Southwest 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 Southwest Minnesota Planning Area consists of 23 counties: Big Stone; Blue Earth; Brown; Chippewa; Cottonwood; Faribault; Jackson; Lac qui Parle; Le Sueur; Lincoln; Lyon; Martin; Murray; Nicollet; Nobles; Pipestone; Redwood; Rock; Sibley; Swift; Waseca; Watonwan; and Yellow Medicine.

Office of the Minnesota
Secretary of State

School of Public Affairs
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TABLE OF CONTENTS

Executive Summary

A steady improvement in economic conditions in Southwest Minnesota is expected over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI). While three of four LEI components were negative in the second quarter, a decline in initial jobless claims in recent months helped keep the index in positive territory in the second quarter. After rising 3.14 points in the first quarter, the Southwest Minnesota LEI increased by 1.27 points in the current quarter. A weakness in the rural outlook, some sluggishness in new business filings earlier in the year, and a smaller number of residential building permits in Mankato earlier in 2016 served as a drag on the leading index in the second quarter. Like elsewhere around the state, the overall economic outlook in Southwest Minnesota is one in which growth is expected, albeit at a rate that is slower than normal.

There were 697 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the second quarter of 2016 — representing 7.9 percent more new filings than one year earlier. There were 56 new regional business incorporation filings in the second quarter, a 5.1 percent reduction over last year's second quarter. New LLC filings in Southwest Minnesota rose by 14.5 percent—increasing to 411 in the second quarter of 2016. New assumed names totaled 194 in the second quarter—3 percent fewer filings than in June 2015. There were thirty-six new filings for Southwest Minnesota non-profit in the second quarter—eight more than one year earlier.

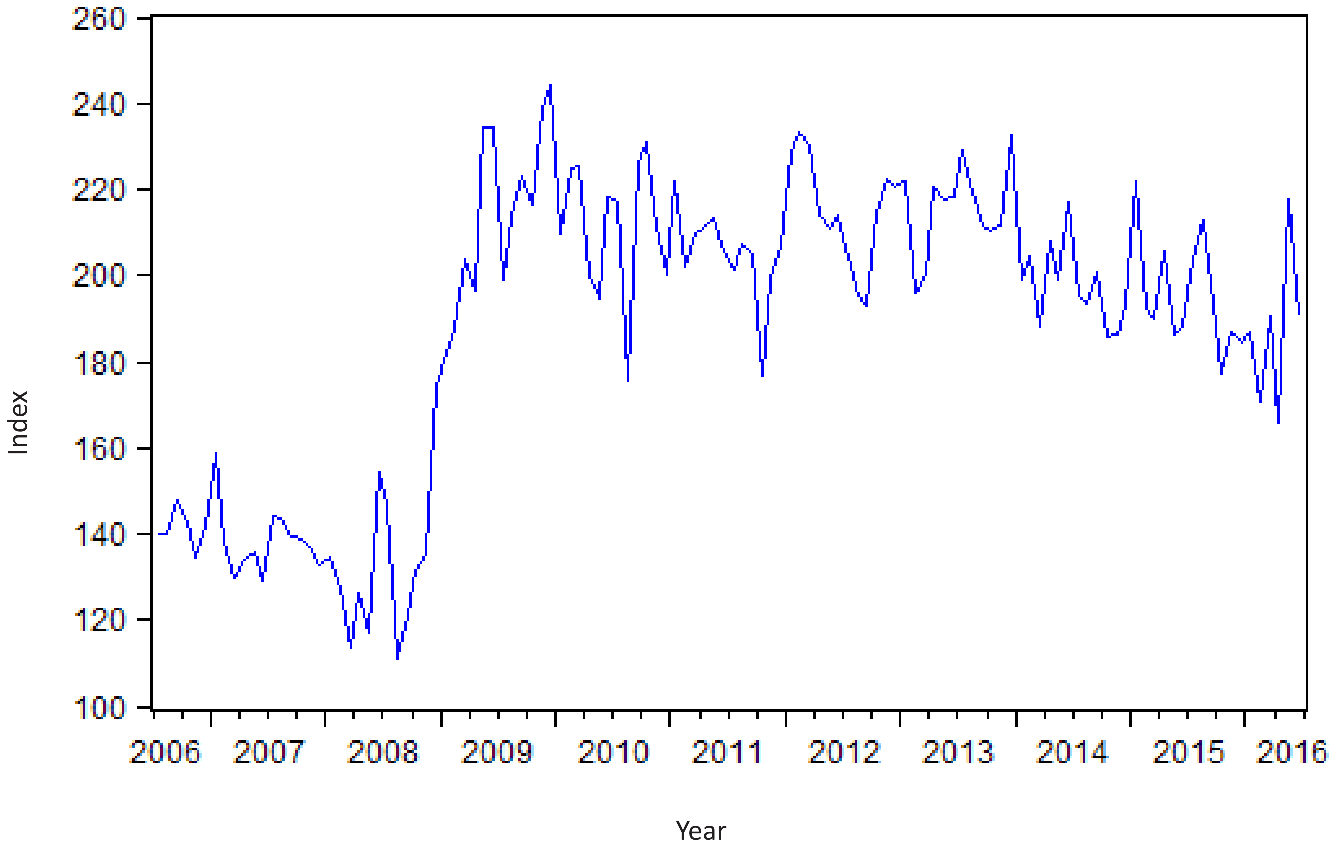
Employment of Southwest Minnesota residents declined by 1.2 percent over the year ending June 2016. 2,545 fewer Southwest Minnesota residents have jobs than did one year earlier. The regional unemployment rate was 4.1 percent in June, an increase from a 3.8 percent reading in June 2015. Initial claims for unemployment insurance rose by 158 from year-ago levels in June—a 12.9 percent increase. The Southwest Minnesota labor force contracted by 2,055 (a 0.9 percent decrease) over the year ending June 2016. The average weekly wage in Southwest Minnesota rose at a 4.3 percent rate to a level of $783 in the fourth quarter of 2015. Southwest Minnesota bankruptcies have begun flattening out at historically low levels in recent quarters.

There was a mostly favorable economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota—in the most recent quarter. On the positive side, average hourly earnings rose, employment increased, the labor force expanded, total new business filings rose, the value of building permits accelerated, and the relative cost of living declined. This was partially offset by a decline in the length of the workweek, higher initial jobless claims, and a larger unemployment rate.

Southwest Minnesota Leading Economic Indicators Index

The SCSU Southwest 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 rose by 1.27 points in the second quarter and is now 1.4 percent above its level in June 2015. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has been highly variable since the end of the Great Recession but had slowly drifted downward since the end of 2013. This trend appears to have been reversed since the beginning of 2016.

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



Components of SCSU Southwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2016	Contribution to LEI, 1st quarter 2016
Rural Mainstreet Index	-0.43	6.20
Southwest Minnesota initial claims for unemployment insurance	2.81	-3.92
Southwest Minnesota new filings of incorporation and LLCs	-0.68	1.93
Mankato MSA single-family building permits	-0.43	-1.07
TOTAL CHANGE	**1.27**	**3.14**

The Southwest Minnesota LEI has four components, three of which decreased in the second quarter. A recent decrease in the number of initial jobless claims contributed favorably to the index, but weakness in new business filings for incorporation and LLC earlier in the year, and a smaller number of Mankato/North Mankato Metropolitan Statistical Area (MSA) single family residential building permits weighed on the LEI. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns with average population of 1,300 in ten Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. This index also had an unfavorable impact on the LEI in the most recent quarter.

SCSU Southwest Minnesota Leading Economic Indicators Index

	2016	2015	Percentage Change
Rural Mainstreet Index, Creighton University June	44.1	52.6	-16.2%
Southwest Minnesota initial claims for unemployment insurance June	1,382	1,224	12.9%
Southwest Minnesota new filings of incorporation and LLCs Second Quarter	467	418	11.7%
Mankato MSA single-family building permits June	12	10	20.0%
Southwest Minnesota Leading Economic Indicators Index June (June 1999 = 100)	190.8	188.2	1.4%

Southwest Minnesota Business Filings

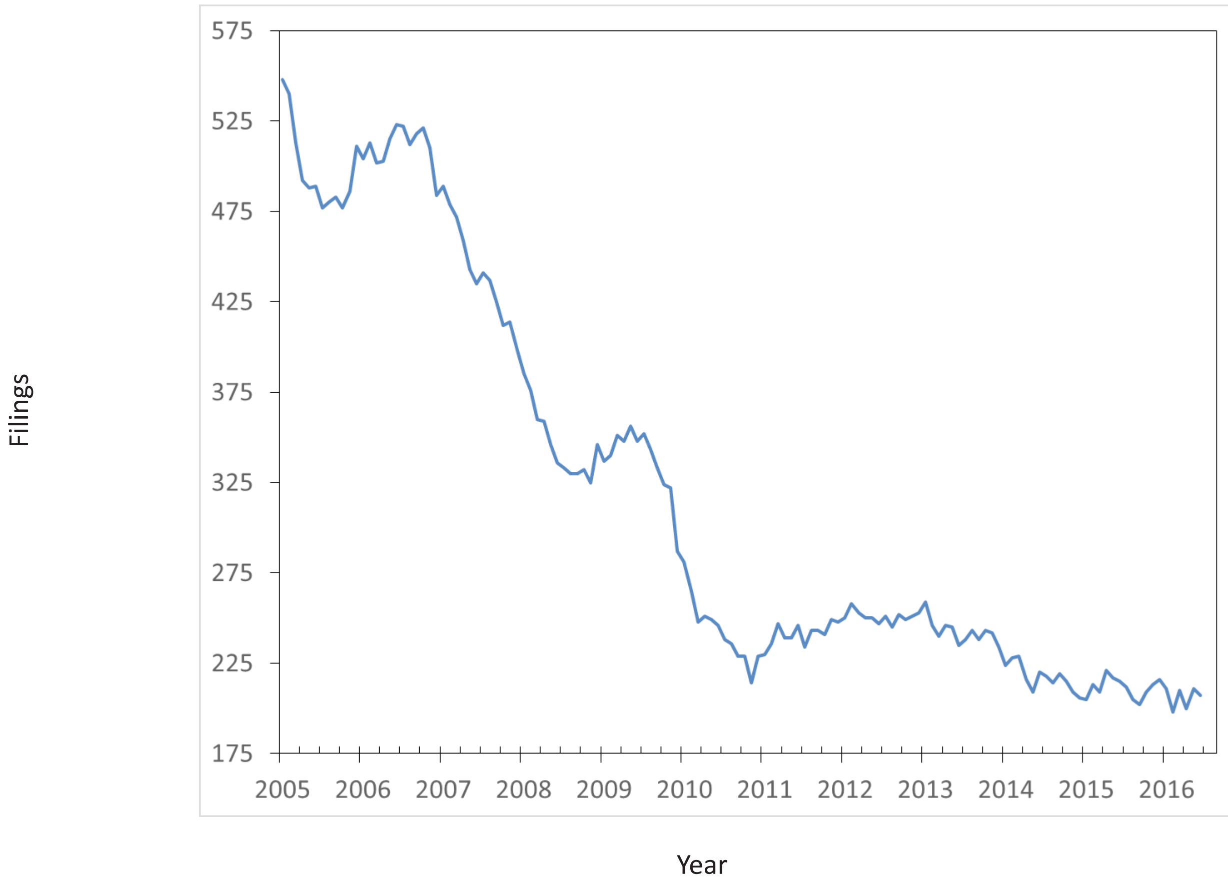
The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings rose by 7.9 percent from year earlier levels in the second quarter. This series has now begun to rise again after declining throughout much of 2015. Note that the abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier 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 (although less so in the southwest region).

Total New Business Filings—Southwest 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
Southwest Minnesota Total New Business Filings	646	518	550	665	697	7.9%

New business incorporations trended downward sharply in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend has resumed. Second quarter 2016 new regional incorporations decreased by 5.1 percent compared to the same quarter in 2015.

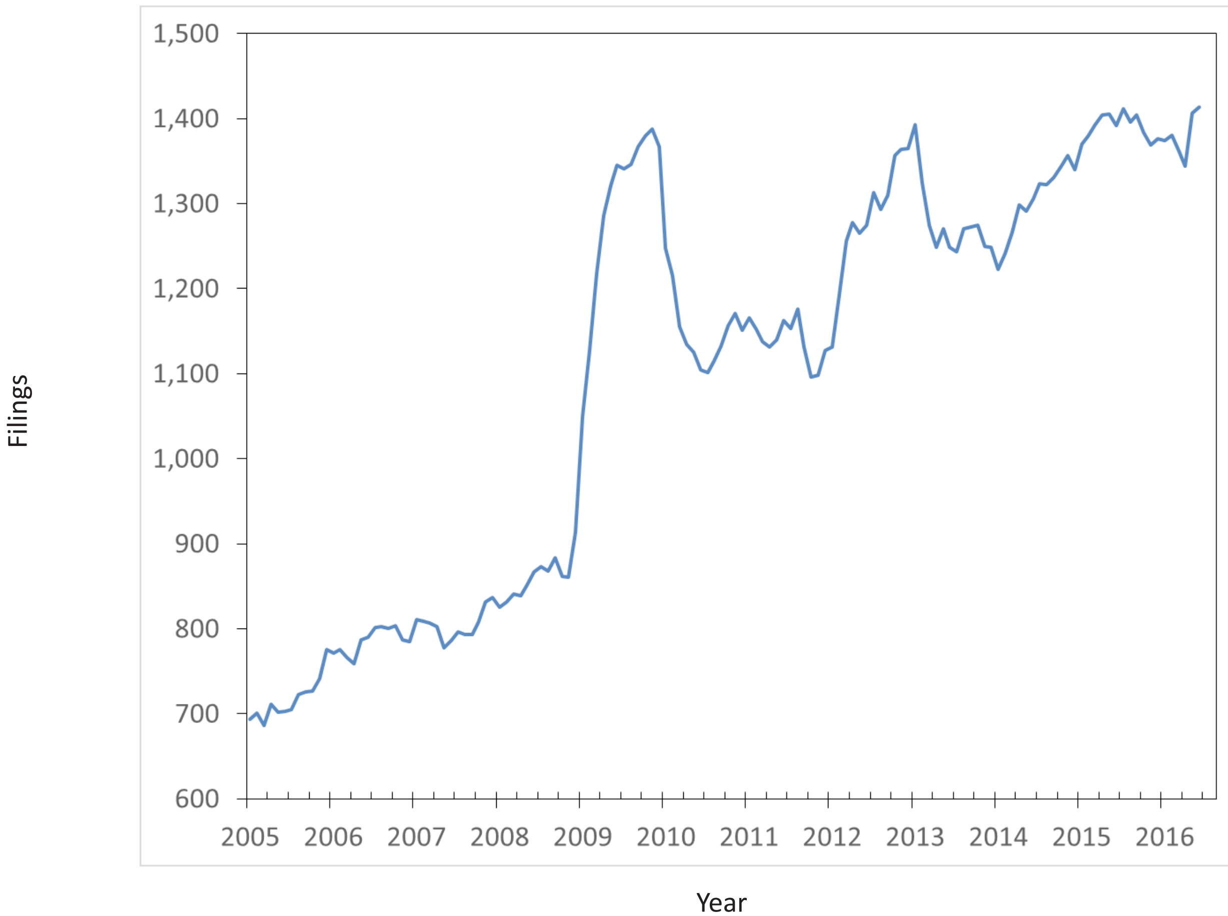
New Incorporations—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Southwest Minnesota New Business Incorporations	59	34	61	56	56	-5.1%

There has been a move in Southwest Minnesota, as in the rest of the state, away from traditional incorporation and towards the limited liability company (LLC). While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Southwest Minnesota since 2005. After sluggishness in 2015, this growth trend appears to have resumed in the recent quarter. New LLC filings jumped 14.5 percent compared to one year earlier in the most recent quarter.

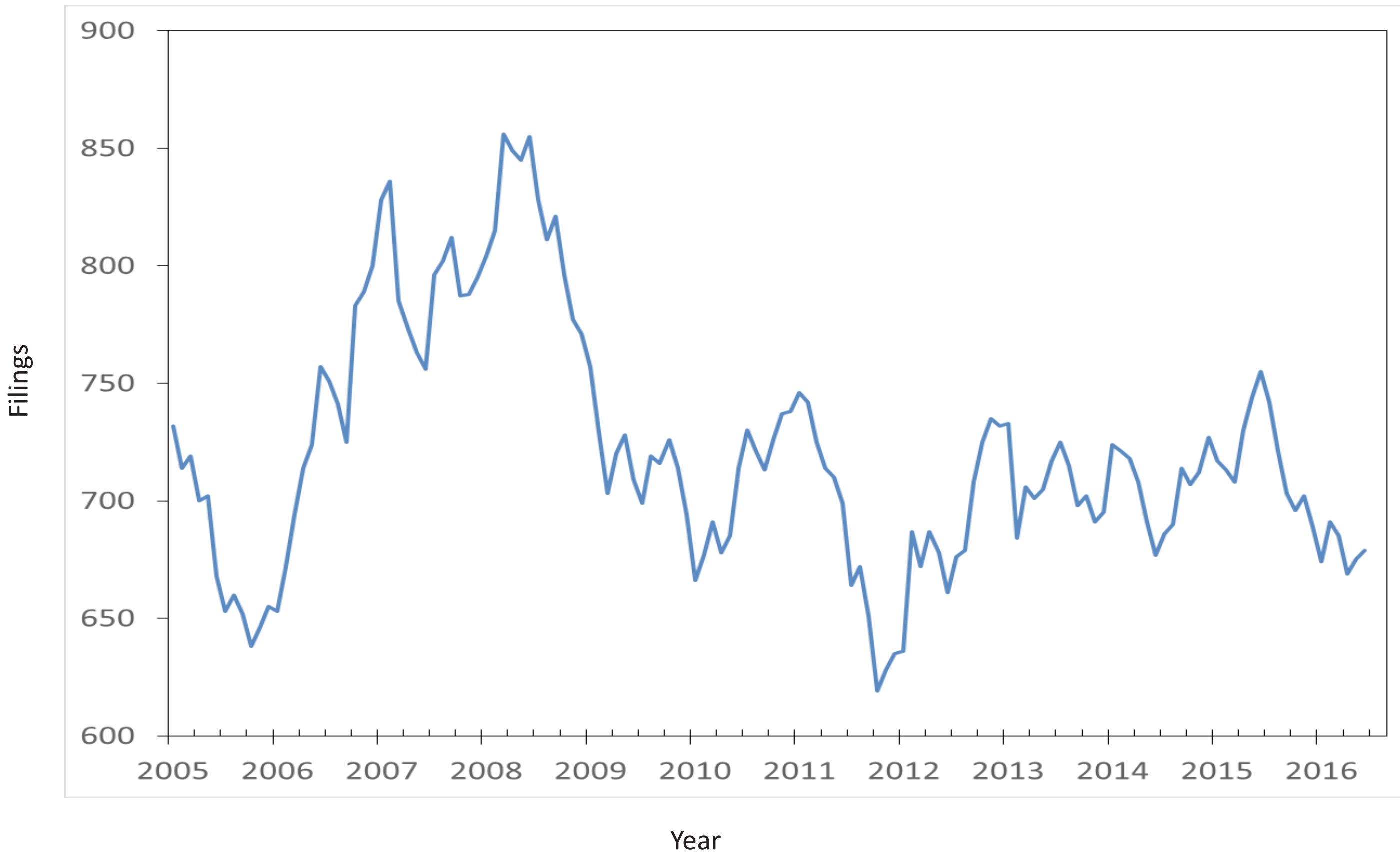
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	359	321	291	391	411	14.5%

Second quarter assumed names fell by 3 percent compared to the same period in 2015. As can be seen in the accompanying figure, while this series has been very volatile in recent years, new assumed names are little changed since the beginning of 2013.

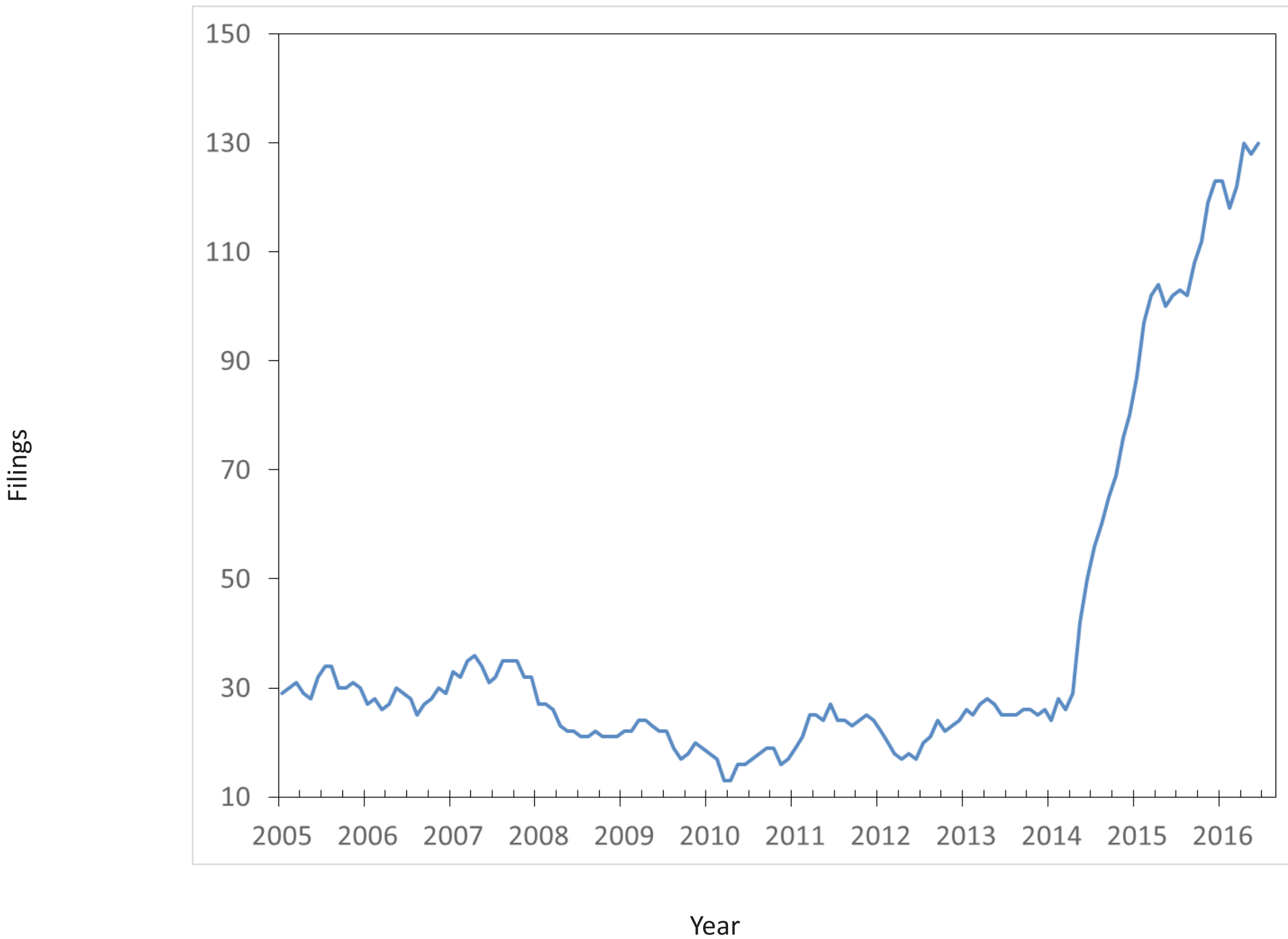
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Southwest Minnesota New Assumed Names	200	132	163	190	194	-3.0%

There were 36 newly registered non-profits in the second quarter. This is eight more than one year ago. As can be seen in the graph below, the non-profits series has increased considerably since the beginning of 2014.

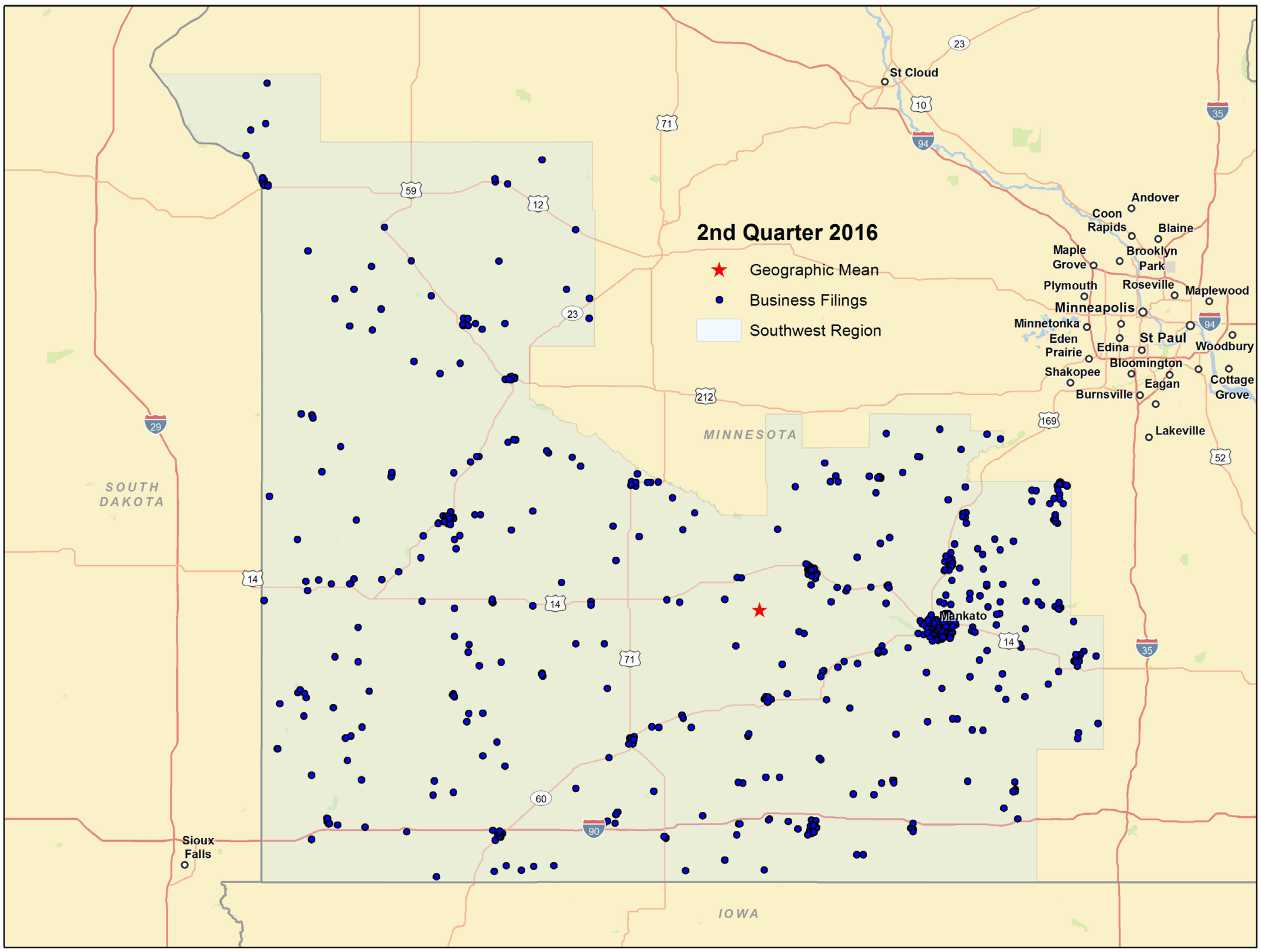
New Non-Profits—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Southwest Minnesota New Non-Profits	28	31	35	28	36	28.6%

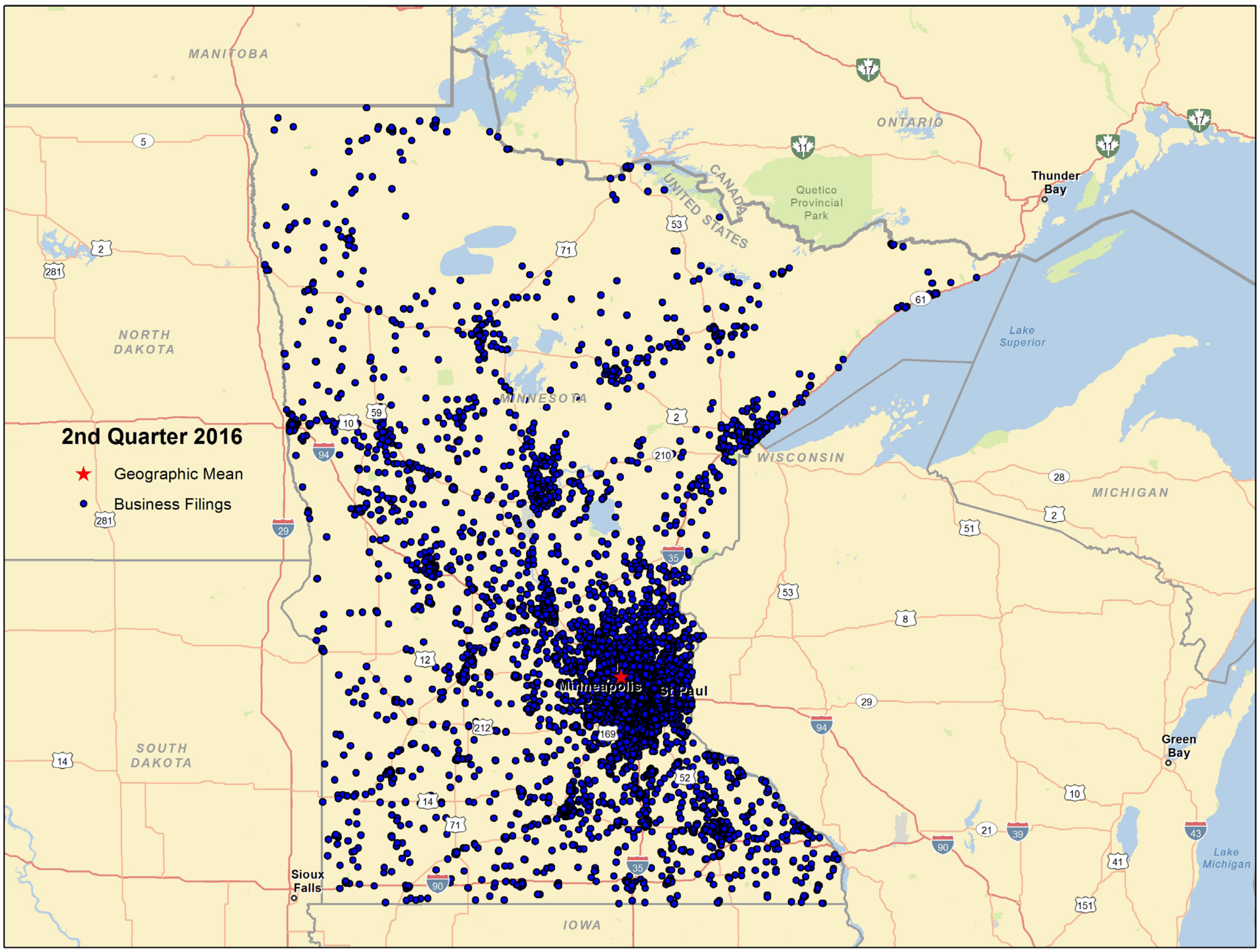
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the second quarter of 2016. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, Redwood Falls, Worthington, Fairmont, New Ulm, New Prague, Waseca, Granite Falls, Montevideo and St. Peter. Well-traveled roadways are also a predictor of new business formation in Southwest Minnesota.

Southwest 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

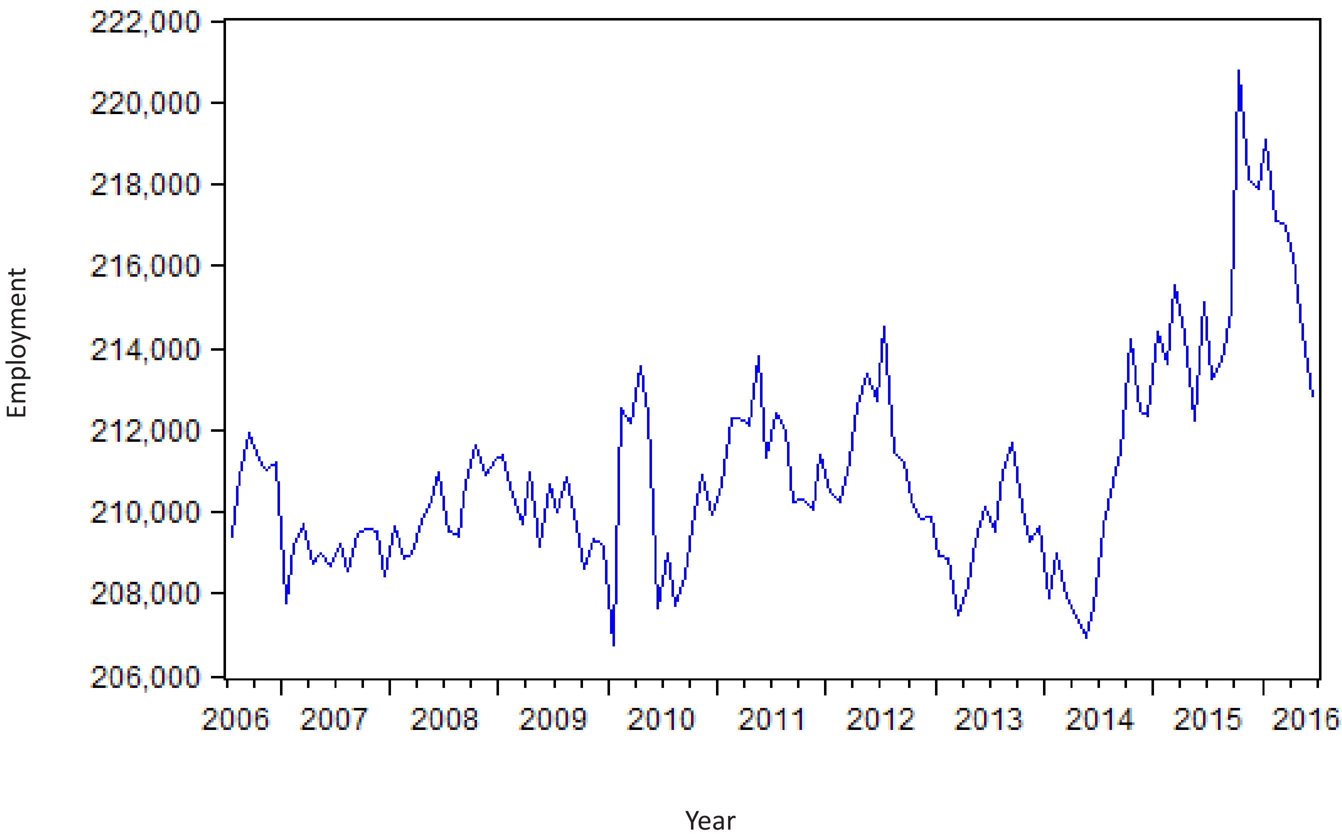


Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area fell by 1.2 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average trended upward from the middle of 2014 until the end of 2015, but has declined precipitously in the last three quarters. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in June 2016 (see accompanying table) was 214,522, a decrease of 2,545 over the prior year.

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.

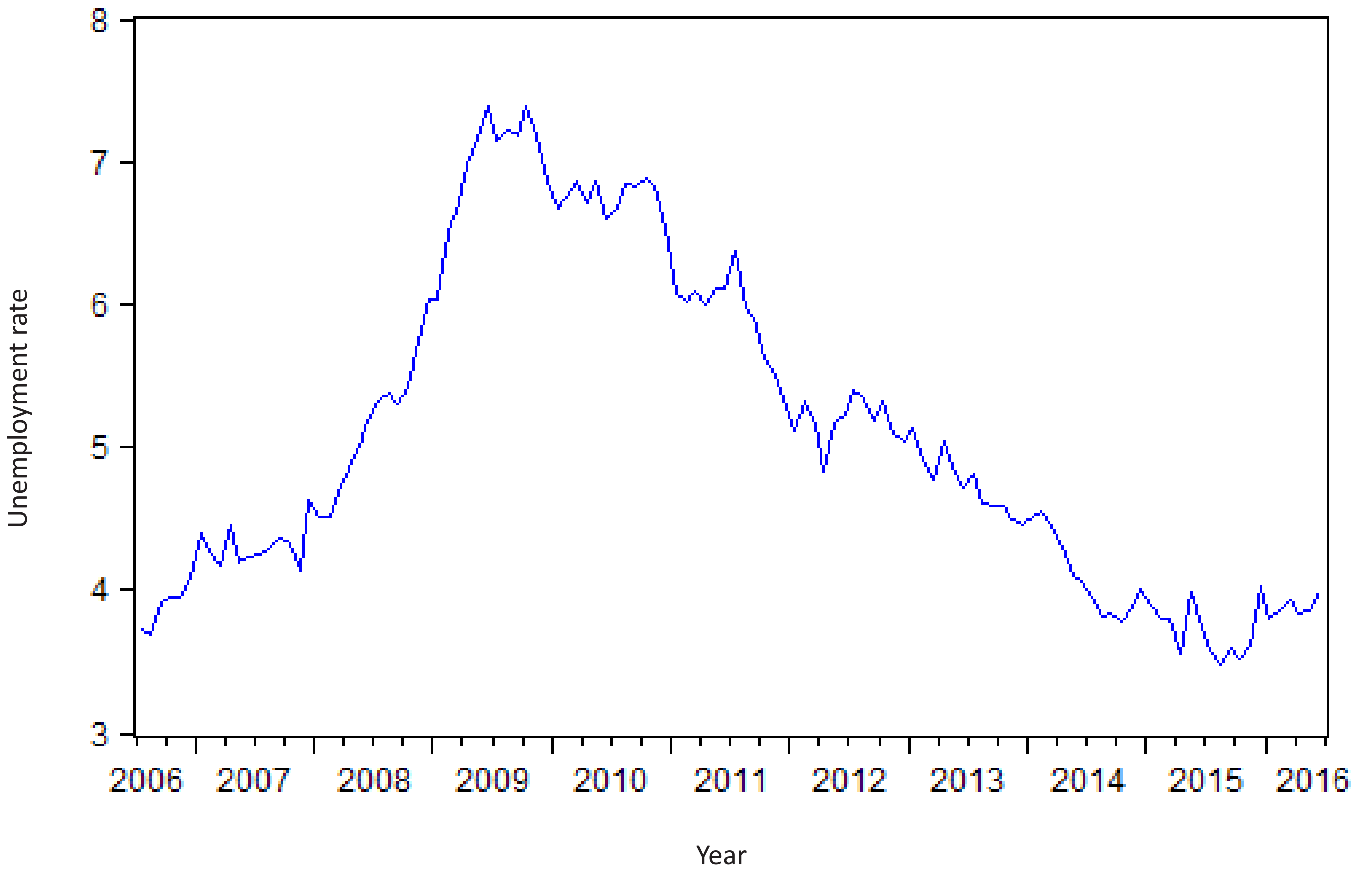
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Employment (Not seasonally adjusted)	217,067	216,983	213,958	216,151	215,616	215,263	214,522

The seasonally adjusted unemployment rate in Southwest Minnesota appears to have bottomed out in 2015 and has started to inch up in recent quarters. Both the seasonally and non-seasonally adjusted unemployment rates rose in the second quarter. The non-seasonally adjusted measure now stands at 4.1 percent — an increase from the 3.8 percent rate recorded in June 2015.

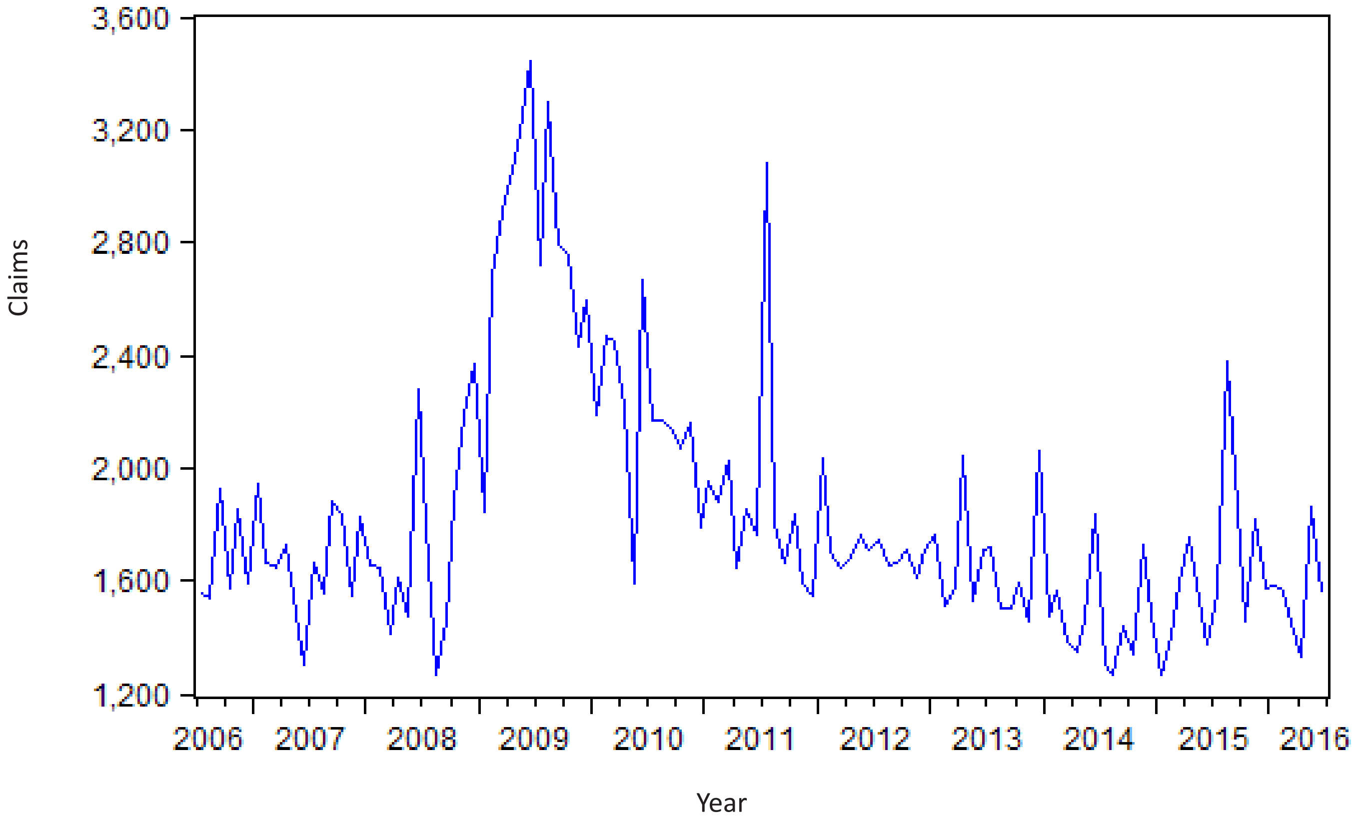
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Unemployment rate (not seasonally adjusted)	3.8%	4.9%	4.8%	4.9%	3.8%	3.4%	4.1%

New claims for unemployment insurance in June 2016 were 12.9 percent higher than one year earlier. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series drifted upward in 2015 but has levelled out in recent quarters.

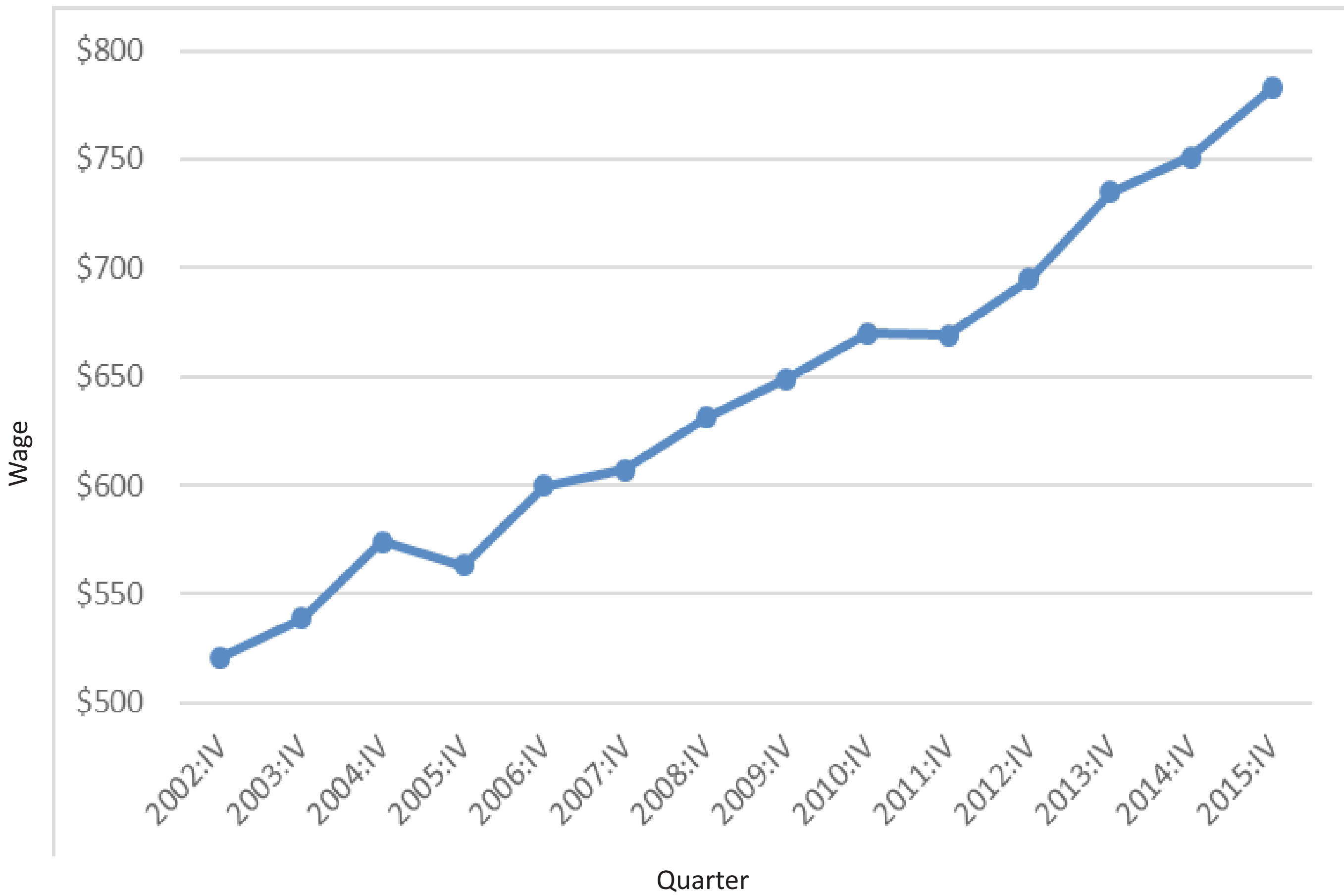
Total Initial Claims for Unemployment Insurance, seasonally adjusted— Southwest Minnesota Planning Area



Period	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Initial claims (Not seasonally adjusted)	1,224	2,053	1,319	1,181	982	1,636	1,382

The average weekly wage rose by $32 in Southwest Minnesota over the year ending in the fourth quarter of 2015 (this is the most recently available data). This increase represents a 4.3 percent annual rise in the average weekly wage. At $783, the average weekly wage in the Southwest Minnesota planning area is the second lowest of Minnesota's six planning areas. Only the Northwest Minnesota region has lower weekly earnings.

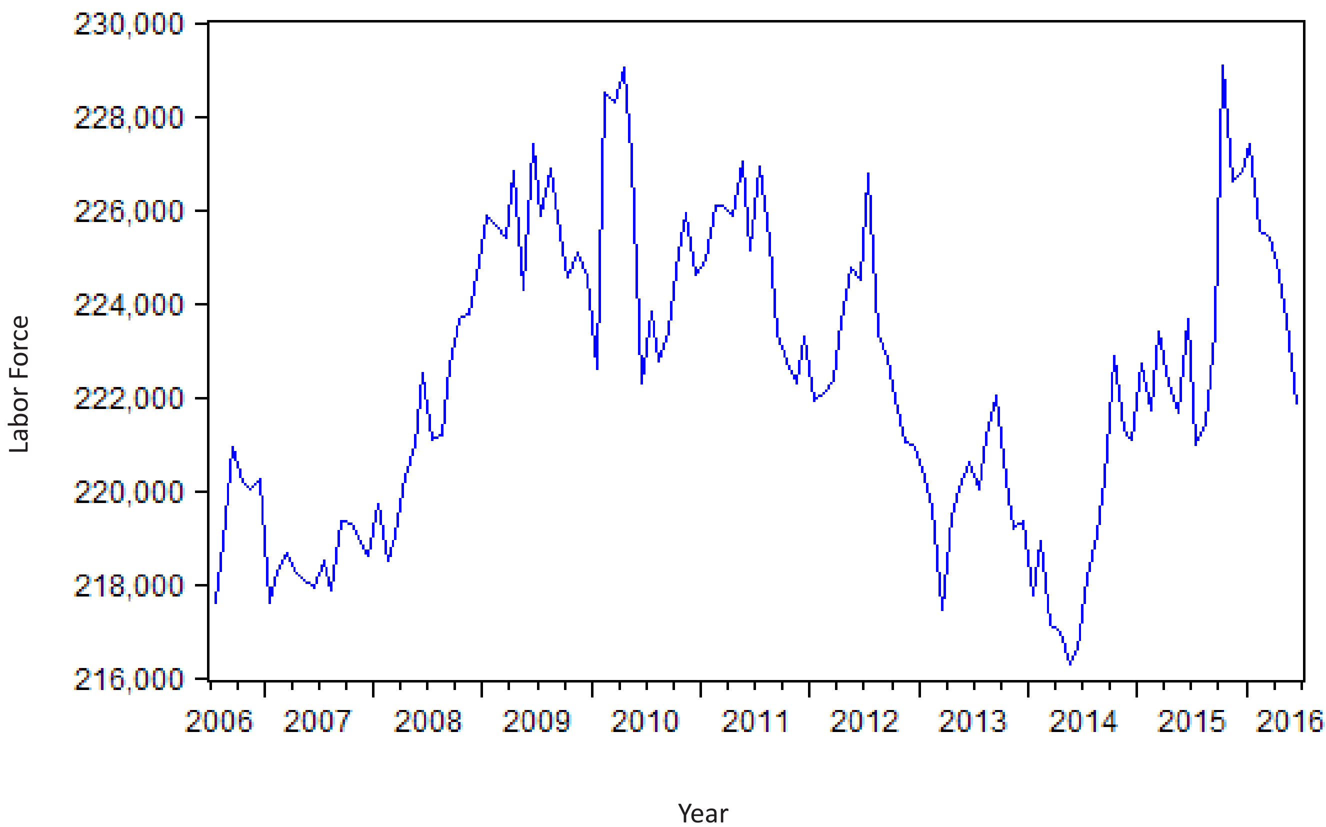
Job Vacancies per 100 Unemployed--Southwest Minnesota Planning Area



Quarter	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV	2015:IV
Average Weekly Wage	$670	$669	$695	$735	$751	$783

The Southwest Minnesota labor force contracted by 2,055–a 0.9 percent annual decrease—over the year ending June 2016. As can be seen in the accompanying figure, the planning area's labor force had trended upward since the middle months of 2014, but has declined in 2016.

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

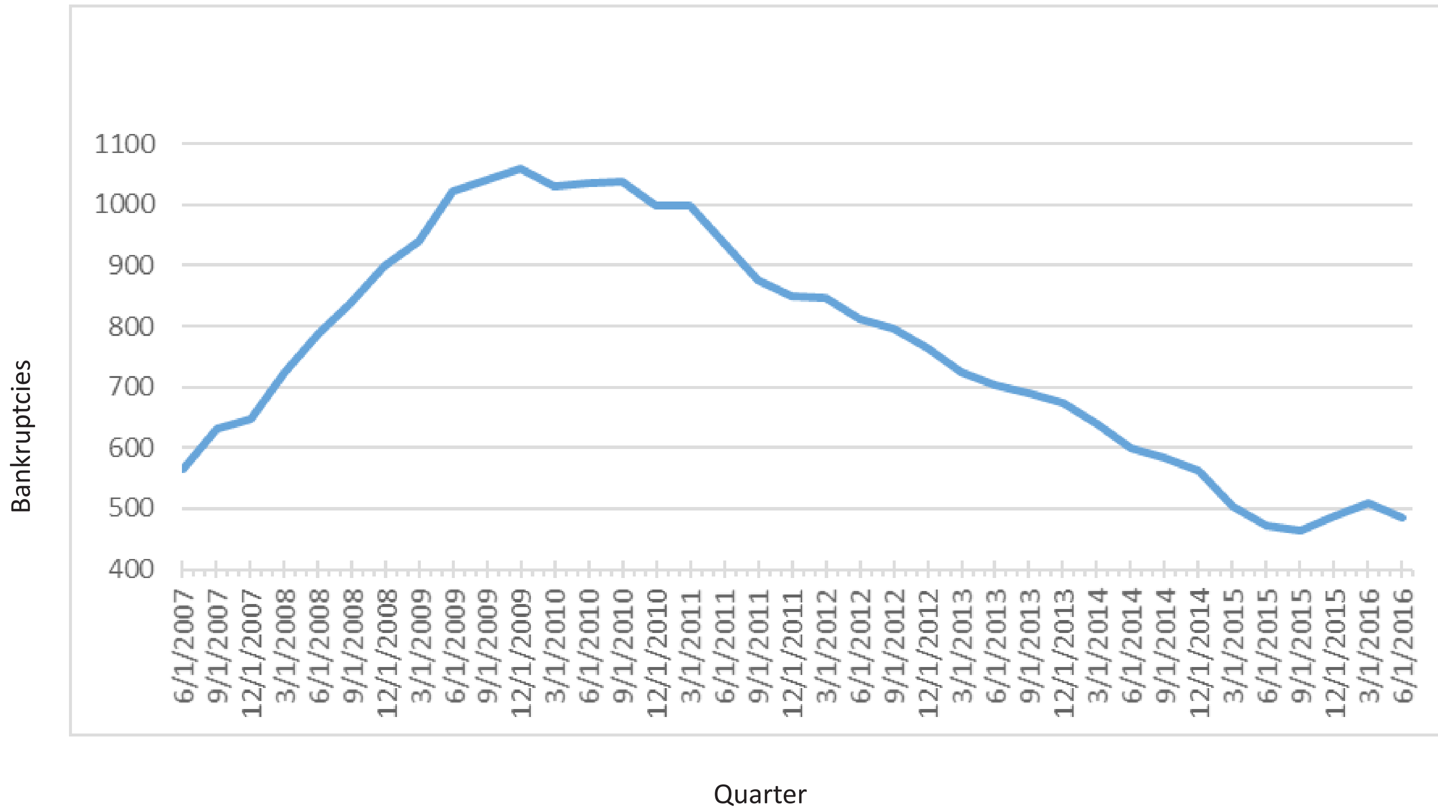


Year (June)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	228,578	227,522	223,168	218,820	225,667	223,612

Southwest Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southwest 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 end of 2009, and steadily declined until the fourth quarter of last year. With 484 bankruptcies over the past twelve months, the level of bankruptcies in Southwest Minnesota has flattened out at historically low levels.

Southwest Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	938	812	704	600	472	484

Economic Indicators

Mankato-North Mankato MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	June 2016 (m)	56,608	55,361	2.3% ↑	0.9%
Goods-Producing Employment	June 2016 (m)	10,043	10,212	-1.7% ↓	-0.7%
Average Weekly Work Hours - Private Sector	June 2016 (m)	30.6	31	-1.3% ↓	33.1 (since 2008)
Average Earnings Per Hour - Private Sector	June 2016 (m)	$23.36	$22.00	6.2% ↑	0.8% (since 2008)
Unemployment Rate	June 2016 (m)	3.4%	3.1%	NA ↑	4.1%
Labor Force	June 2016 (m)	59,289	58,561	1.2% ↑	0.6%
Initial Jobless Claims	June 2016 (m)	287	252	13.9% ↑	NA
Business Formation					
Total New Business Filings	Second Quarter 2016 (q)	226	199	13.6% ↑	155 (since 2000)
New Business Incorporations	Second Quarter 2016 (q)	21	21	0.0% ↔	25 (since 2000)
New Limited Liability Companies	Second Quarter 2016 (q)	138	112	23.2% ↑	71 (since 2000)
New Assumed Names	Second Quarter 2016 (q)	57	62	-8.1% ↓	51 (since 2000)
New Non-profits	Second Quarter 2016 (q)	10	4	150.0% ↑	8 (since 2000)
Mankato / North Mankato Residential Building Permit Valuation, in thousands	June 2016 (m)	5,463	2,890	89.0% ↑	NA
Mankato / North Mankato Cost of Living Index	First Quarter 2016 (q)	93.5	95.3	-1.9% ↓	NA

(m) represents a monthly series

Southwest Minnesota contains the Mankato/North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. As the accompanying table shows, Mankato employment increased over the year ending June 2016. Average hourly earnings rose and the labor force expanded. Total new business filings rose, the value of residential building permits increased and the relative cost of living declined. Initial jobless claims jumped 13.9 percent from June 2015 to now. The length of the workweek fell and the unemployment rate rose.

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 Southwest 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.

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.

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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.