Southwest Minnesota Economic and Business Conditions Report First Quarter 2018

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
Research Institute
St. Cloud State University

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EXECUTIVE SUMMARY

After experiencing a negative reading in the fourth quarter of 2017, the St. Cloud State University Southwest Minnesota Index of Leading Economic Indicators (LEI) turned positive in this year's first quarter, indicating continued economic growth in Southwest Minnesota over the next several months. Three of four LEI components were positive in the first quarter. A larger number of new business filings of incorporation and LLC in Southwest Minnesota and a stronger outlook for rural Minnesota helped drive the leading index higher in the current quarter. A decline in initial jobless claims also helped lift the index. A decrease in the value of residential building permits in the Mankato area served as a drag on this quarter's LEI.

There were 766 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the first quarter of 2018 — representing 2.7 percent fewer new filings than one year ago. There were 43 new regional business incorporation filings in the first quarter, a 29.5 percent decrease from last year's first quarter. New LLC filings in Southwest Minnesota rose 6.7 percent from one year earlier, but new assumed name filings contracted to 213—a 9.7 percent reduction from its level of March 2017. There were 34 new filings for Southwest Minnesota non-profit in the first quarter—ten fewer filings than one year ago.

Fifty-six percent of new business filers in the Southwest Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's first quarter. Results of this voluntary survey indicate that 4.6 percent of new filers come from communities of color. Approximately 6.3 percent of new business filings are from veterans. About 2.6 percent of new filers come from the disability community and 2.8 percent of new filings are made by the immigrant community. Thirty-eight percent of new business filings in Southwest Minnesota in this year's first quarter were initiated by women. MBS results also show that most new business filers in Southwest Minnesota have between 0 and $10,000 in annual gross revenues (although 54 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Southwest Minnesota are retail trade, construction, agriculture/forestry/fishing/hunting, real estate/rental/leasing, and other services. Employment levels at most new firms are between 0 and 5 workers, and 48 percent of those starting a new business consider this a part-time activity.

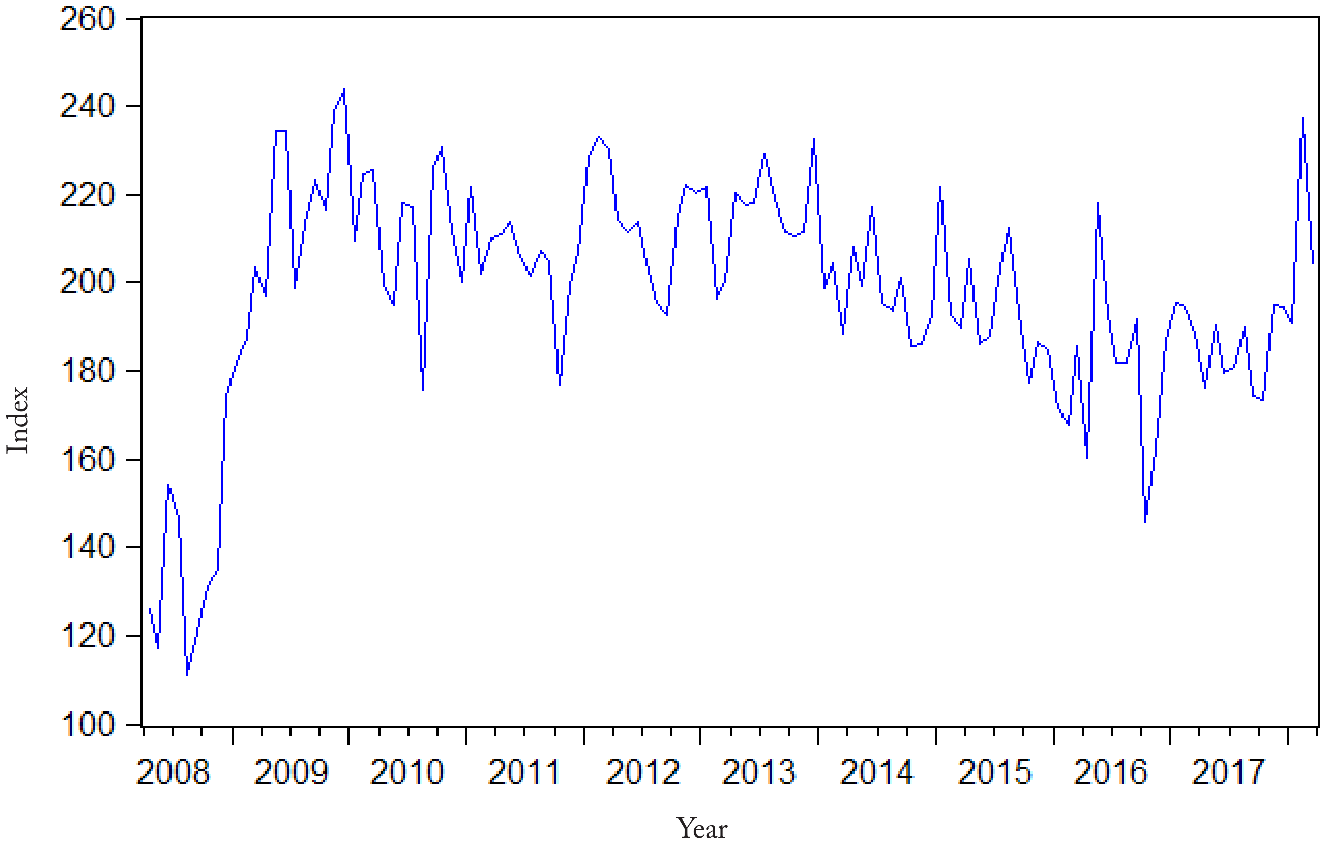
Employment of Southwest Minnesota residents increased by 1.7 percent over the year ending March 2018. The regional unemployment rate was 4.3 percent in March, a decrease from a 4.7 percent reading in March 2017. Initial claims for unemployment insurance were 6.5 percent lower than year-ago levels in March. Job vacancies continue to rise in the Southwest region. There are now 125 job vacancies for every 100 unemployed workers in this part of the state. The Southwest Minnesota labor force rose 1.2 percent over the year ending March 2018. Regional bankruptcies were slightly higher over the last 12 months.

Economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota—was mixed in the most recent quarter. Employment rose, the unemployment rate was lower, average hourly earnings rose, the size of the labor force expanded, and new business filings were higher. Offsetting this was a decline in average weekly work hours, an increase in initial jobless claims, a decrease in the value of Mankato/North Mankato MSA residential building permits, and a rise in the average cost of living.

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. As seen in the accompanying figure, this series has always shown considerable variability from one quarter to the next, but it has tended to drift upward since the end of 2016. With a current reading of 2.60, continued economic growth is expected in the region over the next several months. Note that this quarter's LEI is now 6.9 percent higher than it was one year ago.

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, 1st quarter 2018	Contribution to LEI, 4th quarter 2017
Rural Mainstreet Index	6.23	-3.29
Southwest Minnesota initial claims for unemployment insurance	0.94	-10.04
Southwest Minnesota new filings of incorporation and LLCs	0.51	2.28
Mankato MSA single-family building permits	-5.08	3.44
TOTAL CHANGE	**2.60**	**-7.61**

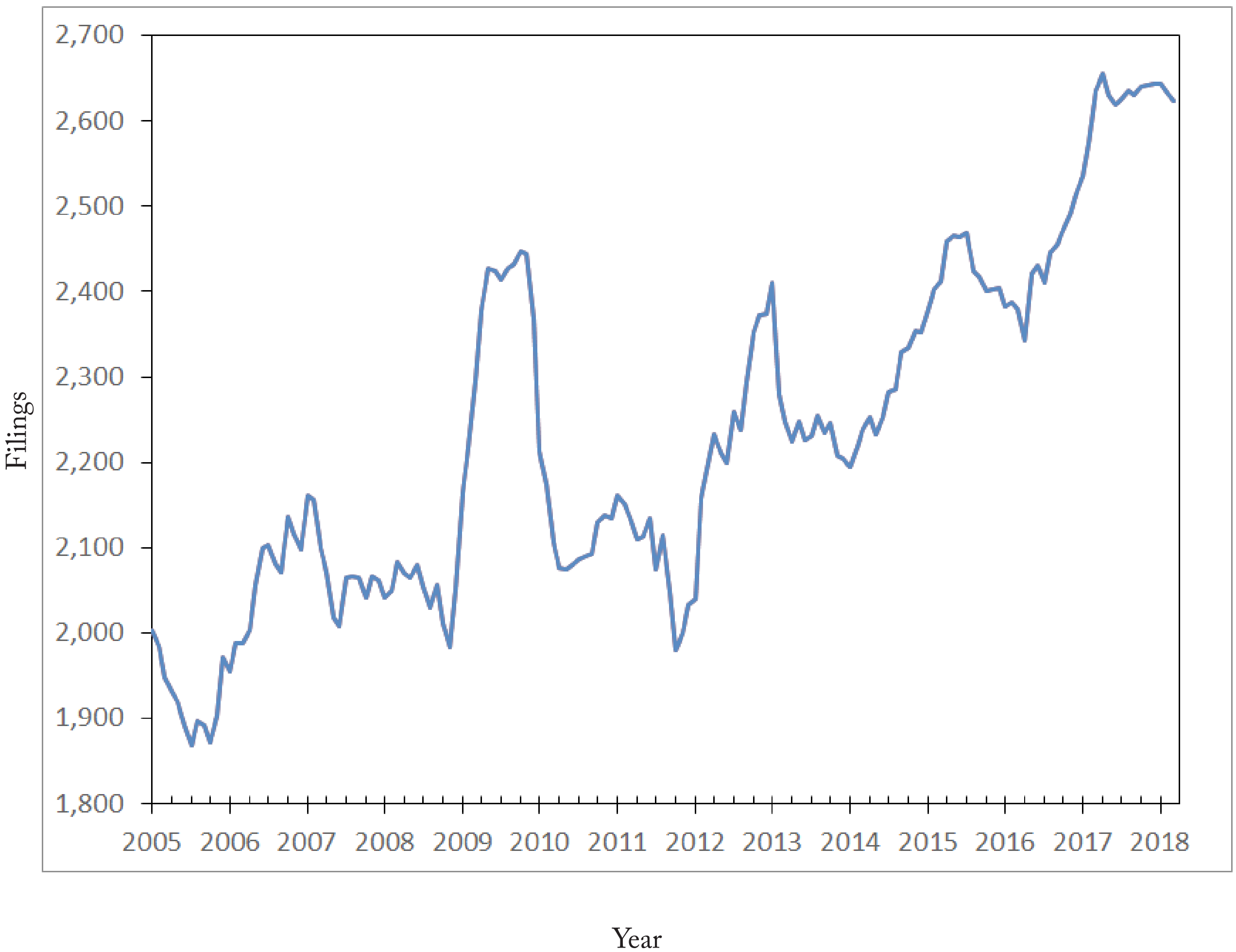
The Southwest Minnesota LEI has four components, three of which increased in the first quarter. A recent increase in new business filings of incorporation and LLC made a positive contribution to the leading index in the first quarter. In addition, lower regional initial jobless claims in recent months contributed favorably to the regional outlook. 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. It also had a positive impact on the LEI in the most recent quarter. A decrease in the number of residential building permits in the Mankato/North Mankato MSA was the only negative component of this quarter's index.

SCSU Southwest Minnesota Leading Economic Indicators Index	2018	2017	Percentage Change
Rural Mainstreet Index, Creighton University March	54.9	46.1	19.1%
Southwest Minnesota initial claims for unemployment insurance March	965	1,032	-6.5%
Southwest Minnesota new filings of incorporation and LLCs First Quarter	519	507	2.4%
Mankato MSA single-family building permits March	11	12	-8.3%
Southwest Minnesota Leading Economic Indicators Index March (December 1999 = 100)	204.1	191.0	6.9%

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 fell by 2.7 percent from year earlier levels in the first quarter. This is the only planning area to experience declining new business filings during this period. However, as seen in the accompanying figure, the 12-month moving total of this series has been generally trending upward since the end of 2011. 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).

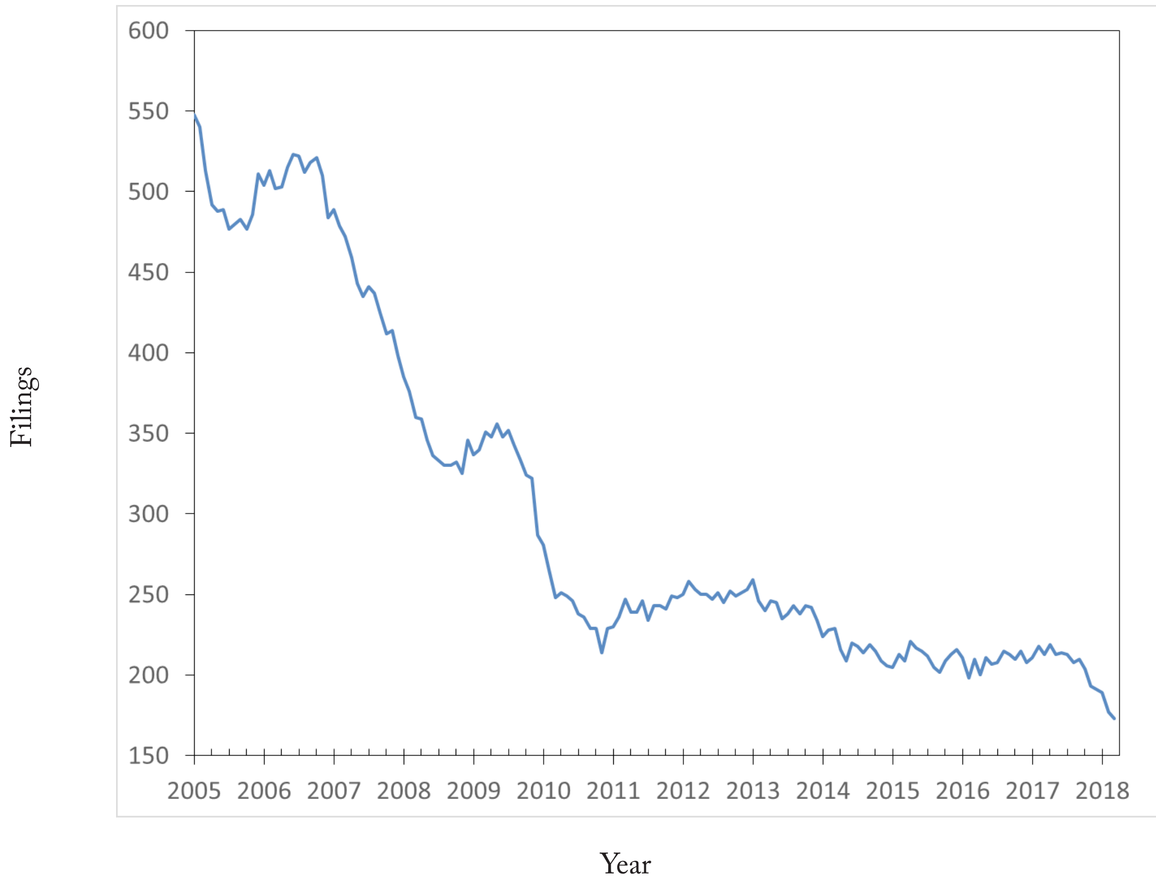
Total New Business Filings—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Southwest Minnesota Total New Business Filings	787	681	556	620	766	-2.7%

New business incorporations trended downward sharply in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend had resumed until flattening out for several quarters. However, new regional incorporations have now declined since the first quarter of 2017. With only 43 new business incorporations in the first quarter of 2018, filings in this category fell by 29.5% from the same period in 2017.

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

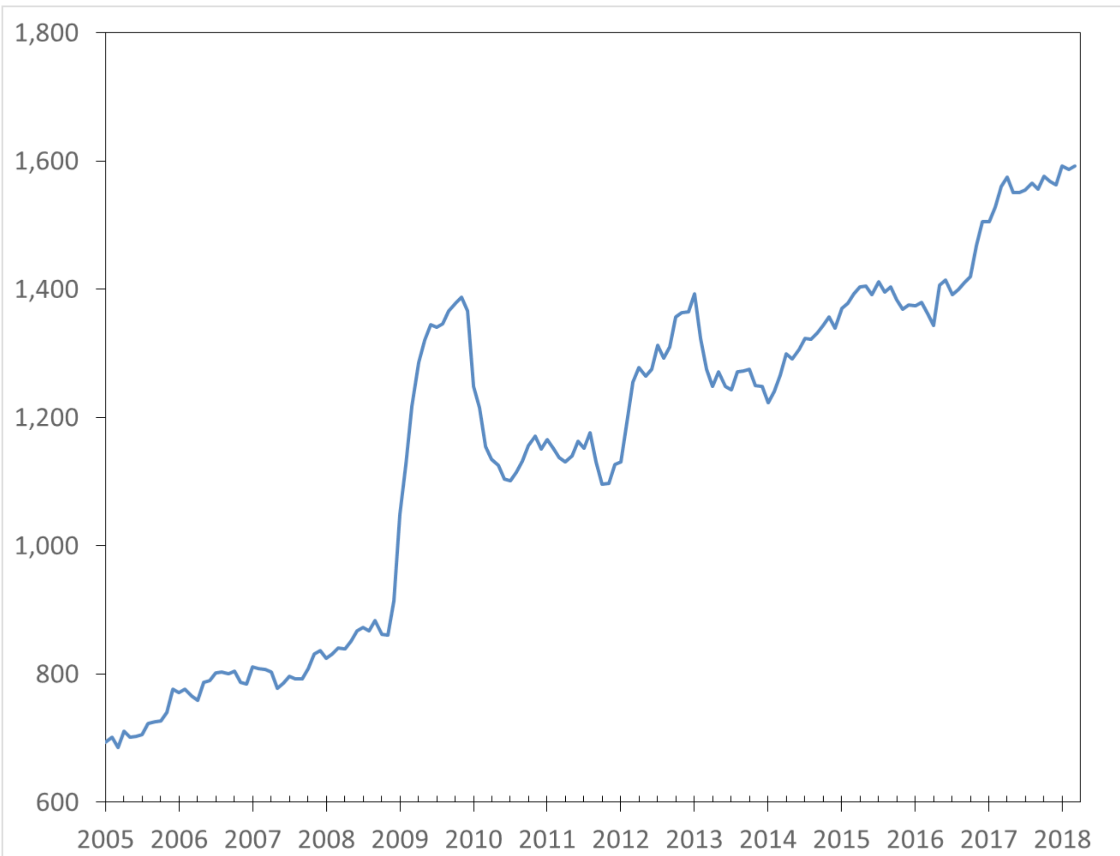


Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Southwest Minnesota New Business Incorporations	61	57	36	37	43	-29.5%

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 a considerable upward trend in LLCs in Southwest Minnesota. New LLC filings increased by 6.7 percent over one year earlier in the first quarter.

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

Filings

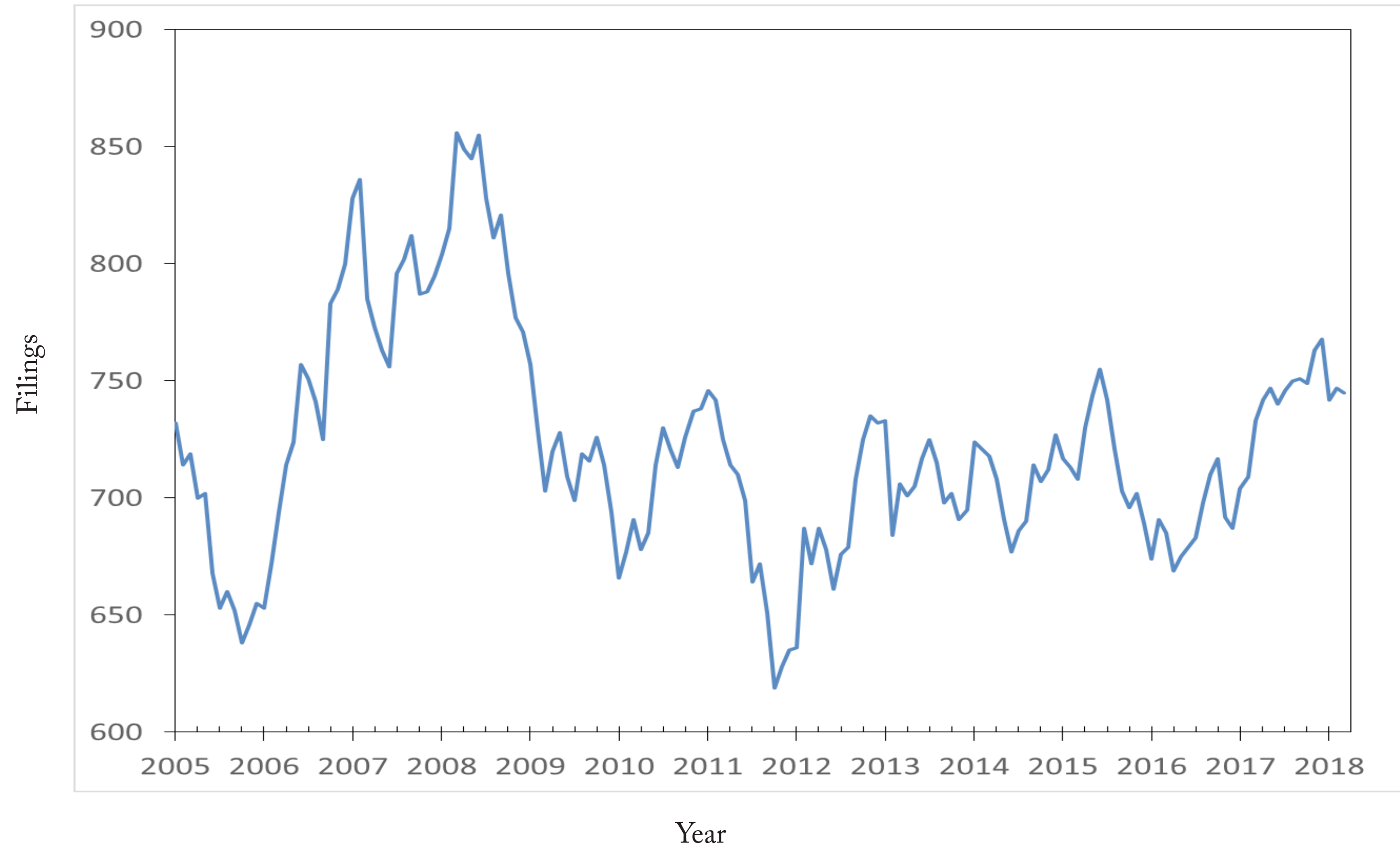


Year

Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	446	402	322	393	476	6.7%

First quarter assumed names fell 9.7% compared to the same period in 2017. As can be seen in the accompanying figure, this series had been trending upward for several quarters. This is a trend that is seen in only one other region in the state—the Northwest Minnesota planning area.

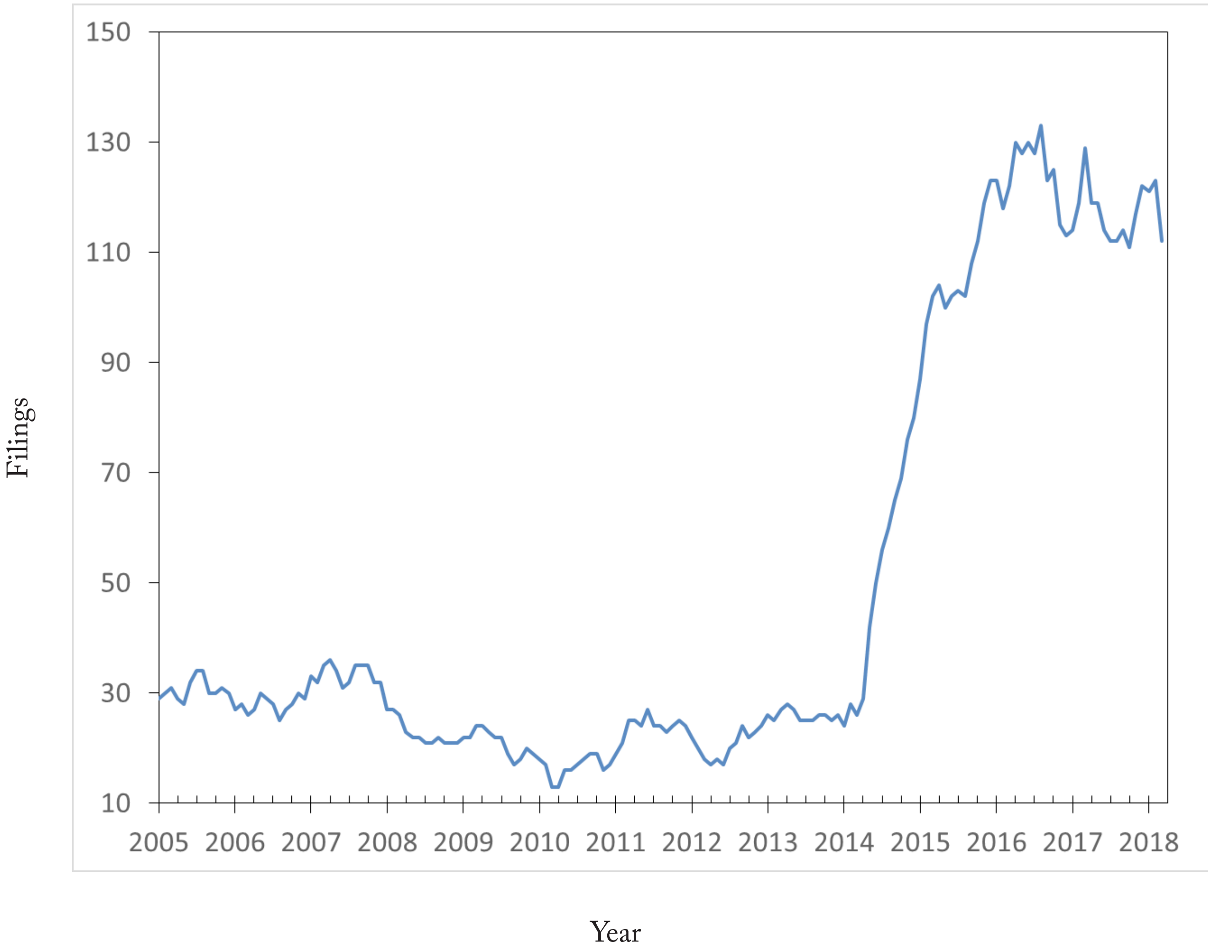
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Southwest Minnesota New Assumed Names	236	201	174	157	213	-9.7%

There were 34 newly registered non-profits in the first quarter. This is 10 fewer (representing a 22.7% decline) than the same period one year ago. As can be seen in the graph below, the non-profits series has now levelled out after a considerable increase from 2014-2016.

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



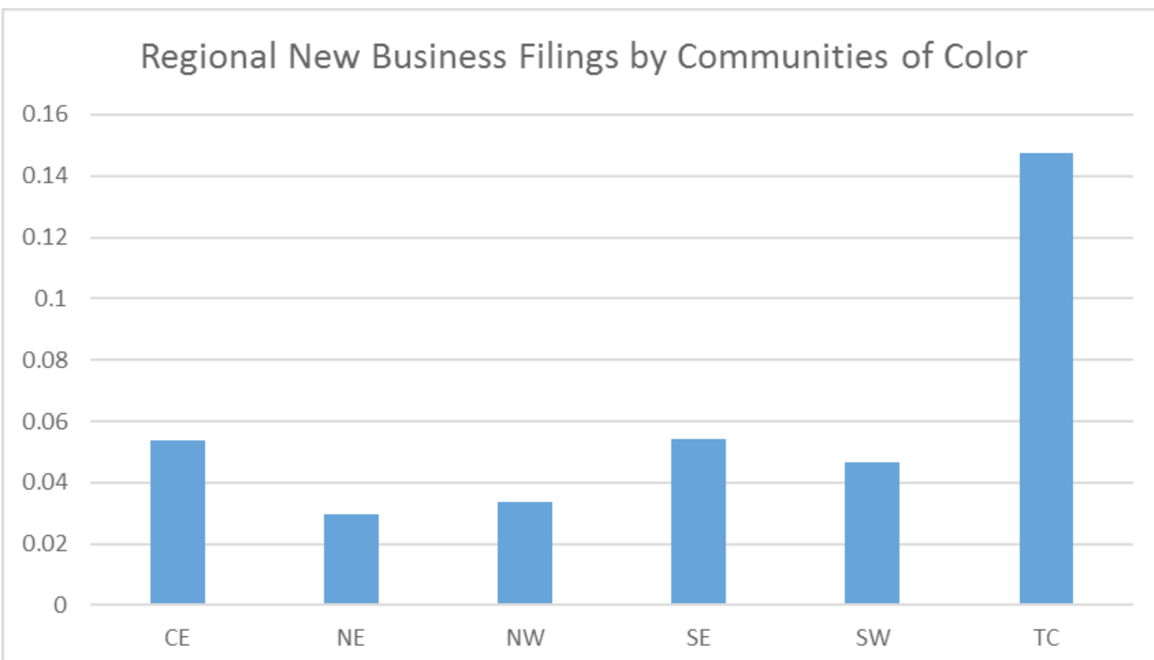
Quarter	I: 2017	II: 2017	III: 2017	IV: 2017	I: 2018	2018 Quarter I: Percent change from prior year
Southwest Minnesota New Non-Profits	44	21	24	33	34	-22.7%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

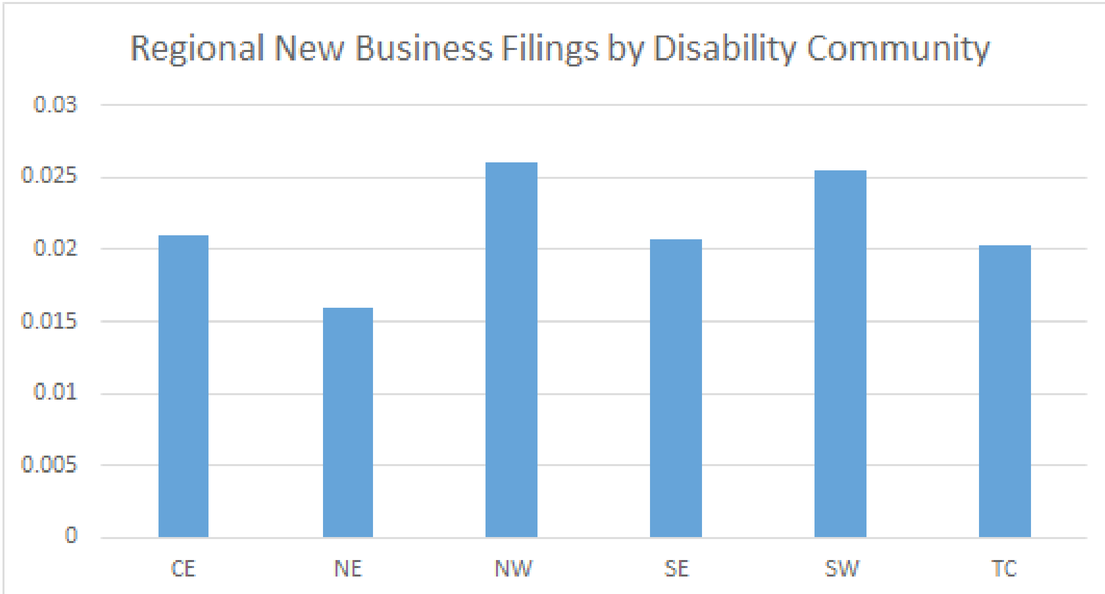
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, employment levels and annual revenue of the filer, and whether the business is a full- or part-time activity for the filing entity. While a comprehensive analysis of this promising new data set is the beyond the scope of this regional economic and business conditions report, the survey results do provide useful additional background information to complement the business filing data.

To match up the Minnesota Business Snapshot (MBS) information with the data analyzed in this report, only surveys accompanying new filings in the first quarter of 2018 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 62 percent. This yields thousands of self-reported records in this emerging data set. For Southwest Minnesota, a little over 56 percent (this is the lowest response rate of any of Minnesota's six planning areas) of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

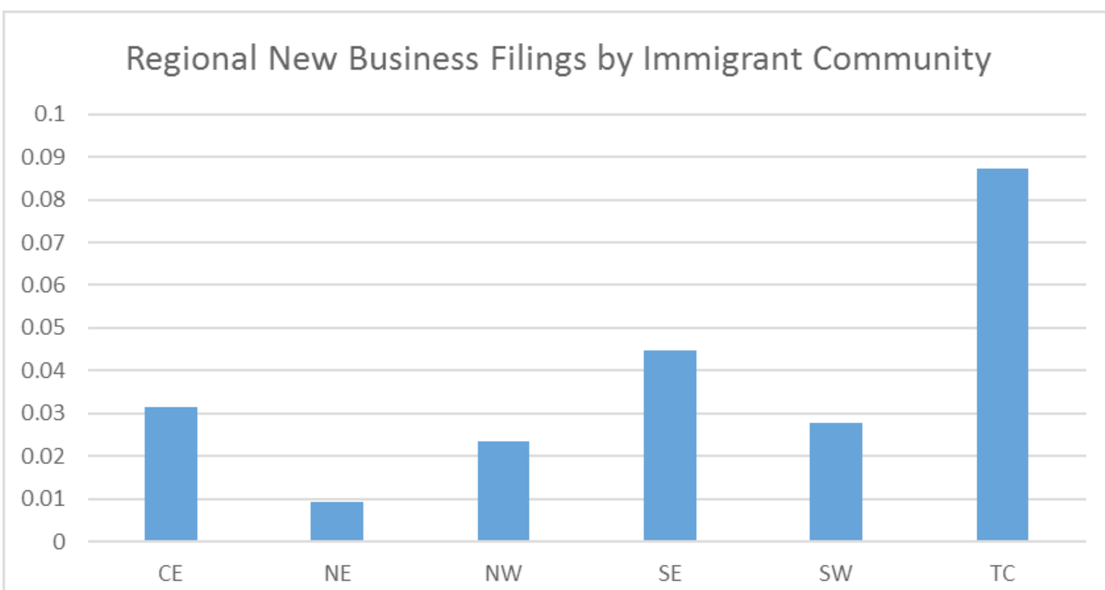
About 4.6 percent of those new filers completing the MBS from the Southwest Minnesota planning area report being from a community of color.



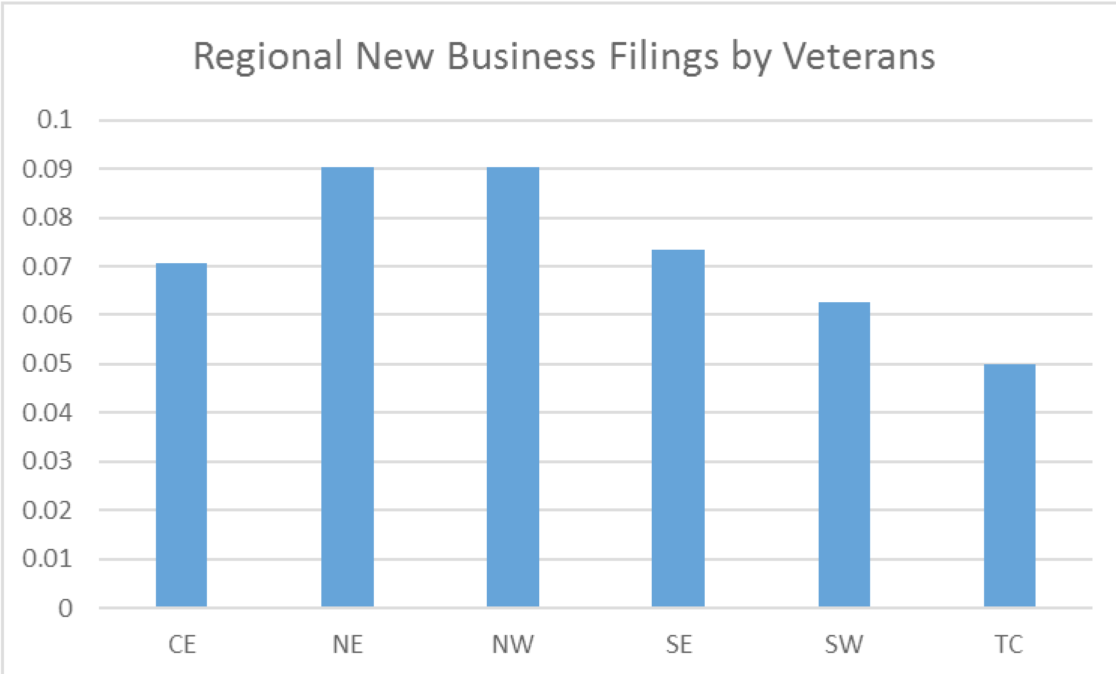
About 2.6 percent of Southwest Minnesota's new filers are from the disability community.



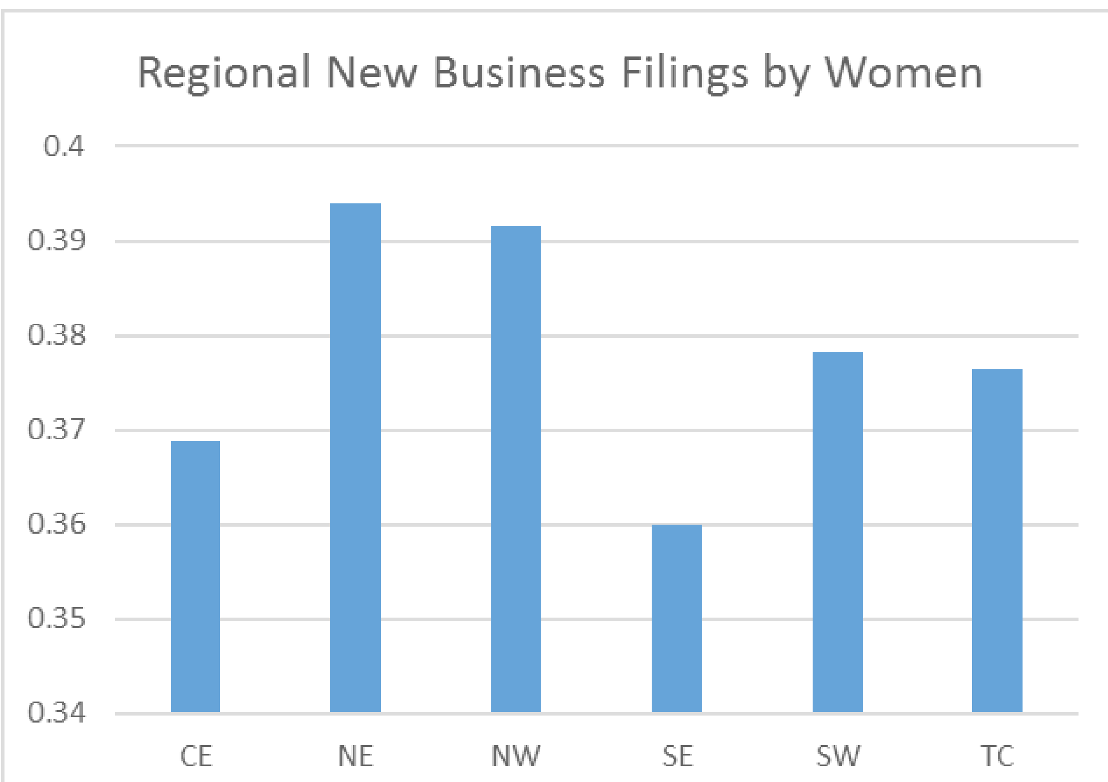
About 2.8 percent of new business filings in Southwest Minnesota come from the immigrant community. This is considerably below what is observed in the Twin Cities.



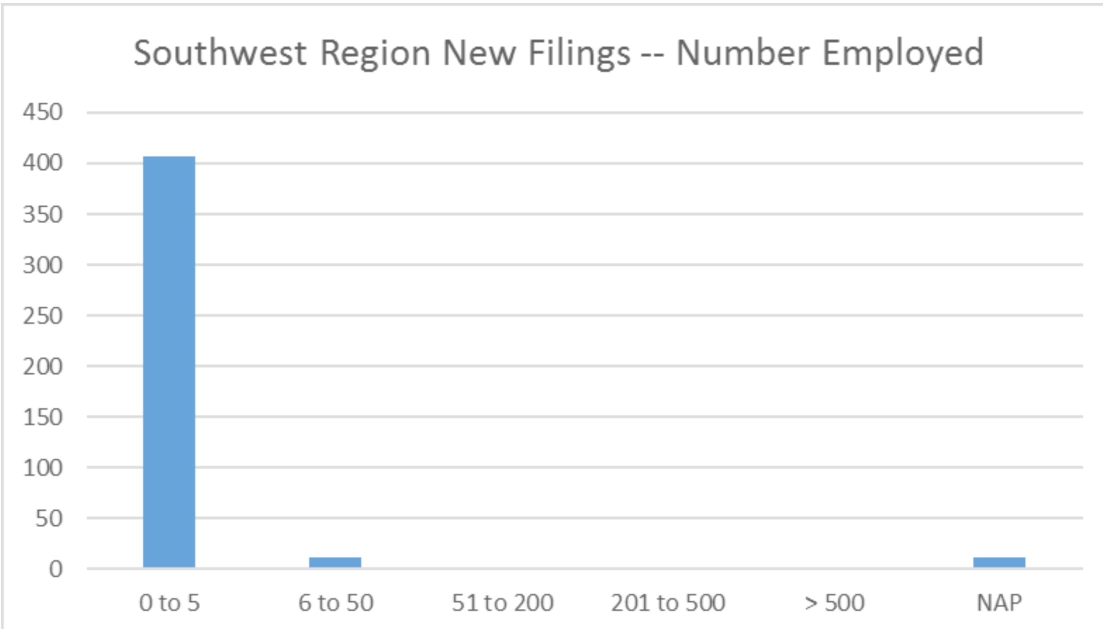
About 6.3 percent of new filings in Southwest Minnesota come from military veterans.



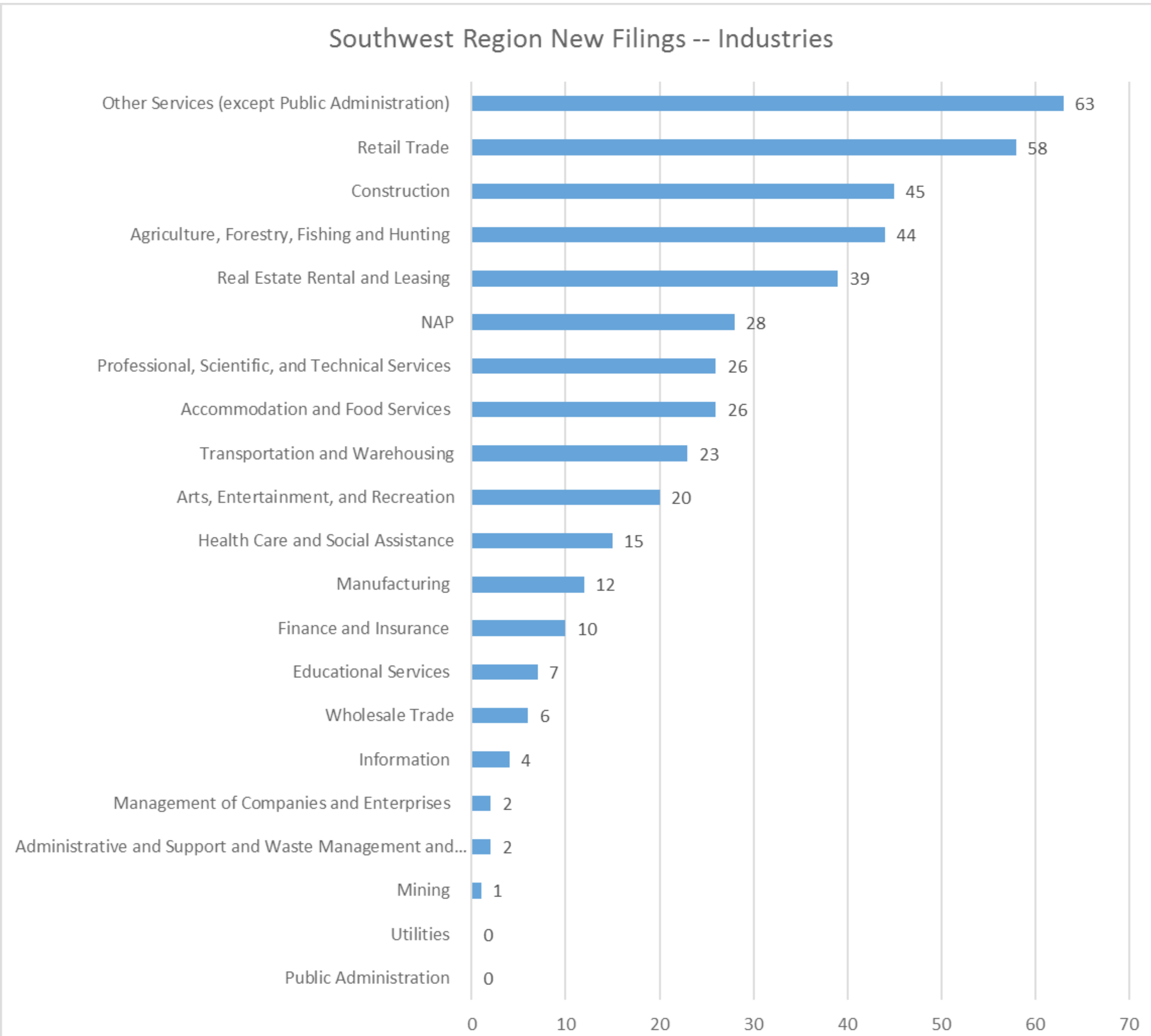
Woman owners represented nearly 38 percent of the new business filings in Southwest Minnesota in the first quarter of 2018.



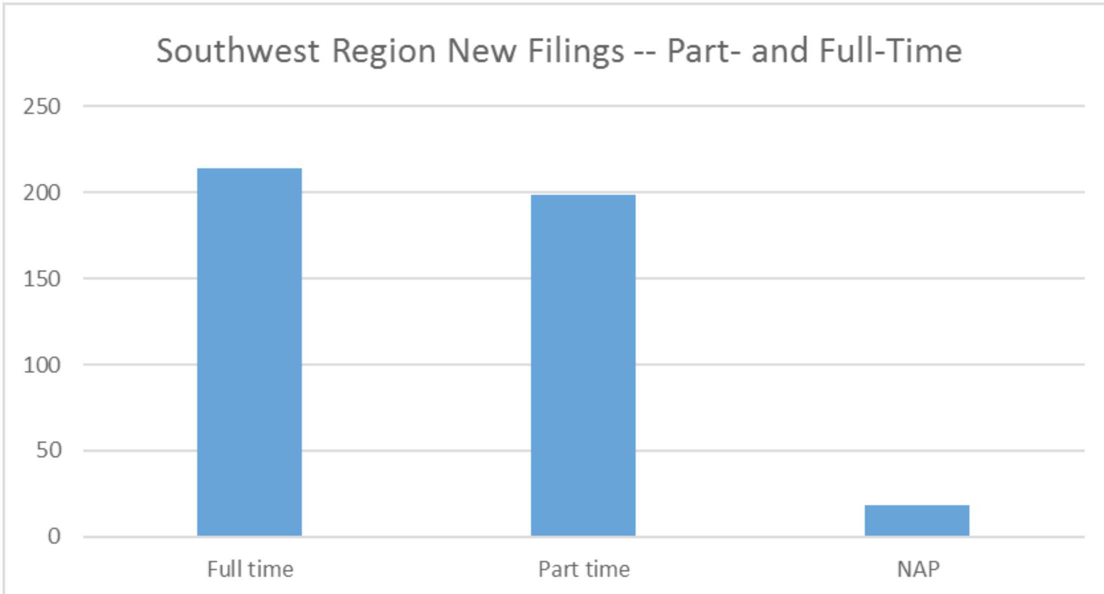
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by “NAP”—no answer provided), 420 responses were tallied to a question asking the new business filer to indicate the range of employment at the business. As expected, most new businesses start small—employment at most companies submitting a new filing ranges from 0-5 employees.



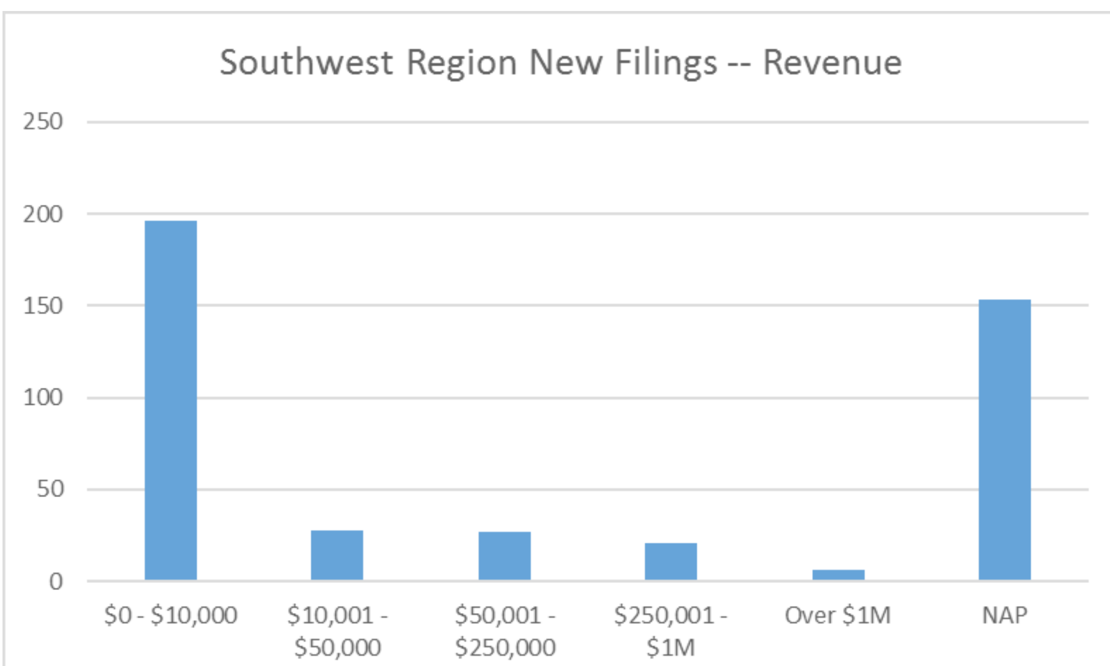
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, retail trade, construction, agriculture/forestry/fishing/hunting, real estate/rental/leasing, and "other services" lead the way. Since businesses are often unsure of their industrial classification, the "other services" category is likely to represent a "catch-all" category for service-related businesses who were unable to specify their industry. Twenty-eight new firms did not provide an answer to this survey item (see "NAP")



Forty-eight percent of those submitting a new business filing in Southwest Minnesota in the first quarter of 2018 are part-time ventures.



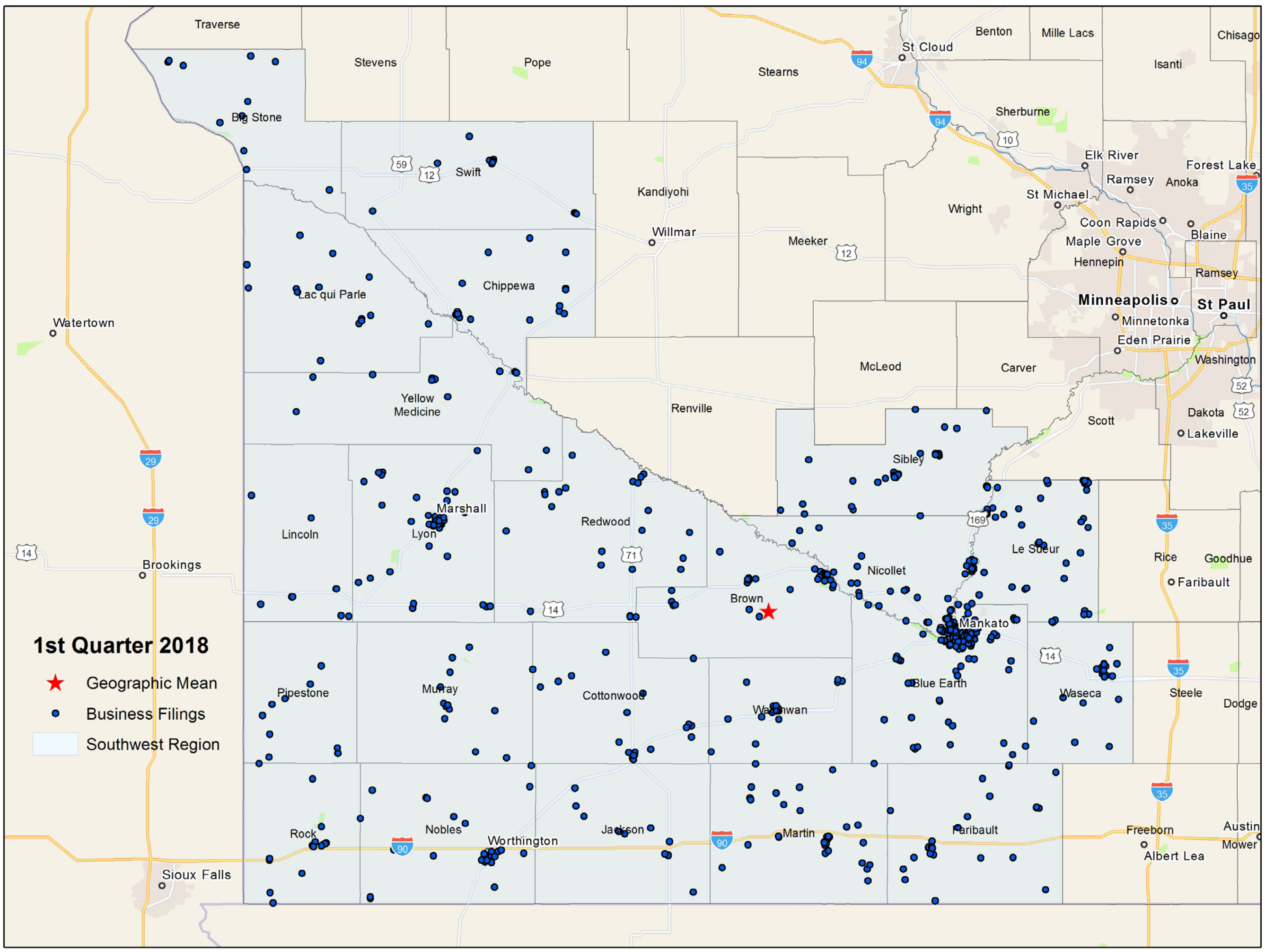
One hundred fifty-three new filers in Southwest Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues less than $10,000. Fifty-four firms report annual revenues in excess of $50,000.



MAPS

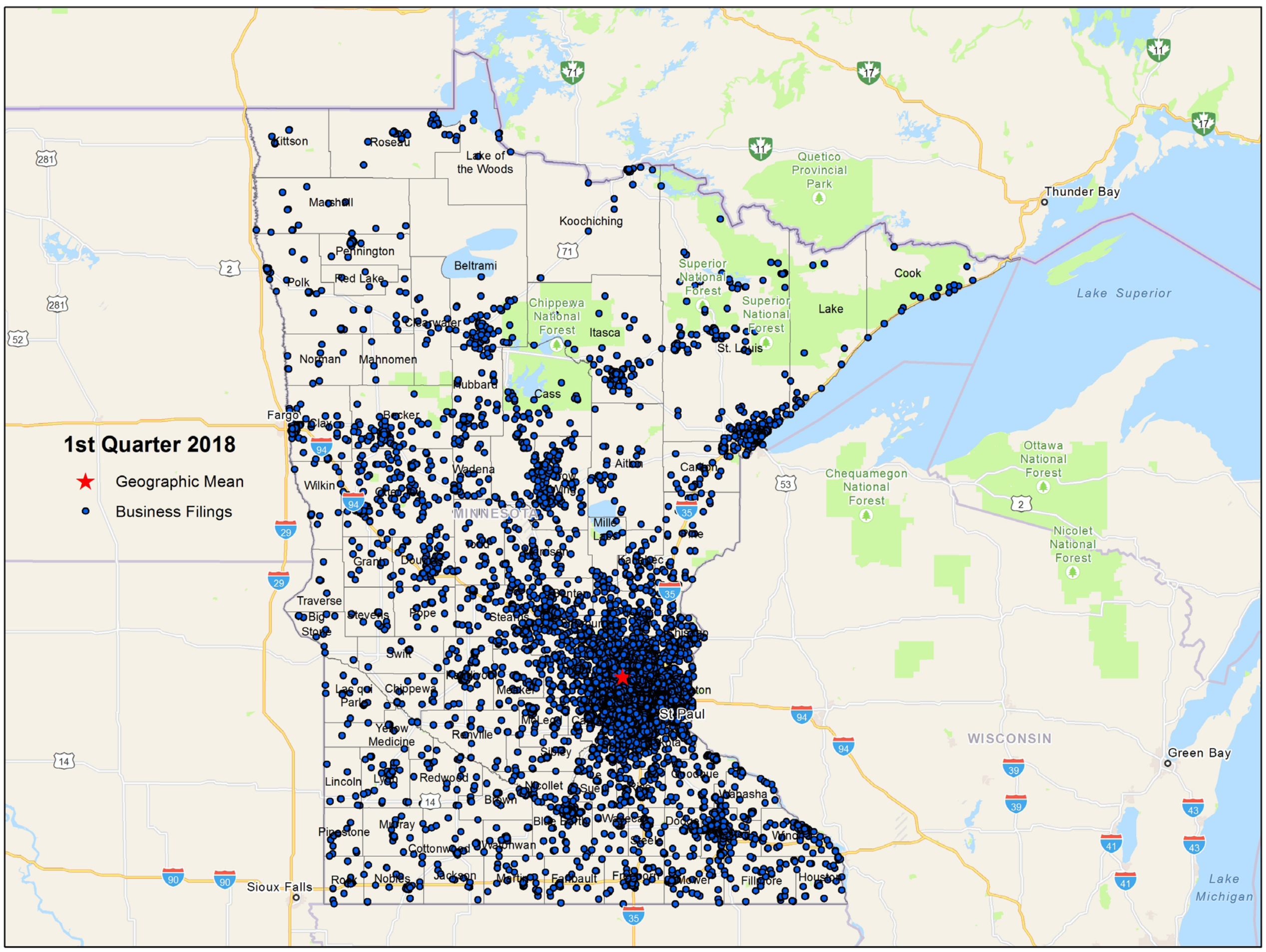
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the first quarter of 2018. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, New Ulm, St Peter, and several cities along I-90. As has been noted in previous editions of this report, well-traveled roadways are a predictor of new business formation in Southwest Minnesota.

Southwest Minnesota Planning Area--New Business Formation--Quarter 1: 2018



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. There is also considerable new business formation in the southern part of the state, particularly in Rochester and between the Twin Cities and Mankato. The importance of Interstates 90, 94, and 35 as well as US-10 and MN 61 (along the North Shore) in new business filings is also easily seen in this map.

Minnesota--New Business Formation--Quarter 1: 2018

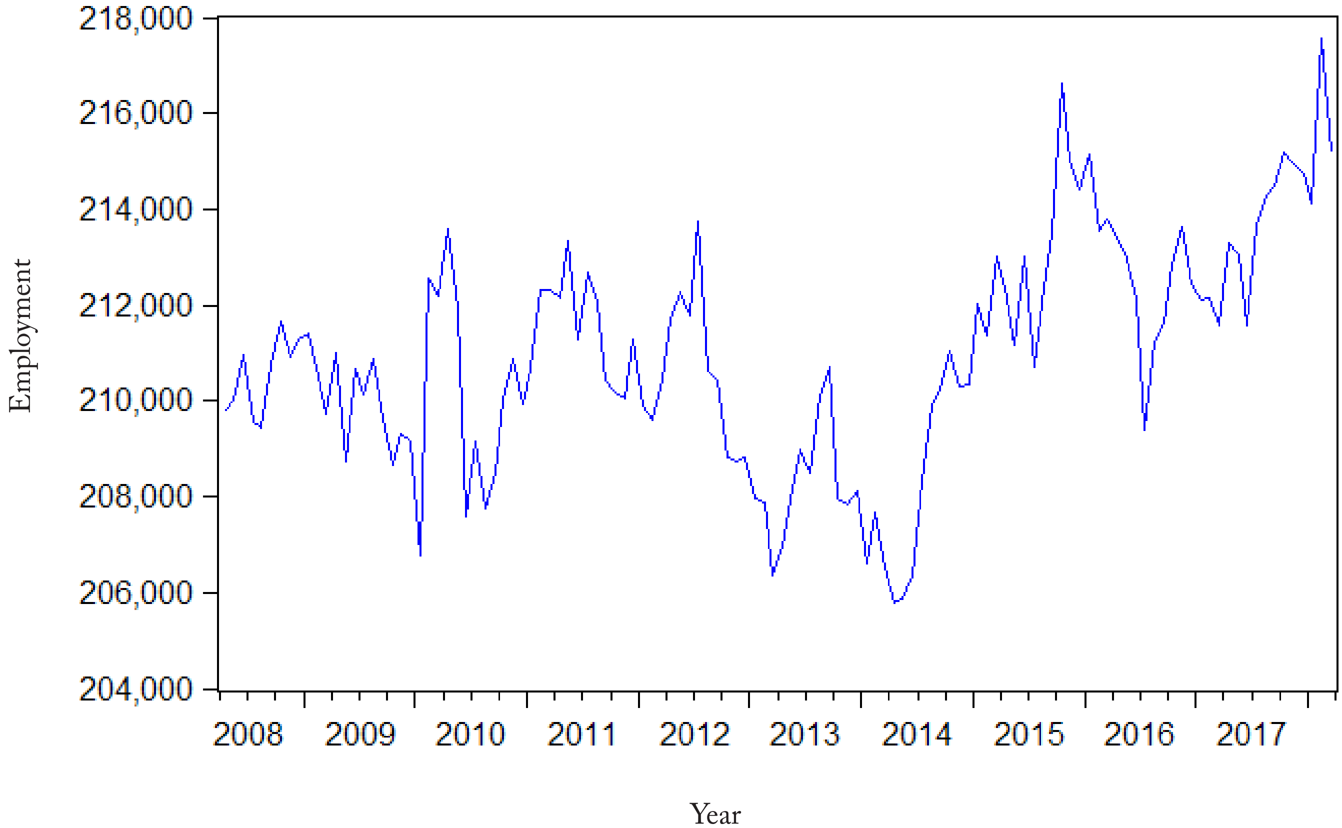


SOUTHWEST MINNESOTA LABOR MARKET CONDITIONS

Employment of residents of the Southwest Minnesota planning area rose by 1.7 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 then declined precipitously. It rebounded in mid-2016, and has primarily increased since that time.

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.

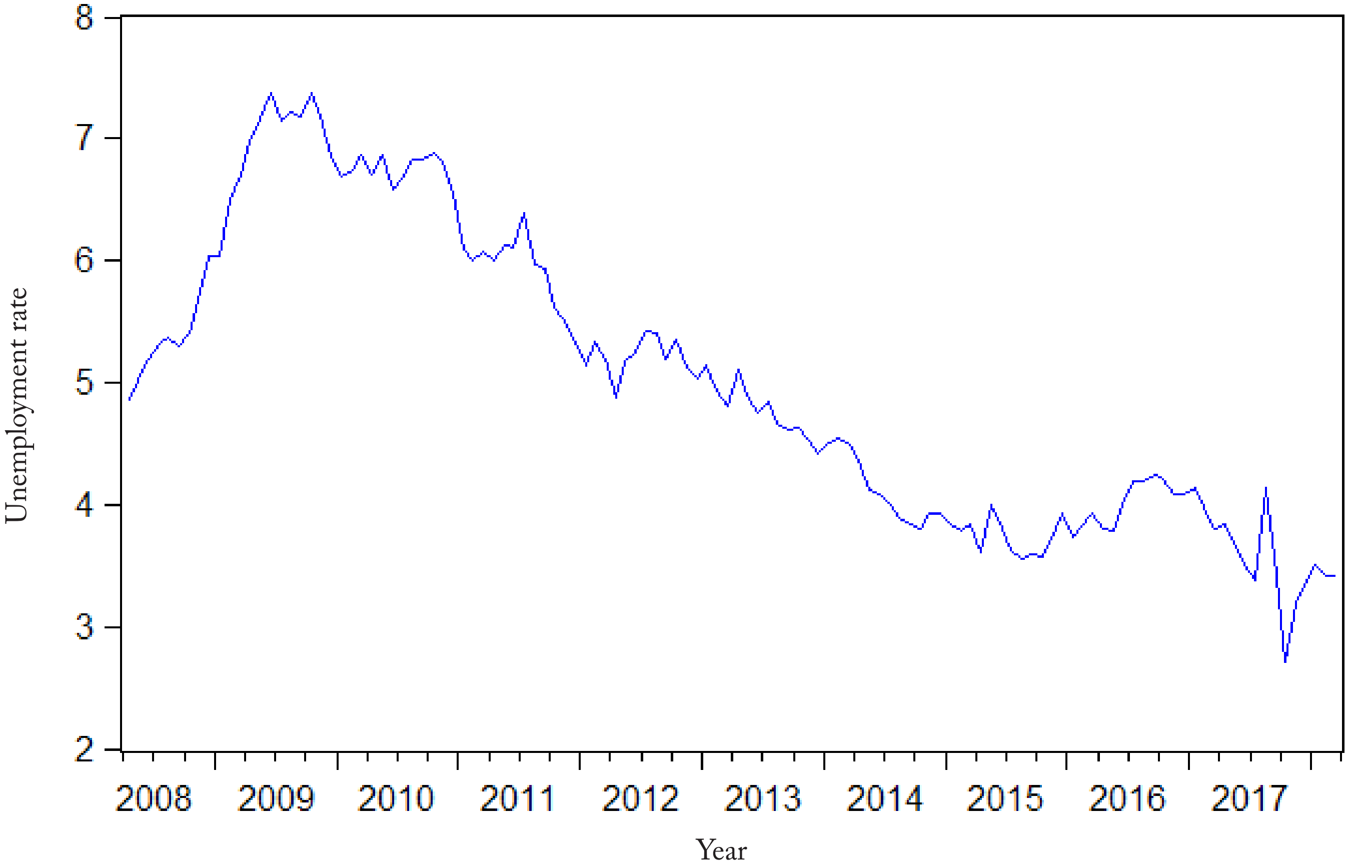
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	March 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018
Employment (Not seasonally adjusted)	210,889	219,234	217,469	215,513	212,796	214,066	214,412

The seasonally adjusted unemployment rate in Southwest Minnesota has generally declined since the end of the Great Recession. In recent quarters, this series has shown more variability as the region approaches full employment. The non-seasonally adjusted measure now stands at 4.3 percent — down from the 4.7 percent rate recorded in March 2017.

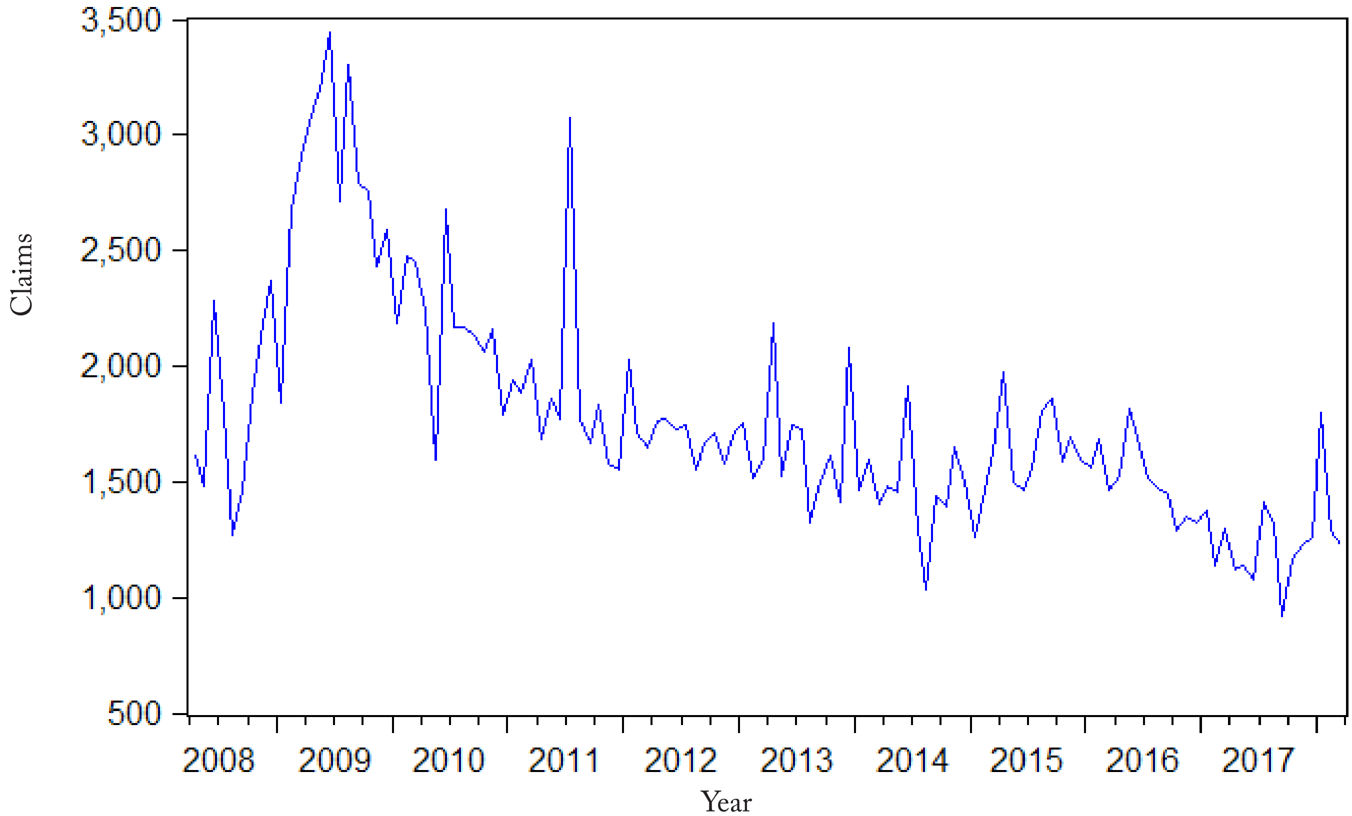
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	March 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018
Unemployment rate (not seasonally adjusted)	4.7%	2.2%	2.4%	3.5%	4.7%	4.4%	4.3%

New claims for unemployment insurance in March 2018 were 6.5 percent lower than one year earlier. The accompanying graph shows a seasonally adjusted series of initial jobless claims. After declining over the entire decade, this series showed some volatility in 2017 and has begun to flatten out.

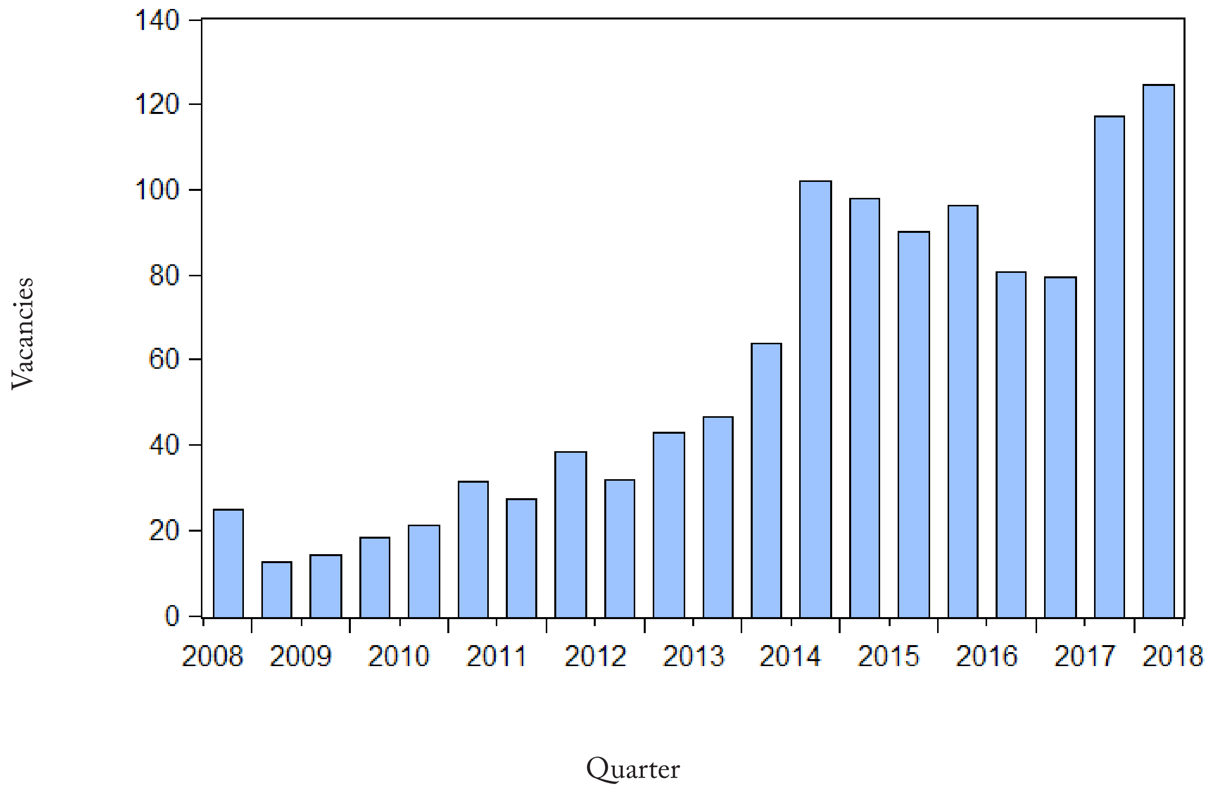
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Period	March 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018
Initial claims (Not seasonally adjusted)	1,032	837	2,102	2,652	2,378	981	965

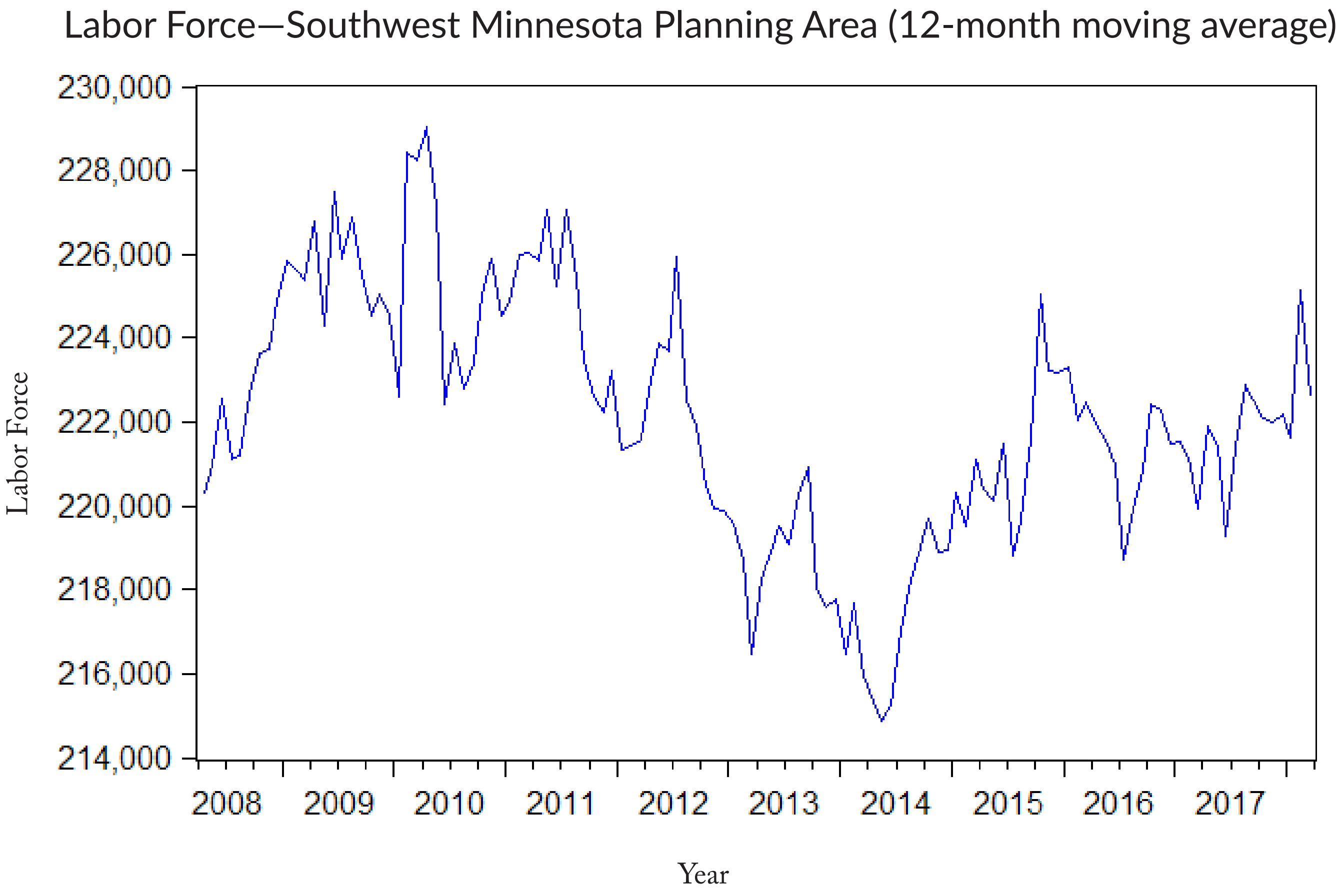
Employers report surging job vacancies throughout the country. This is evident throughout Minnesota, where all planning areas are experiencing shortages of qualified workers to fill vacant positions. For every 100 unemployed workers in Southwest Minnesota, there are now 124.47 job vacancies. As can be seen in the figure below, the ratio of job vacancies to unemployed workers has continued to rise since the beginning of the decade and is now at an historically high level in the Southwest region.

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



Quarter	2015:II	2015:IV	2016:II	2016:IV	2017:II	2017:IV
Job Vacancies per 100 Unemployed	90.1	96.27	80.73	79.36	117.11	124.47

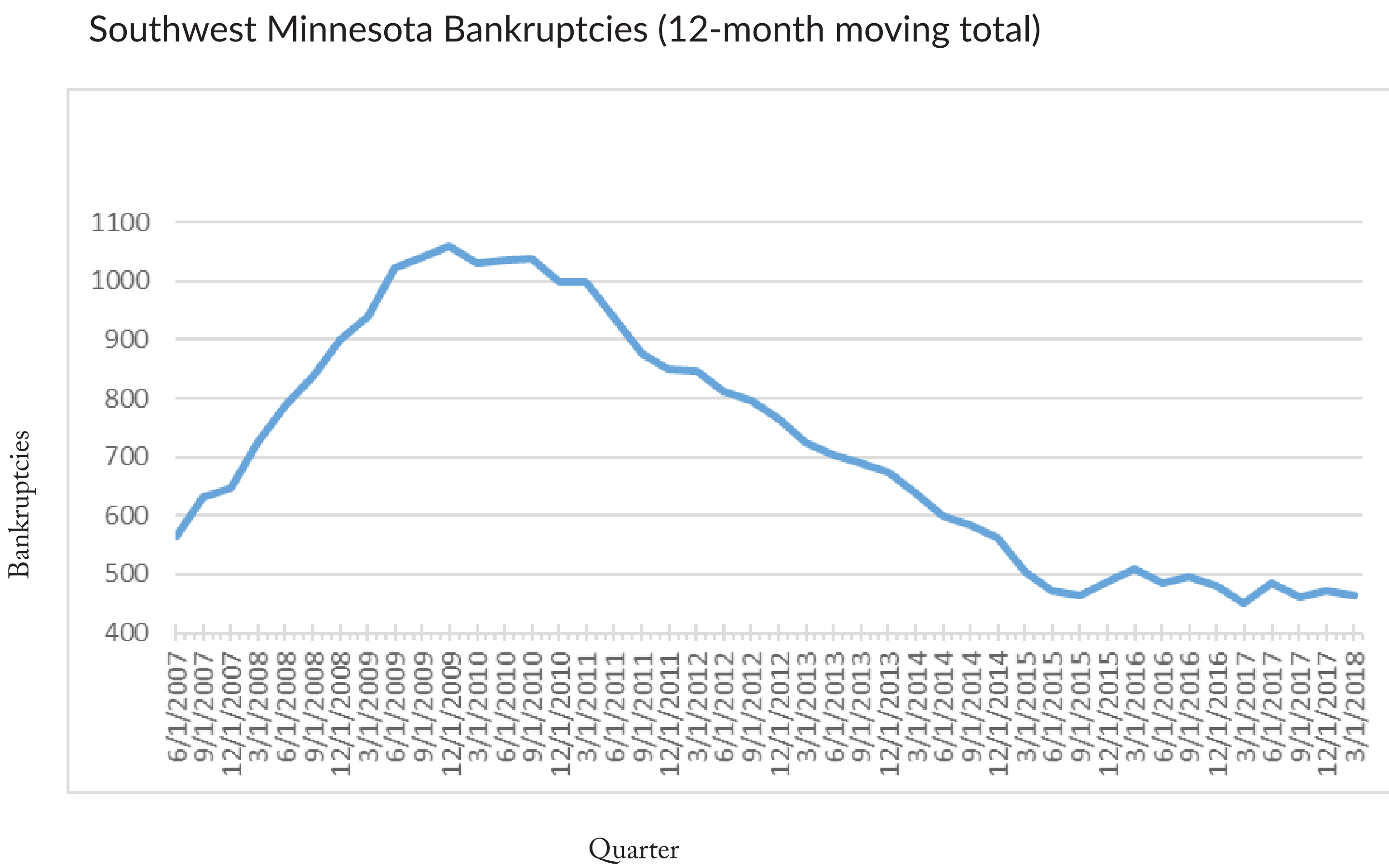
The Southwest Minnesota labor force expanded by 1.2 percent over the year ending March 2018. As can be seen in the accompanying figure, the 12-month moving average of the planning area's labor force has fluctuated in recent quarters but the trend has been slightly upward since the beginning of 2016.



Year (March)	2013	2014	2015	2065	2017	2018
Labor Force (not seasonally adjusted)	218,088	217,484	222,674	223,982	221,384	223,968

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 flattening out toward the end of 2015. With 465 bankruptcies over the past twelve months, this series is little changed from its value of one year ago.



Year (First Quarter)	2013	2014	2015	2016	2017	2018
Annual Bankruptcies (Not seasonally adjusted)	725	639	504	510	451	465

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	March 2018 (m)	58,548	57,270	2.2% ↑	1.0%
Goods-Producing Employment	March 2018 (m)	10,038	9,709	3.4% ↑	-0.3%
Average Weekly Work Hours--Private Sector	March 2018 (m)	29.0	30	-3.3% ↓	31.8 (since 2008)
Average Earnings Per Hour--Private Sector	March 2018 (m)	$26.35	$23.92	10.2% ↑	1.3% (since 2008)
Unemployment Rate	March 2018 (m)	3.0%	3.4%	NA ↓	4.3%
Labor Force	March 2018 (m)	62,847	60,492	3.9% ↑	0.9%
Initial Jobless Claims	March 2018 (m)	255	233	9.4% ↑	NA
Business Formation					
Total New Business Filings	First Quarter 2018 (q)	258	214	20.6% ↑	170 (since 2000)
New Business Incorporations	First Quarter 2018 (q)	12	17	-29.4% ↓	25 (since 2000)
New Limited Liability Companies	First Quarter 2018 (q)	164	138	18.8% ↑	82 (since 2000)
New Assumed Names	First Quarter 2018 (q)	76	50	52.0% ↑	55 (since 2000)
New Non-Profits	First Quarter 2018 (q)	6	9	-33.3% ↓	7 (since 2000)
Mankato-North Mankato Residential Building Permit Valuation	March 2018 (m)	3,390	5,092	-33.4% ↓	NA
Mankato-North Mankato Cost of Living Index	Annual Average 2017	93.5	92.9	0.6% ↑	NA

(m) represents a monthly series

(q) represents a quarterly 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 and the labor force rose over the year ending March 2018. Other indicators of positive economic performance included a lower unemployment rate, higher average hourly earnings, and increased new business filings. However, offsetting this is a decrease in the valuation of residential building permits, a rise in initial jobless claims, a shorter length of work week, and an increase in the relative cost of living.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Mar 2018	Dec 2017	Mar 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,951,300	2,943,700	2,930,000	0.3%	0.7%
Average weekly hours worked, private sector	33.7	33.9	33.8	-0.6%	-0.3%
Unemployment rate, seasonally adjusted	3.2%	3.3%	3.6%	NA	NA
Earnings per hour, private sector	$28.87	$28.67	$28.28	0.7%	2.1%
Philadelphia Fed Coincident Indicator, MN	135.38	134.22	130.78	0.9%	3.5%
Philadelphia Fed Leading Indicator, MN	1.64	1.13	2.61	45.1 %	-37.2%
Minnesota Business Conditions Index	61.0	56.8	61.8	7.4%	-1.3%
Price of milk received by farmers (cwt)	$16.10	$17.20	$17.50	-6.4%	-8.0%
Enplanements, MSP airport, thousands	1,716.4	1,471.6	1,731.6	16.6%	-0.9%
NATIONAL Indicators	Mar 2018	Dec 2017	Mar 2017	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	148,260	147,625	145,969	0.4%	1.6%
Industrial production, index, SA	107.2	105.8	102.7	1.3%	4.4%
Real retail sales, SA ($)	198,249	198,828	194,208	-0.3%	2.1%
Real personal income less transfers, billions	12,221.2	12,187.1	12,017.7	0.3%	1.7%
Real personal consumption expenditures, bill.	12,093.9	12,080.5	11,816.1	0.1%	2.4%
Unemployment rate, SA	4.1%	4.1%	4.5%	NA	NA
New building permits, SA, thousands	24,168	18,355	22,864	31.7%	5.7%
Standard & Poor's 500 stock price index	2,702.8	2,664.3	2,366.8	1.4%	14.2%
Oil, price per barrel in Cushing, OK	$62.72	$57.88	$49.33	8.4%	27.1%

For the state as a whole, most categories of economic performance found in the State and National Indicators table are favorable. There was growth in payrolls, higher earnings per hour, and a lower seasonally adjusted unemployment rate compared to last quarter as well as one year ago. Coincident and leading Indicators from the Federal Reserve Bank of Philadelphia are each higher than last quarter and the Minnesota Business Conditions index is improved over the last three months. However, enplanements at the Minneapolis-St. Paul airport fell over the past year and average weekly work hours were lower. Milk prices continue to fall.

The national economic indicators found in the table are highly favorable. Stock prices have now rebounded and employment has increased. Real income and consumer expenditures have expanded and the national unemployment rate continues to fall. Industrial production rose and national building permits were strong. Oil prices are now 27.1 percent higher than they were one year ago. The adverse impact of rising oil prices on household budgets is at least partially offset by the benefits of higher crude prices enjoyed in the domestic energy sector.

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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