Northeast Minnesota
Economic and Business Conditions Report
Second 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 Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

Office of the Minnesota
Secretary of State

School of Public Affairs
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Executive Summary

Modest improvement in Northeast Minnesota economic conditions is expected over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). Two of the five components of the LEI increased as the overall index rose for a second straight quarter. An improvement in a general measure of statewide business conditions and a rise in a supply managers' survey index had a positive impact on the LEI, while a rise in initial jobless claims earlier in the year dragged down the index. Sluggish new filings for incorporation earlier this year and a decline in the number of Duluth area residential building permits also weighed on the index. Overall, the outlook remains one of slow positive economic growth in the Northeast Minnesota planning area over the next several months.

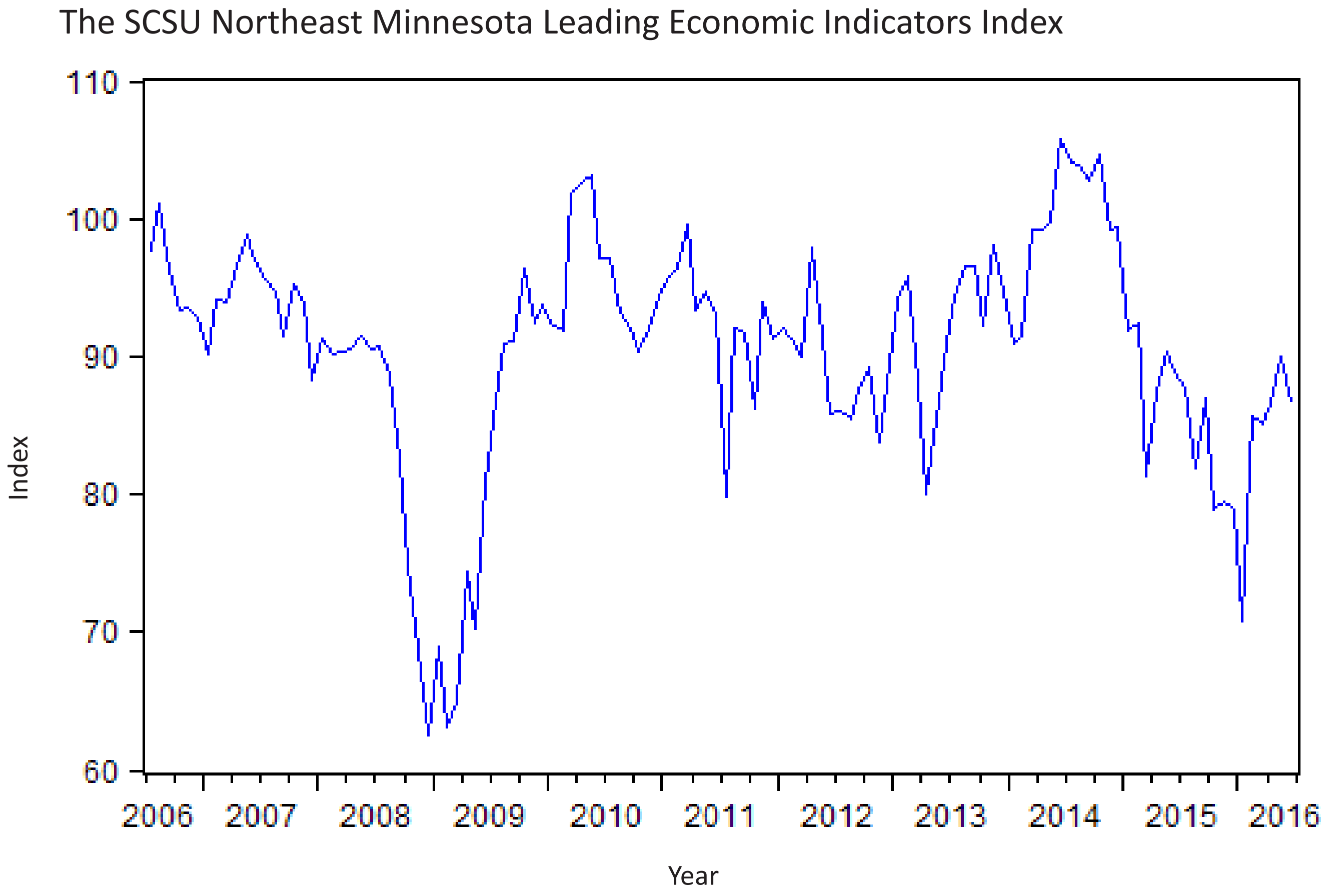
There were 584 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the second quarter of 2016 — representing a 4.5 percent increase from one year earlier. Fifty-three new regional business incorporations were filed in the second quarter—a 1.9 percent rise from 2015. New limited liability company (LLC) filings in Northeast Minnesota rose 3.1 percent to a level of 302. New assumed names totaled 199 in the second quarter—a 3.6 percent increase from the second quarter of 2015. There were 30 new filings for Northeast Minnesota non-profit in the 2016 second quarter—eight more than one year earlier.

Northeast Minnesota employment was 0.8 percent lower than year ago levels in June. The regional unemployment rate was 6.2% (a large increase from 5.3% one year ago) while the labor force was basically unchanged. June 2016 initial claims for unemployment insurance were 320 lower than the year earlier (a 21.4 percent decrease). Average weekly wages rose by 4.9% to $842 in the most recent quarter for which data are available. Northeast Minnesota bankruptcies continued to slowly decline in this year's second quarter.

Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was mostly negative. Northeast Minnesota's largest market experienced a 0.8 percent decline in overall employment over the year ending June 2016, but the key education/health sector added jobs. The length of the workweek and average hourly earnings also fell. The area unemployment rate rose to 5.8 percent and the labor force contracted. The value of residential building permits decreased in June compared to the same period in 2015.

Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. After a revised 1.67 point increase in the first quarter, the LEI rose by 0.53 points in the second quarter of 2016. The LEI is now 2.5 percent below its June 2015 level. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility since the end of the Great Recession, but had trended downward from mid-2014 until the beginning of 2016.



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2016	Contribution to LEI, 1st quarter 2016
Minnesota Business Conditions Index	0.37	1.05
Northeast Minnesota initial claims for unemployment insurance	-0.63	-2.83
Northeast Minnesota new filings of incorporation	-0.42	0.25
Duluth Superior MSA residential building permits	-0.13	-0.63
Institute of Supply Management Purchasing Managers Index for manufacturing	1.34	3.83
TOTAL CHANGE	**0.53**	**1.67**

Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This indicator increased in the second quarter. Lower new filings for business incorporation and an increase in initial unemployment claims earlier this year had a negative impact on the index. Improved performance of the Minnesota Business Conditions Index (which is used an indicator of general statewide business conditions) made a positive contribution to the Northeast Minnesota leading index and residential building permits in the Duluth/Superior MSA were largely neutral.

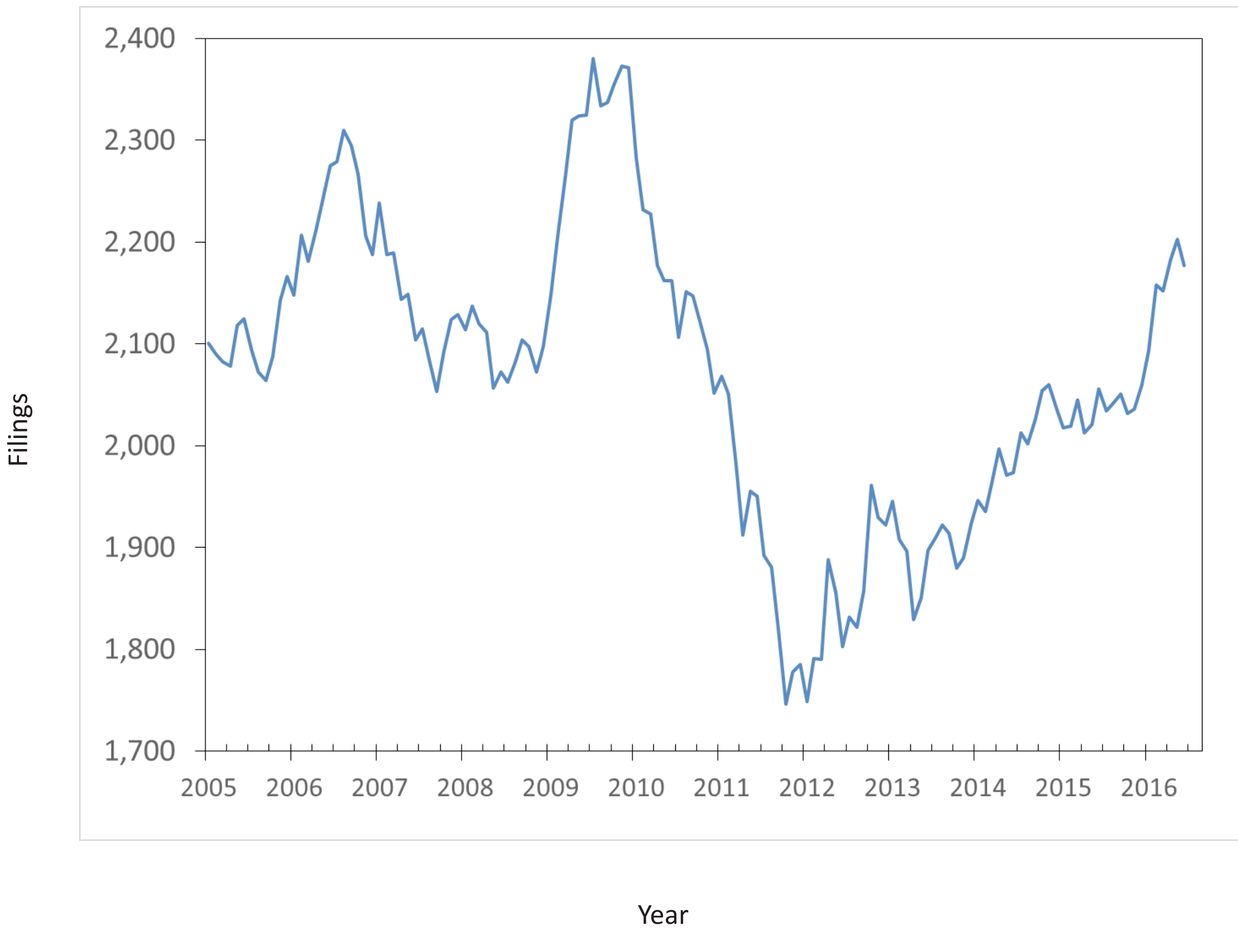
SCSU Northeast Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Minnesota Business Conditions Index June	51.6	53	-2.6%
Northeast Minnesota initial claims for unemployment insurance June	931	1,493	-37.6%
Northeast Minnesota new filings of incorporation Second Quarter	53	52	1.9%
Duluth-Superior MSA single-family building permits June	11	12	-8.3%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, June	53.2	53.5	-0.6%
Northeast Minnesota Leading Economic Indicators Index June (December 1999 = 100)	86.6	88.8	-2.5%

Northeast Minnesota Business Filings

Total new business filings rose by 4.5 percent compared to the second quarter of 2015. The 12-month moving total of this series has trended upward since the end of 2011. After a precipitous drop in the pace of new business formation during the Great Recession, new business filings in Northeast Minnesota still have not returned to the pace observed ten years ago.

Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data.

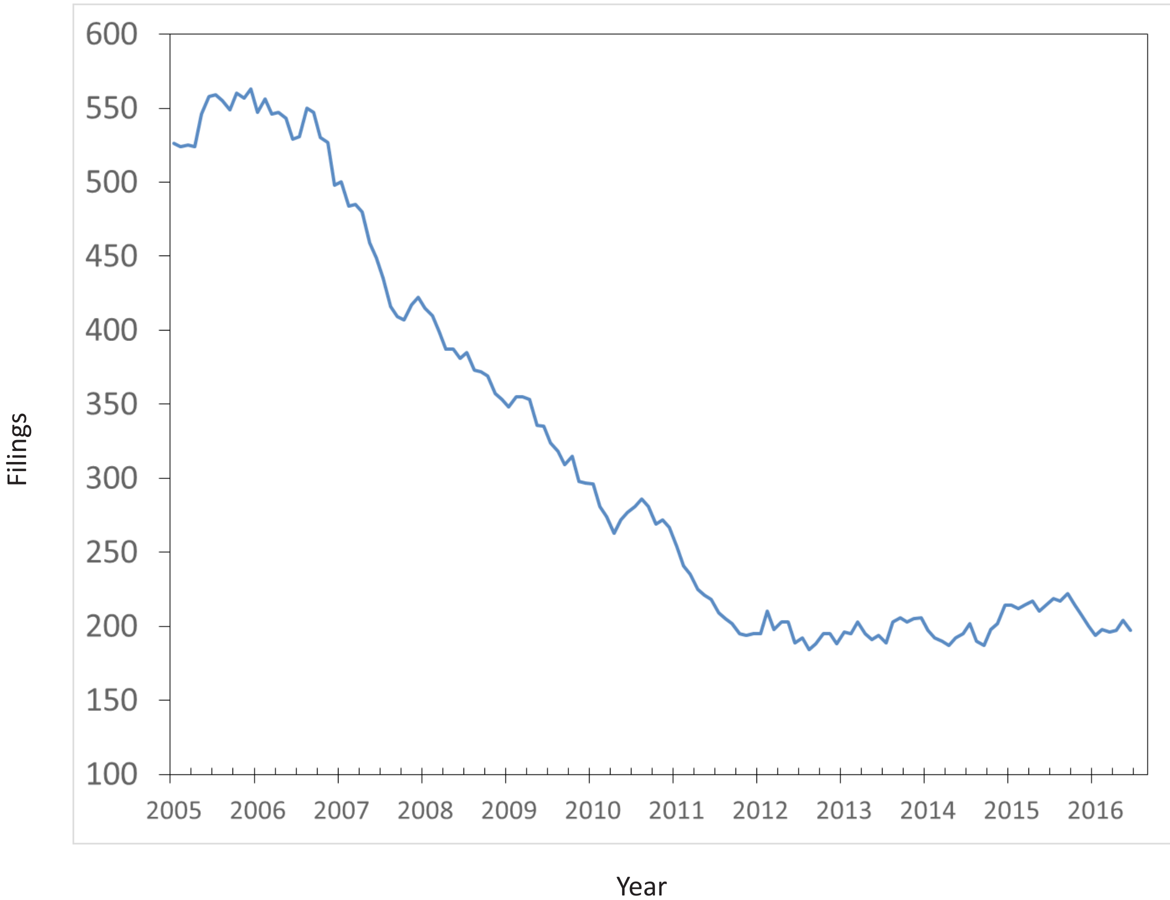
Total New Business Filings—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northeast Minnesota Total New Business Filings	559	467	487	639	584	4.5%

New filings for business incorporation were little changed from last year's second quarter. As can be seen in the accompanying graph, the 12 month moving total of Northeast Minnesota new business incorporations has flattened out since the beginning of 2012.

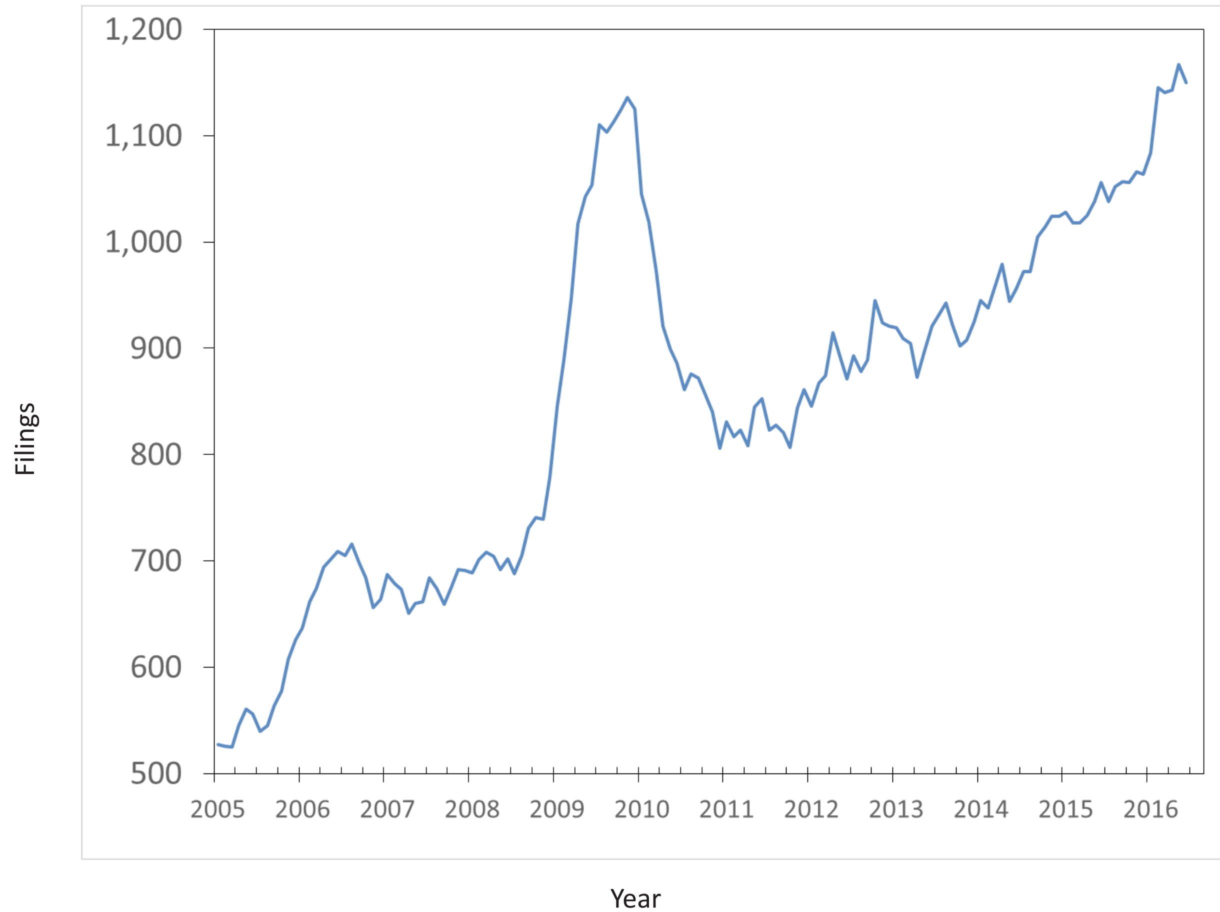
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northeast Minnesota New Business Incorporations	52	46	47	51	53	1.9%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. This trend continued in the second quarter as new LLC filings grew 3.1 percent compared to the same period one year earlier. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was 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.

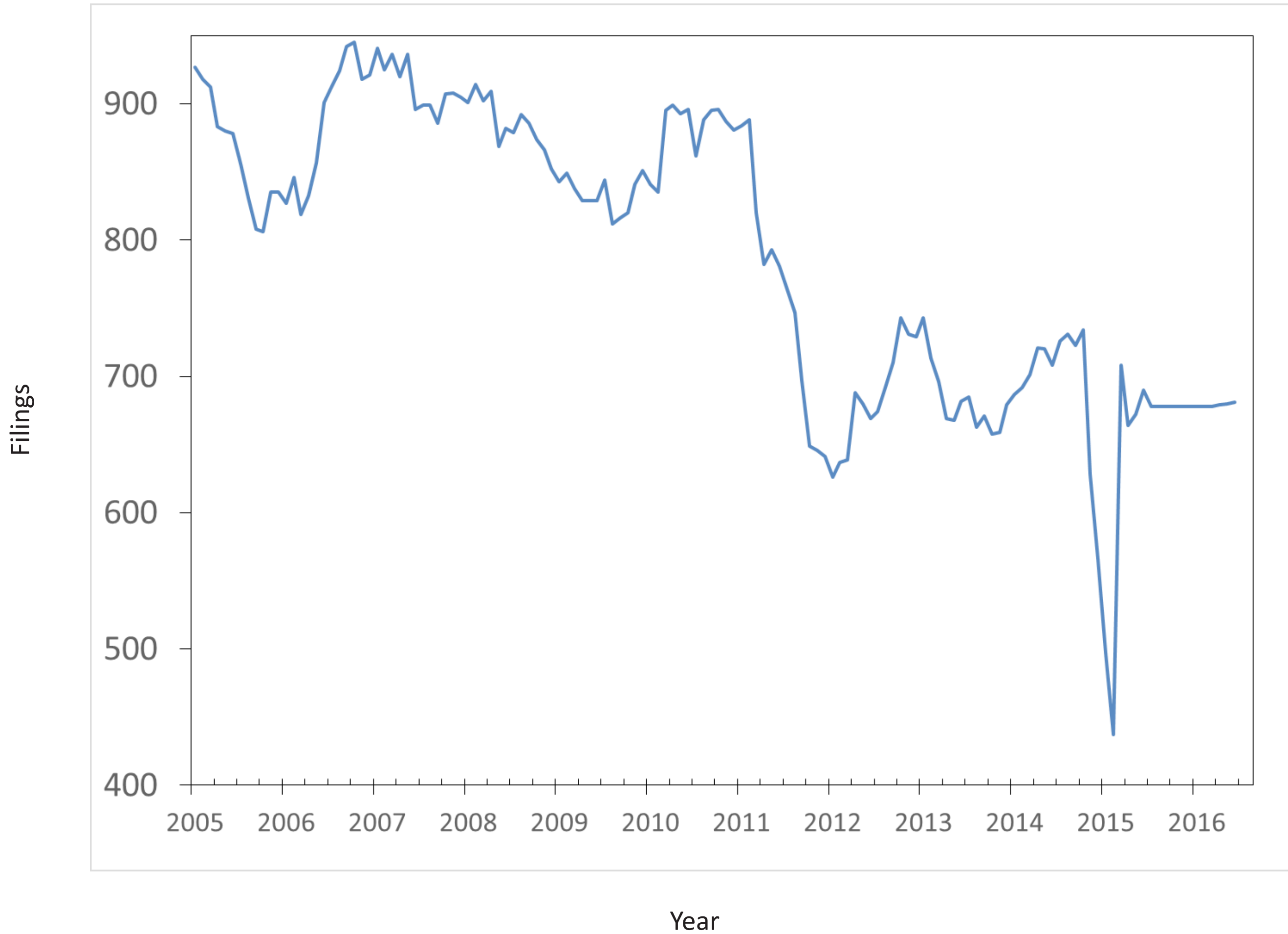
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	293	245	266	337	302	3.1%

Compared to the second quarter of 2015, assumed names increased by 3.6 percent in Northeast Minnesota. After leveling out from 2011 to 2014, new assumed names filings in Northeast Minnesota declined precipitously in 2014, but has since returned to its 2011-14 trend. However, the series still remains well below its level of the mid-2000s.

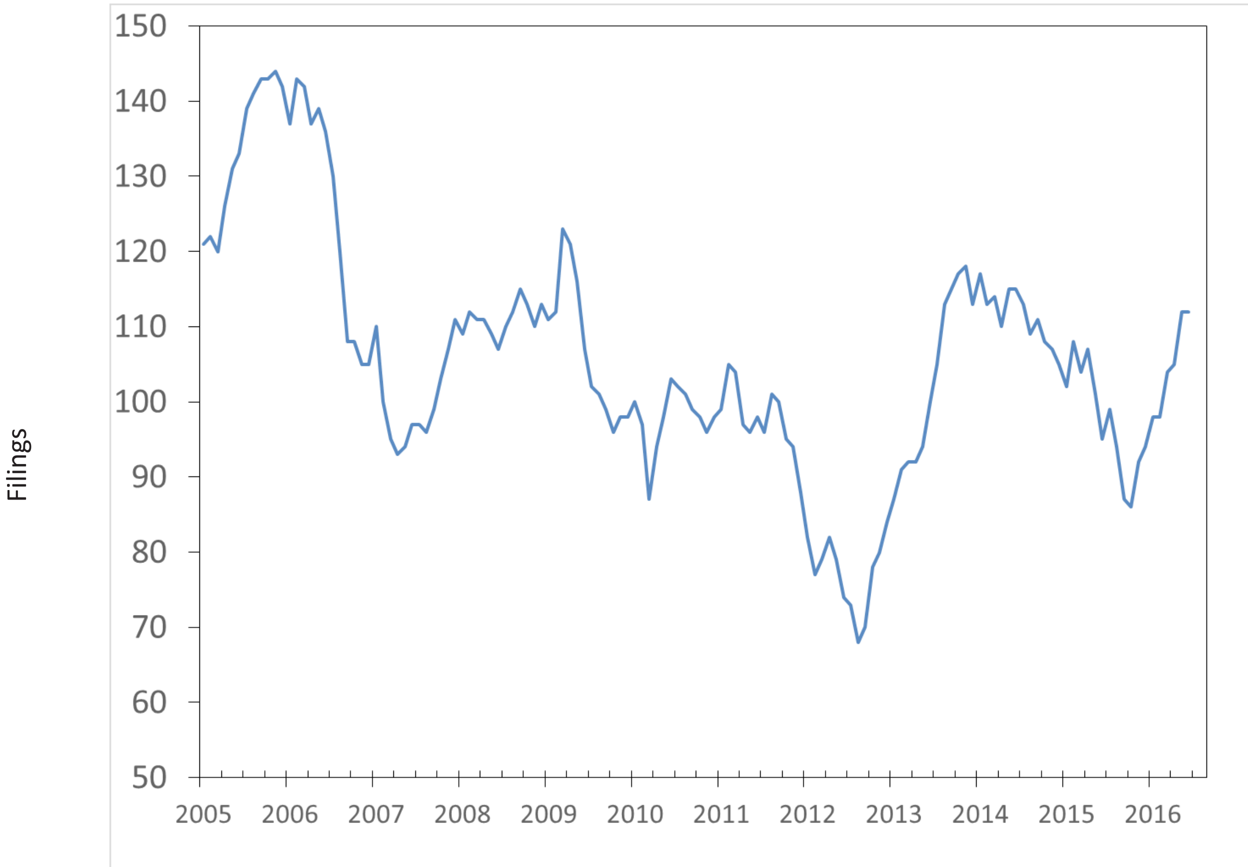
New Assumed Names—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northeast Minnesota New Assumed Names	192	159	145	215	199	3.6%

There were 30 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the second quarter of 2016, eight more than were recorded one year ago.

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

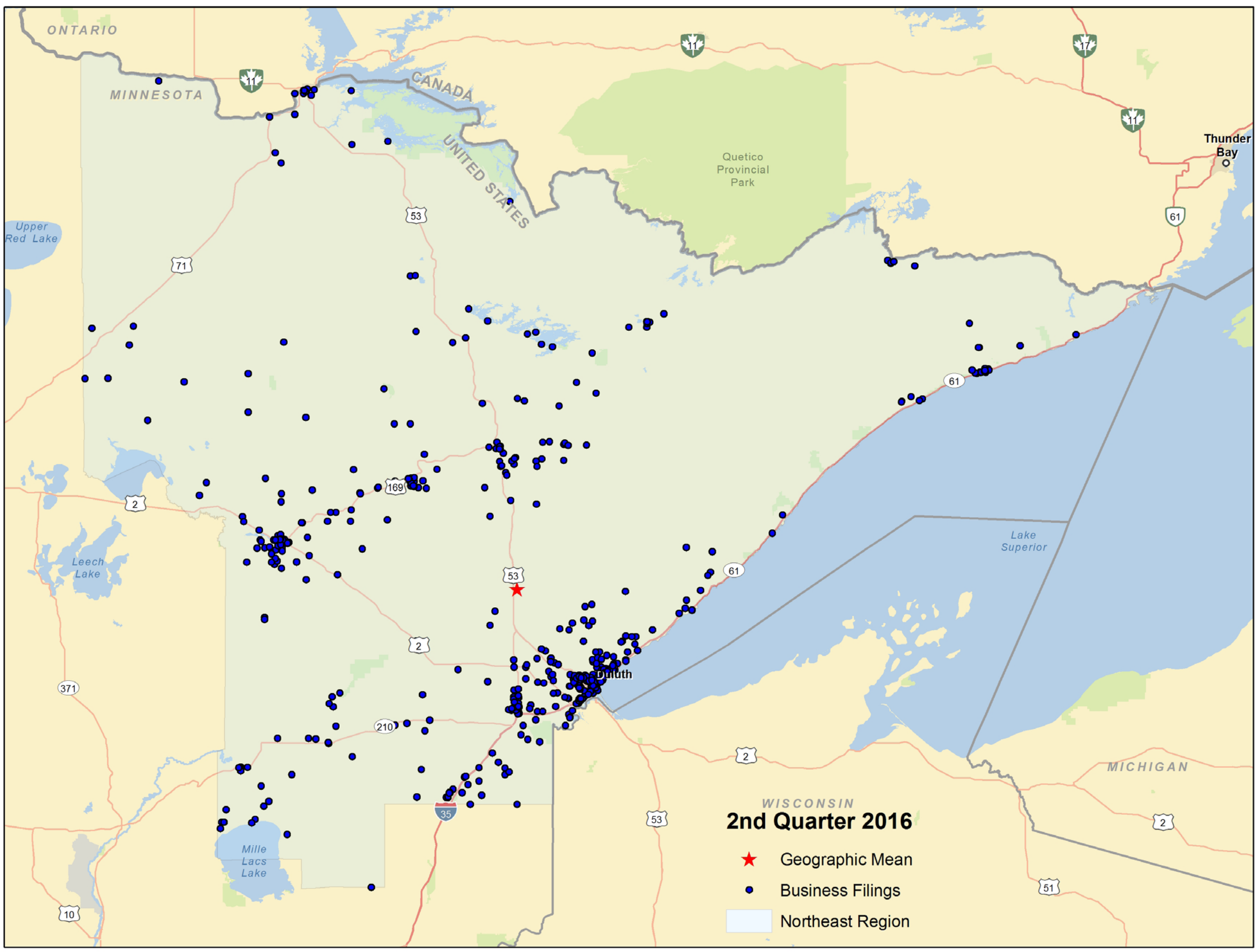


Year

Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northeast Minnesota New Non-Profits	22	17	29	36	30	36.4%

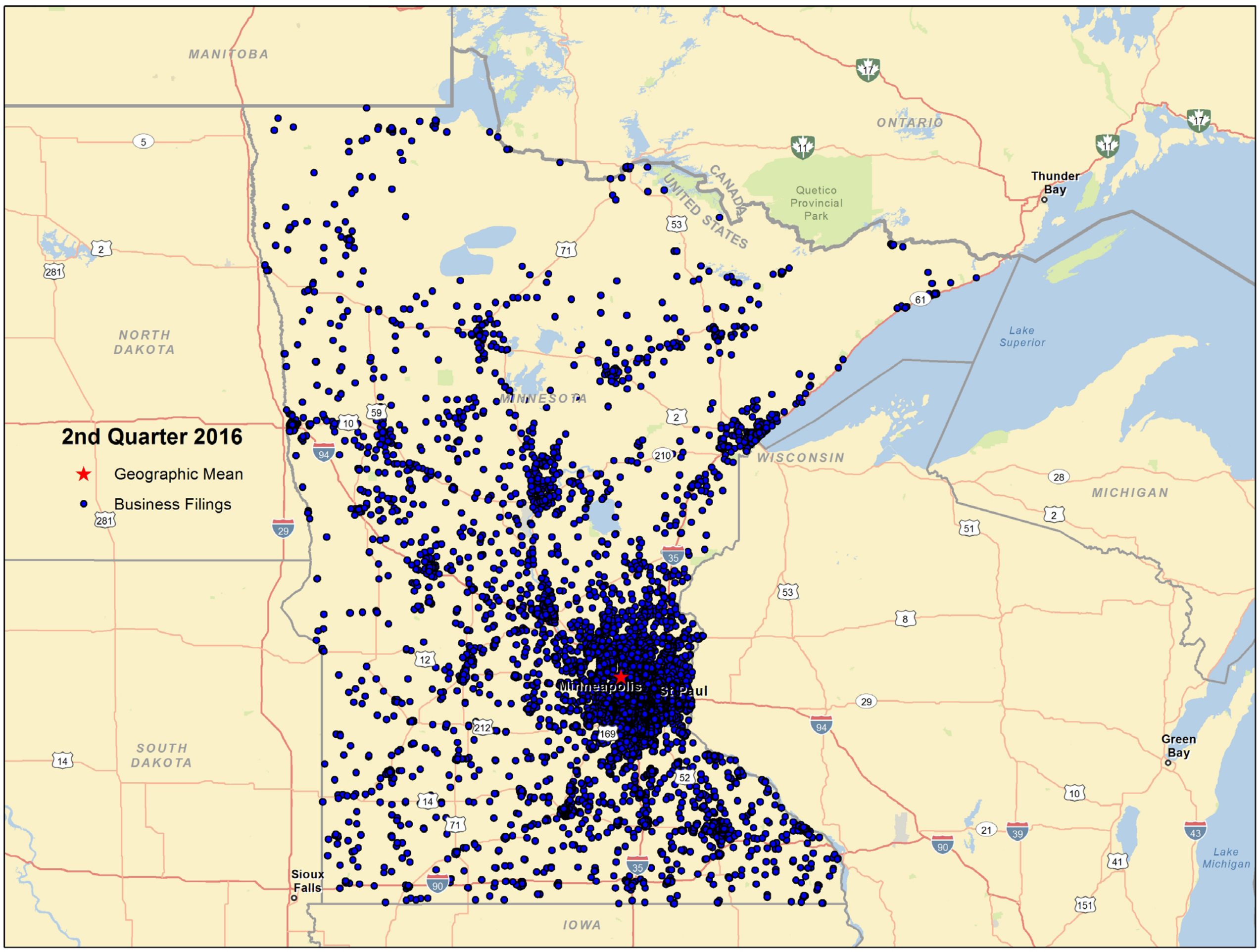
The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in the second quarter of 2016. The densest areas of new business formation are in the Duluth metro as well as along the region's well-traveled roadways. There was also a noticeable cluster of new business formation in the Grand Rapids, Hibbing, and Eveleth areas.

Northeast Minnesota Planning Area--New Business Formation--Quarter 2: 2016



The second map shows new business filings 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. The map demonstrates the importance of cities and roadways in encouraging economic development. With each passing quarter, St. Cloud, Rochester, and Mankato appear to be more connected to the Twin Cities metro.

Minnesota--New Business Formation--Quarter 2: 2016

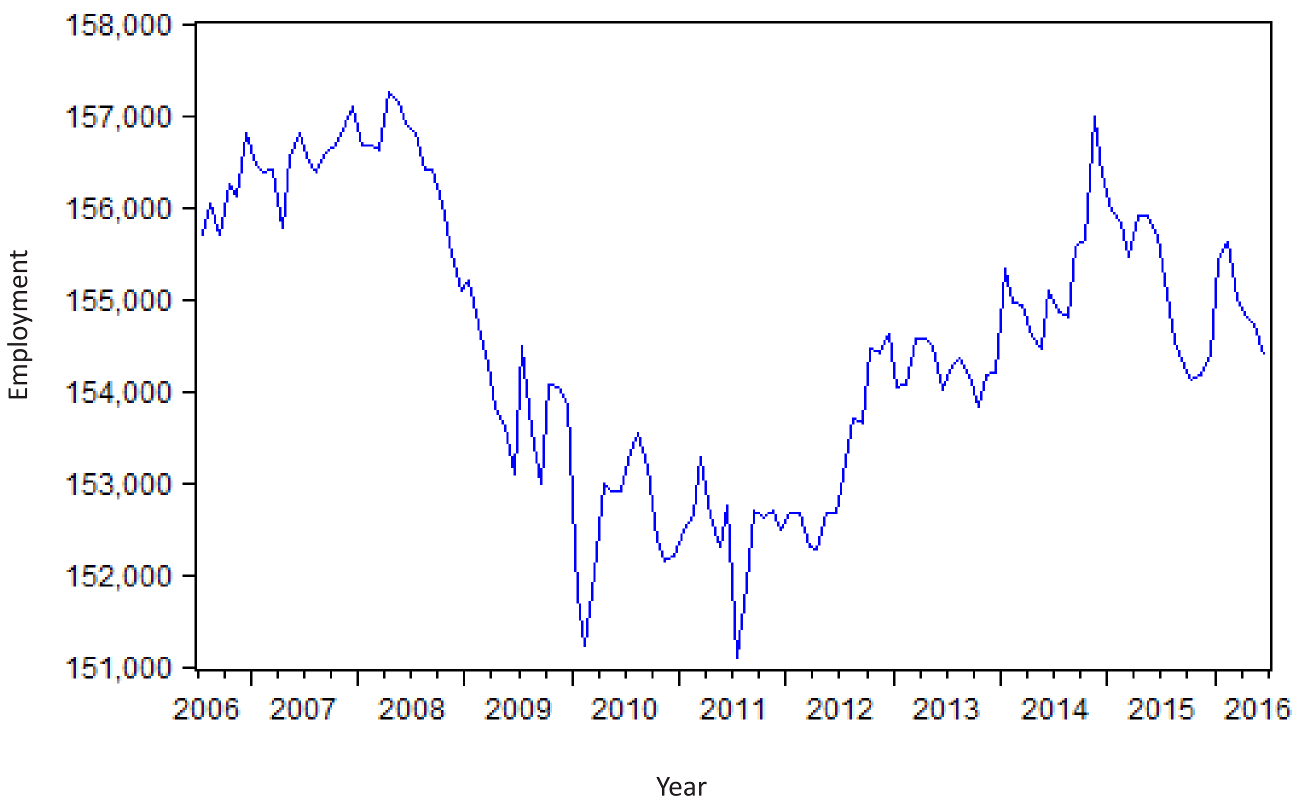


Northeast Minnesota Labor Market Conditions

June 2016 employment in the Northeast Minnesota planning area was 0.8 percent lower than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment had been slowly rising from the end of 2013 to the beginning of 2015, but this pattern reversed in the middle quarters of 2015. Employment gains tallied in last year's fourth quarter appeared to have returned this series back to its recent growth trend, but recent job loss has slowed this progress.

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.

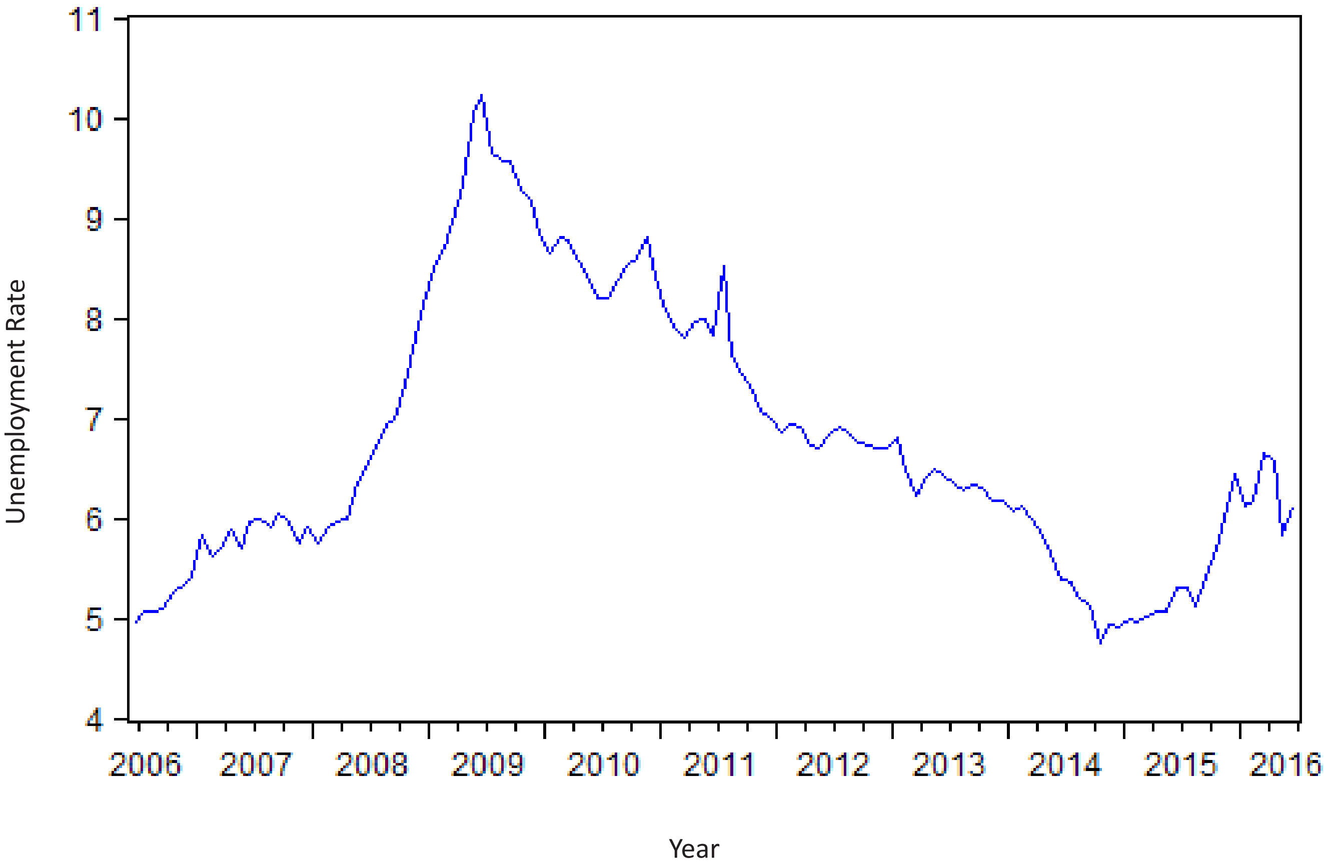
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Employment (Not seasonally adjusted)	157,804	151,599	153,409	153,107	153,724	155,501	156,509

The seasonally adjusted unemployment rate in Northeast Minnesota has been trending upward since the end of 2014. At 6.2 percent, the non-seasonally adjusted rate was substantially higher than one year earlier. The unemployment rate in Northeast Minnesota is higher than in any of Minnesota's six planning areas.

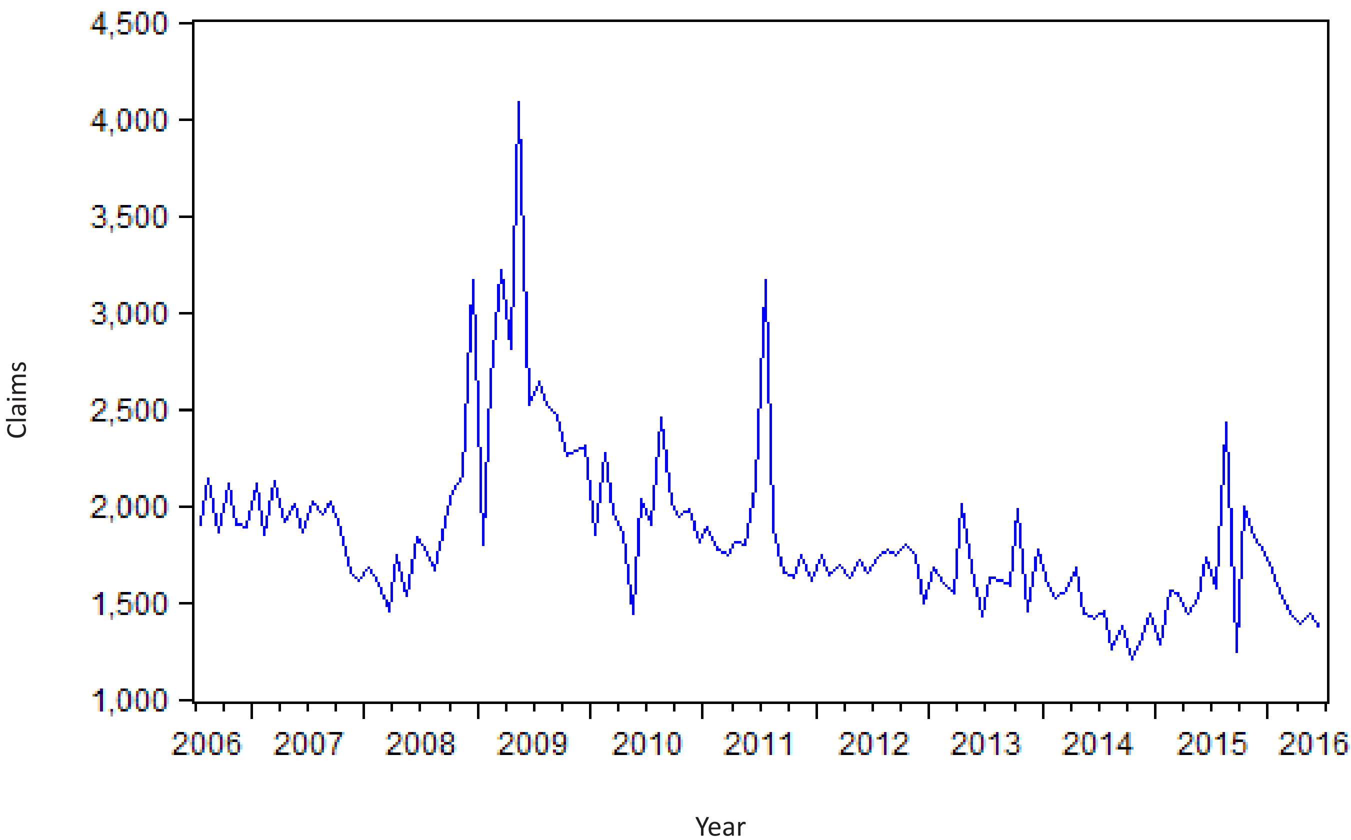
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Unemployment Rate (Not seasonally adjusted)	5.3%	7.4%	7.2%	7.8%	6.9%	5.6%	6.2%

On a seasonally adjusted basis, initial jobless claims in the Northeast region have shown considerable volatility over the past year. This quarter's initial jobless claims fell by 21.4% compared to one year earlier, which should favorably impact the regional economic outlook in future quarters.

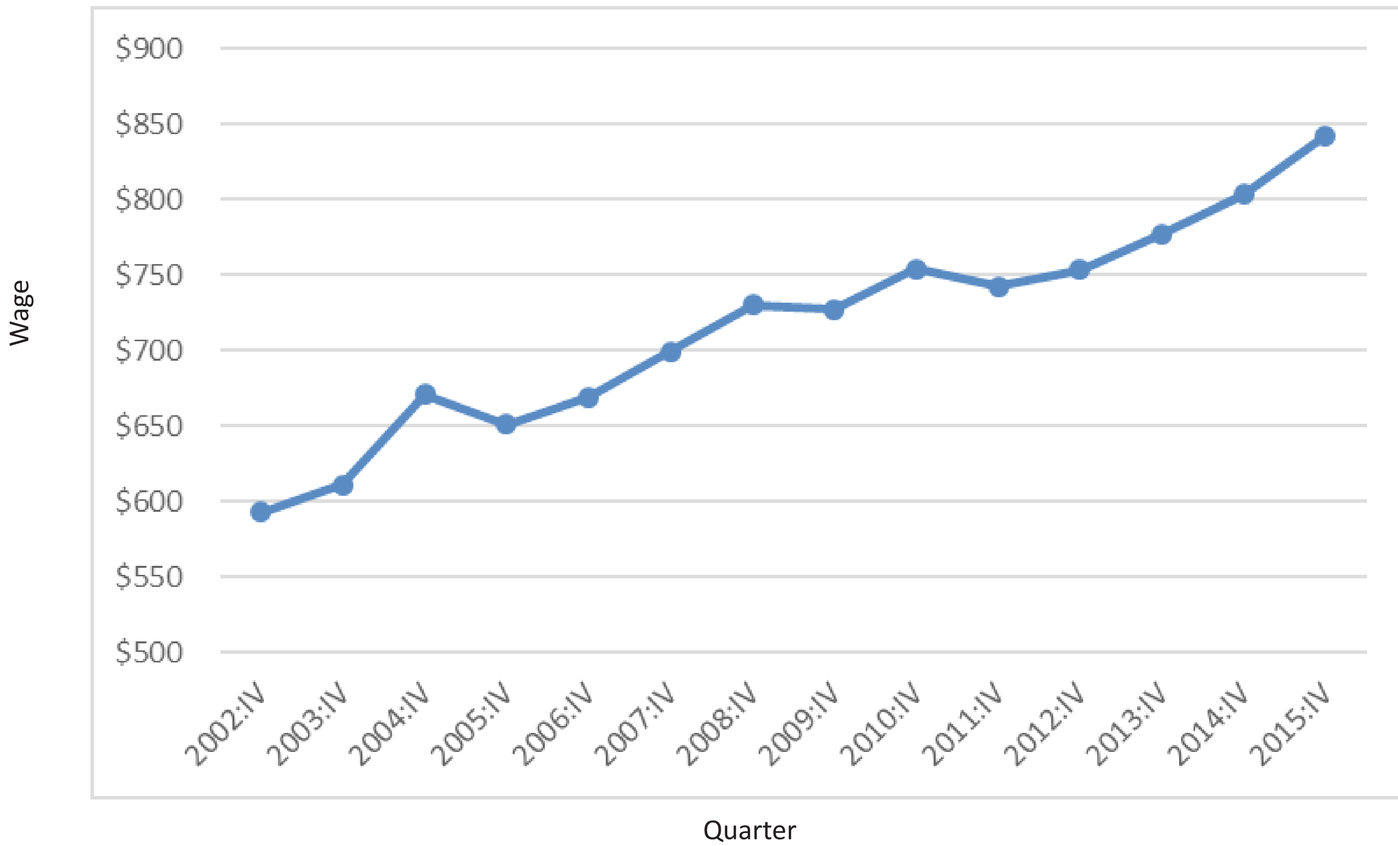
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Initial claims (Not seasonally adjusted)	1,493	1,982	1,341	1,414	1,189	1,277	1,173

The average weekly wage in the Northeast Minnesota planning area rose by 4.9% over the year ending with the fourth quarter of 2015 (this is the most recently available data). Wage growth is also being seen in Minnesota's other five planning areas.

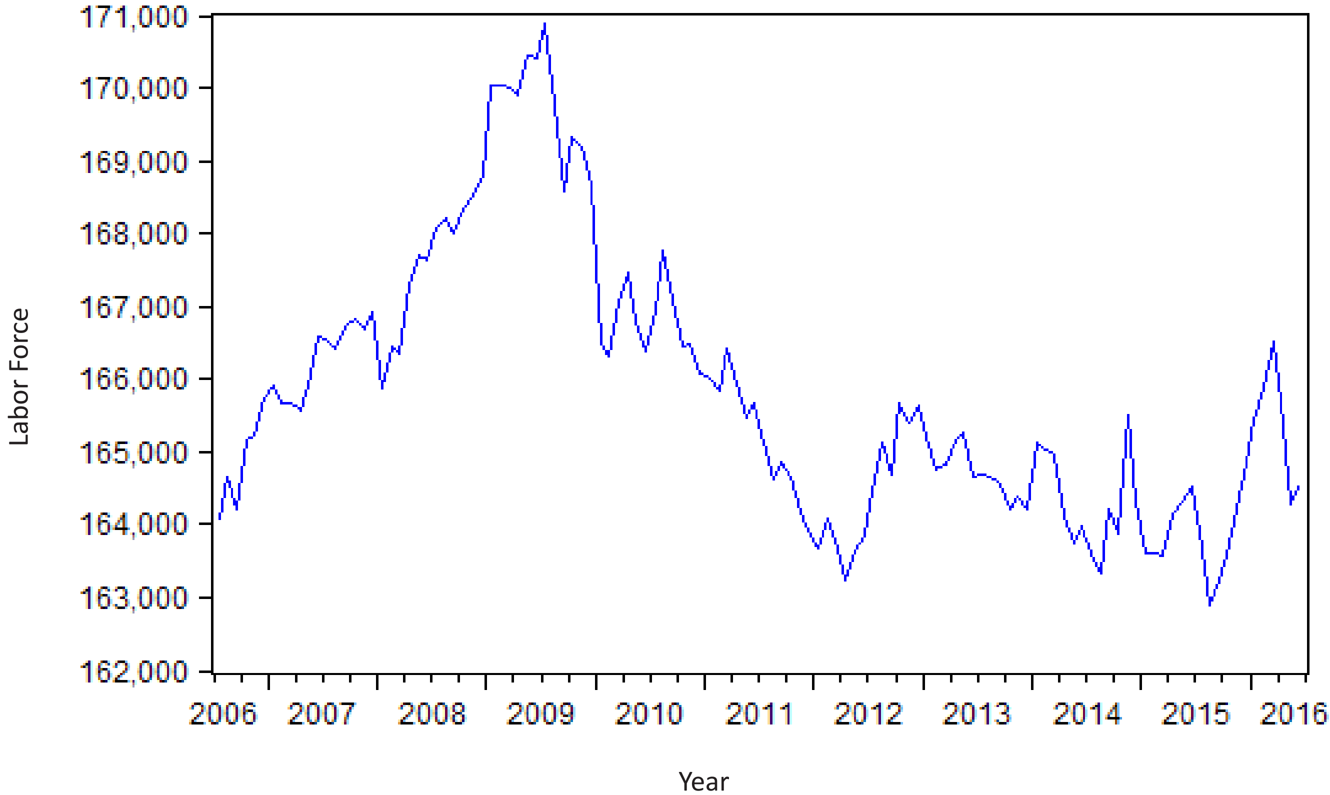
Job Vacancies per 100 Unemployed--Northeast Minnesota Planning Area



Quarter	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV	2015:IV
Average Weekly Wage	$754	$742	$753	$777	$803	$842

The size of the Northeast Minnesota labor force was little changed over the past year. Using a 12-month moving average to account for seasonality, the regional labor force numbers appear to be showing more volatility in recent quarters.

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

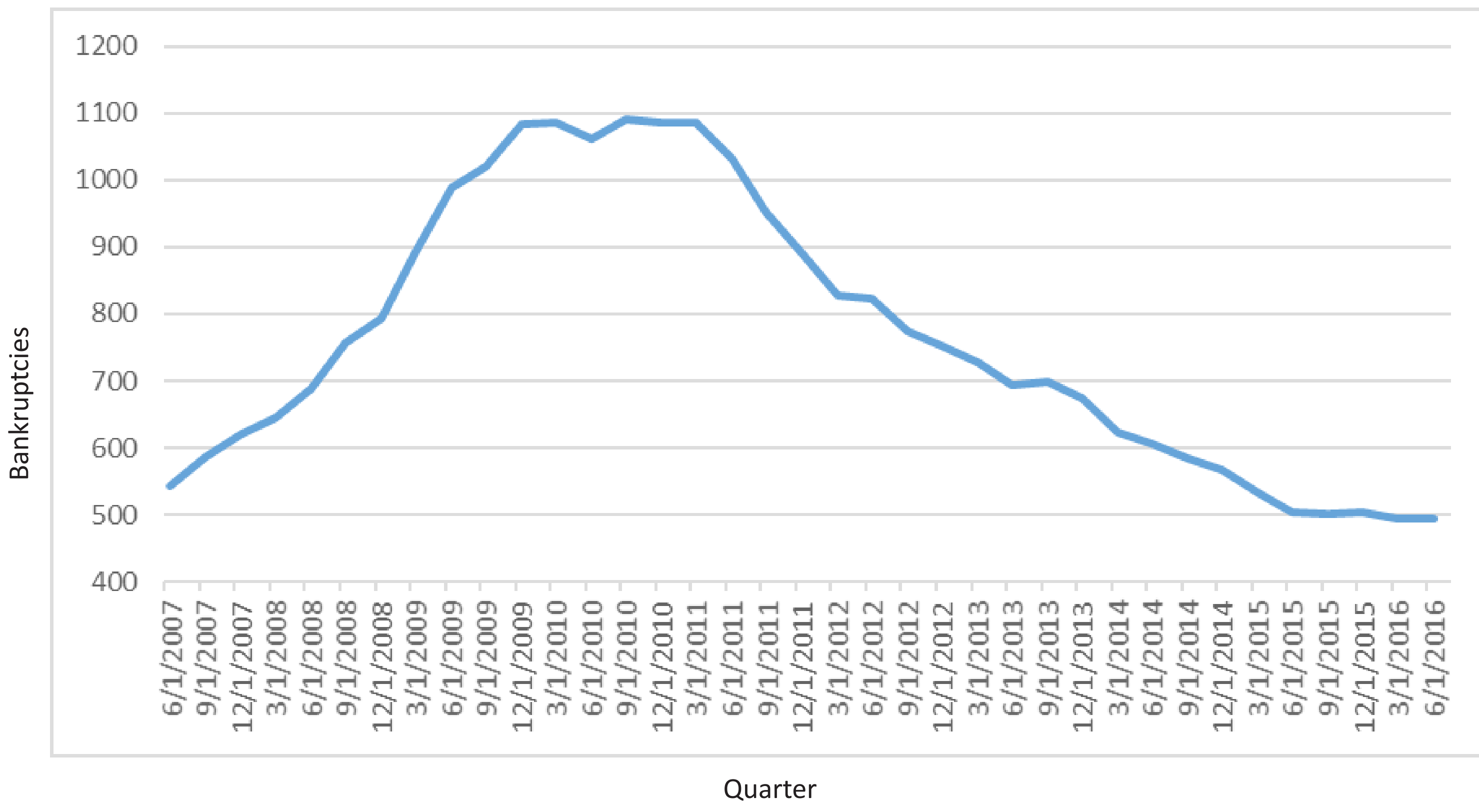


Year (June)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	167,984	166,131	166,894	166,202	166,713	166,767

Northeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Northeast 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 until the third quarter of 2009, then leveled out for a few quarters. The series gradually declined until the middle part of 2015. Since that time, Northeast Minnesota bankruptcies have leveled out at an historically low level.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	1,033	824	694	605	504	495

Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2016 (m)	136,481	137,547	-0.8% ↓	0.2%
Manufacturing Employment	June 2016 (m)	6,923	7,609	-9.0% ↓	-2.2%
Educational and Health Sector Employment	June 2016 (m)	31,607	30,722	2.9% ↑	2.8%
Average Weekly Work Hours-Private Sector	June 2016 (m)	33.5	33.6	-0.3% ↓	32.4 (since 2007)
Average Earnings Per Hour-Private Sector	June 2016 (m)	$24.14	$24.55	-1.7% ↓	3.7% (since 2007)
Unemployment Rate	June 2016 (m)	5.8%	5.2%	NA ↑	6.1%
Labor Force	June 2016 (m)	144,506	144,579	-0.1% ↓	0.0%
Duluth-Superior Residential Building Permit Valuation, in thousands	June 2016 (m)	1,693	3,351	-49.5% ↓	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mostly negative in the recent quarter. Overall employment fell by 0.8 percent over the year ending June 2016 but employment in the key education/health sector (where more than 30,000 people have jobs) rose. The length of the average workweek and average hourly earnings each fell. The area unemployment rate also increased and the labor force contracted. The value of residential building permits in the Duluth/Superior MSA declined from levels reported one year earlier.

State and National Indicators

MINNESOTA Indicators	Jun 2016	Mar 2015	Jun 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,891,800	2,876,200	2,859,500	0.5%	1.1%
Average weekly hours worked, private sector	34.3	33.5	34.1	2.4%	0.6%
Unemployment rate, seasonally adjusted	3.8%	3.8%	3.6%	NA	NA
Earnings per hour, private sector	$26.64	$27.05	$25.71	-1.5%	3.6%
Philadelphia Fed Coincident Indicator, MN	180.34	179.04	175.78	0.7%	2.6%
Philadelphia Fed Leading Indicator, MN	1.70	1.31	1.50	29.8%	13.3%
Minnesota Business Conditions Index	51.6	50.7	54.3	1.8%	-5.0%
Price of milk received by farmers (cwt)	$15.00	$15.80	$17.90	-5.1%	-16.2%
Enplanements, MSP airport, thousands	1,725.6	1,662.9	1,680.9	3.8%	2.7%

NATIONAL Indicators	Jun 2016	Mar 2015	Jun 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	144,193	143,733	141,724	0.3%	1.7%
Industrial production, index, SA	104.1	103.4	104.9	0.7%	-0.8%
Real retail sales, SA ($)	190,850	188,259	187,323	1.4%	1.9%
Real personal income less transfers ($, bill.)	11,849.7	11,828.7	11,661.1	0.2%	1.6%
Real personal consumption expenditures ($, bill.)	11,514.3	11,374.4	11,199.2	1.2%	2.8%
Unemployment rate, SA	4.9%	5.0%	5.3%	NA	NA
New building permits, SA, thousands	22,634	19,300	24,190	17.3%	-6.4%
Standard & Poor's 500 stock price index	2,083.9	2,022	2,099	3.1%	-0.7%
Oil, price per barrel in Cushing, OK	$48.76	$37.55	$59.82	29.9%	-18.5%

Across the state there was growth in payrolls, higher earnings per hour, and more average weekly hours worked in the private sector over the past twelve months (note that June earnings were lower than three months earlier). The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy. The Minnesota Business Conditions index improved over the past three months, but was lower than year ago levels. Milk prices continue to fall across the state. As was noted in last quarter's report, 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 2.7 percent over the last twelve months.

The national economic indicators reported in the table are mixed. Over the past twelve months, industrial production and stock prices declined, building permits are lower, and oil prices have continued to fall. However, employment, consumer expenditures, and income all experienced growth over the recent quarter (and year) and the national unemployment rate fell. Retail sales improved. This all seems to fit with a general outlook of positive growth that is lower than normal for the U.S. economy. While there is little fear of recession, sluggish growth conditions persist.

The Northeast 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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Sources

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Federal Reserve Bank of Philadelphia: Minnesota Coincident Indicator Index, Minnesota Leading Indicators Index.

Federal Reserve Board of Governors: Industrial Production.

Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.

Metropolitan Airports Commission: MSP Enplanements.

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: 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.

U.S. Energy Information Administration: Oil Prices.