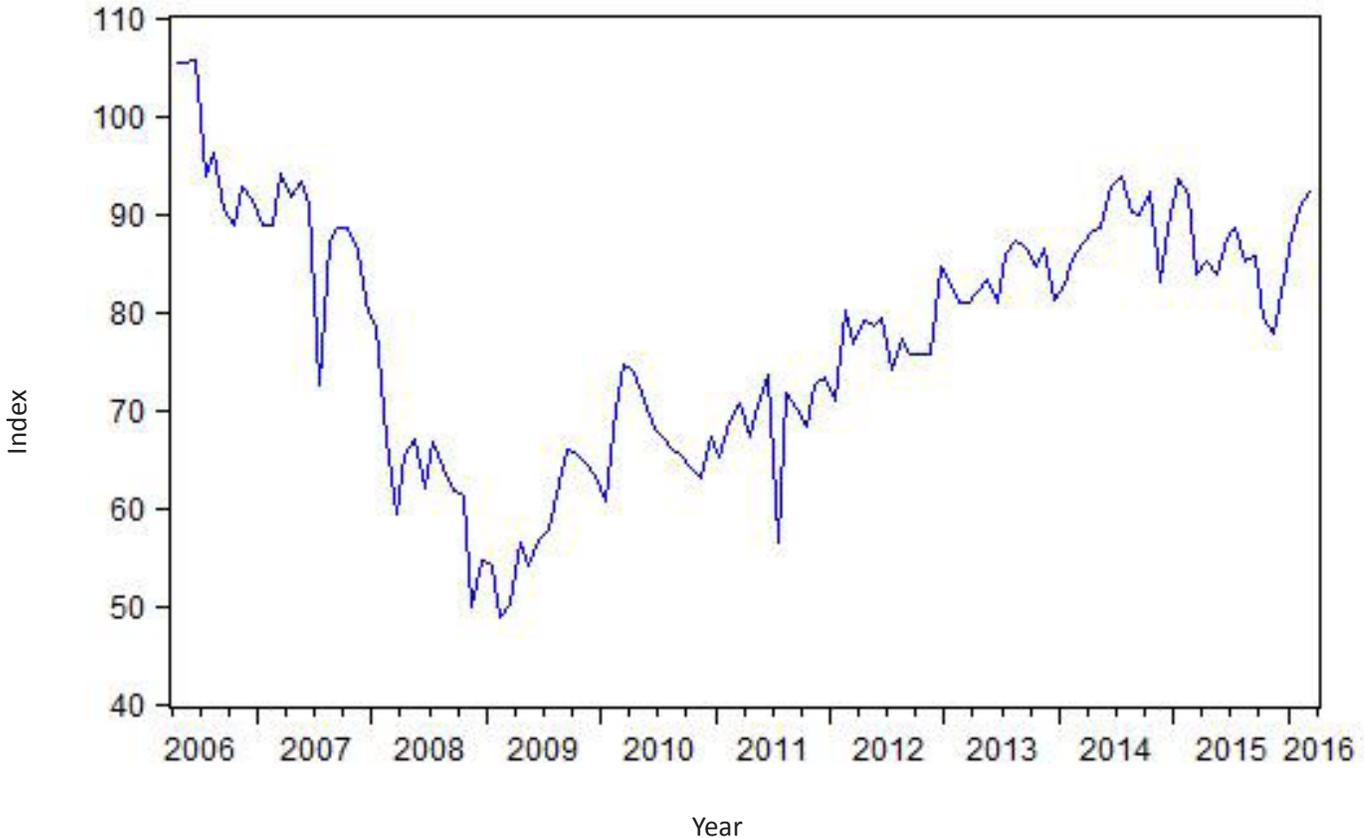
There were 11,215 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the first quarter of 2016—representing a 6.9 percent increase from one year ago. There were 1,606 new regional business incorporations in the first quarter, a 3.4 percent increase over year ago levels. First quarter new LLC filings rose to 6,846 in the seven-county metro area—a 7.2 percent increase compared to the first quarter of 2015. New assumed names totaled 2,346 in the first quarter—an improvement of 11.8 percent from the first quarter of 2015. There were 408 new filings for non-profit in the Twin Cities in the first quarter of 2016, 10.7 percent fewer filings than one year earlier.

Twin Cities employment increased by 2.7 percent over the year ending March 2016. The planning area’s unemployment rate was 3.7 percent in March, an improvement on its 3.8 percent reading one year earlier. March 2016 initial claims for unemployment insurance were lower than year ago levels, falling by 10.3 percent to 6,880. The number of job vacancies per 100 unemployed in the Twin Cities planning area surged to 117.2 in the fourth quarter of 2015 and the labor force expanded by 42,687—a 2.6 percent increase over the prior year. Annual bankruptcies fell in the Twin Cities over the past twelve months. Average weekly hours worked fell in the metro area, but this was offset by an increase in average hourly earnings. The value of residential building permits rose by 11.4 percent in the Twin Cities MSA compared to one year ago.

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. After falling by 1.02 points last quarter, the LEI rose 11.19 points in the first quarter of 2016. The Twin Cities index is now 9.5 percent higher than one year ago.

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 2016	Contribution to LEI, 4th quarter 2015
Minnesota Business Conditions Index	1.54	-0.96
Twin Cities initial claims for unemployment insurance	3.11	0.15
Twin Cities new filings of incorporation and LLCs	2.30	-2.38
Mpls.-St. Paul MSA residential building permits	3.77	2.37
Philadelphia Fed Minnesota leading indicators	0.47	-0.20
TOTAL CHANGE	11.19	-1.02

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 contributed favorably to the LEI this quarter. In addition, the Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—also had a positive impact on this quarter’s LEI.

Each of the three local measures were positive in the first quarter. Higher single family residential building permits across the Minneapolis-St. Paul MSA produced a favorable reading and an increase in new filings for incorporation and LLC in the planning area also served as a boost to the leading index. A fall in initial jobless claims also helped lift the LEI in the first quarter.

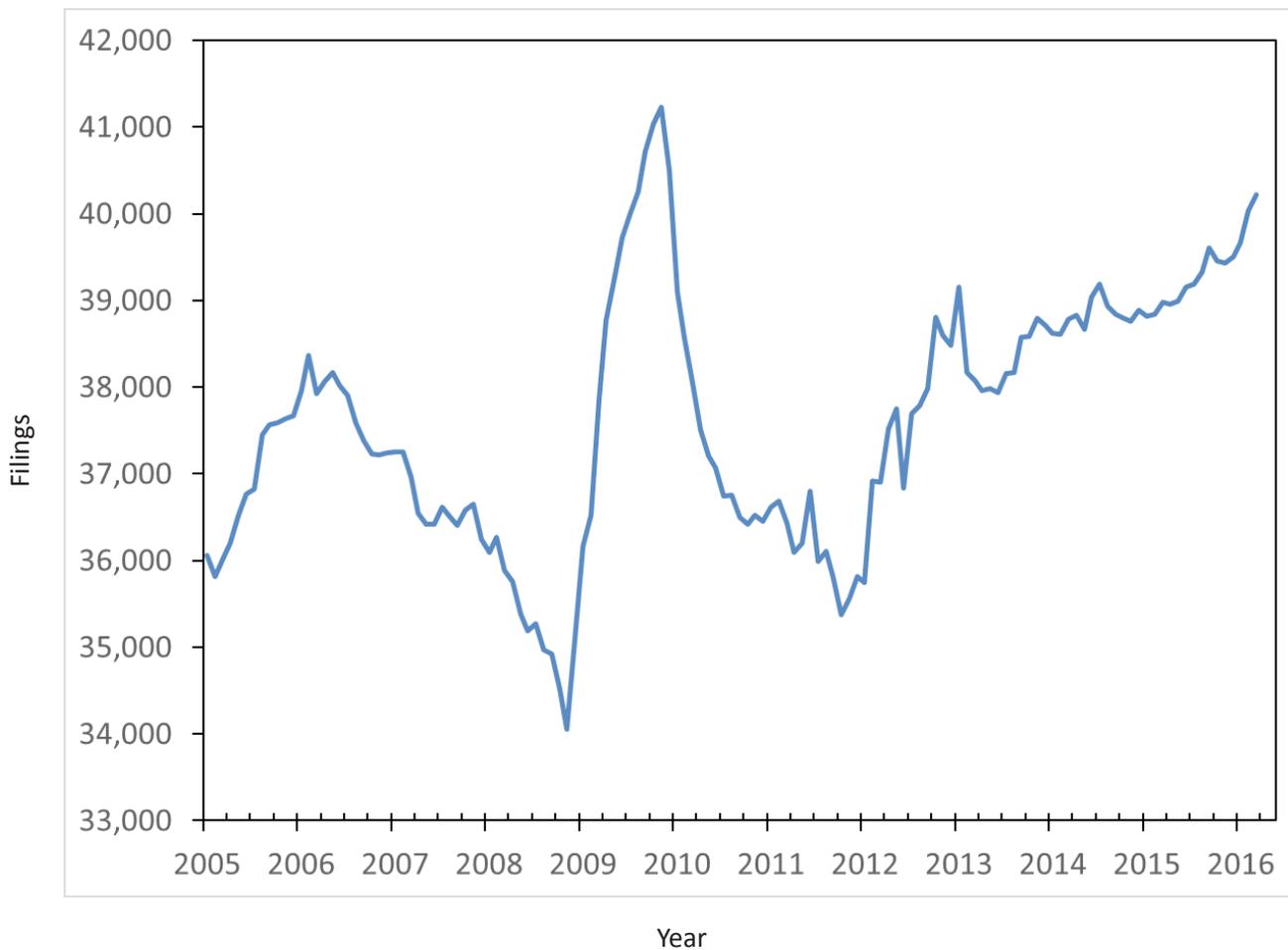
SCSU Twin Cities Leading Economic Indicators Index	2016	2015	Percentage Change
Minnesota Business Conditions Index March	50.7	50.0	1.4%
Twin Cities initial claims for unemployment insurance March	6,324	7,673	-17.6%
Twin Cities new filings of incorporation and LLCs First Quarter	8,452	7,938	6.5%
Twin Cities MSA single-family building permits, March	619	456	35.7%
Index of Leading Economic Indicators Philadelphia Federal Reserve, March	1.42	1.89	-24.9%
Twin Cities Leading Economic Indicators Index March (March 1999 = 100)	92.5	84.4	9.5%

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 as filings expanded at a 6.9 percent annual rate. 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.

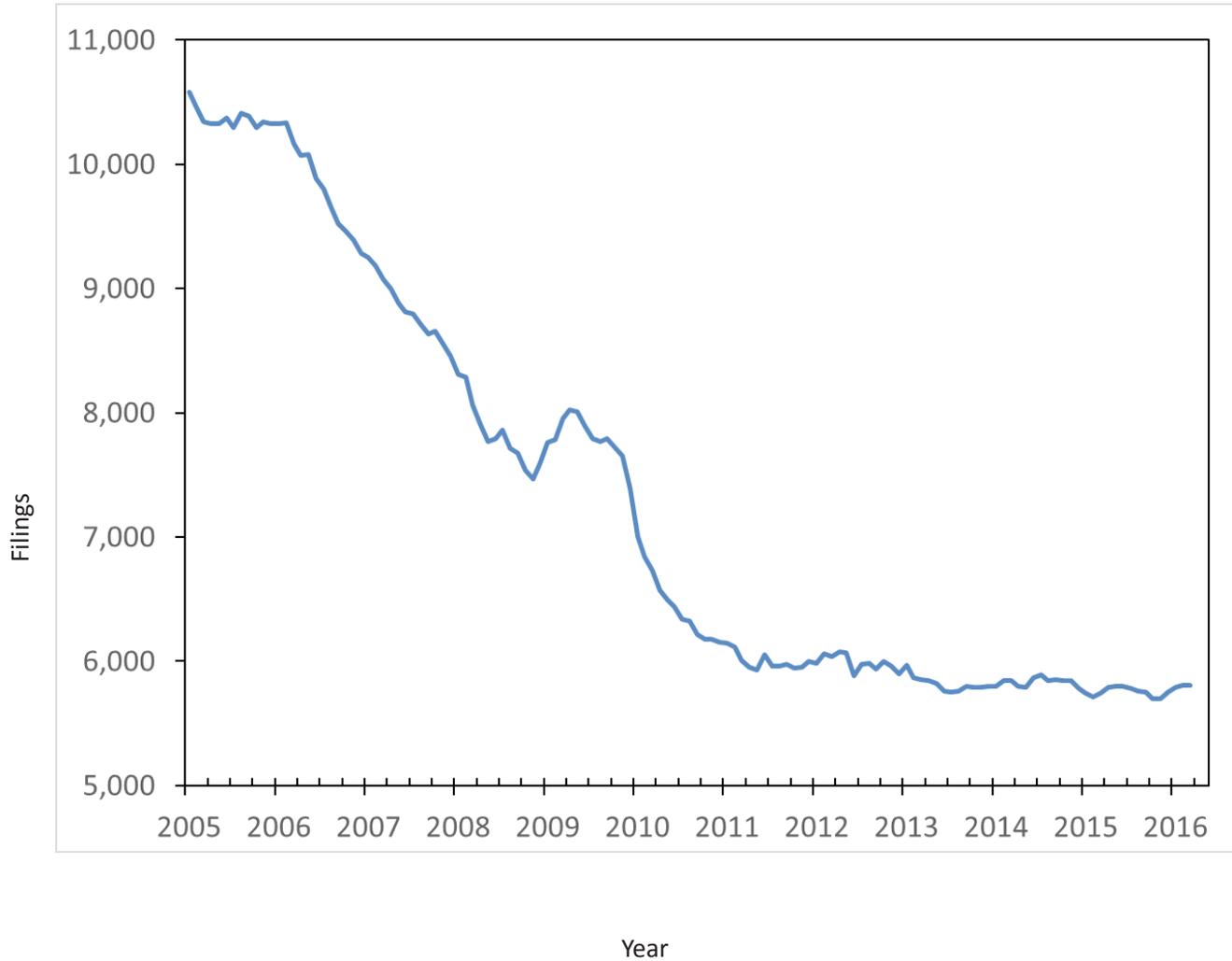
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Twin Cities Total New Business Filings	10,494	10,306	9,684	9,014	11,215	6.9%

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 incorporation rose 3.4 percent from one year earlier in the first quarter of 2016.

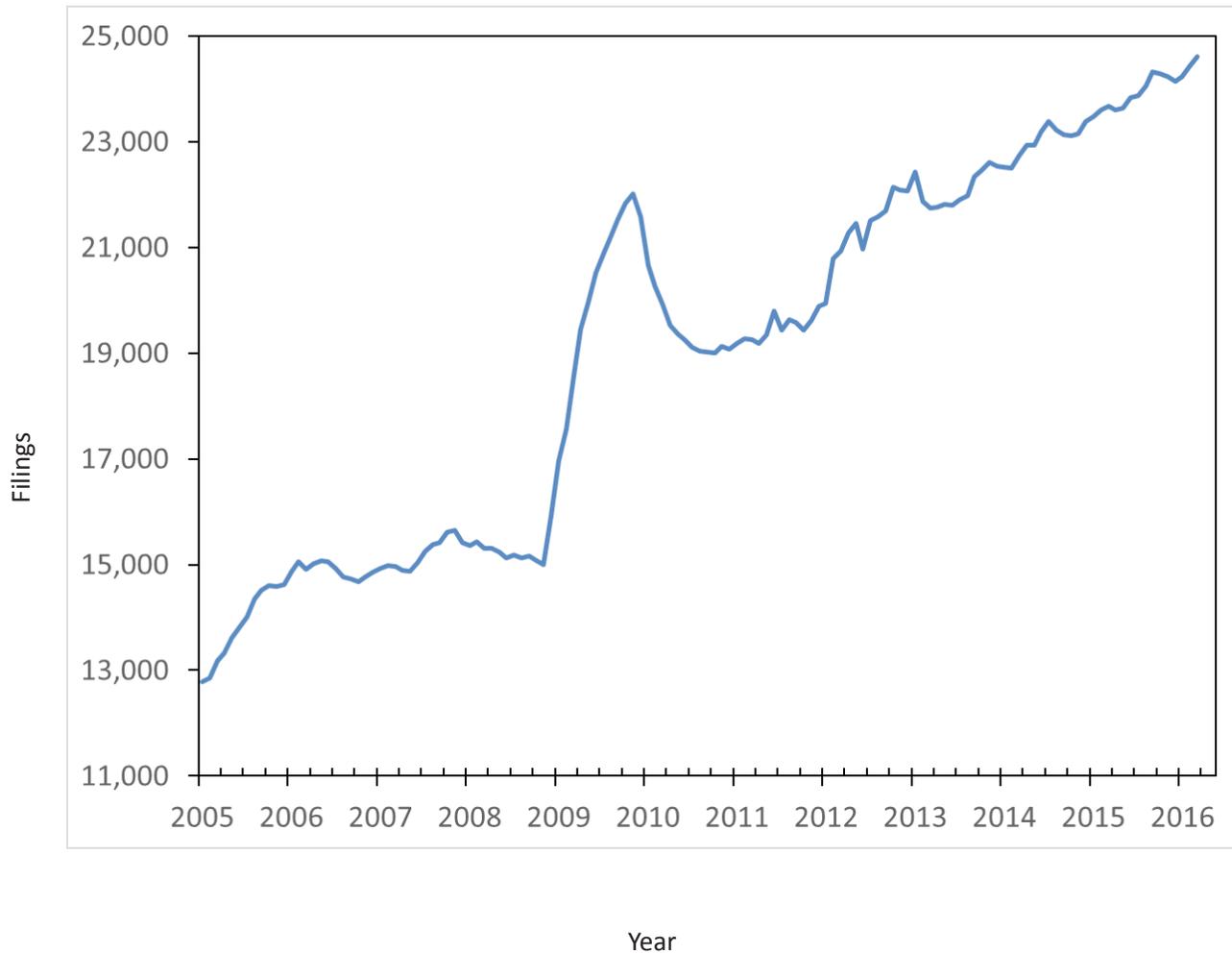
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Twin Cities New Business Incorporations	1,553	1,504	1,349	1,344	1,606	3.4%

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 6,846 new filings for LLC in the first quarter of 2016 were 7.2 percent higher than one year earlier.

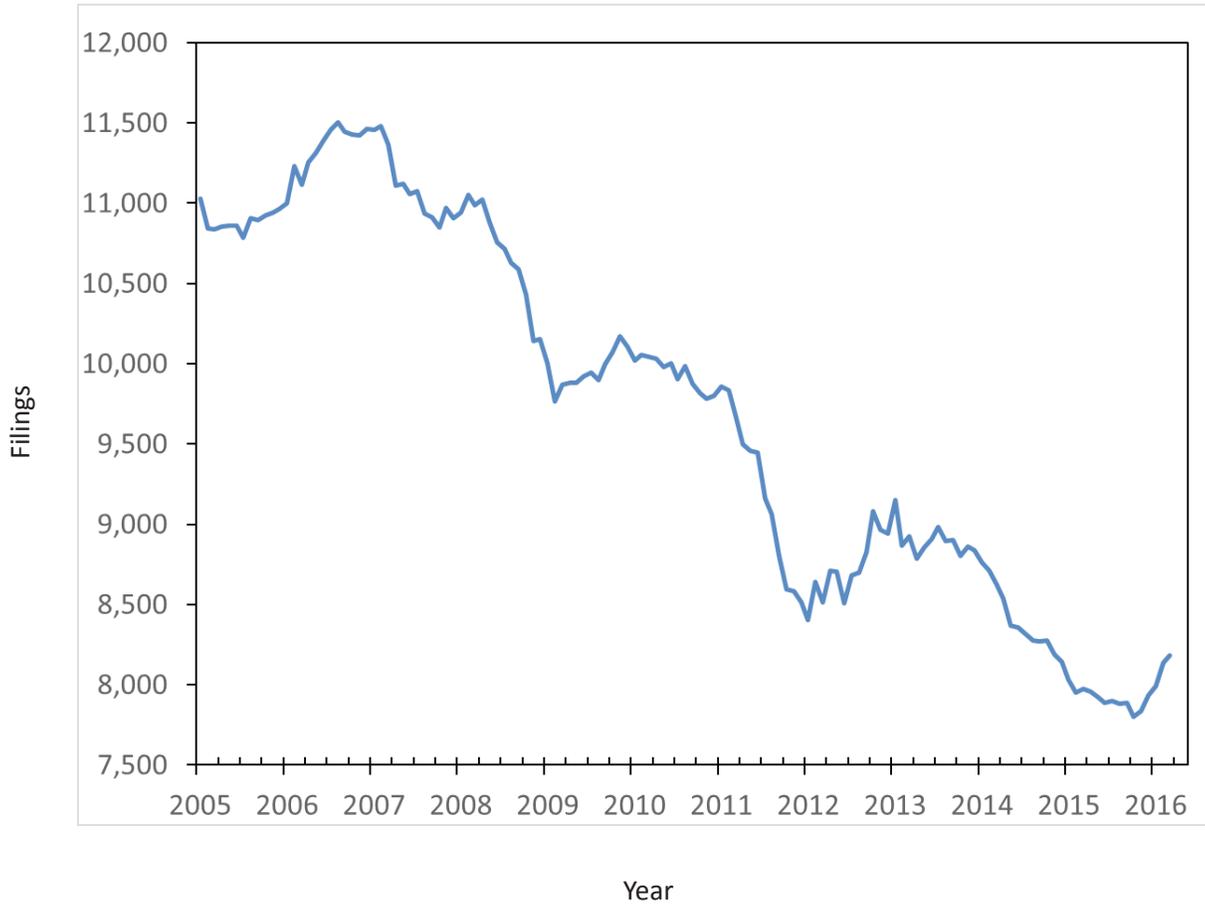
New Limited Liability Companies—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Twin Cities New Limited Liability Companies	6,385	6,310	6,007	5,440	6,846	7.2%

Assumed names, which include sole proprietors or organizations that do not have limited liability, rose 11.8 percent in the first quarter relative to the same period in 2015. This series appears to once again be growing after experiencing a downward slide since peaking out in 2006-2007.

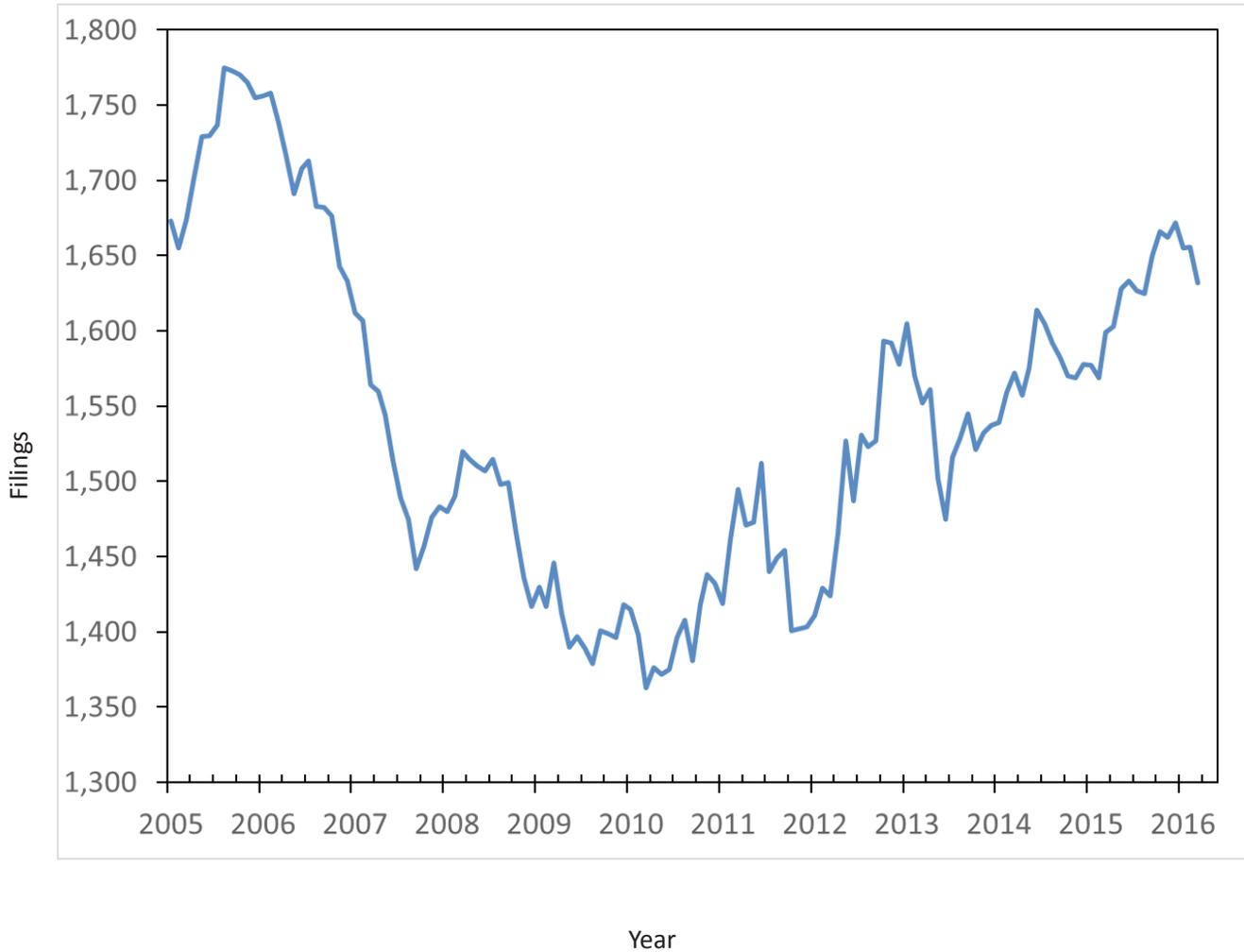
New Assumed Names—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Twin Cities New Assumed Names	2,099	2,061	1,937	1,837	2,346	11.8%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State has increased to a level last seen in the mid-2000s. With 408 new non-profits registered in the first quarter, new filings in this sector contracted by 10.7 percent compared to one year earlier.

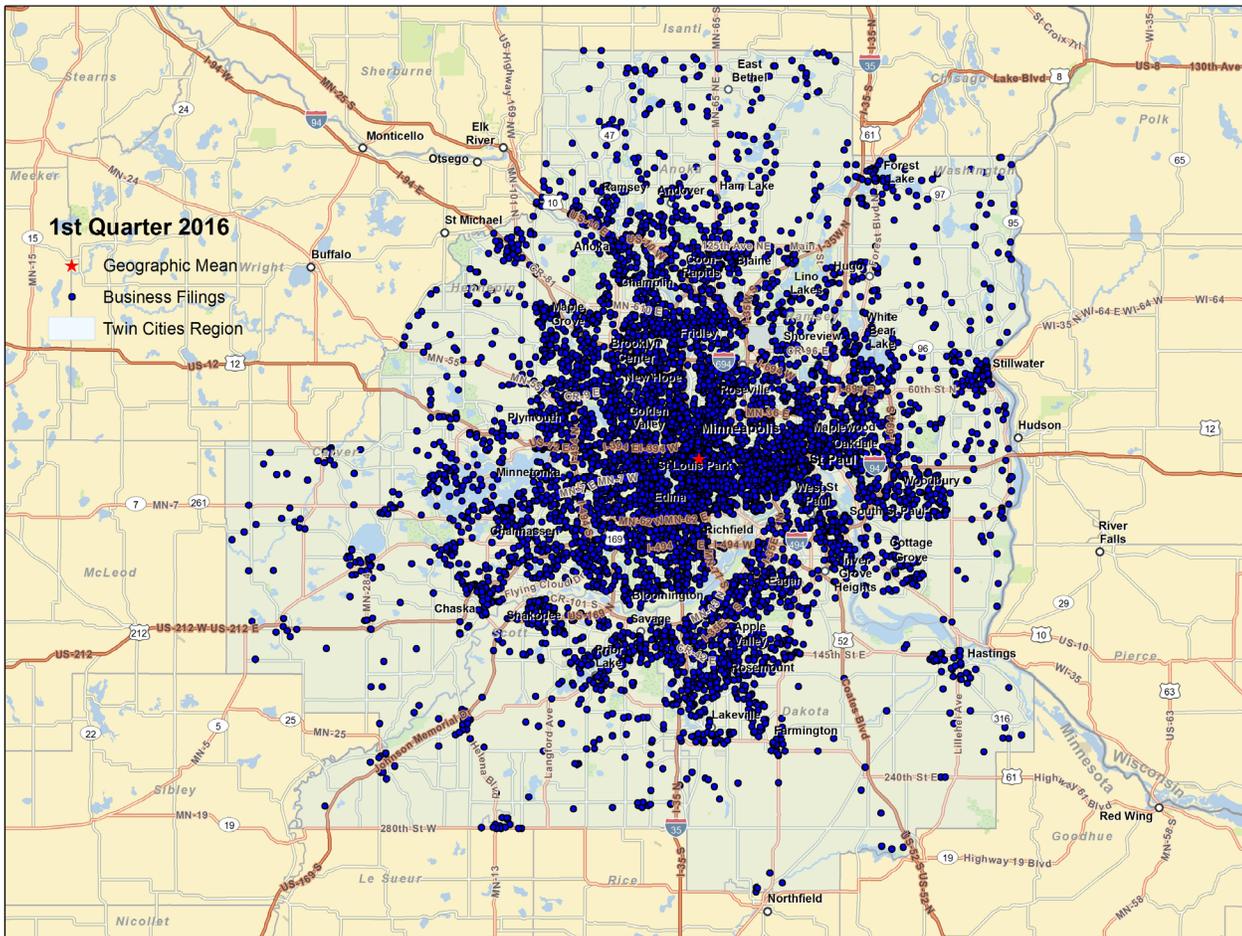
New Non-Profits—Twin Cities Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Twin Cities New Non-Profits	457	431	391	393	408	-10.7%

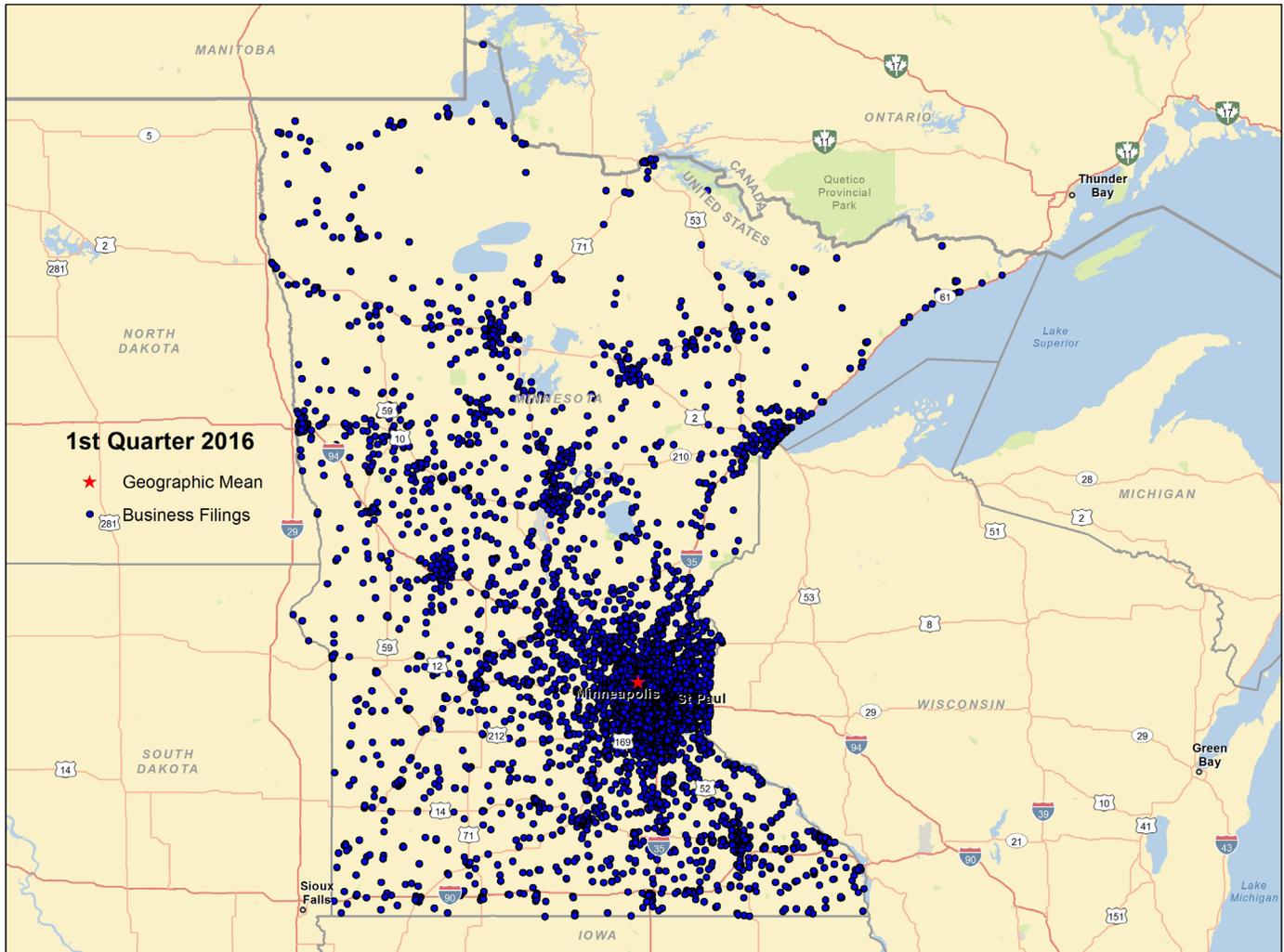
The first map shown below is a visual representation of new business formation around the Twin Cities planning area in the first quarter of 2016. The densest areas of new business formation are concentrated in the middle of the planning area, although virtually all portions of the area experienced some type of new business formation. Well-traveled roadways are a predictor of new business formation in the Twin Cities planning area.

Twin Cities 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

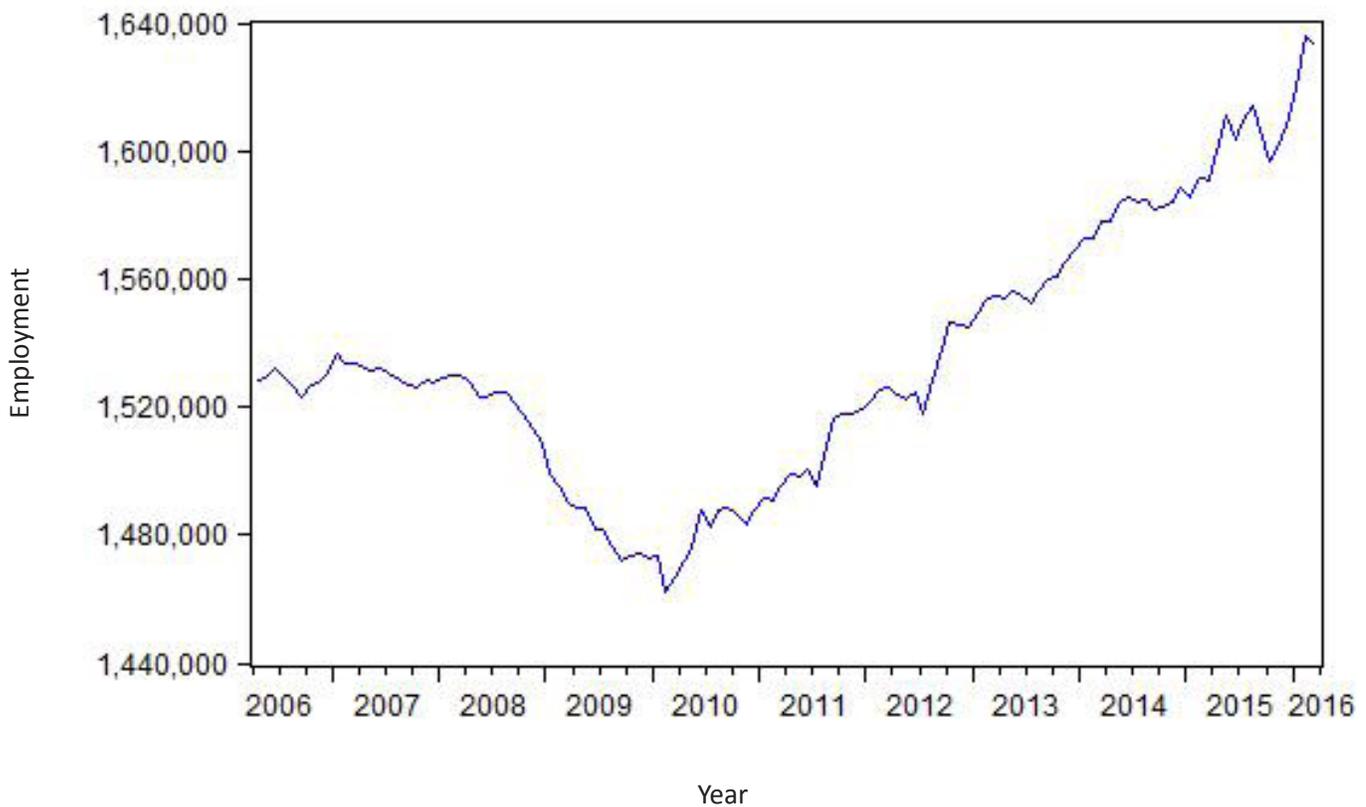


Twin Cities Labor Market Conditions

Employment of Twin Cities planning area residents grew 2.7 percent over the past year. After relative stagnation through 2007 and a decline during the Great Recession, the area has experienced fairly steady employment growth since the start of 2010 (although the 12-month moving average of employment declined in the first half of 2015).

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.

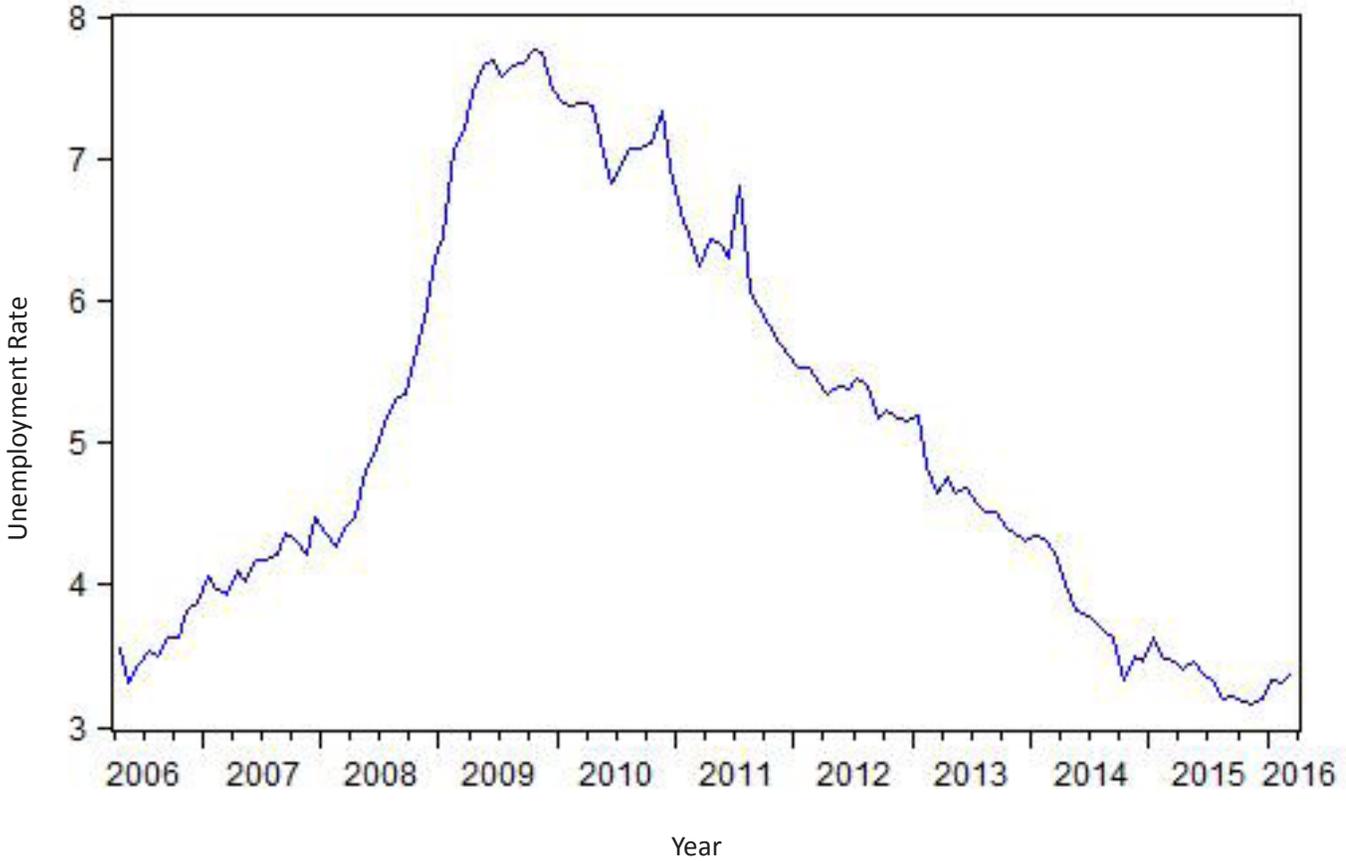
Employment—Twin Cities Planning Area (12-month moving average)



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Employment (Not seasonally adjusted)	1,575,459	1,605,574	1,612,836	1,607,120	1,600,268	1,620,387	1,617,540

The seasonally adjusted unemployment rate in the Twin Cities had declined since the end of the Great Recession in 2009. The unemployment rate rose at the end of 2014, but resumed its downward path in 2015. However, it now seems to have leveled out over the last two quarters. The non-seasonally adjusted unemployment rate now stands at 3.7 percent, lower than the 3.8 percent rate recorded one year earlier.

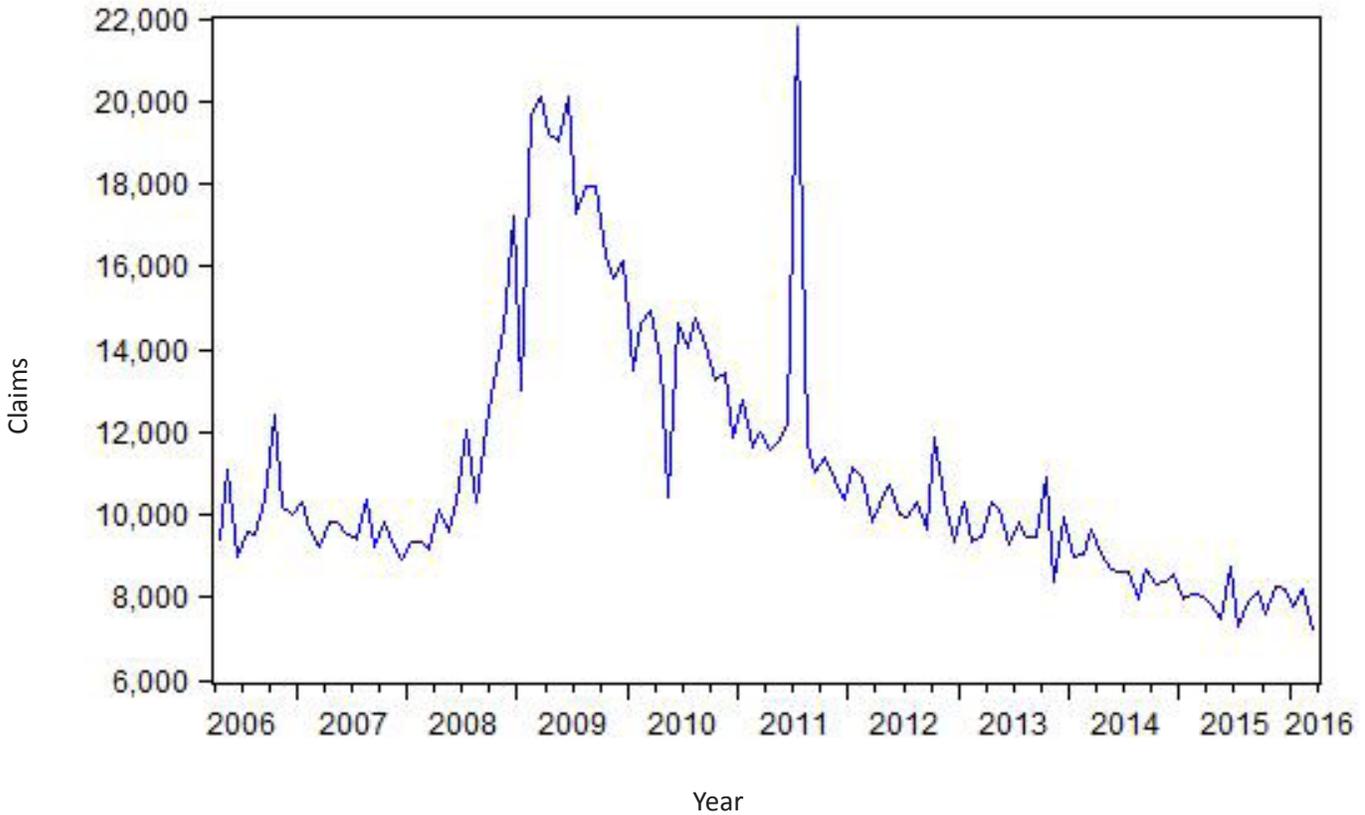
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Unemployment Rate (Not seasonally adjusted)	3.8%	2.9%	2.8%	3.0%	3.7%	3.6%	3.7%

New claims for unemployment insurance were 10.3 percent below year ago levels in March 2016. The graph of the seasonally adjusted series suggests claims are at levels that are among the lowest observed over the past 10 years.

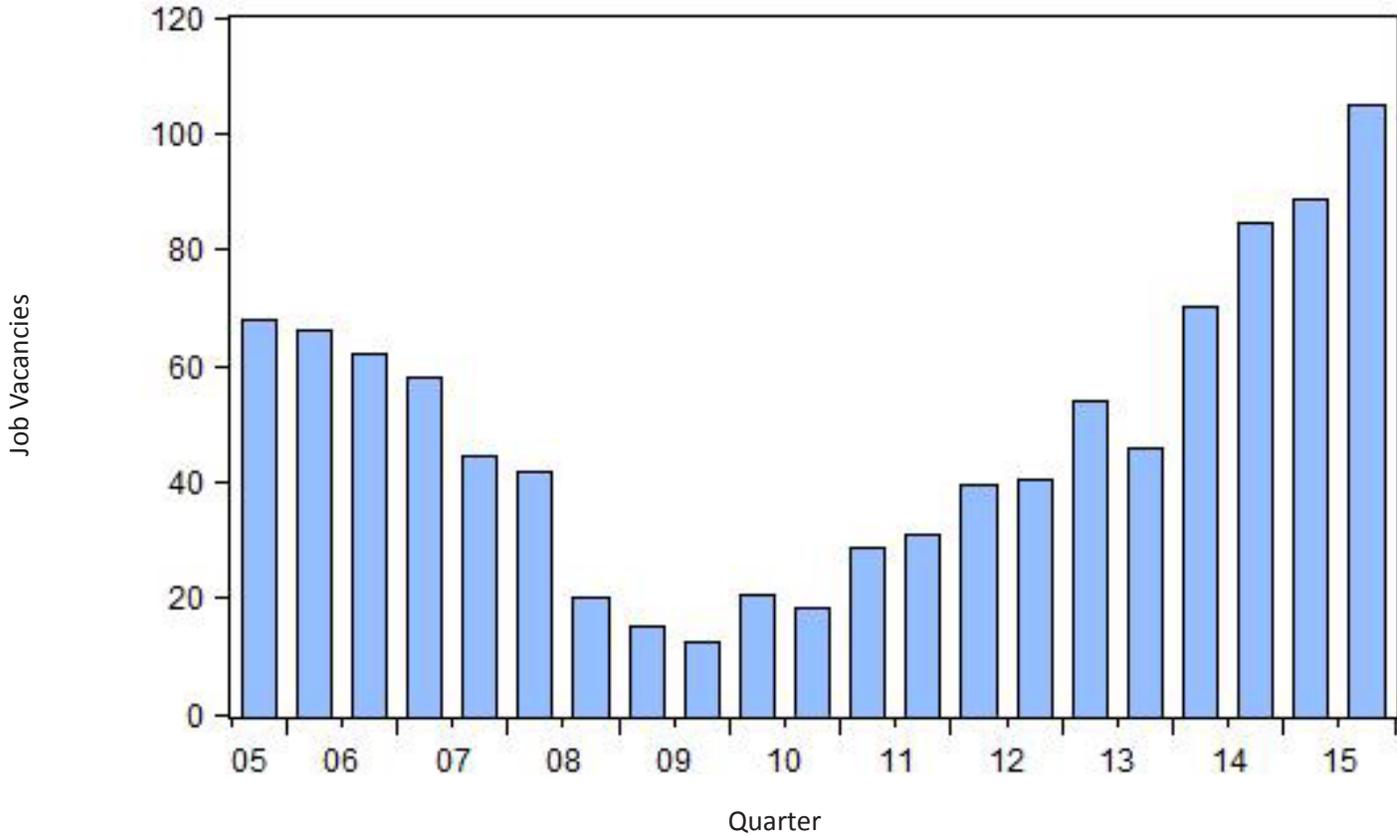
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Twin Cities Planning Area



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Initial claims (Not seasonally adjusted)	7,673	6,507	10,653	11,702	9,809	8,051	6,880

The number of job vacancies per 100 unemployed surged in last year’s fourth quarter (this is the most recently available data). The labor shortage in this region persists—there are more jobs available than unemployed people to fill them. With a job vacancy rate of 117.20 per 100 unemployed, the Twin Cities planning area has the state’s highest rate of job vacancies. Seasonally adjusted unemployment data are used in constructing the chart below. None of the figures reported in the table are seasonally adjusted.

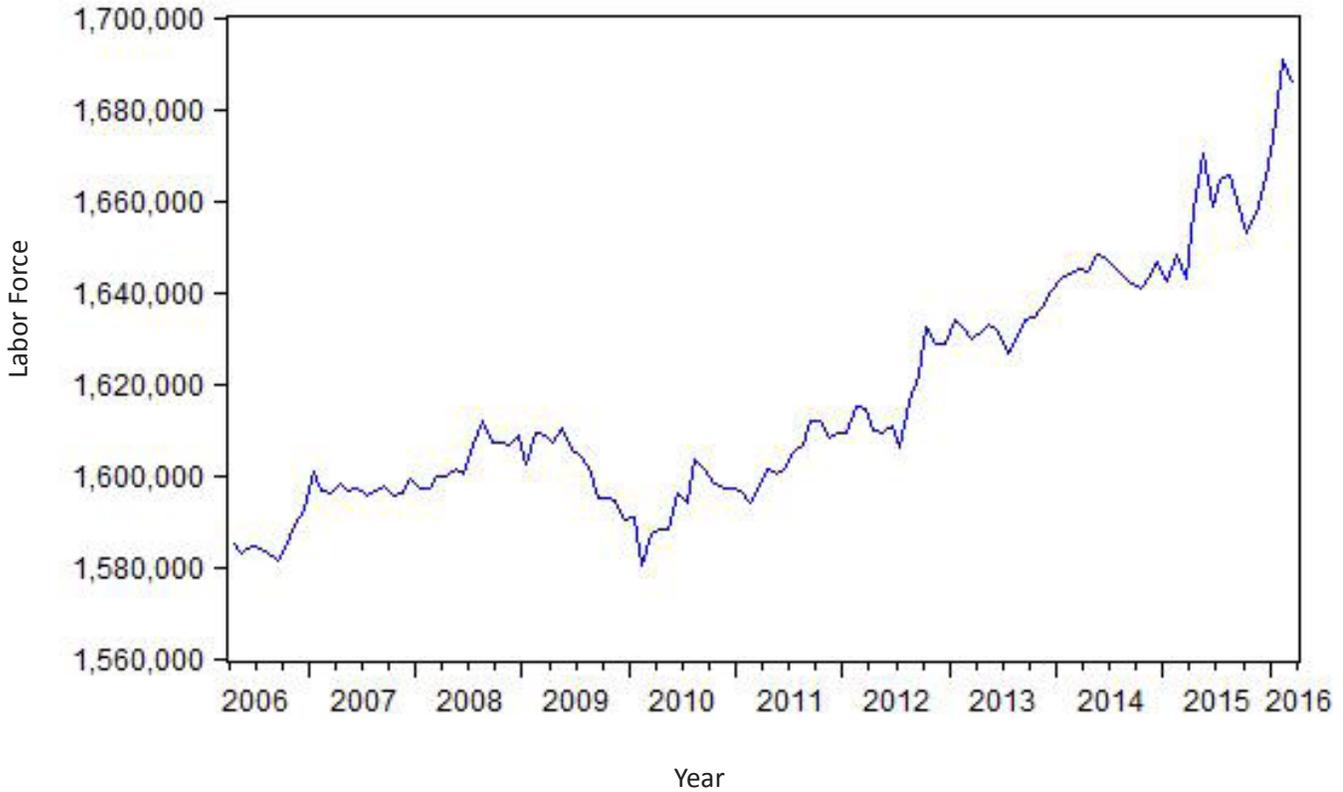
Job Vacancies per 100 Unemployed—Twin Cities Planning Area



Quarter	2013:II	2013:IV	2014:II	2014:IV	2015:II	2015:IV
Job Vacancies per 100 Unemployed	55.60	50.92	74.57	96.35	90.68	117.20

The size of the Twin Cities labor force continues to rise. Over the last twelve months, the labor force in the Twin Cities planning area expanded by 2.6 percent to 1,679,878. The 12-month moving average (see accompanying graph) of the Twin Cities labor force is at its all-time high.

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

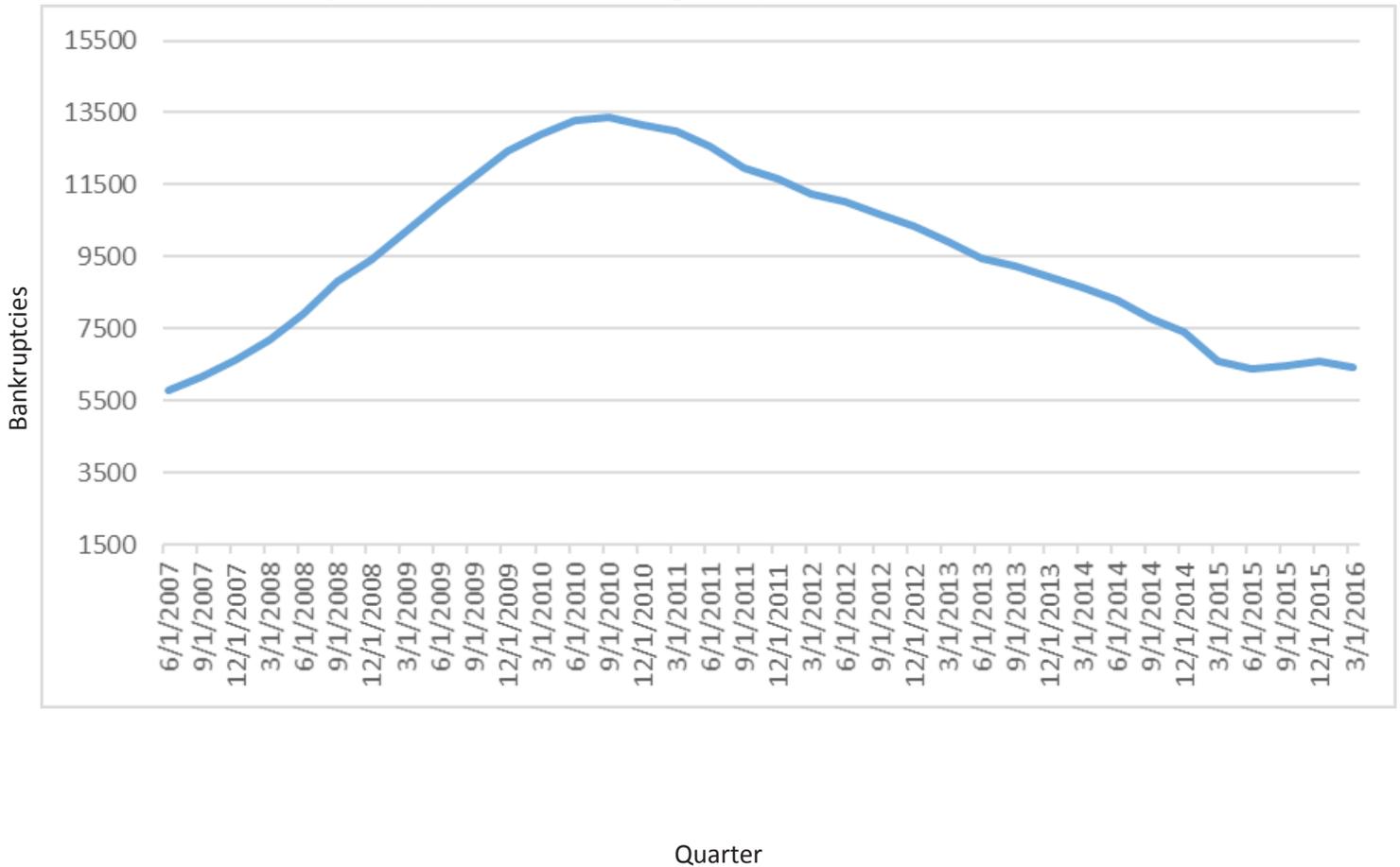


Year (March)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	1,585,703	1,604,269	1,621,538	1,638,260	1,637,191	1,679,878

Twin Cities Bankruptcies

The figure below shows the 12-month moving total for Twin Cities 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 declined steadily until the beginning of 2015, at which time it began leveling out. With 6,442 bankruptcies over the past twelve months, the level of bankruptcies in the Twin Cities is at a level that was last seen prior to the Great Recession.

Twin Cities Bankruptcies (12-month moving total)



Year (First Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (not seasonally adjusted)	12,971	11,241	9,925	8,636	6,581	6,442

Economic Indicators

Twin Cities MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (since 1999 unless noted)
Employment	March 2016 (m)	1,921,246	1,887,321	1.8% ↑	0.7%
Manufacturing Employment	March 2016 (m)	193,615	192,071	0.8% ↑	-1.3%
Average Weekly Work Hours Private Sector	March 2016 (m)	34.0	34.3	-0.9% ↓	33.9 (since 2007)
Average Earnings Per Hour Private Sector	March 2016 (m)	\$27.83	\$27.22	2.2% ↑	1.3% (since 2007)
Average Weekly Work Hours Manufacturing (Production Workers)	March 2016 (m)	41.5	40.7	2.0% ↑	40.4 (since 2005)
Average Earnings Per Hour Manufacturing (Production Workers)	March 2016 (m)	\$21.06	\$21.12	-0.3% ↓	1.5% (since 2005)
Unemployment Rate	March 2016 (m)	4.0%	4.0%	NA ↔	5.0%
Labor Force	March 2016 (m)	1,968,161	1,917,759	2.6% ↑	0.7%
MSP Residential Building Permit Valuation, in thousands	March 2016 (m)	232,147	208,467	11.4% ↑	NA
Minneapolis Cost-of-Living Index	Annual Average 2015	108.3	107.6	0.7% ↑	NA
St. Paul Cost-of-Living Index	Annual Average 2015	107.5	107.5	0.0% ↔	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 14 Minnesota counties (the definition of the MSA was recently expanded to include Le Sueur, Mille Lacs, and Sibley counties): Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Le Sueur, Mille Lacs, Ramsey, Scott, Sherburne, Sibley, 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 1.8 percent in the Twin Cities MSA and manufacturing employment rose by 0.8 percent over the year ending March 2016. Average hourly earnings rose overall in the private sector but declined in manufacturing while average weekly hours fell in the private sector and rose in manufacturing. The value of residential building permits rose 11.4 percent in March 2016 relative to the same period one year earlier. Compared to March 2015, the Twin Cities MSA unemployment rate was unchanged and the labor force was larger.

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 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.

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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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