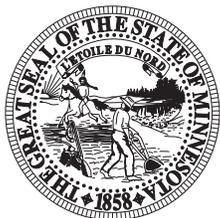




Twin Cities Area Economic and Business Conditions Report Third Quarter 2016

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

A slower pace of economic growth is expected over the next several months in the Twin Cities according to the prediction of the St. Cloud State University Twin Cities Index of Leading Economic Indicators (LEI). The Twin Cities LEI fell 5.70 points in the third quarter after a nearly neutral reading in the previous quarter. Four of the five index components decreased in the third quarter. Lower initial claims for unemployment insurance were the only index component that had a positive impact on this quarter's LEI. Weakness in two general measures of statewide business conditions had a negative effect on the index. Slowing of residential building permits in the Twin Cities MSA and a decline in new filings of business incorporation and LLC also weighed on the Twin Cities LEI.

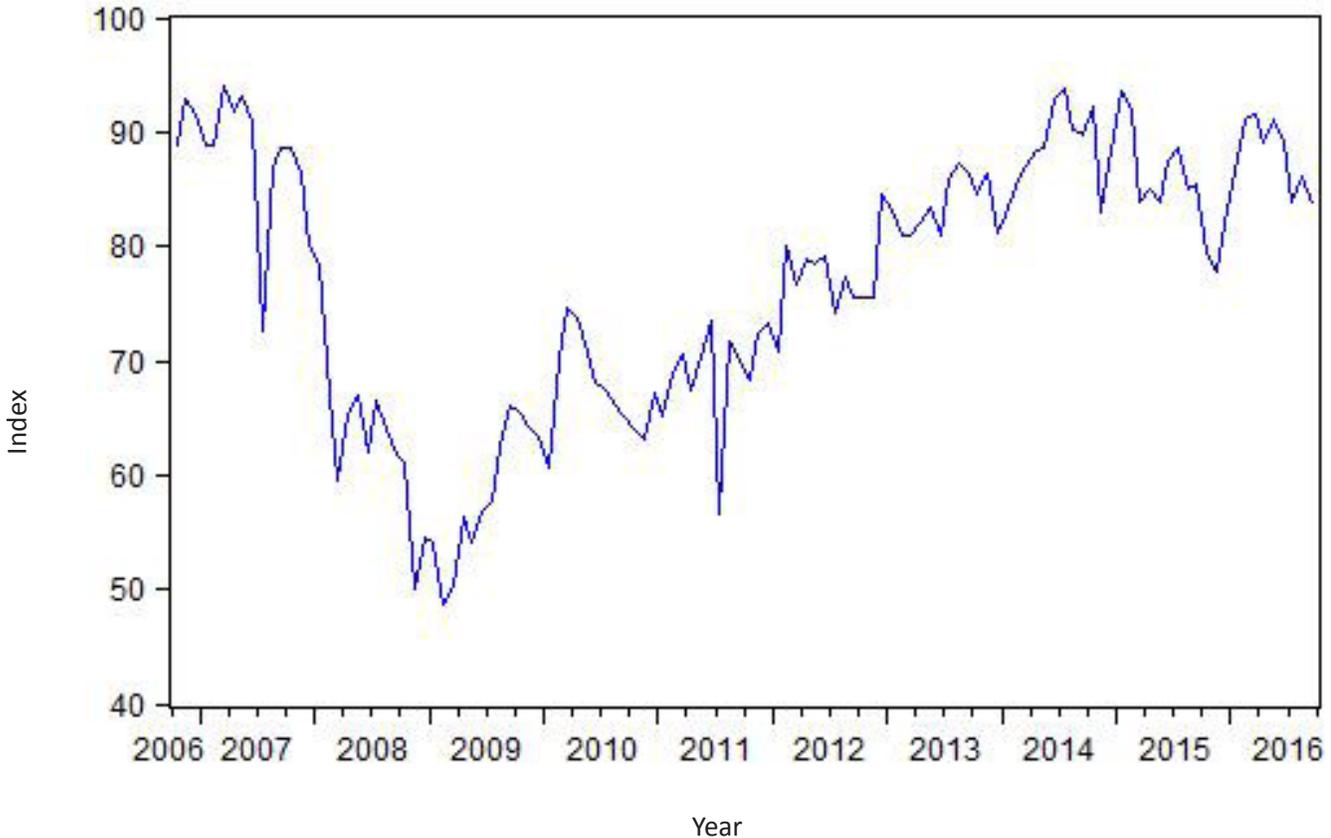
There were 9,196 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the third quarter of 2016—representing a 5 percent decrease from one year ago. There were 1,299 new regional business incorporations in the third quarter, a 3.7 percent decrease over year ago levels. Third quarter new LLC filings fell to 5,570 in the seven-county metro area—a 7.3 percent decrease compared to the third quarter of 2015. New assumed names totaled 1,927 in the third quarter. This was 0.5 percent lower than one year ago. There were 400 new filings for non-profit in the Twin Cities in the third quarter of 2016, 2.3 percent more filings than one year earlier.

Twin Cities employment decreased by 0.4 percent over the year ending September 2016. At 3.2 percent, the planning area's unemployment rate was slightly higher than one year earlier. Initial claims for unemployment insurance were lower than year ago levels, falling by 7.3 percent to 6,140. The job vacancy rate in the Twin Cities planning area was 96.27 per 100 unemployed—the highest rate of Minnesota's six planning areas. The planning area labor force contracted by 0.2 percent over the year ending in September 2016. Annual bankruptcies continued to decline in the Twin Cities over the past twelve months. Average weekly hours and average hourly earnings were both higher in the metro area and the relative cost of living declined.

Twin Cities Leading Economic Indicators Index

The SCSU Twin Cities Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. After falling by a revised 0.88 points last quarter, the LEI fell by 5.70 points in the third quarter of 2016. The Twin Cities index is now 2.3 percent lower 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, 3rd quarter 2016	Contribution to LEI, 2nd quarter 2016
Minnesota Business Conditions Index	-1.94	0.53
Twin Cities initial claims for unemployment insurance	0.32	1.05
Twin Cities new filings of incorporation and LLCs	-2.56	-1.63
Mpls.-St. Paul MSA residential building permits	-0.74	-1.25
Philadelphia Fed Minnesota leading indicators	-0.78	0.42
TOTAL CHANGE	-5.70	-0.88

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 unfavorably 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 negative impact on this quarter’s LEI.

Only one of the three local measures was positive in the third quarter. Lower initial jobless claims in the planning area contributed favorably to this quarter’s index. A decline in single family residential building permits across the Minneapolis-St. Paul MSA had a negative impact on this quarter’s index as did a decline in new filings for incorporation and LLC in the planning area.

SCSU Twin Cities Leading Economic Indicators Index	2016	2015	Percentage Change
Minnesota Business Conditions Index September	48.4	53.0	-8.7%
Twin Cities initial claims for unemployment insurance September	6,140	6,620	-7.3%
Twin Cities new filings of incorporation and LLCs Third Quarter	6,869	7,356	-6.6%
Twin Cities MSA single-family building permits, September	658	570	15.4%
Index of Leading Economic Indicators Philadelphia Federal Reserve, September	1.17	1.34	-12.7%
Twin Cities Leading Economic Indicators Index September (September 1999 = 100)	83.6	85.6	-2.3%

Twin Cities Business Filings

Total new business filings have generally trended upward since the second half of 2011. This trend has recently reversed course as new filings contracted at a 5 percent annual rate in the third quarter. 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.

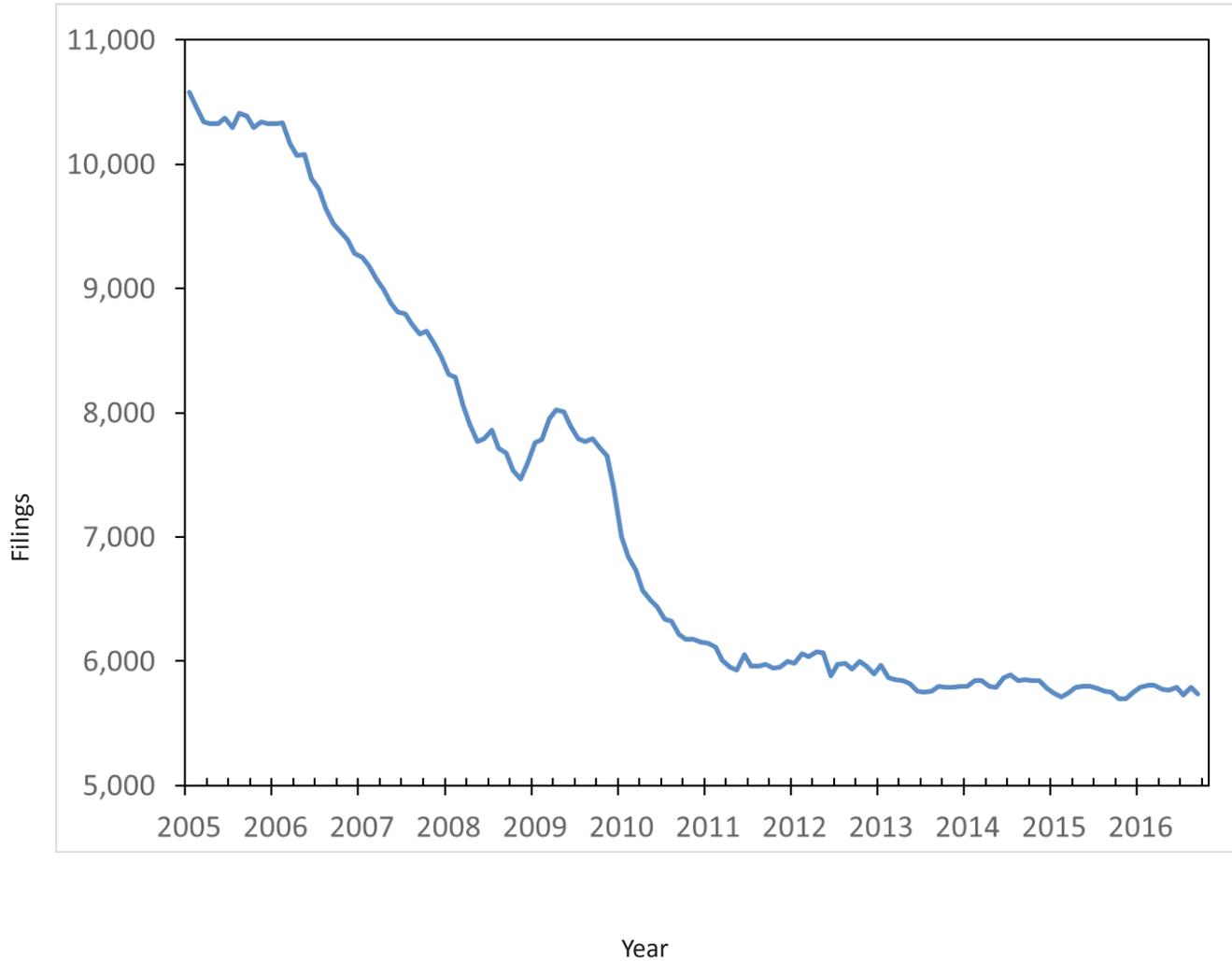
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Twin Cities Total New Business Filings	9,684	9,014	11,215	10,186	9,196	-5%

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 fell 3.7 percent from one year earlier in the third quarter of 2016.

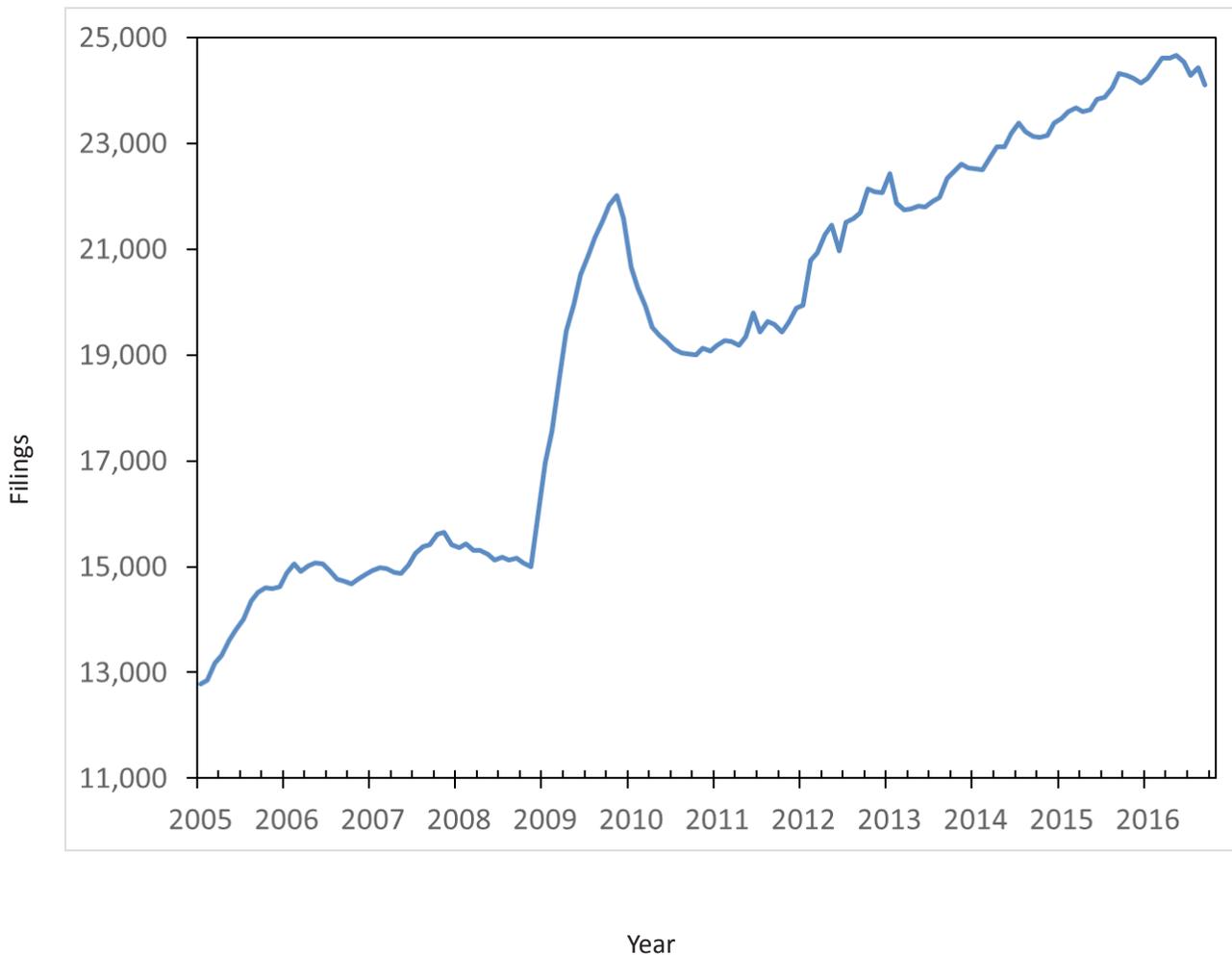
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Twin Cities New Business Incorporations	1,349	1,344	1,606	1,489	1,299	-3.7%

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 5,570, new filings for LLC in the third quarter of 2016 were 7.3 percent lower than one year earlier. A closer look at new LLC filings in the third quarter of 2015 suggests the filings data from that period were an outlier—there was a disproportionately large share of new filings arising from a specific area of the Twin Cities in that period. As such, the decline in the series this quarter may not reflect a fundamental change in economic activity.

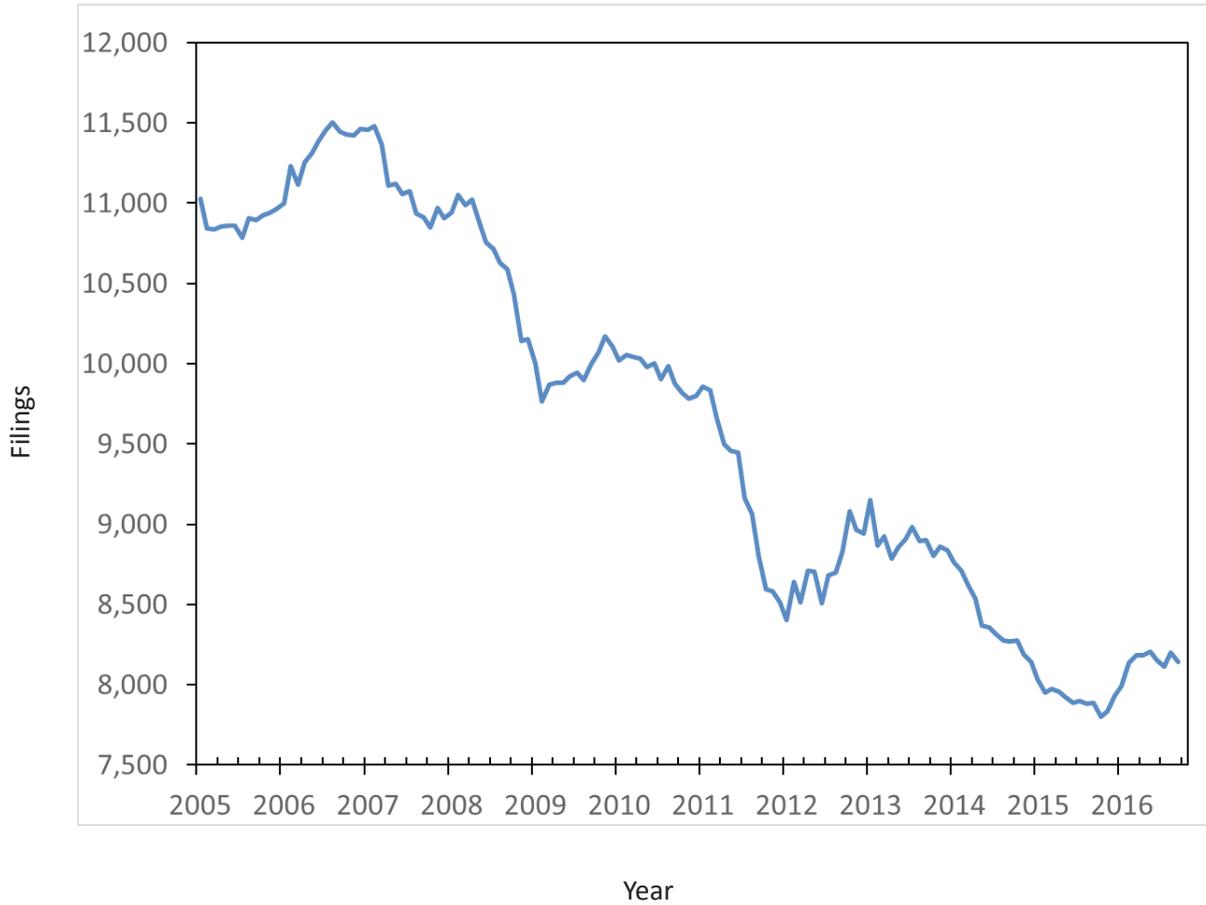
New Limited Liability Companies—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Twin Cities New Limited Liability Companies	6,007	5,440	6,846	6,249	5,570	-7.3%

Assumed names, which include sole proprietors or organizations that do not have limited liability, fell 0.5 percent in the third quarter relative to the same period in 2015. Assumed names filings appeared to be growing after experiencing a downward slide since 2006-2007, but recent filings appear to have flattened out.

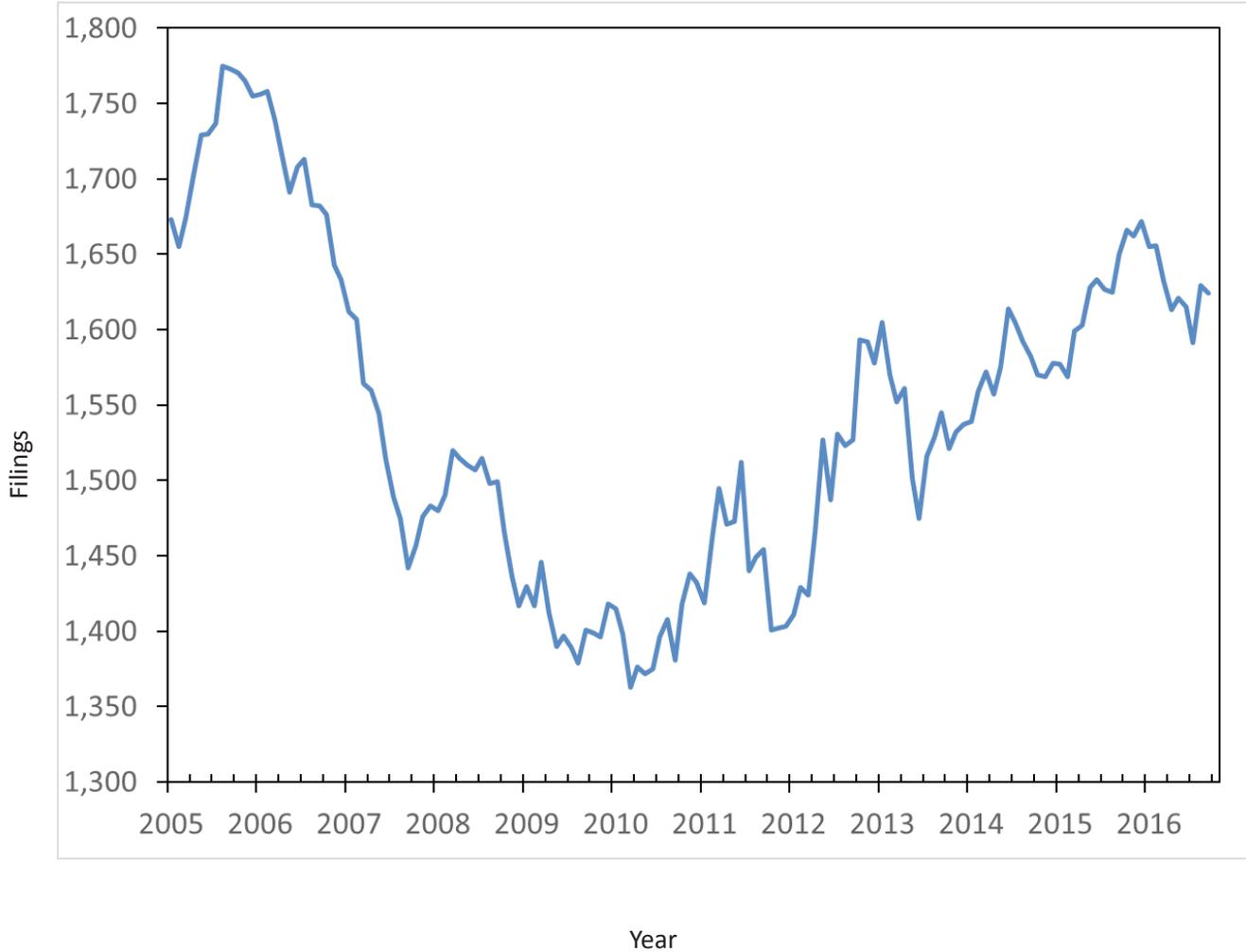
New Assumed Names—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Twin Cities New Assumed Names	1,937	1,837	2,346	2,034	1,927	-0.5%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State had increased to a level last seen in the mid-2000s. However, this series has abandoned its upward trajectory since the end of 2015. With 400 new non-profits registered in the third quarter, new filings in this sector rose by 2.3 percent compared to one year earlier.

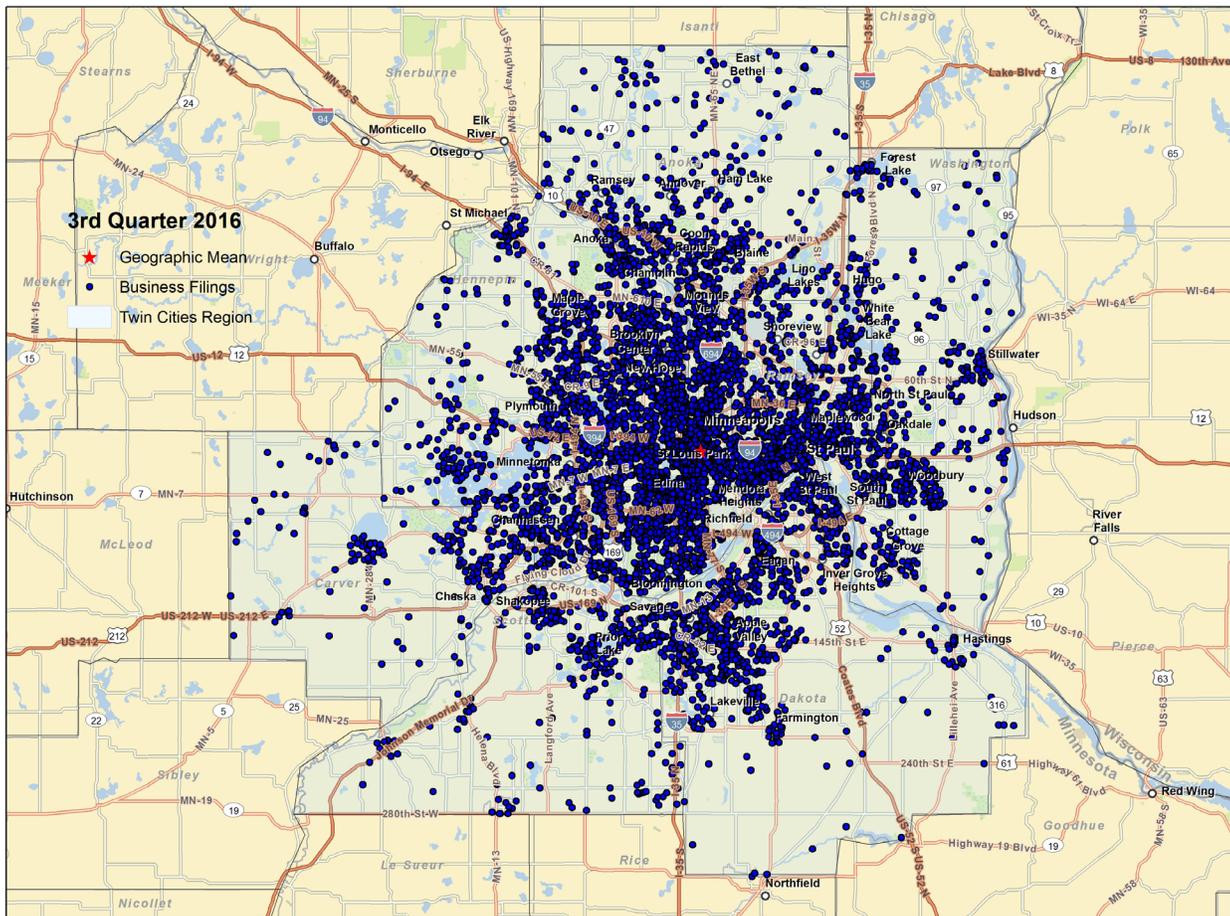
New Non-Profits—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Twin Cities New Non-Profits	391	393	408	414	400	2.3%

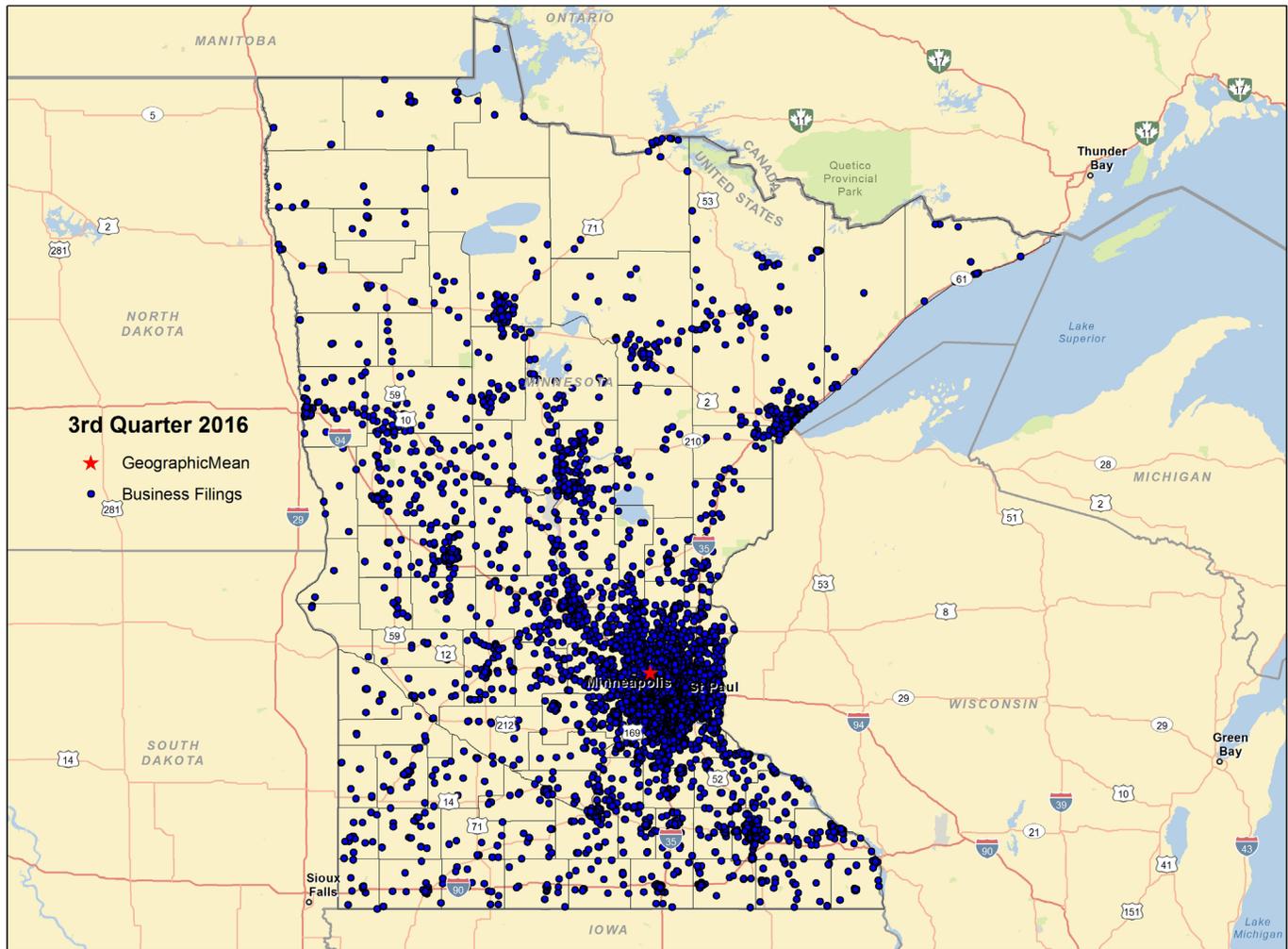
The first map shown below is a visual representation of new business formation around the Twin Cities planning area in the third quarter of 2016. The densest areas of new business formation are concentrated in the middle of the planning area, although virtually all portions of the area experienced some 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 3: 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. St. Cloud now appears to be integrated into the Twin Cities metro as the I-94/US-10 corridor continues to be a magnet for new business formation.

Minnesota--New Business Formation--Quarter 3: 2016

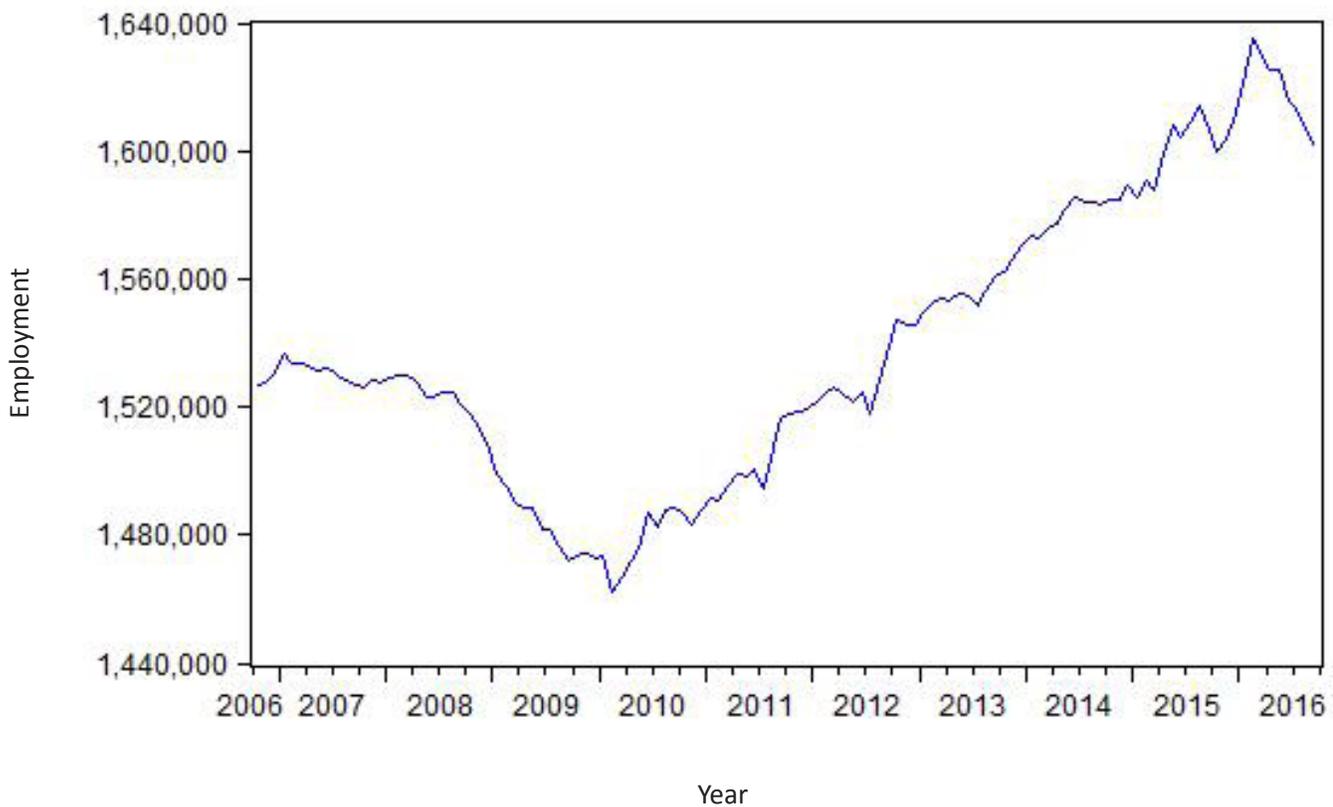


Twin Cities Labor Market Conditions

Employment of Twin Cities planning area residents declined 0.4 percent over the past year. After relative stagnation through 2007 and a decline during the Great Recession, the area had experienced fairly steady employment growth since the start of 2010. However, the 12-month moving average of employment in the Twin Cities has been declining in 2016.

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.

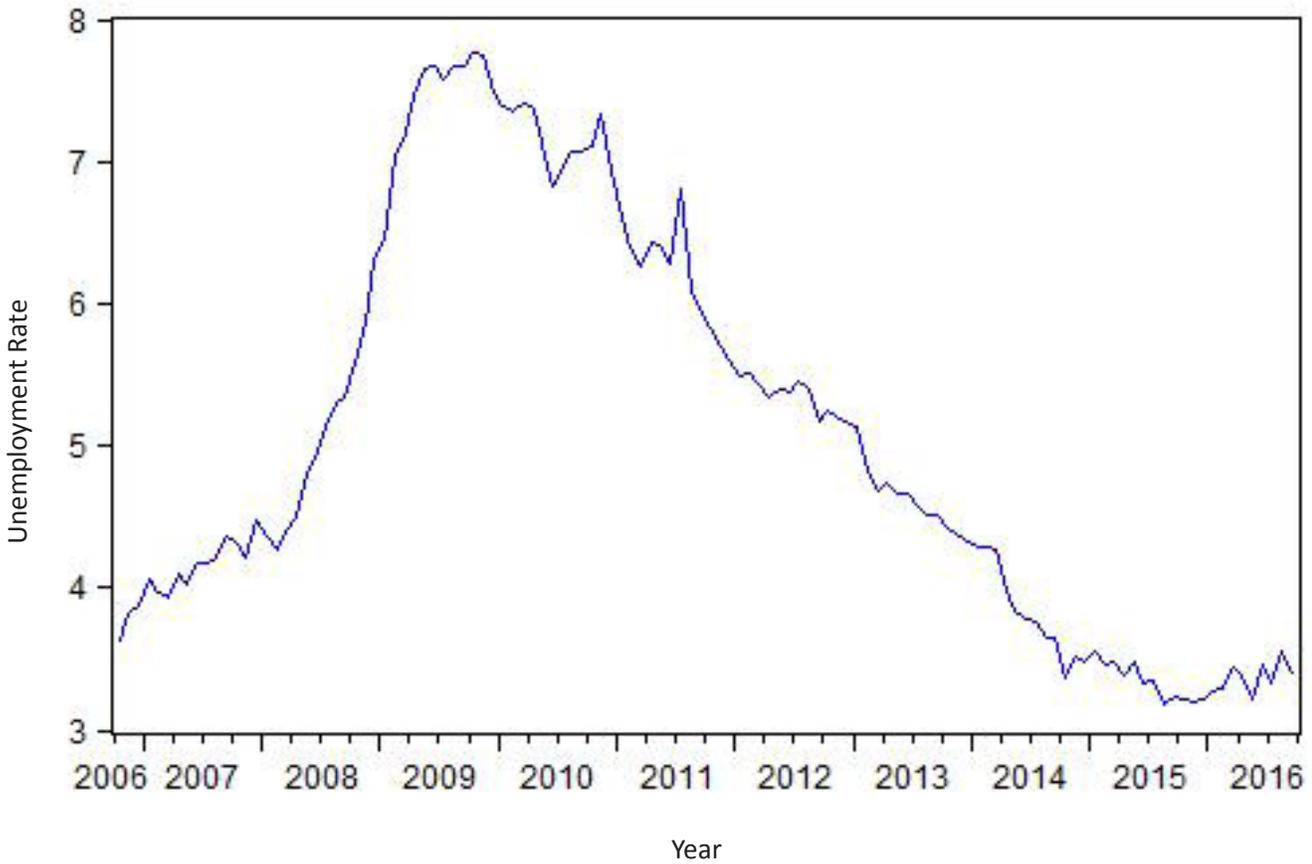
Employment—Twin Cities Planning Area (12-month moving average)



Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Employment (Not seasonally adjusted)	1,607,753	1,625,589	1,632,448	1,621,764	1,630,305	1,613,507	1,601,926

The seasonally adjusted unemployment rate in the Twin Cities had declined since the end of the Great Recession in 2009. The accompanying graph shows the unemployment rate slowly inching up since the end of 2015. The non-seasonally adjusted unemployment rate now stands at 3.2 percent, slightly higher than the 3.1 percent rate recorded one year earlier.

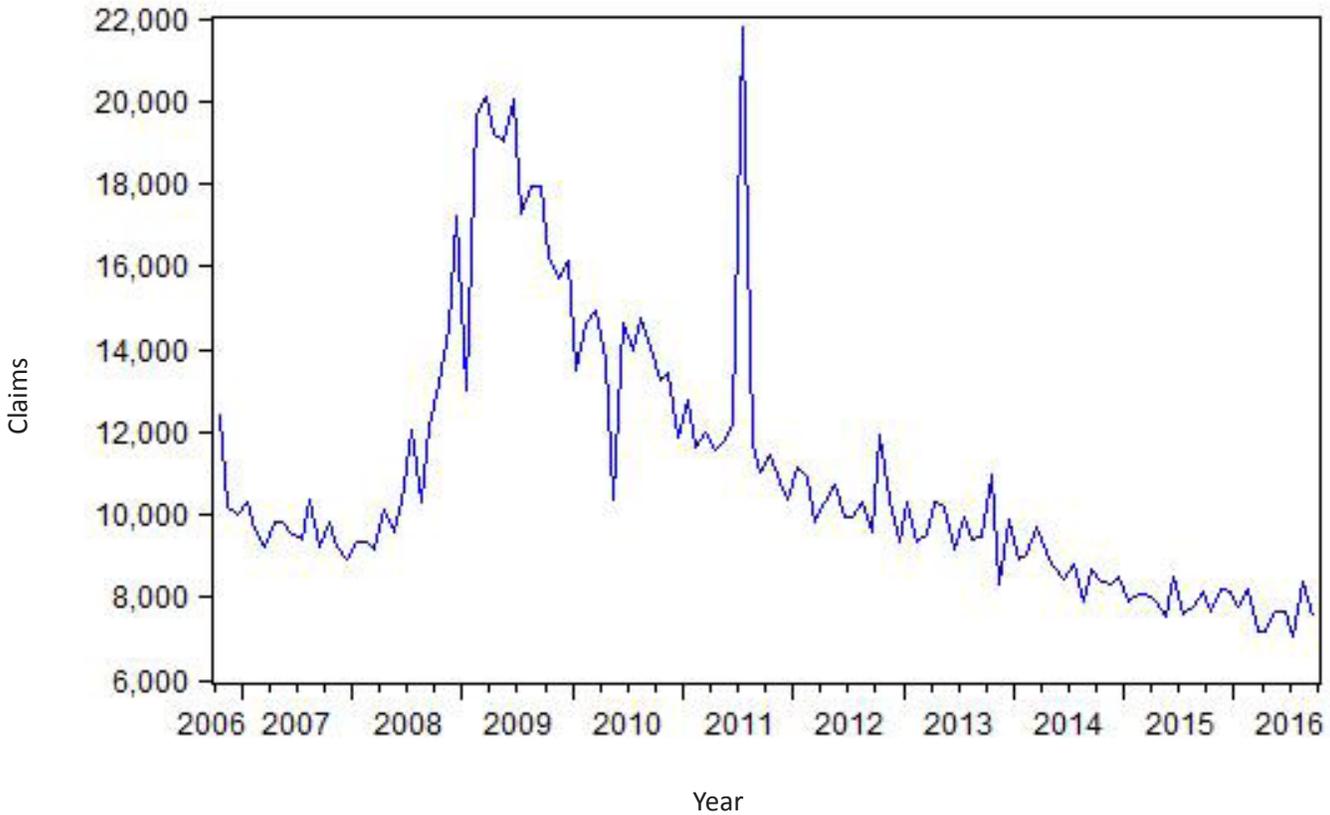
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Unemployment Rate (Not seasonally adjusted)	3.1%	3.2%	3.0%	3.7%	3.5%	3.6%	3.2%

New claims for unemployment insurance were 7.3 percent below year ago levels in September 2016. The graph of the seasonally adjusted series suggests claims have levelled out in 2016 after having declined over the past 10 years.

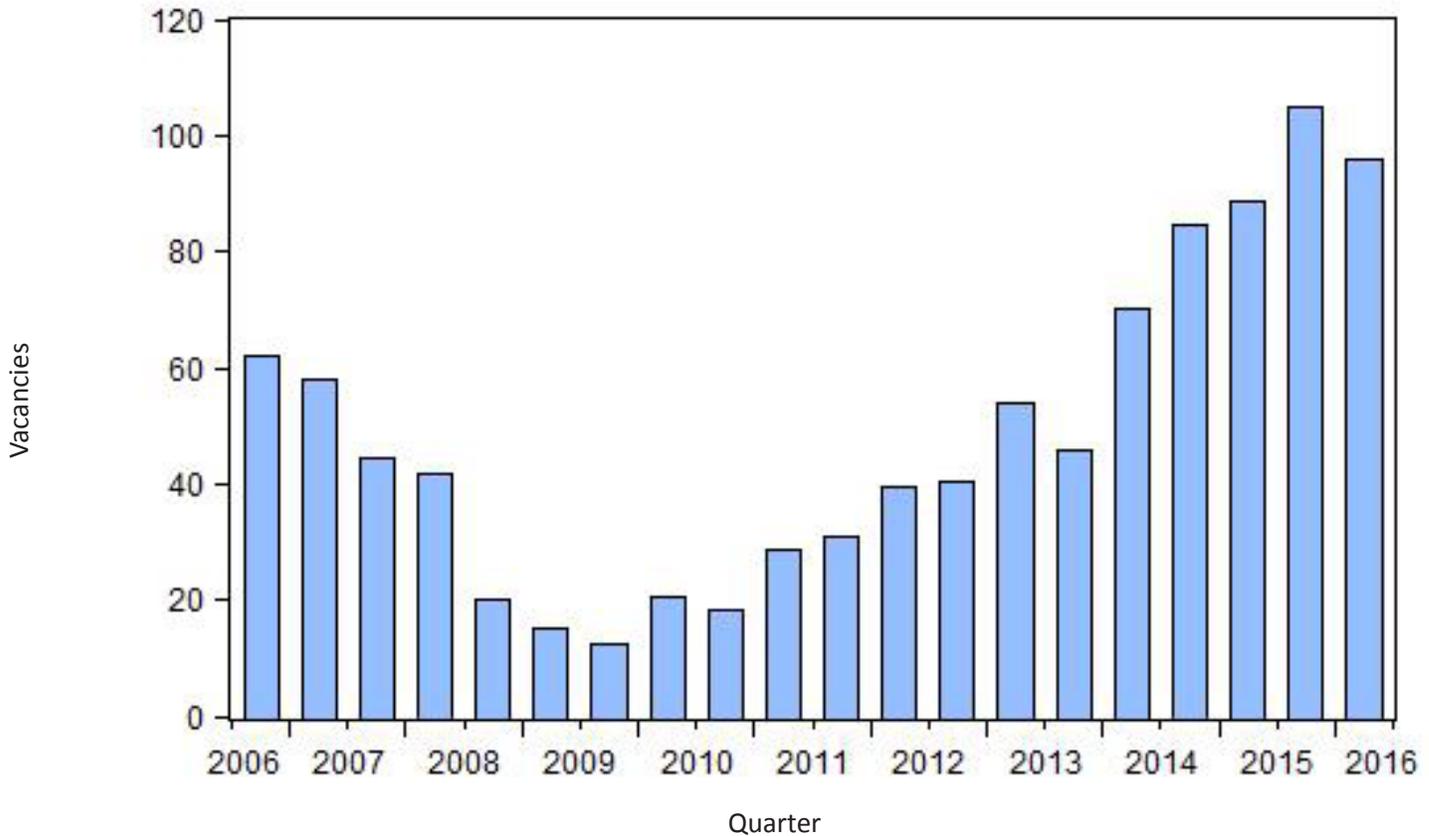
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Twin Cities Planning Area



Period	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Initial claims (Not seasonally adjusted)	6,620	6,324	6,751	7,395	6,078	6,610	6,140

The number of job vacancies per 100 unemployed was slightly lower in the second quarter of 2016 (this is the most recently available data). However, the job vacancy rate remains elevated in the Twin Cities planning area (and throughout the state). This job vacancy rate is now several times higher than it was at its low point during the Great Recession. At 96.27 job vacancies per 100 unemployed, the rate of job vacancies in the Twin Cities is the highest of any of Minnesota’s six planning areas.

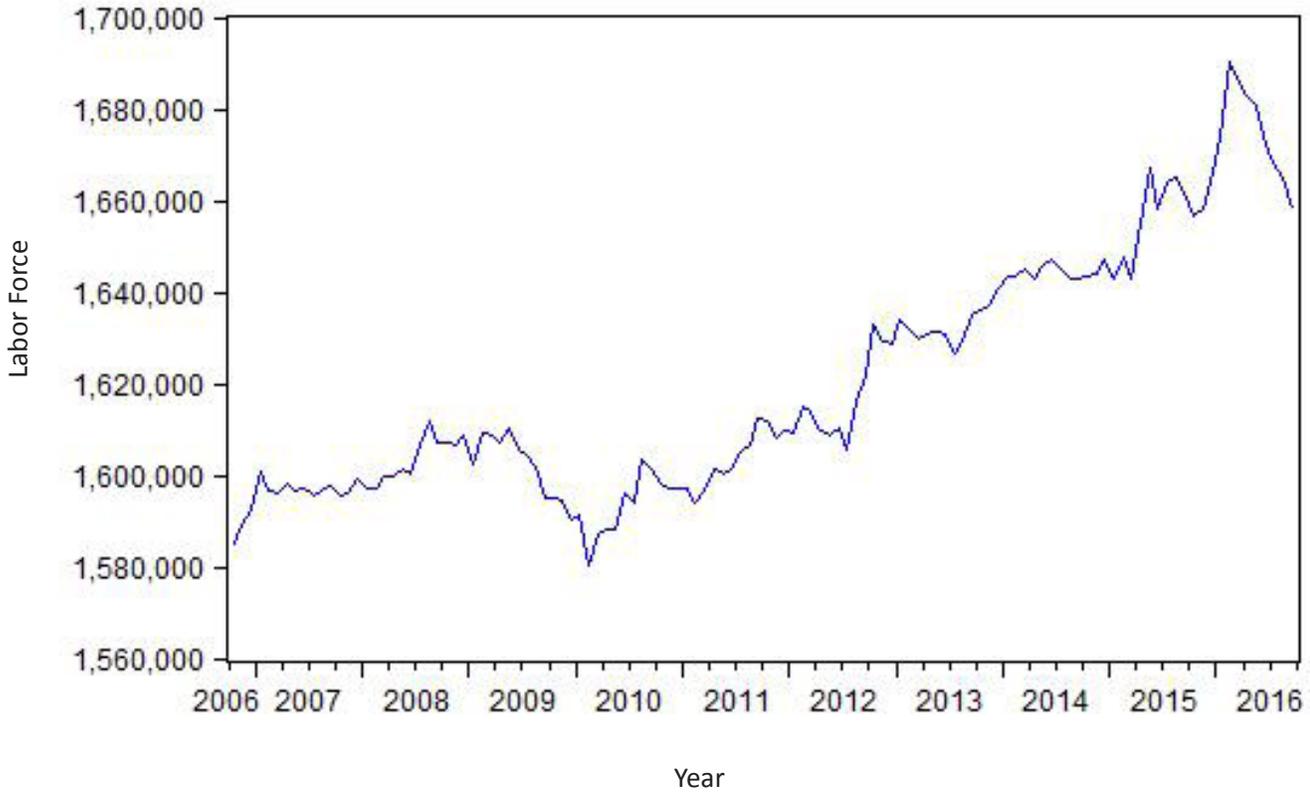
Job Vacancies per 100 Unemployed---Twin Cities Minnesota Planning Area



Quarter	2013:IV	2014:II	2014:IV	2015:II	2015:IV	2016:II
Job Vacancies per 100 Unemployed	50.92	74.57	96.35	90.68	117.20	96.27

The size of the Twin Cities labor force contracted by 0.2 percent over the past twelve months. At a level of 1,655,473, the labor force is more than 4,000 people smaller than one year ago. The 12-month moving average (see accompanying graph) of the Twin Cities labor force has receded from its all-time high in recent months.

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

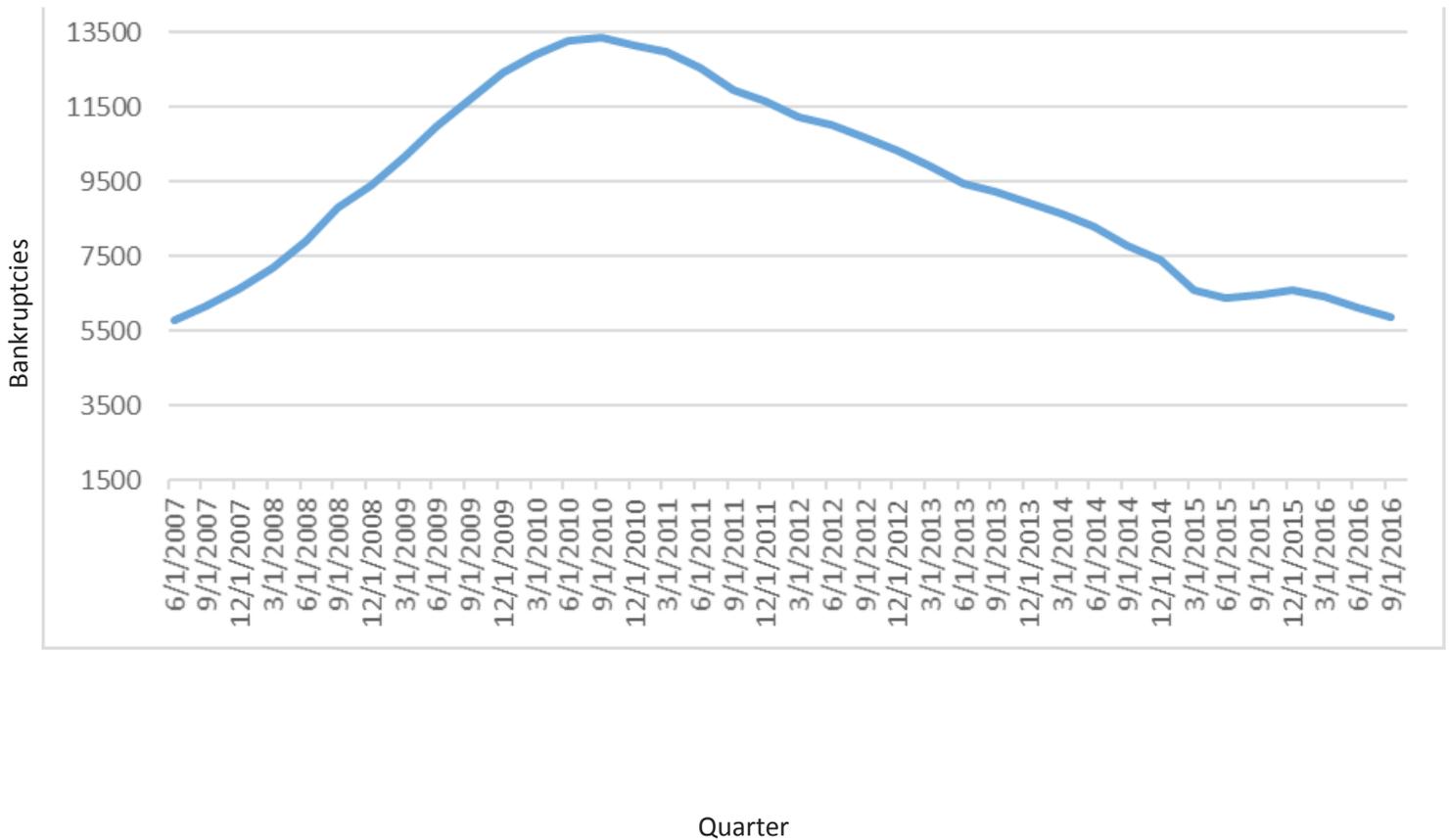


Year (September)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	1,617,747	1,626,352	1,637,210	1,643,367	1,659,481	1,655,473

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 5,877 bankruptcies over the past twelve months, the level of bankruptcies in the Twin Cities has now continued its decline to a level that was last seen prior to the Great Recession.

Twin Cities Bankruptcies (12-month moving total)



Year (Third Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (not seasonally adjusted)	11,967	10,673	9,229	7,789	6,454	5,877

Economic Indicators

Twin Cities MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (since 1999 unless noted)
Employment	September 2016 (m)	1,980,495	1,942,311	2.0% ↑	0.7%
Manufacturing Employment	September 2016 (m)	193,559	194,782	-0.6% ↓	-1.3%
Average Weekly Work Hours Private Sector	September 2016 (m)	34.7	34.4	0.9% ↑	34 (since 2007)
Average Earnings Per Hour Private Sector	September 2016 (m)	\$28.02	\$26.53	5.6% ↑	1.4% (since 2007)
Average Weekly Work Hours Manufacturing (Production Workers)	September 2016 (m)	41.7	41.1	1.5% ↑	41 (since 2005)
Average Earnings Per Hour Manufacturing (Production Workers)	September 2016 (m)	\$21.33	\$21.26	0.3% ↑	1.4% (since 2005)
Unemployment Rate	September 2016 (m)	3.3%	3.1%	NA ↑	4.4%
Labor Force	September 2016 (m)	1,937,513	1,939,856	-0.1% ↓	0.5%
MSP Residential Building Permit Valuation, in thousands	September 2016 (m)	279,423	266,904	4.7% ↑	NA
Minneapolis Cost-of-Living Index	Second Quarter 2016 (q)	105.2	111.2	-5.4% ↓	NA
St. Paul Cost-of-Living Index	Second Quarter 2016 (q)	104.3	109.8	-5.0% ↓	NA

(m) represents a monthly series

(q) represents a quarterly 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 mostly favorable labor market conditions in the last 12 months. Overall employment increased 2 percent in the Twin Cities MSA, although manufacturing employment contracted by 0.6 percent over the year ending September 2016. Average hourly earnings and average weekly work hours rose in both the private sector and in manufacturing. The value of residential building permits increased 4.7 percent in September 2016 relative to the same period one year earlier. Compared to September 2015, the Twin Cities MSA unemployment rate was higher and the labor force was smaller. The relative cost of living in both Minneapolis and St. Paul declined.

State and National Indicators

MINNESOTA Indicators	Sep 2016	Jun 2015	Sep 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,905,600	2,891,800	2,859,200	0.5%	1.6%
Average weekly hours worked, private sector	34.1	34.3	33.9	-0.6%	0.6%
Unemployment rate, seasonally adjusted	4.0%	3.8%	3.6%	NA	NA
Earnings per hour, private sector	\$27.33	\$26.64	\$26.00	2.6%	5.1%
Philadelphia Fed Coincident Indicator, MN	181.58	180.56	176.87	0.6%	2.7%
Philadelphia Fed Leading Indicator, MN	1.17	1.91	1.37	-38.7%	-14.6%
Minnesota Business Conditions Index	48.4	51.6	50.8	-6.2%	-4.7%
Price of milk received by farmers (cwt)	\$17.90	\$15.00	\$17.80	19.3%	0.6%
Enplanements, MSP airport, thousands	1,542.9	1,726.5	1,506.7	-10.6%	2.4%

NATIONAL Indicators	Sep 2016	Jun 2015	Sep 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	144,791	144,172	142,300	0.4%	1.8%
Industrial production, index, SA	104.2	104.2	105.3	0%	-1.0%
Real retail sales, SA (\$)	191,744	190,661	188,489	0.6%	1.7%
Real personal income less transfers (\$, bill.)	11,966.8	11,907.8	11,745.3	0.5%	1.9%
Real personal consumption expenditures (\$, bill.)	11,557.4	11,522.2	11,285.5	0.3%	2.4%
Unemployment rate, SA	5.0%	4.9%	5.1%	NA	NA
New building permits, SA, thousands	20,857	22,634	18,482	-7.9%	12.9%
Standard & Poor's 500 stock price index	2,157.7	2,083.9	1,944.4	3.5%	11%
Oil, price per barrel in Cushing, OK	\$45.18	\$48.76	\$45.48	-7.3%	-0.7%

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. The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia are mixed—current conditions are stronger but the future conditions index declined by 14.6 percent from one year earlier. The Minnesota Business Conditions index also turned negative this quarter. Milk prices are largely unchanged from one year ago, but are 19.3 percent higher than last quarter. Enplanements at the Minneapolis-St. Paul airport increased by 2.4 percent over the last twelve months.

The national economic indicators reported in the table are largely favorable. Over the past twelve months, stock prices rose, building permits are higher, and oil prices have continued to fall. In addition, employment, consumer expenditures, and income all experienced growth and the national unemployment rate fell. Retail sales improved. Only industrial production contracted from year ago levels.

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

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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.