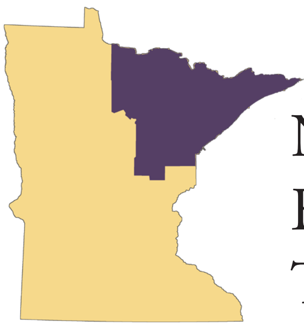


Northeast Minnesota
Economic and Business Conditions Report
Third Quarter 2014

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

TABLE OF CONTENTS

Executive Summary 1

Northeast Minnesota Leading Economic Indicators Index 2

Northeast Minnesota Business Filings.. 4

Northeast Minnesota Labor Market Conditions.................................. 10

Northeast Minnesota Bankruptcies.. 15

Northeast Minnesota Economic Indicators 16

Sources 18

Executive Summary

Business conditions in Northeast Minnesota are expected to remain steady over the next several months according to a variety of economic indicators. Despite a decline in the Northeast Minnesota Index of Leading Economic Indicators (LEI) in the third quarter, the level of the LEI is considerably above its 2013 value. An increase in new filings for business incorporation in Northeast Minnesota, a rise in a supply managers' survey index, and an improvement in initial jobless claims contributed favorably to the LEI. Recent weakness in Duluth-Superior Area (MSA) residential building permits and a decline in a general measure of state business conditions were negative components of the third quarter LEI.

There were 472 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the third quarter of 2014—representing a 12.4 percent improvement from one year ago. There were 39 new regional business incorporations in the third quarter, a 17 percent reduction from 2013. Over the past 12 months, new limited liability company (LLC) filings in Northeast Minnesota jumped to 244—a 25.1 percent increase from one year earlier. New assumed names totaled 164 in this year's third quarter—a 10.1 percent increase from the third quarter of 2013. There were 25 new filings for Northeast Minnesota non-profits in the 2014 third quarter—four fewer than one year earlier.

Northeast Minnesota employment was 0.5 percent higher than year earlier levels in September. The regional unemployment rate fell to 4.5 percent as the Northeast Minnesota labor force experienced a 0.7 percent annual decline. The regional labor force is now 4,718 lower than in September 2010. September 2014 initial claims for unemployment insurance were considerably lower than in September 2013 and the level of job vacancies increased.

Data from the Duluth/Superior Metropolitan Statistical Area (MSA) show strong economic conditions in Northeast Minnesota's largest market. Compared to September 2013, employment is higher, the unemployment rate is lower, the average weekly work week and average hourly earnings are higher, and the value of residential building permits has expanded, all favorable signs for the Duluth-Superior MSA.

Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast Minnesota Leading Economic Indicators (LEI) Index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI finished 2.46 points lower in this year's third quarter, but remains 7.2 percent above its level one year ago. Since 2000, the LEI has shown two distinct dips, each of which was associated with recession. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility so this (or any one) period's negative reading does not signal future economic weakness. Economic fundamentals remain strong in Northeast Minnesota.

The SCSU Northeast Minnesota Leading Economic Indicators Index

Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2014	Contribution to LEI, 2nd quarter 2014
Minnesota Business Conditions Index	-1.16	1.23
Northeast Minnesota initial claims for unemployment insurance	0.54	1.22
Northeast Minnesota new filings of incorporation	0.96	0.04
Duluth-Superior MSA residential building permits	-3.70	2.24
Institute of Supply Management Purchasing Managers Index for manufacturing	0.90	1.75
TOTAL CHANGE	**-2.46**	**6.48**

Three of the five components of the LEI (see accompanying table) increased in the third quarter of 2014. Since two important elements of the Northeast Minnesota economy are mining production and shipping of goods used in manufacturing from the Duluth-Superior Seaway, the Institute of Supply Management's Purchasing Managers' Index is used as a proxy for demand for production in the region. This indicator contributed favorably to the LEI in the third quarter. An increase in new filings for business incorporation in Northeast Minnesota and lower initial jobless claims also had a positive impact on the LEI. Recent weakness in Duluth-Superior MSA residential building permits and a decline in the Minnesota Business Conditions Index (an indicator of general statewide business conditions) drove the LEI lower.

SCSU Northeast Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index September	66.3	57	16.3%
Northeast Minnesota initial claims for unemployment insurance September	1,009	1,155	-12.6%
Northeast Minnesota new filings of incorporation Third Quarter	39	47	-17.0%
Duluth-Superior MSA residential building permit valuation In thousands, September	7,938	6,942	14.3%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, September	56.9	56.2	1.2%
Northeast Minnesota Leading Economic Indicators Index September (December 1999 = 100)	103.2	96.3	7.2%

Northeast Minnesota Business Filings

Total new business filings increased by 12.4 percent over the past year. This series has slowly trended upward since 2011. After a precipitous drop in the pace of new business formation during the Great Recession, new business filings in Northeast Minnesota are starting to return to the pace observed 10 years ago.

Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota registered with the Office of the Minnesota Secretary of State, thereby removing seasonal patterns in the data.

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

Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Northeast Minnesota Total New Business Filings	420	467	539	548	472	12.4%

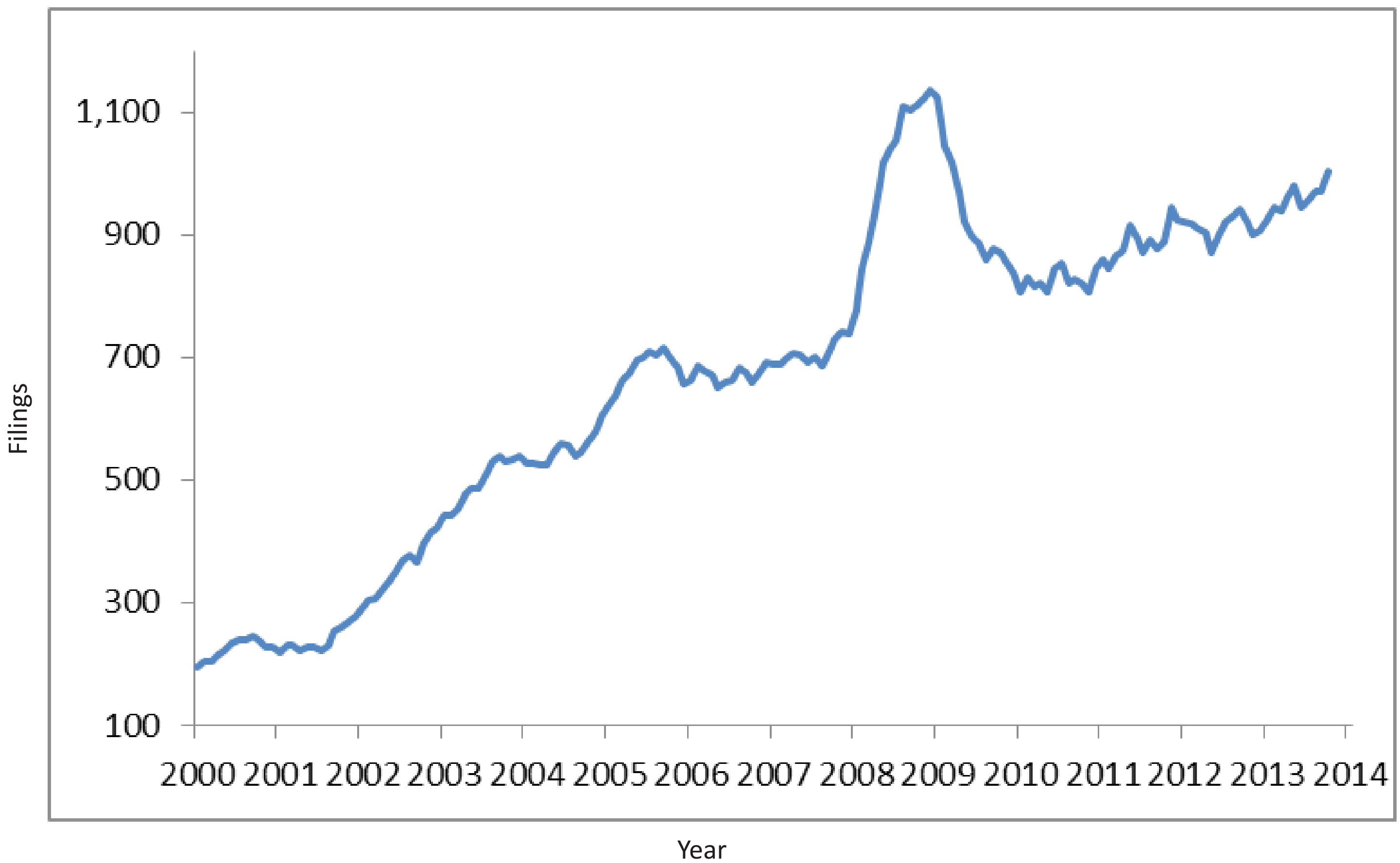
After a 10.6 percent annualized increase in new business incorporations last quarter, this series declined sharply in the third quarter. There were only 39 new business incorporations in the Northeast Minnesota planning area in the recent quarter—a 17 percent decline from year ago levels.

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

Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Northeast Minnesota New Business Incorporations	47	42	54	52	39	-17.0%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. This trend continued in the third quarter with a large jump in this form of business organization. In this most recent quarter, there were 25.1 percent more LLC filings than in the third quarter of 2013. New LLC formation was larger in Northeast Minnesota than any of the state's other five planning areas. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (resembling a shark fin in the graph below) was related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

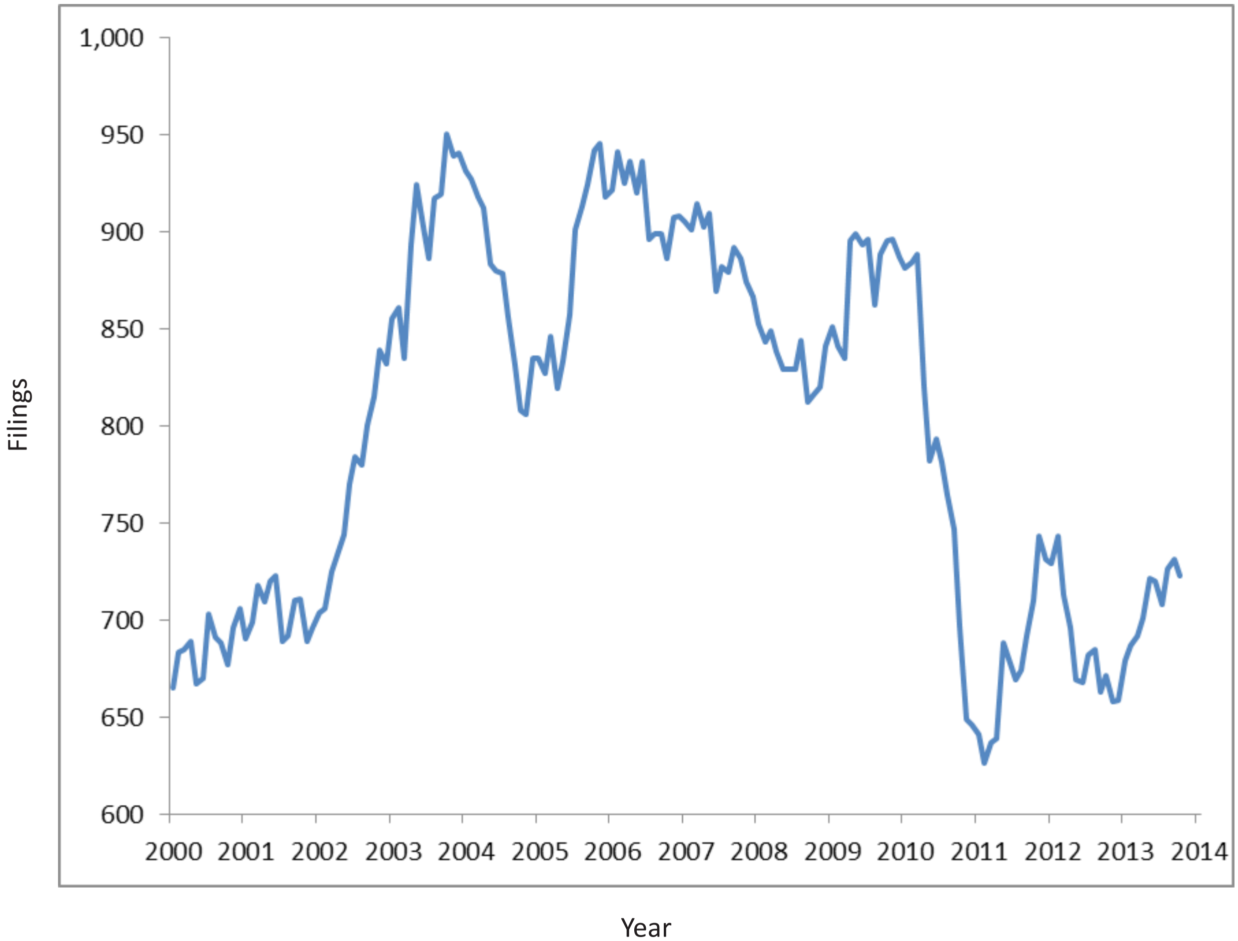
New Limited Liability Companies—Northeast Minnesota Planning Area
(12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	195	240	266	255	244	25.1%

Assumed names grew 10.1 percent over the past year in Northeast Minnesota. Only Southwest Minnesota experienced a larger increase in this type of business filing. Note that the recent increase in new assumed names in Northeast Minnesota is only a partial catch-up for the major decline in this series in 2011.

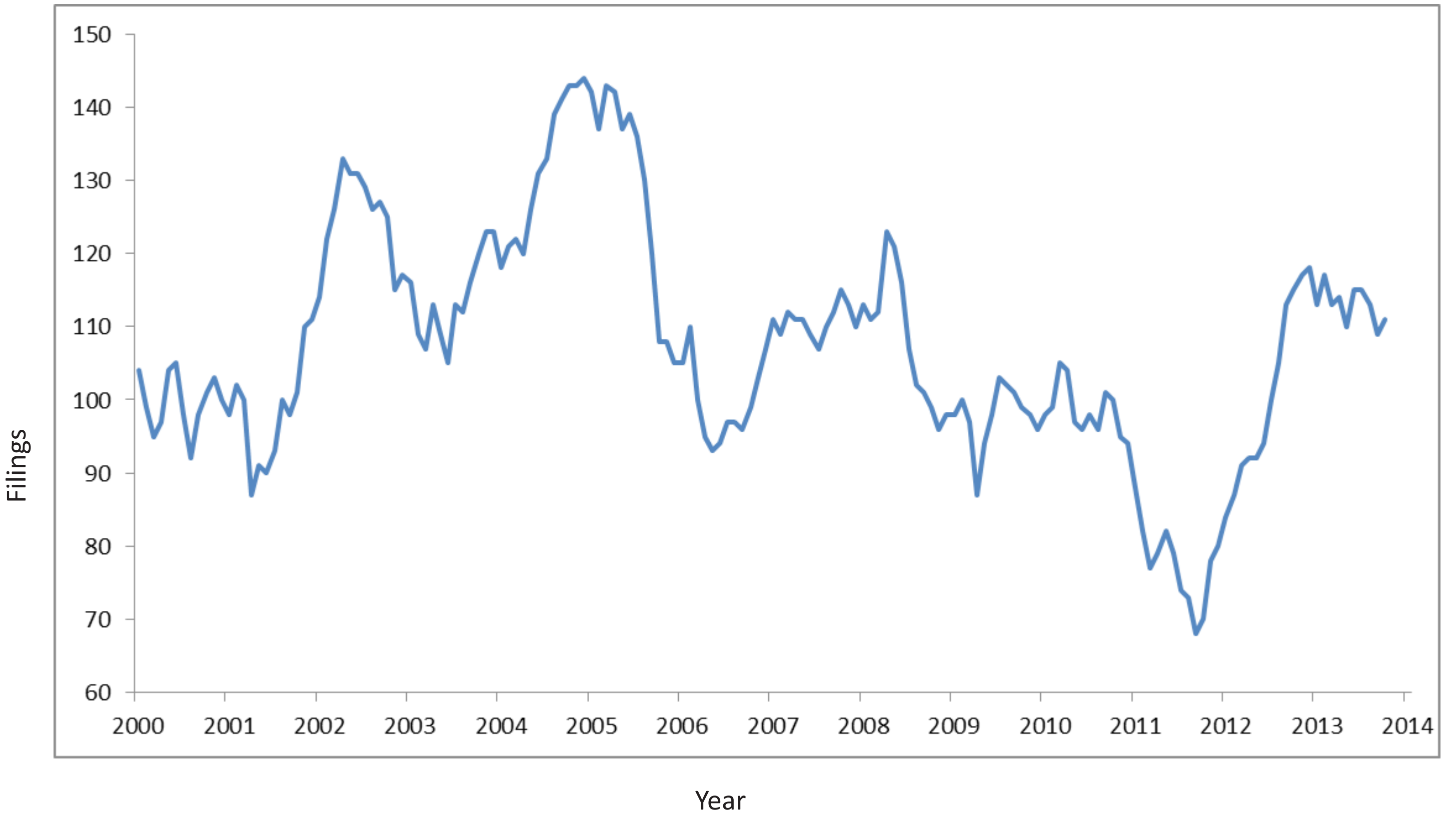
New Assumed Names—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Northeast Minnesota New Assumed Names	149	157	192	210	164	10.1%

There were 25 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the third quarter of 2014, four fewer than were recorded one year ago.

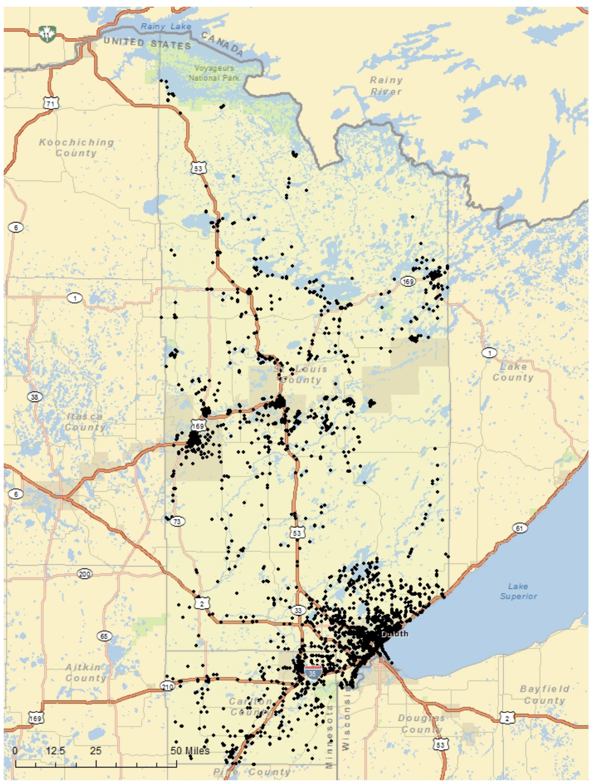
New Non-Profits—Northeast Minnesota Planning Area (12-month moving total)



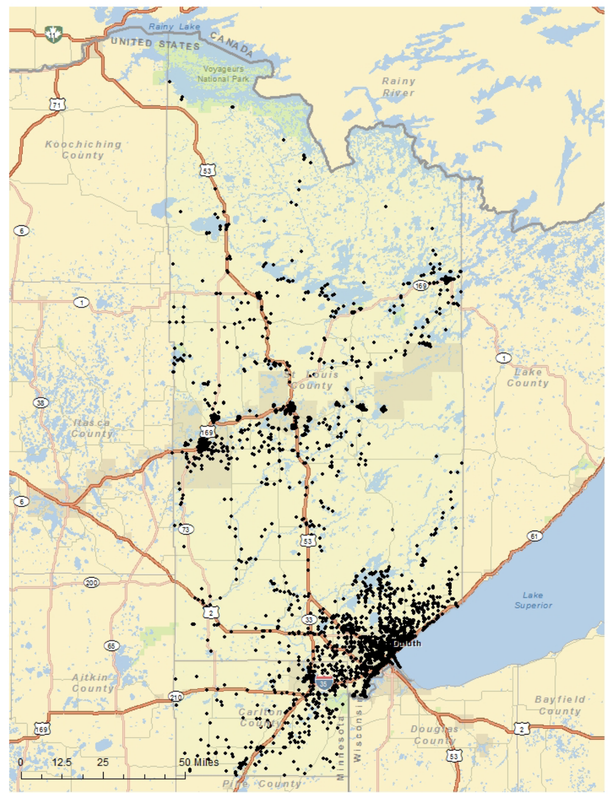
Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Northeast Minnesota New Non-Profits	29	28	27	31	25	-13.8%

The two maps below attempt to highlight new business formation in the two Minnesota counties of the Duluth-Superior Metropolitan Statistical Area (MSA) in two periods: 2000–2004 (quarter 3) and 2010 –2014 (quarter 3). This MSA consists of three counties—St. Louis and Carlton counties in Minnesota, and Douglas County in Wisconsin. New business filing data from Wisconsin are unavailable, so only Carlton and St. Louis counties are highlighted. Each dot in the map represents a newly formed business in the relevant time period. While the composition of the dots has certainly changed (for example, there are now more LLCs and fewer business incorporations), little seems to have changed in the general pattern of business formation in the Minnesota portion of the Duluth-Superior MSA since the beginning of the 21st century. Most newly formed businesses are in the Duluth area and other clusters of business filings tend to follow key roadways.

New Business Formation Between 2000 and 2004: III Duluth-Superior MSA



New Business Formation Between 2010 and 2014: III Duluth-Superior MSA

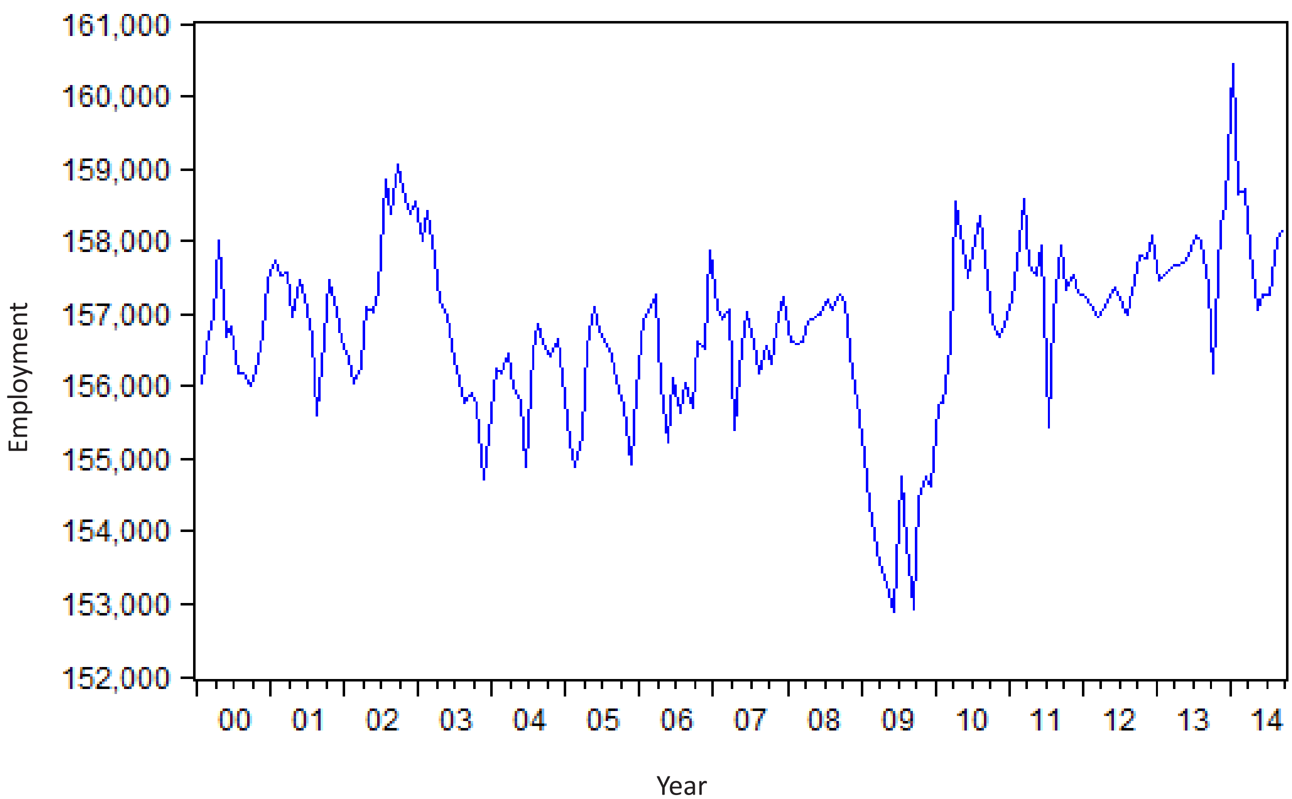


Northeast Minnesota Labor Market Conditions

September 2014 employment in the Northeast Minnesota planning area was 0.5 percent higher than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment is approximately the same as it was at the beginning of 2010, but is considerably improved from the levels of the Great Recession.

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. To request access to seasonally adjusted series, contact the SCSU School of Public Affairs Research Institute, sopareseach@stcloudstate.edu.

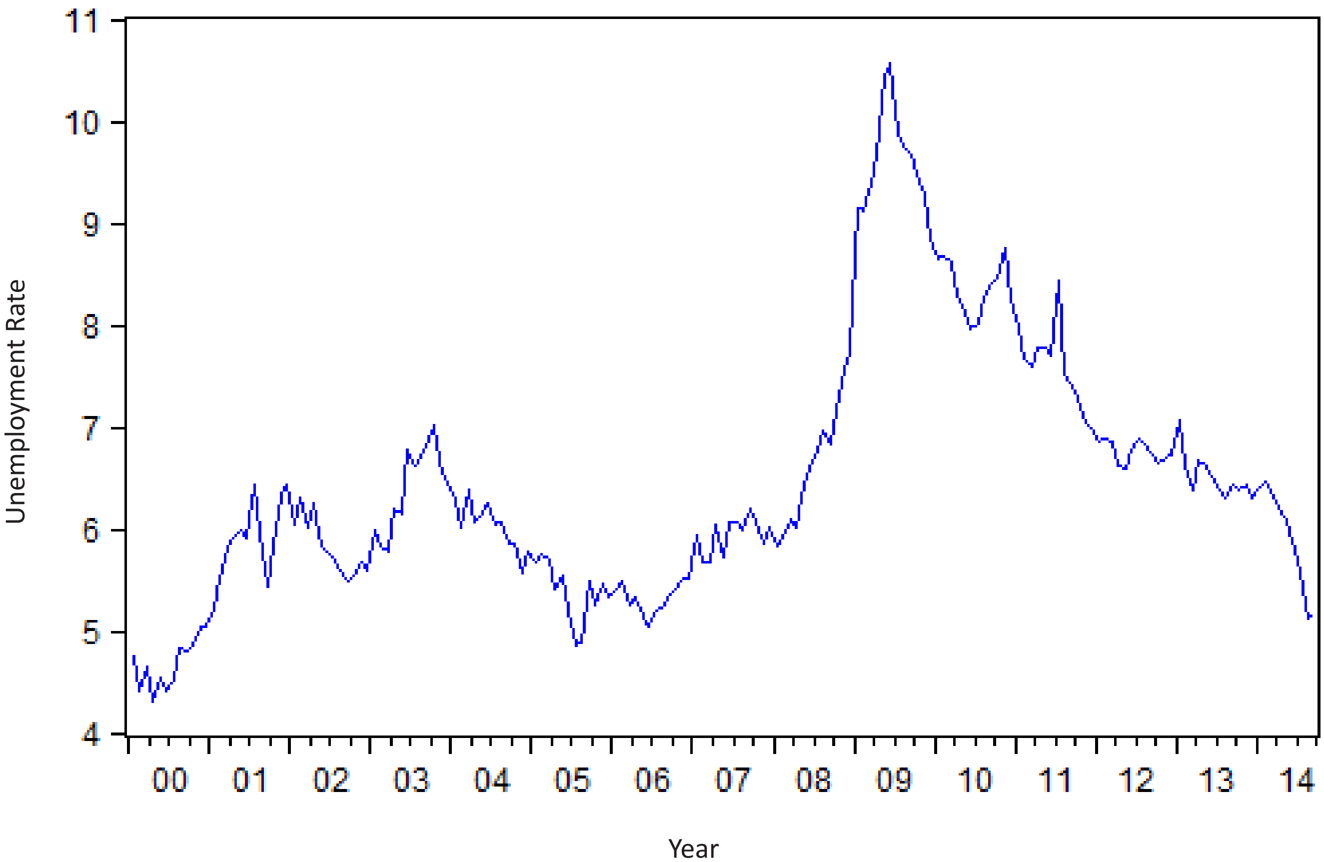
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	September 2013	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Employment (Not seasonally adjusted)	158,931	157,038	158,157	159,358	160,009	160,112	159,730

The seasonally adjusted unemployment rate in Northeast Minnesota continued to decline gradually in the third quarter of 2014. At 4.5 percent, the non-seasonally adjusted rate is considerably lower than its level from one year ago.

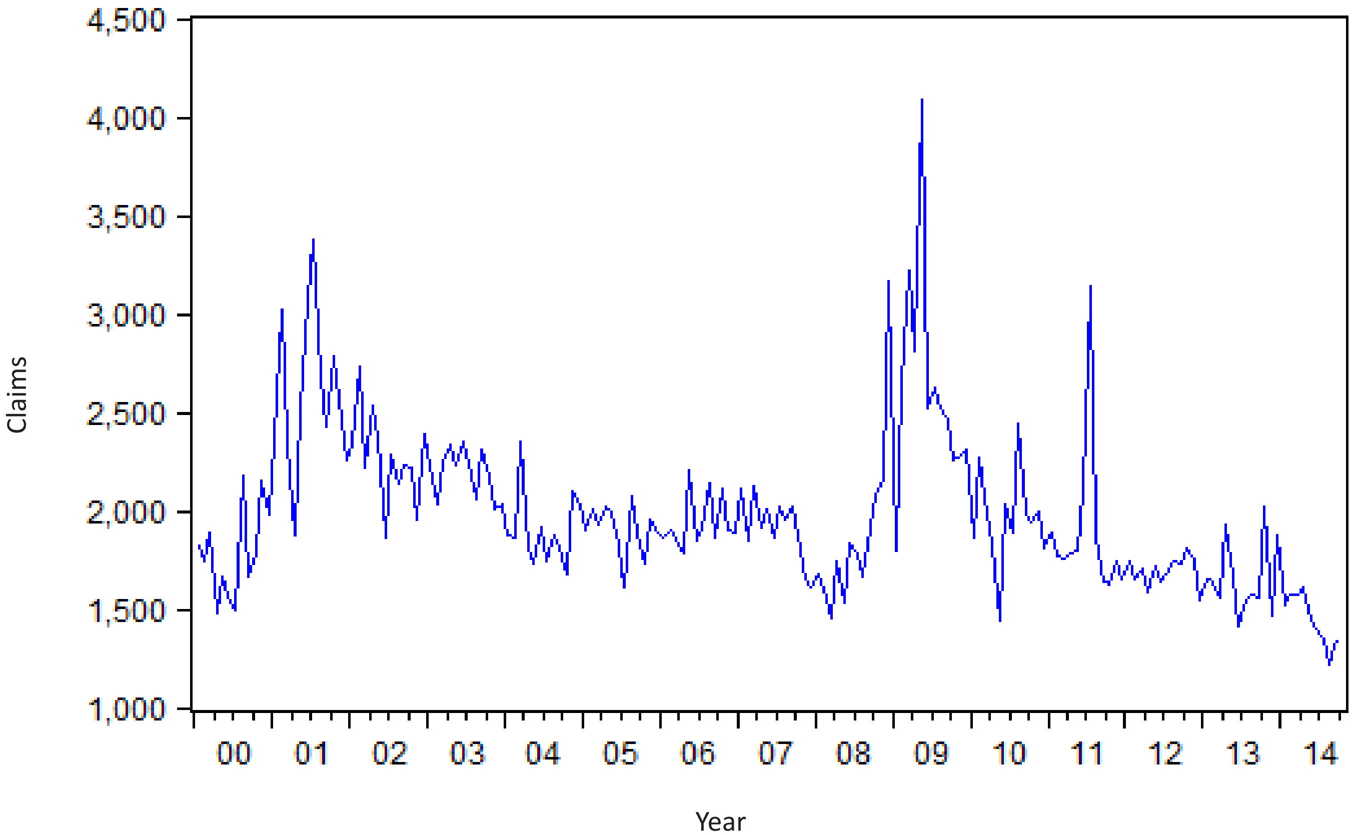
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	September 2013	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Unemployment Rate (Not seasonally adjusted)	5.6%	6.3%	5.9%	6.0%	5.5%	4.8%	4.5%

On a seasonally adjusted basis, initial jobless claims in the Northeast region are near a 15-year low. As indicated in the table below, October non-seasonally adjusted claims were considerably lower than in October 2013

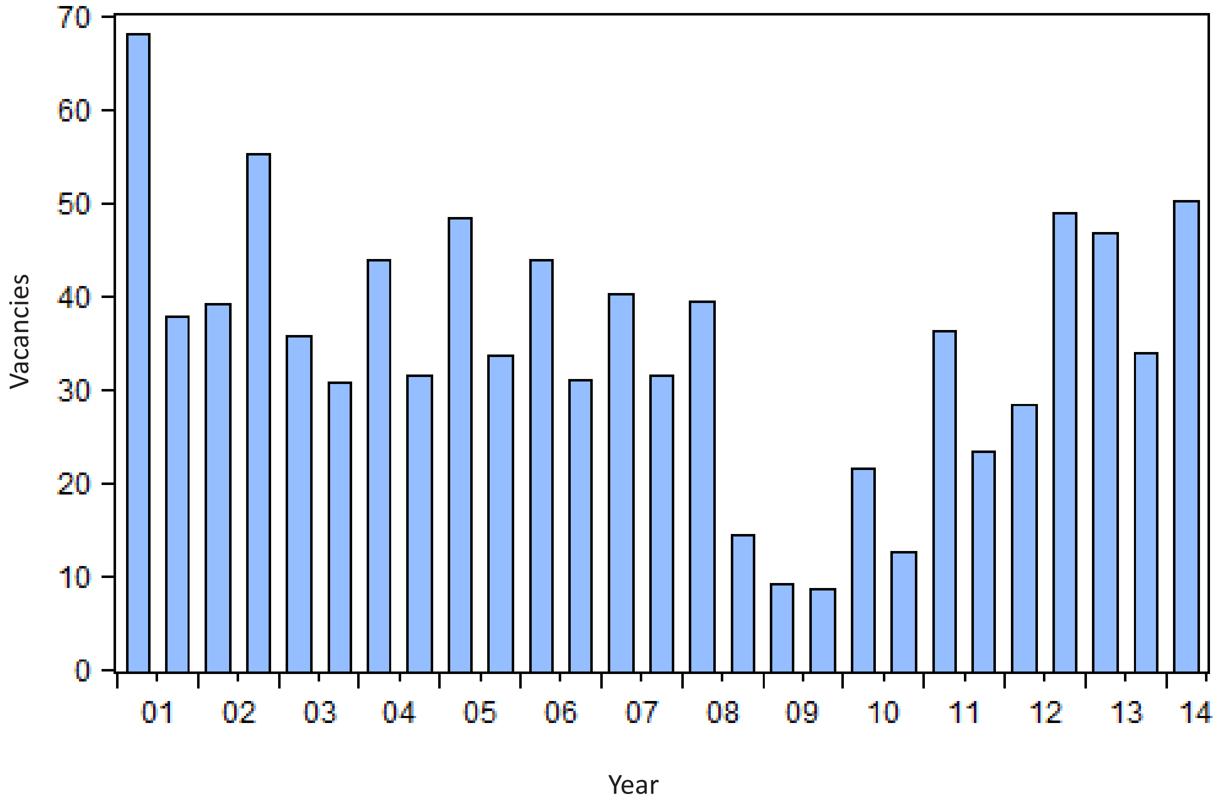
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Month	October 2013	May 2014	June 2014	July 2014	August 2014	September 2014	October 2014
Initial claims (Not seasonally adjusted)	1,964	1,275	1,230	1,113	788	1,009	1,219

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Northeast Minnesota planning area, the rate of job vacancies per 100 unemployed was 52.68 in the second quarter of 2014 (the most recently available data).

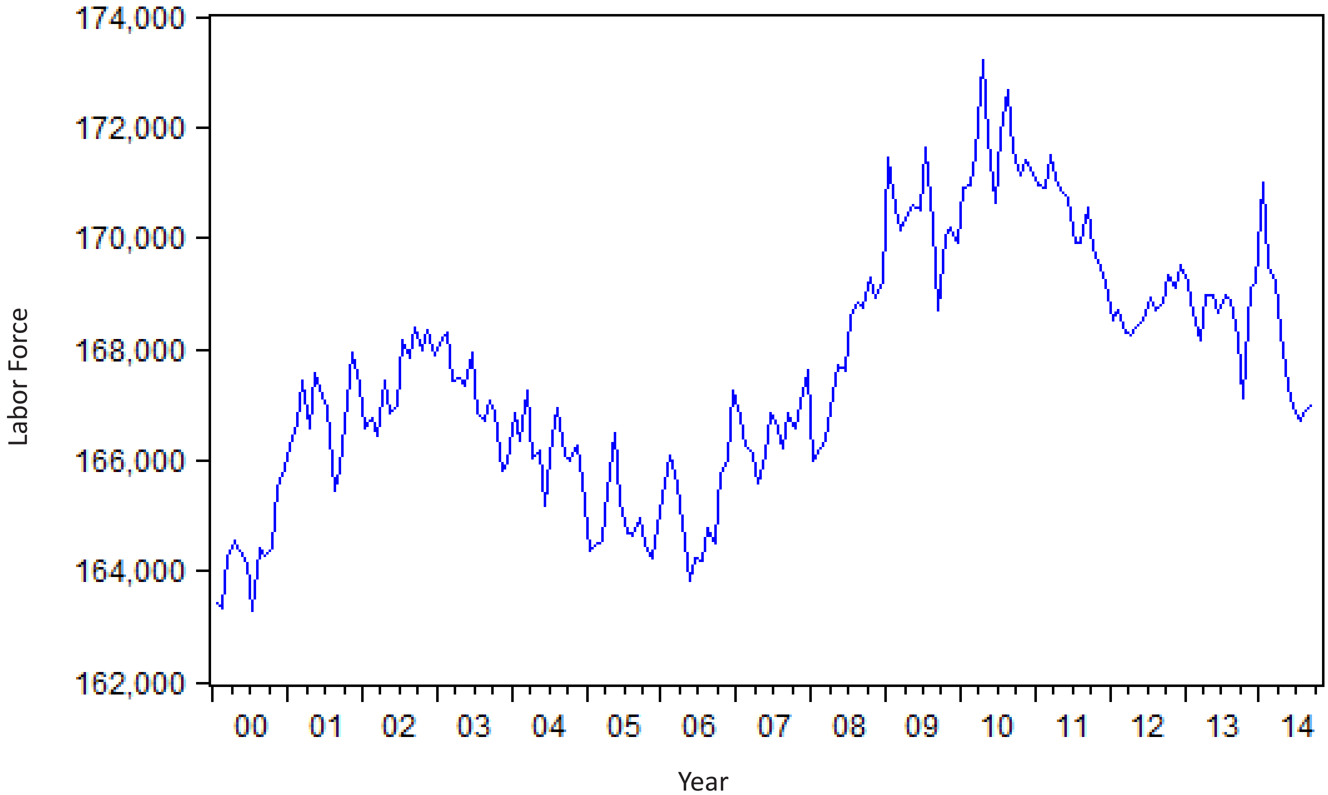
Job Vacancies per 100 Unemployed—Northeast Minnesota Planning Area



Quarter	2011:IV	2012:II	2012:IV	2013:II	2013:IV	2014:II
Job Vacancies per 100 Unemployed	26.92	28.36	54.13	46.50	37.37	52.68

The Northeast labor force continues to decline. The labor force has fallen by 4,718 since September 2010.

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

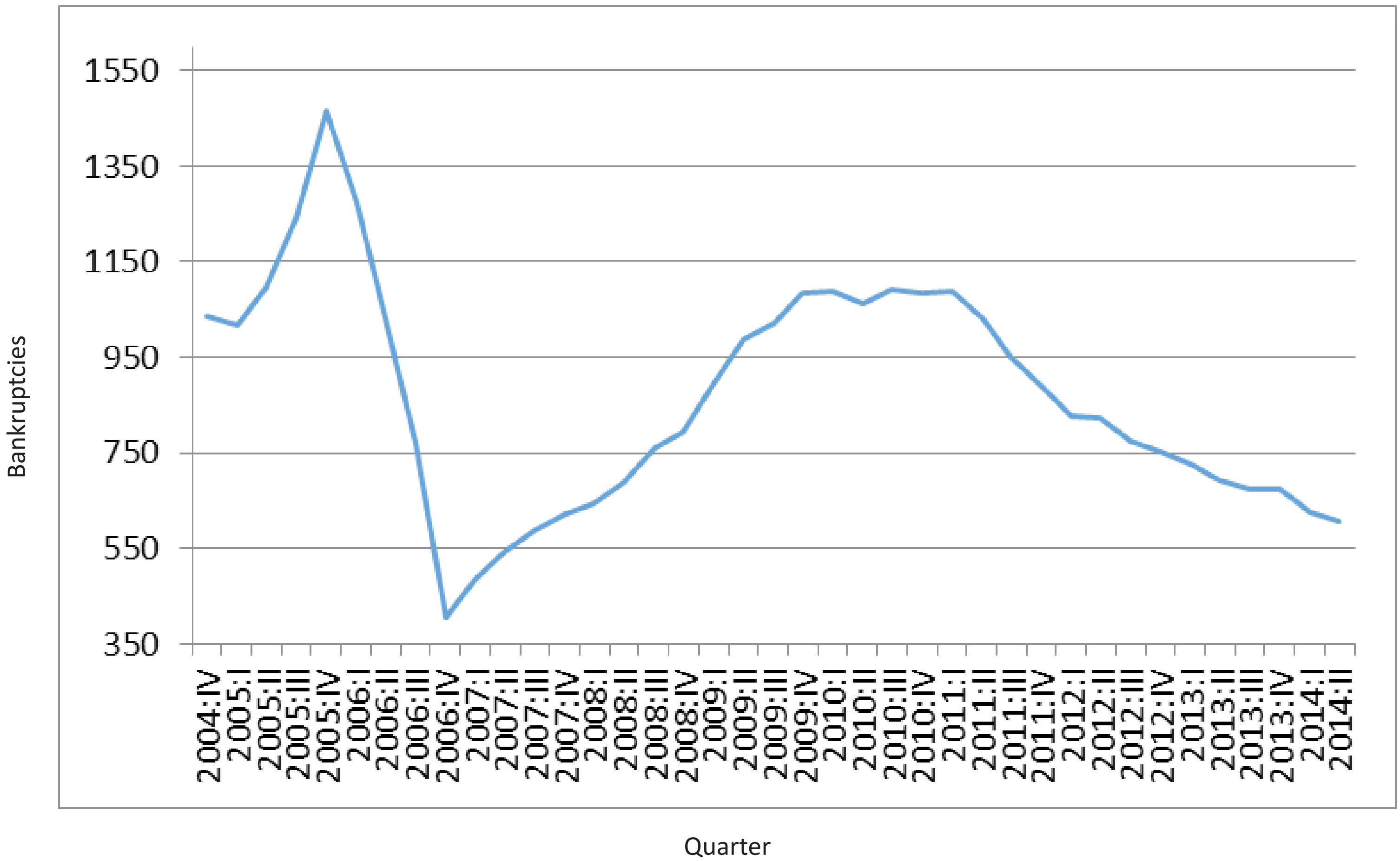


Year (September)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	169,064	171,955	170,814	169,066	168,434	167,237

Northeast Minnesota Bankruptcies

This quarter's report includes a measure of bankruptcies in Northeast Minnesota. The 12-month moving total shown below illustrates the annual number of bankruptcies in the northeast region since 2004. After trending upward since 2007, the annual number of Northeast Minnesota bankruptcies has steadily declined since the beginning of 2011. The region appears to be slowly returning to a level of bankruptcies that was last seen before the Great Recession. The precipitous drop in bankruptcies in late 2005 resulted from a law change (the Bankruptcy Abuse Prevention and Consumer Protection Act) that made it more difficult for households to declare bankruptcy. This pattern of bankruptcy filings is seen in each of Minnesota's six planning areas.

Total Annual Bankruptcies—Northeast Minnesota Planning Area (12 month moving total)`



Year (Second Quarter)	2009	2010	2011	2012	2013	2014
Annual Bankruptcies (Not seasonally adjusted)	988	1,061	1,033	824	694	605

Northeast Minnesota Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	September 2014 (m)	134,274	133,288	0.7% ↑	0.2%
Manufacturing Employment	September 2014 (m)	7,454	7,498	-0.6% ↓	-2.0%
Educational and Health Sector Employment	September 2014 (m)	31,827	31,148	2.2% ↑	3.1%
Average Weekly Work Hours-Private Sector	September 2014 (m)	33.1	32.9	0.6% ↑	32.6 (since 2008)
Average Earnings Per Hour-Private Sector	September 2014 (m)	$25.22	$22.89	10.2% ↑	2.3% (since 2008)
Unemployment Rate	September 2014 (m)	4.4%	5.5%	NA ↓	5.3%
Labor Force	September 2014 (m)	144,067	144,602	-0.4% ↓	0.1%
Duluth-Superior Residential Building Permit Valuation	September 2014 (m)	7,938	6,942	14.3% ↑	8,134

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where a variety of economic indicators suggest the economy improved from one year earlier. Overall employment and employment in its educational and health sectors (in which more than 30,000 people are employed) increased over the last 12 months. In addition, the length of the average work week and average hourly earnings expanded in the private sector. The MSA's unemployment rate fell (although the labor force decreased) and the value of residential building permits rose by 14.3 percent—further evidence of economic expansion in Northeast Minnesota's largest market.

State and National Indicators

MINNESOTA Indicators	Sept 2014	June 2014	Sept 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,834,700	2,818,800	2,784,000	0.6%	1.8%
Average weekly hours worked, private sector	34.0	34.5	34.3	-1.4%	-0.9%
Unemployment rate, seasonally adjusted	4.1%	4.5%	4.9%	NA	NA
Earnings per hour, private sector	$25.83	$25.73	$25.77	0.4%	0.2%
Philadelphia Fed Coincident Indicator, MN	166.07	164.09	160.31	1.2%	3.6%
Philadelphia Fed Leading Indicator, MN	2.32	2.24	1.67	3.6%	38.9%
Minnesota Business Conditions Index	66.3	70.1	57	-5.4%	16.3%
Price of milk received by farmers (cwt)	$26.70	$23.40	$20.20	14.1%	32.2%
Enplanements, MSP Airport, thousands	1,409.8	1,609.6	1,366.7	-12.4%	3.2%

NATIONAL Indicators	Sept 2014	June 2014	Sept 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	139,435	138,764	136,800	0.5%	1.9%
Industrial production, index, SA	105.0	104.0	100.7	4.3%	3.3%
Real retail sales, SA	186,423	185,251	181,553	0.6%	2.7%
Real personal Income less transfers	11,291	11,237	11,032	0.5%	2.3%
Real personal consumption expenditures	10,964	10,935	10,742	0.3%	2.1%
Unemployment rate	5.9%	6.1%	7.2%	NA	NA
New building permits, SA, thousands	1,031	973	993	6.0%	3.8%
Standard & Poor's 500 stock price index	1,993.23	1,947.09	1,687.17	4.5%	20.3%
Oil, price per barrel in Cushing, OK	$93.21	$105.79	$106.29	-11.9%	-12.3%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Average weekly hours worked fell, although earnings per hour in the private sector rose over the past year. Two of three broader indicators suggest strength in the state economy. Milk prices are 32.2 percent higher than one year ago—an important favorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 3.2 percent over the last 12 months.

The national economy continued to grow at a solid pace in the third quarter. Compared to year earlier levels, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment, and the unemployment rate all look strong. Oil prices have declined over the past year, putting more discretionary income in the hands of consumers as they enter the holiday season. The national economy looks to have considerable momentum as 2015 approaches.

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

This issue is part of a series for the six planning areas of Minnesota—Central, Northeast, Northwest, Southeast, Southwest and Twin Cities. The Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

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Office of the Minnesota Secretary of State: Assumed Names, Business Incorporations, Limited Liability Companies, Non-Profits.

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Thomson Reuters and University of Michigan: Index of Consumer Sentiment.

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U.S. Census Bureau: Durable Goods Orders, Housing Permits, Residential Building Permits, Retail Sales.

U.S. Department of Agriculture: Milk Prices.

U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income, Real Wages and Salaries.

U.S. Energy Information Administration: Oil Prices.