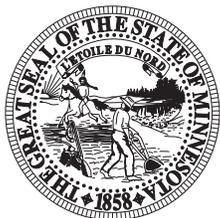




Central Minnesota Economic and Business Conditions Report Third Quarter 2016

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



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Executive Summary

The Central Minnesota planning area is expected to experience a slowing of economic growth over the next several months according to predictions of the Central Minnesota Index of Leading Economic Indicators (LEI). The leading index fell by 2.90 points in the most recent period, with three components producing negative readings. Weakness in a general measure of statewide business conditions along with slowing residential building permits in the St. Cloud area helped tip the index down this quarter. An increase in initial jobless claims in Central Minnesota also had a negative impact on the LEI in the third quarter. An uptick in national durable goods orders contributed favorably to the regional outlook while new business filings of incorporation in the Central Minnesota planning area were largely neutral.

There were 1,191 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the third quarter of 2016 — representing a 0.8 percent increase from one year ago. There were 117 new regional business incorporations in the third quarter, a 2.6 percent increase from year ago levels. New limited liability company (LLC) filings in Central Minnesota increased 2.5 percent relative to the third quarter of 2015—rising to 686 in this year’s third quarter. New assumed names totaled 343 over the recent quarter—a decrease of 1.4 percent compared to the same period in 2015. There were 45 new filings for Central Minnesota non-profit in the third quarter—five fewer filings than one year ago.

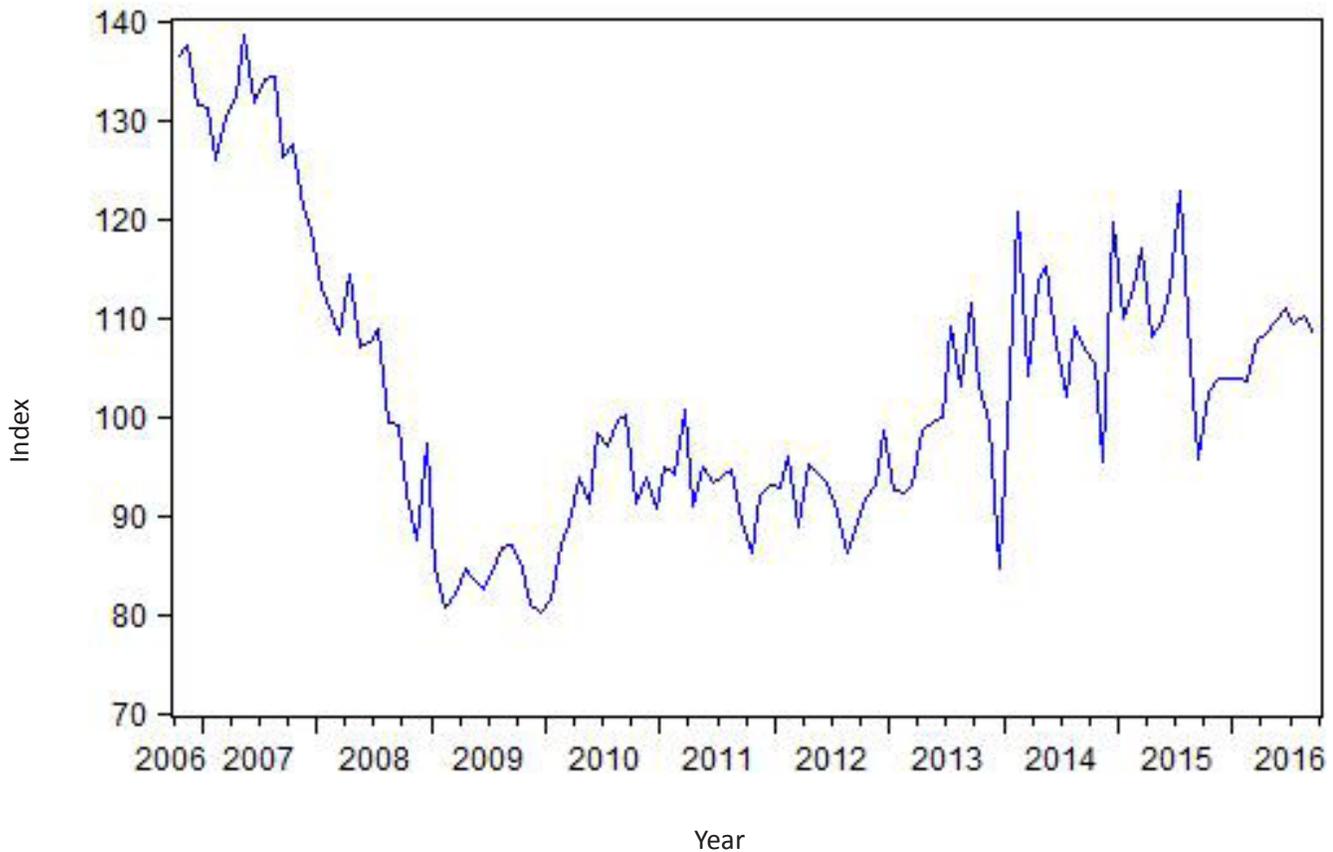
Central Minnesota employment was 0.7 percent lower in September 2016 than it was one year earlier. Compared to one year ago, 2,567 fewer residents of Central Minnesota now have jobs. The September regional unemployment rate was 3.4 percent—up from 3.2 percent one year earlier. Initial claims for unemployment insurance were 4.6 percent higher in September than they were in the same month last year. The Central Minnesota labor force contracted by 0.5 percent over the past year and the job vacancy rate remains elevated at 72.21 per 100 unemployed. As noted in last quarter’s Central Minnesota Economic and Business Conditions Report, regional bankruptcies have levelled out. The region’s 1,532 bankruptcies over the past twelve months are only slightly lower than they were in last quarter’s report.

Economic performance in the St. Cloud area was mixed, with higher unemployment rates, less help wanted lineage, higher initial jobless claims and a decline in the labor force being offset by accelerating wages, a rising work week, higher employment, an increase in new business filings, and a rise in home prices. A recent survey of St. Cloud area business leaders was less optimistic about future business activity than one year earlier. It appears the economic expansion in St. Cloud (and Central Minnesota) has matured, so less rapid growth can be expected in future quarters.

Central Minnesota Leading Economic Indicators Index

The SCSU Central Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI fell 2.90 points in the third quarter after contracting a revised 2.80 points in the second quarter of the year. However, compared to last year, the LEI is 5.21 percent higher. As was noted last quarter, Central Minnesota’s expected growth mirrors that which is seen in other areas of Minnesota—slowing growth, but no current concerns about recession in the near future.

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



Components of SCSU Central Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2016	Contribution to LEI, 2nd quarter 2016
Minnesota Business Conditions Index	-0.42	0.35
Central Minnesota initial claims for unemployment insurance	-1.26	1.99
Central Minnesota new filings of incorporation	0.02	-1.24
St. Cloud MSA residential building permits	-2.19	-5.01
National new orders for durable goods, real	0.95	1.11
TOTAL CHANGE	-2.90	-2.80

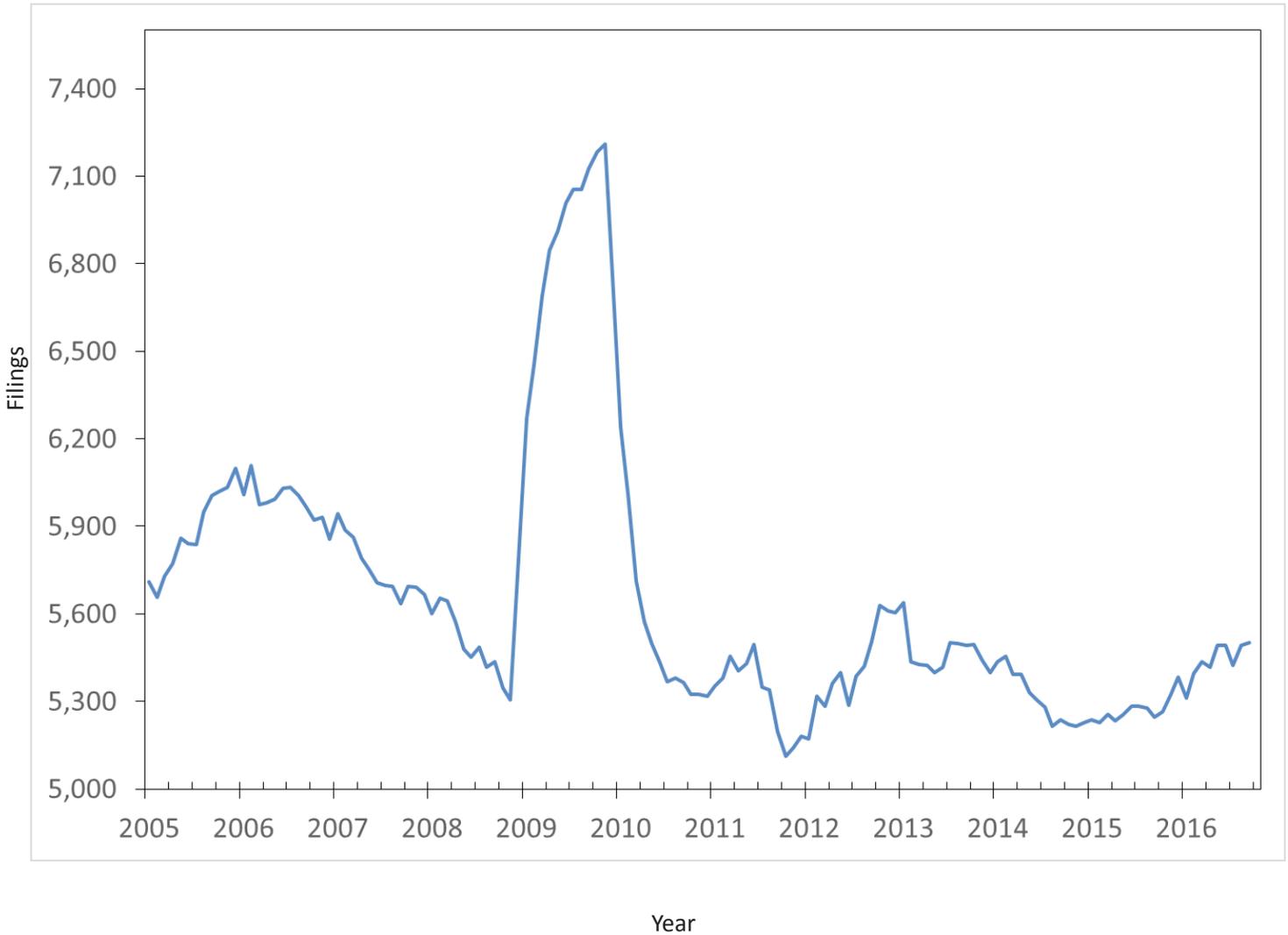
Three index components—Central Minnesota initial claims for unemployment insurance, St. Cloud MSA residential building permits, and the Minnesota Business Conditions Index (which is a general measure of statewide business conditions)—had negative readings in the third quarter. Since Central Minnesota is an exporter of consumer durables, national durable goods orders are used as a proxy for regional economic performance. This indicator was positive in the current quarter. New filings of incorporation in Central Minnesota had little impact on the leading index in the third quarter.

SCSU Central Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Minnesota Business Conditions Index September	48.4	53	-8.68%
Central Minnesota initial claims for unemployment insurance September	1,808	1,728	4.63%
Central Minnesota new filings of incorporation Third Quarter	117	114	2.63%
St. Cloud MSA single family building permits September	31	10	210.00%
National new orders for durable goods, billions of real 1984 dollars, September	232.4	218.8	6.22%
Central Minnesota Leading Economic Indicators Index September (September 1999 = 100)	108.3	102.9	5.21%

Central Minnesota Business Filings

The graphs in this section show 12-month moving totals for the various new business filings in Central Minnesota that are registered with the Office of the Minnesota Secretary of State. There were 1,191 new business filings in Central Minnesota in the third quarter. This represents a 0.8 percent increase from the same period in 2015. As can be seen in the accompanying graph, there was an abrupt increase in new business filings in mid-2008. This resulted from a sharp increase in new LLC filings at that time. This outlier (resembling a shark fin) is related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota. The 12-month moving total of new business filings has been trending upward since the end of 2014.

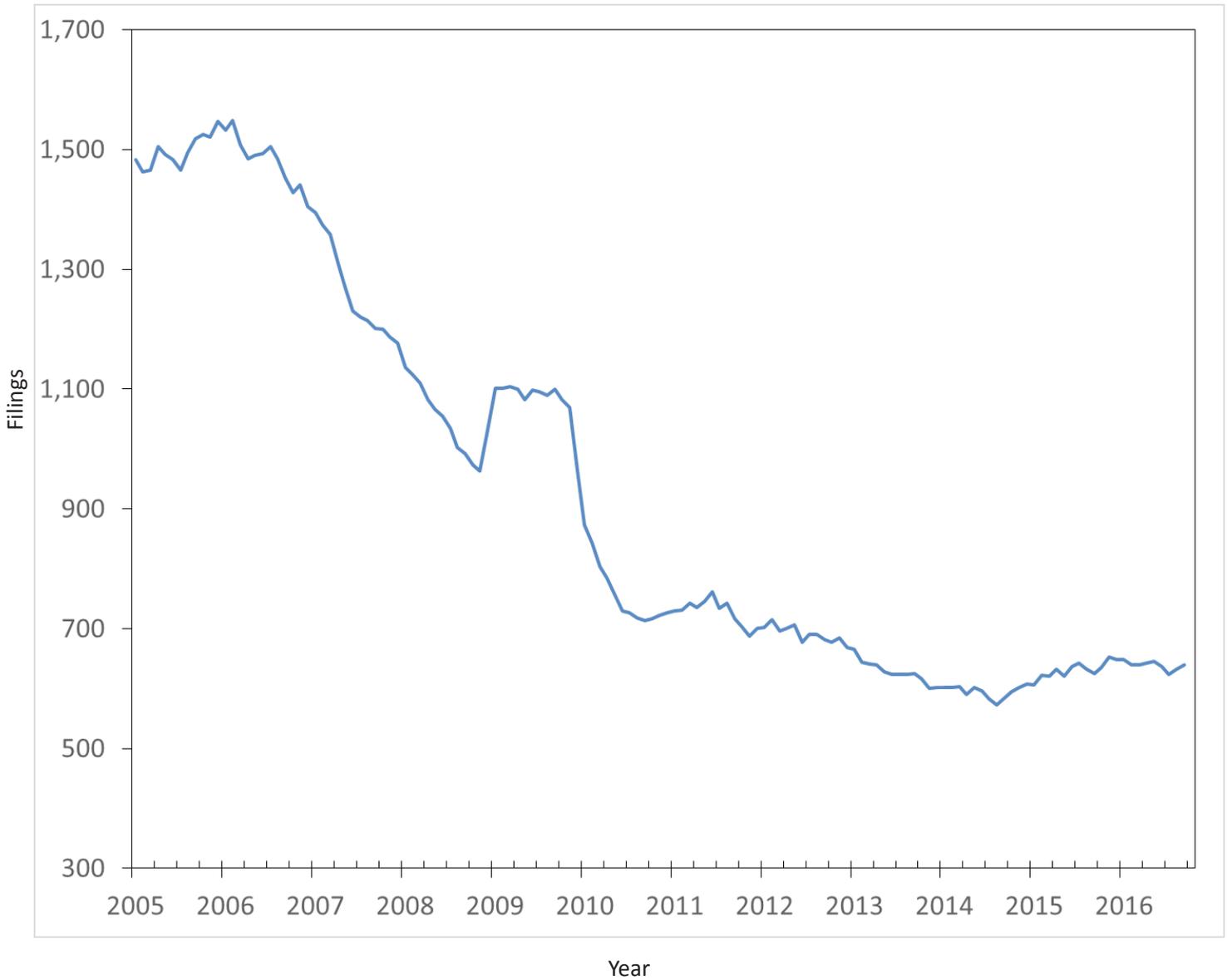
Total New Business Filings—Central Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Central Minnesota Total New Business Filings	1,181	1,329	1,529	1,454	1,191	0.8%

New business incorporations trended downward in Central Minnesota from 2005 to 2015. However, over the past several quarters, the 12-month moving total of this series has levelled out. Compared to one year ago, quarterly figures of new business incorporations increased by 2.6 percent in the third quarter—rising from 114 in 2015: III to 117 in the most recent period.

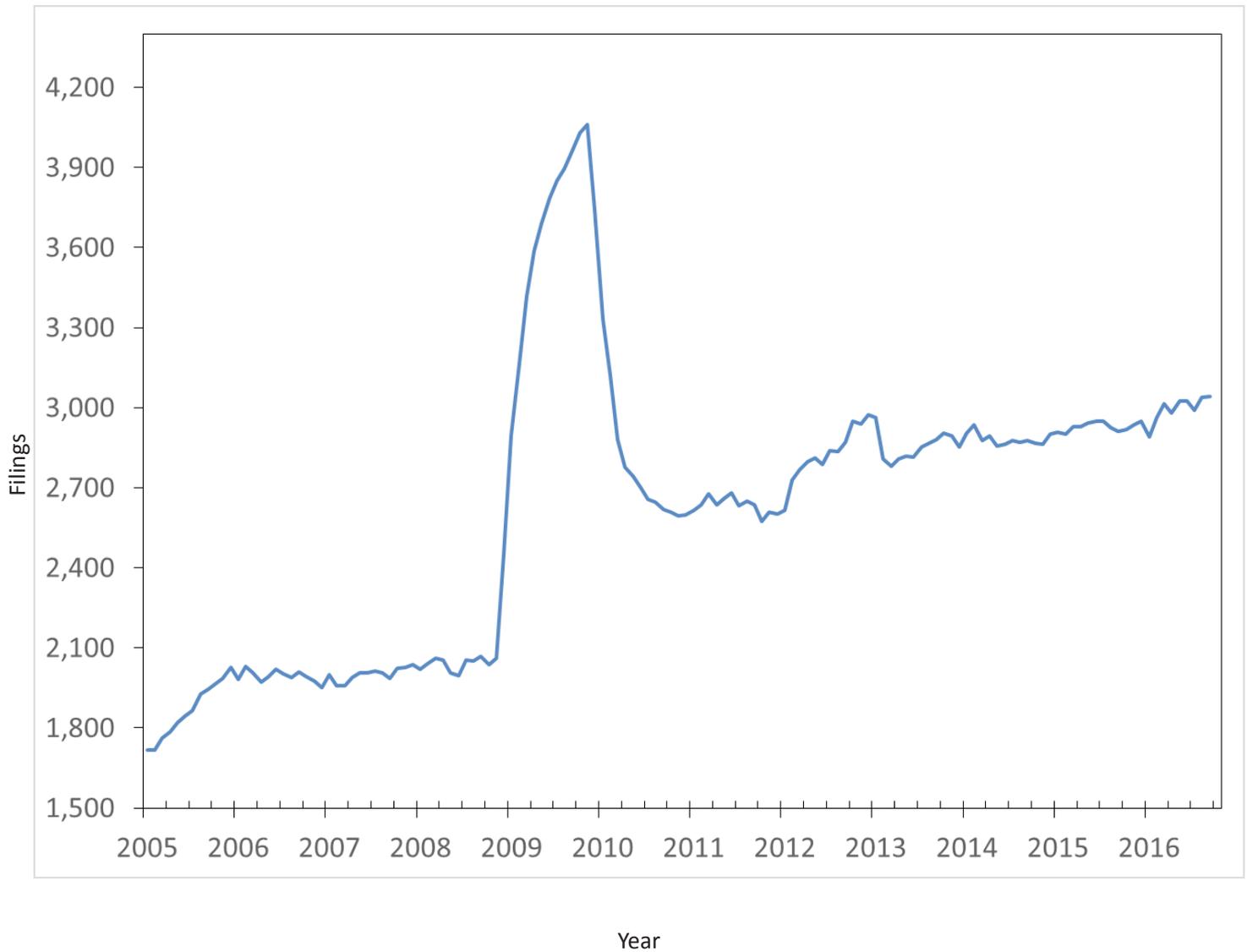
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Central Minnesota New Business Incorporations	114	177	182	163	117	2.6%

There has been a move away from the traditional incorporation form of business organization towards the LLC throughout Minnesota. While new business incorporations remain an important indicator of new business formation in Central Minnesota, LLCs are increasingly useful in evaluating regional economic performance. The number of new LLCs increased by 2.5 percent (to 686) from one year earlier. As can be seen in the accompanying graph, the number of Central Minnesota LLCs has slowly trended upward in recent years.

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



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Central Minnesota New Limited Liability Companies	669	723	840	792	686	2.5%

Assumed names, which include sole proprietors or organizations that do not have limited liability, fell in this year's third quarter. After a decade of decline (other than a brief steady period in 2011-12), this series had been trending upward in recent quarters, but it now appears to be flattening out.

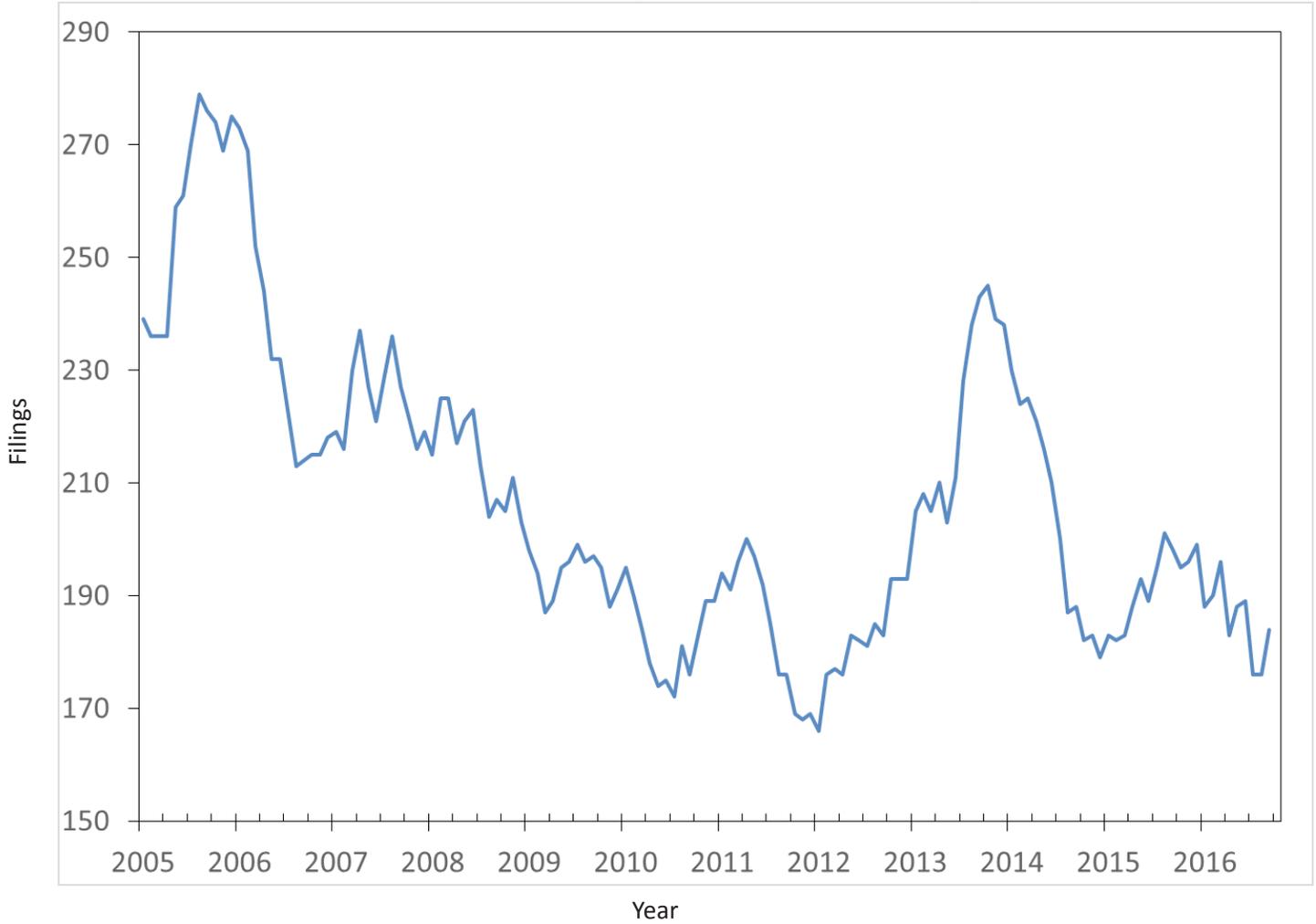
New Assumed Names—Central Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Central Minnesota New Assumed Names	348	384	454	458	343	-1.4%

There were 45 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the third quarter of 2016. This was 10 percent fewer filings than one year ago.

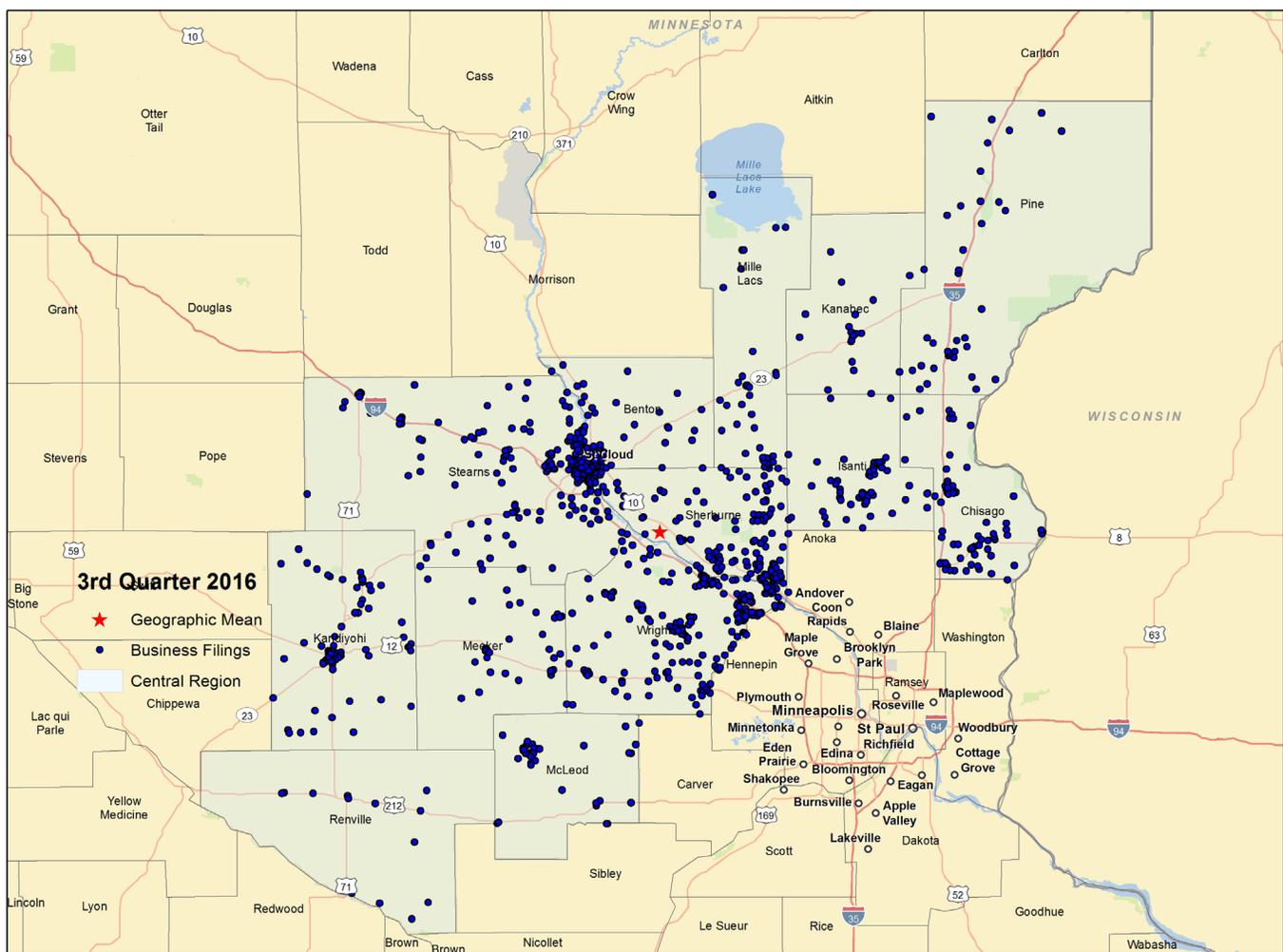
New Non-Profits—Central Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Central Minnesota New Non-Profits	50	45	53	41	45	-10%

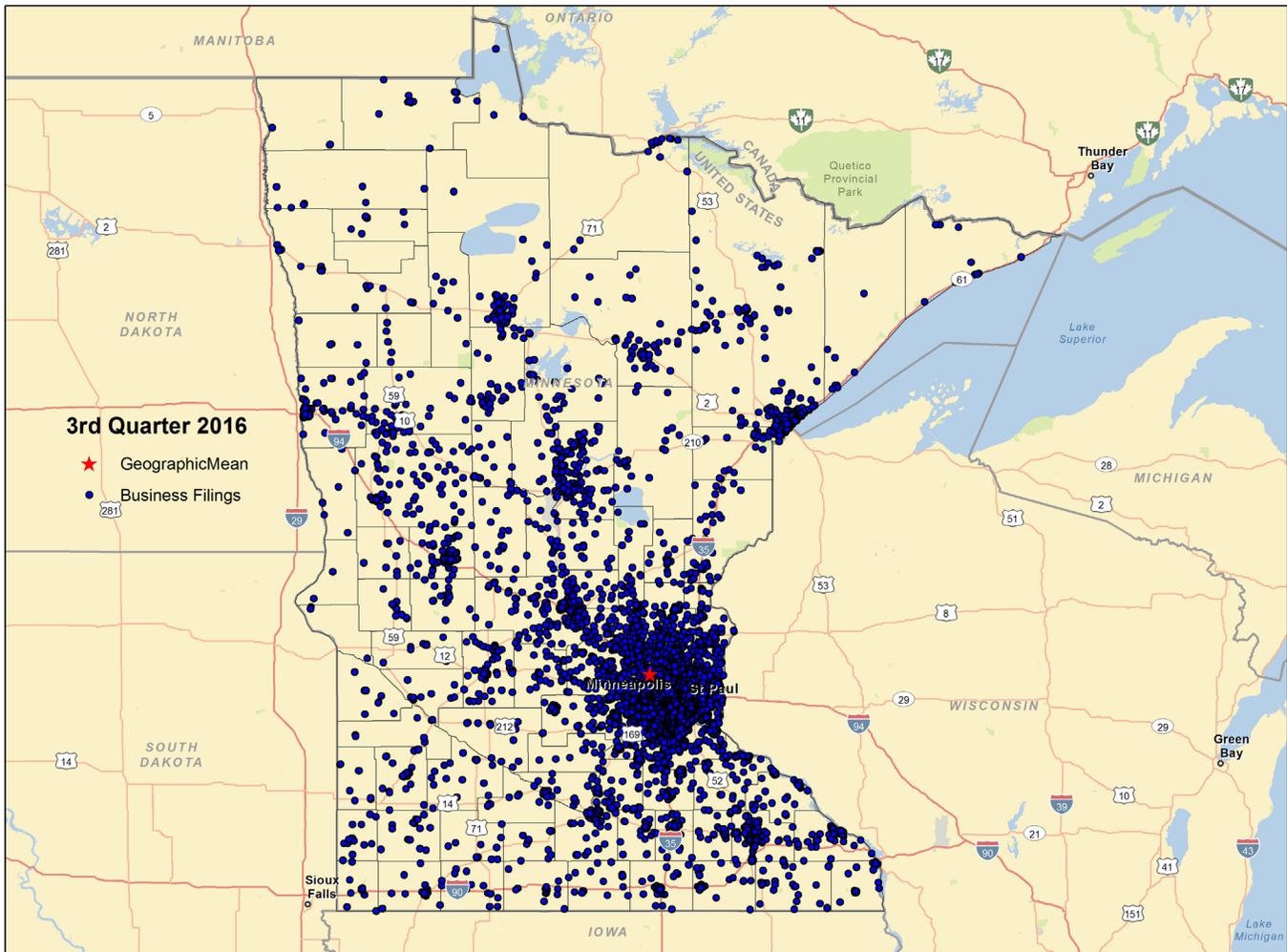
The first map shown below is a visual representation of new business filings around the Central Minnesota planning area in the third quarter of 2016. As usual, the densest areas of new business formation are in the St. Cloud metro as well as along the I-94/US-10 corridor approaching the Twin Cities.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

Central Minnesota 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

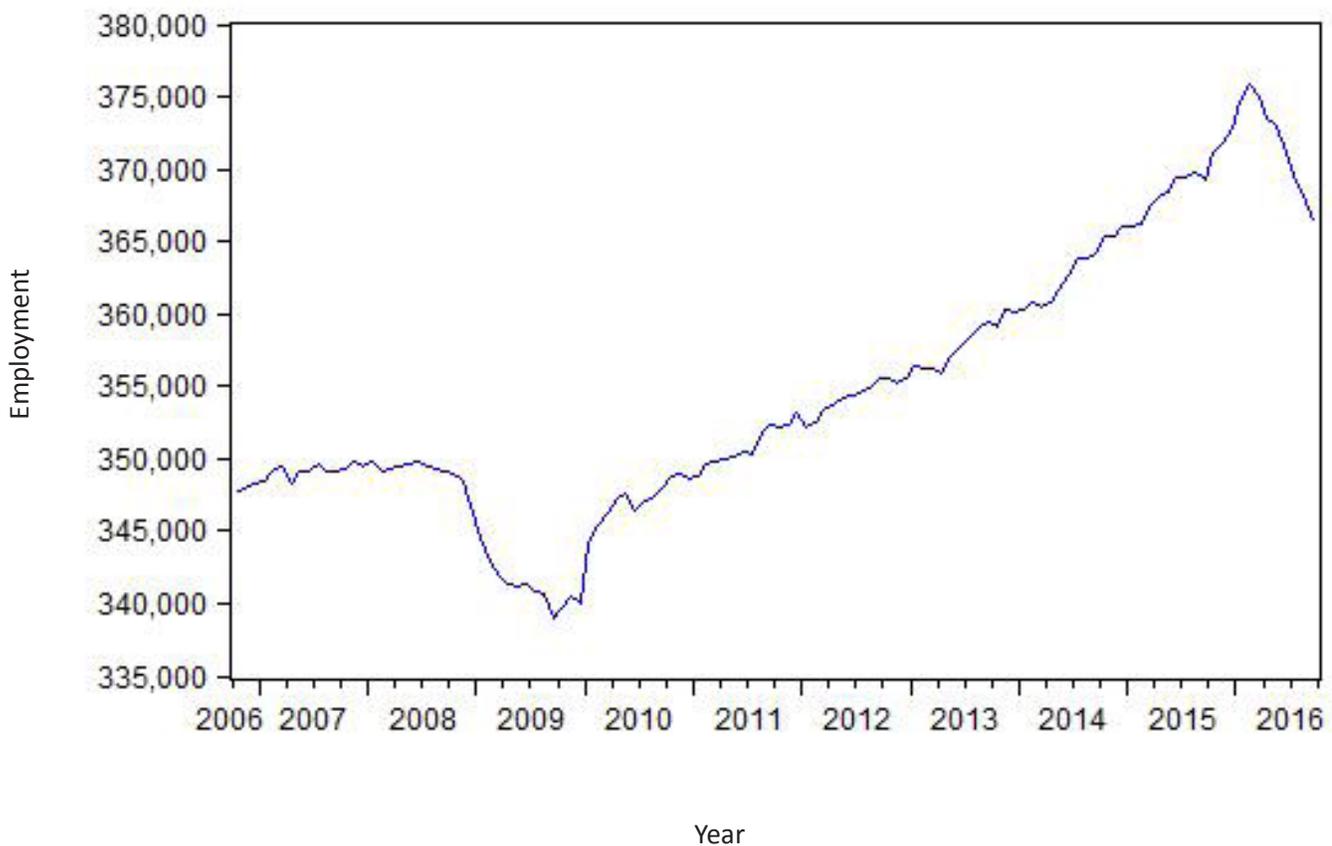


Central Minnesota Labor Market Conditions

Central Minnesota employment fell 0.7 percent over the year ending September 2016. Note that all of Minnesota’s six planning areas experienced declining year-over-year employment in September. Recent weakness in the labor market can be seen in the accompanying graph, where the 12-month moving average of Central Minnesota employment has turned downward in recent quarters.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted.

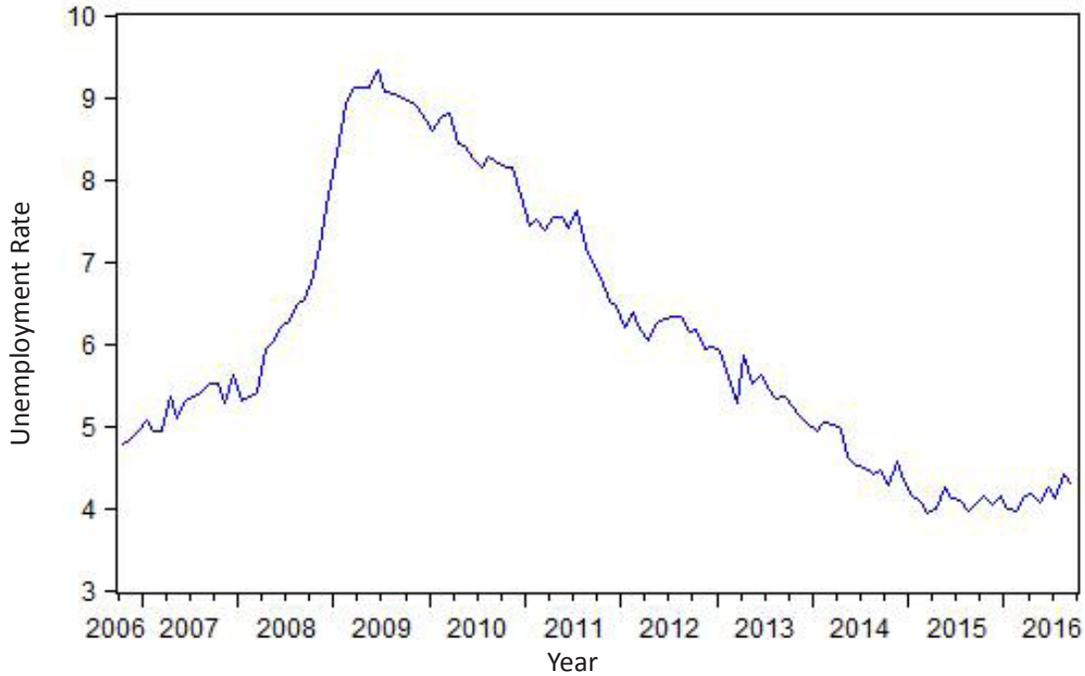
Employment—Central Minnesota Planning Area (12-month moving average)



Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Employment (Not seasonally adjusted)	370,140	373,107	374,057	372,955	373,181	369,929	367,573

Central Minnesota’s unemployment rate was 3.4 percent in September 2016, marginally higher than one year earlier. The seasonally adjusted unemployment rate has clearly leveled off in recent quarters (see figure below).

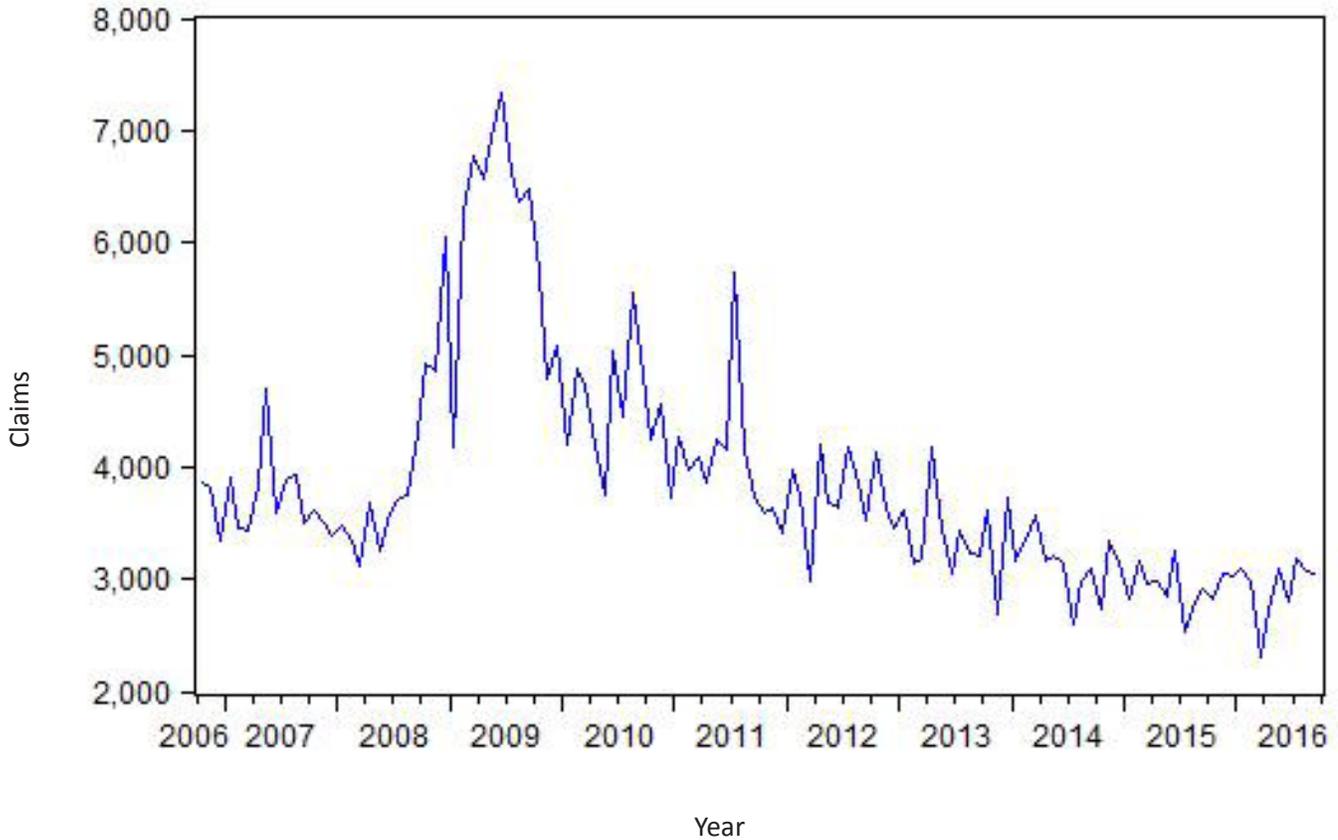
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Unemployment Rate (Not seasonally adjusted)	3.2%	4.2%	3.5%	4.1%	3.8%	3.8%	3.4%

Initial claims for unemployment insurance in the Central Minnesota planning area were 1,808 in September 2016. This was 4.6 percent more claims than one year ago. As can be seen in the accompanying graph, the seasonally adjusted initial jobless claims series had trended downward since peaking in 2009. However, this series has moved upward in 2016.

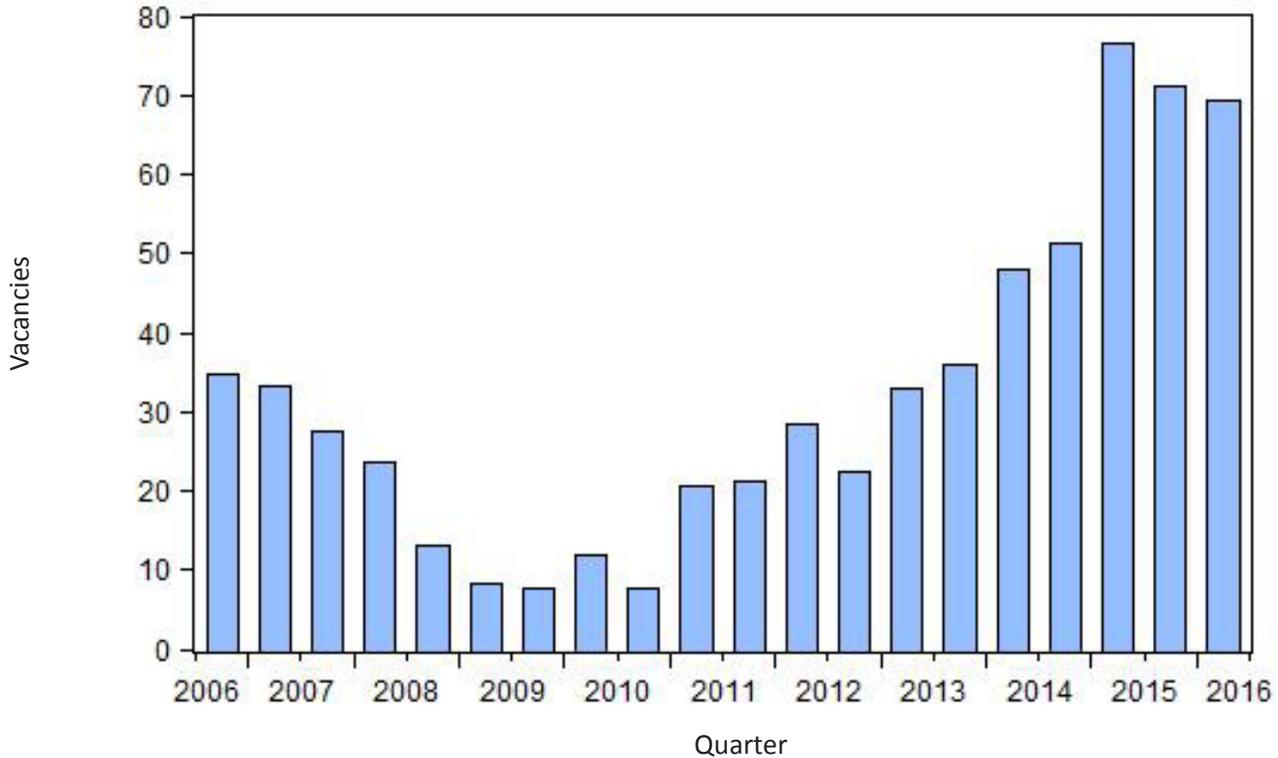
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Central Minnesota Planning Area



Period	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Initial claims (Not seasonally adjusted)	1,728	1,969	2,437	2,073	2,246	1,698	1,808

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 Central Minnesota (and throughout the state). This job vacancy rate is now six times higher than it was at its low point during the Great Recession.

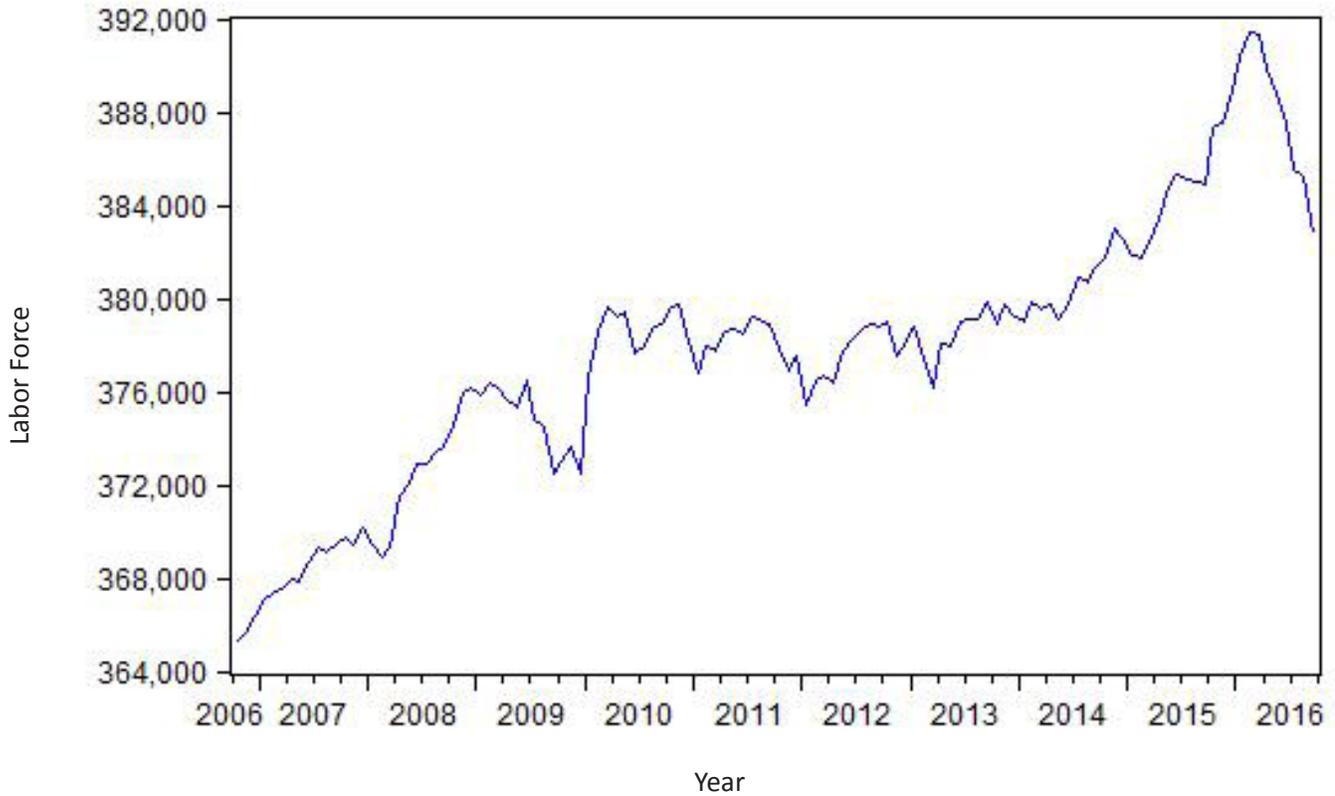
Job Vacancies per 100 Unemployed---Central Minnesota Planning Area



Quarter	2013:IV	2014:II	2014:IV	2015:II	2015:IV	2016:II
Job Vacancies per 100 Unemployed	42.05	51.89	60.10	79.93	81.91	72.21

The Central Minnesota labor force contracted at a 0.5 percent rate over the year ending in September 2016. As seen in the accompanying graph, the 12-month moving average of the regional labor force has declined in 2016. As with other areas throughout the state, Central Minnesota is having difficulty replacing retiring workers—an economic and demographic trend that could go on for several years.

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

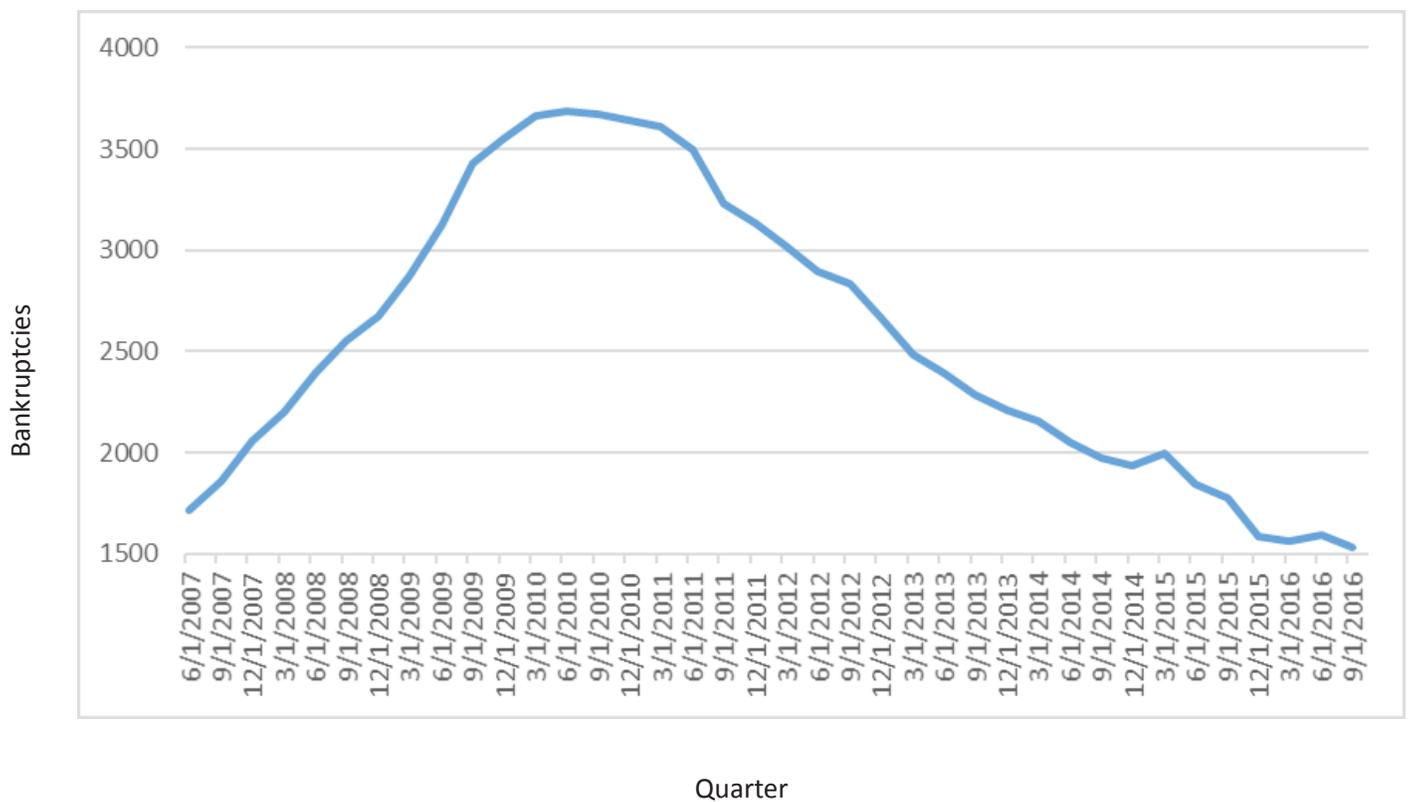


Year (September)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	376,844	376,916	377,916	379,123	382,480	380,590

Central Minnesota Bankruptcies

The figure below shows the 12-month moving total for Central Minnesota bankruptcies since the second quarter of 2007 (shortly before the beginning of the Great Recession). As can be seen in the figure, this moving total increased through the second quarter of 2010, and has now started to bottom out. With 1,532 bankruptcies over the past twelve months, the annual level of bankruptcies in Central Minnesota is slightly lower than it was three months ago.

Central Minnesota Bankruptcies (12-month moving total)



Year (Third Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	3,226	2,835	2,285	1,974	1,777	1,532

Economic Indicators

St. Cloud MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
LABOR MARKET					
Employment	September 2016 (m)	110,717	108,188	2.3% ↑	1.0%
Manufacturing Employment	September 2016 (m)	14,810	15,073	-1.7% ↓	-1.0%
Average Weekly Work Hours--Private Sector	September 2016 (m)	32.9	32.3	1.9% ↑	33.7 (since 2007)
Average Earnings Per Hour--Private Sector	September 2016 (m)	\$25.13	\$25.02	0.4% ↑	2.8% (since 2007)
Unemployment Rate	September 2016 (m)	3.3%	3.0%	NA ↑	4.2%
Labor Force	September 2016 (m)	109,645	109,798	-0.1% ↓	0.6%
SCSU Future Employment Index	August 2016 (q)	0	17.2	NA ↓	10.9 (since 2005)
SCSU Future Length of Workweek Index	August 2016 (q)	0	-3.1	NA ↑	-3.8 (since 2005)
SCSU Future Employee Compensation Index	August 2016 (q)	38.2	43.8	-12.8% ↓	38.4 (since 2005)
SCSU Future Worker Shortage Index	August 2016 (q)	23.7	32.8	-27.7% ↓	16.8 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	September 2016 (m)	432	416	3.8% ↑	NA
<i>St. Cloud Times</i> Help Wanted Linage	July 2016 (q)	559	2,736	-79.6% ↓	NA
BUSINESS FORMATION					
New Business Filings	Third Quarter 2016 (q)	359	323	11.1% ↑	309 (since 2000)
Assumed Names	Third Quarter 2016 (q)	97	92	5.4% ↑	113 (since 2000)
Business Incorporations	Third Quarter 2016 (q)	33	19	73.7% ↑	47 (since 2000)
Limited Liability Companies	Third Quarter 2016 (q)	216	199	8.5% ↑	134 (since 2000)
Non-Profits	Third Quarter 2016 (q)	13	13	0.0% ↔	14 (since 2000)

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

St. Cloud MSA Indicators, Cont'd.

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
BUSINESS ACTIVITY					
SCSU Future Business Activity Index	August 2016 (q)	10.9	37.5	-70.9% ↓	25.4 (since 2005)
SCSU Future Capital Expenditures Index	August 2016 (q)	12.7	25	-49.2% ↓	18.5 (since 2005)
SCSU Future National Business Activity Index	August 2016 (q)	5.4	26.5	-79.6% ↓	15.7 (since 2005)
St. Cloud Index of Leading Economic Indicators	July 2016 (m)	101.9	103.2	-1.3% ↓	NA
PRICES					
St. Cloud Cost of Living Index	Second Quarter 2016 (q)	NA	98.0	NA	NA
St. Cloud Median Home Sales Prices	September 2016 (m)	\$171,500	\$152,500	12.5% ↑	NA
SCSU Future Prices Received Index	August 2016 (q)	16.3	20.3	-19.7% ↓	17.2 (since 2005)

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

Central Minnesota contains the St. Cloud MSA, where mixed signals of the future economic health of this metropolitan area have emerged in recent months. For example, the future outlook from a survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University was considerably weaker than normal. In addition, Help Wanted lineage in the St. Cloud Times is down, the unemployment rate rose, the labor force contracted, and initial jobless claims increased. However, new business filings rose, median home sales prices increased, employment improved, average hourly earnings accelerated, and average weekly work hours expanded.

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 Central Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

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Metropolitan Airports Commission: MSP Enplanements.

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