Southwest 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

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Executive Summary

Southwest Minnesota business conditions are expected to slow over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI). A recent decline in jobless claims in Southwest Minnesota was the only LEI component with a favorable outlook. Pushing down the regional index was weakness in the general outlook for rural economies and a decrease in Mankato area residential building permits. The SCSU Southwest Minnesota Index of Leading Economic Indicators decreased by 4.16 points in the third quarter of 2014 and is now 1.4 percent lower than one year ago.

There were 565 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the third quarter of 2014 — representing 12.1 percent more new filings than one year ago. There were 47 new regional business incorporations in the third quarter, a 2.1 percent reduction from one year ago. Over the past 12 months, new LLC filings in Southwest Minnesota increased by 8.8 percent—rising to 309 in the third quarter of 2014. New assumed names totaled 184 in this year's third quarter—25.2 percent higher than last year. There were twenty-five new filings for Southwest Minnesota non-profits in the third quarter—a 150 percent increase from one year ago.

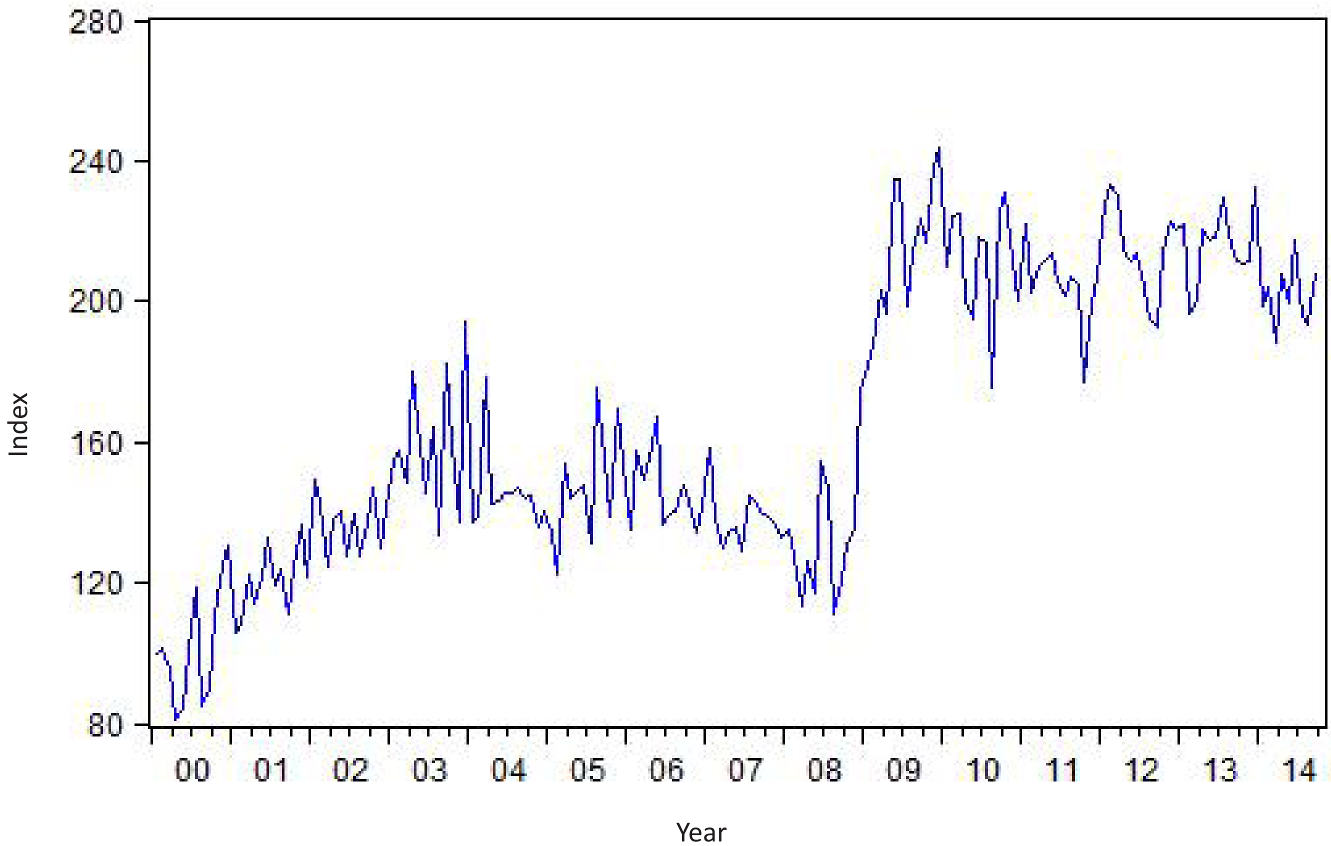
Employment of Southwest Minnesota residents increased by 0.5 percent over the year ending September 2014. One thousand sixty-one more Southwestern Minnesotans have jobs than one year ago. The regional unemployment rate was 3.2 percent in September, an improvement on its 3.9 percent reading in September 2013. Initial claims for unemployment insurance fell by 324 from year-ago levels—a 21.6 percent decrease. The Southwest Minnesota labor force continues to fall and job vacancies per 100 unemployed have increased. The annual level of regional bankruptcies is at its lowest point since mid-2007.

There was mixed economic performance in the Mankato/North Mankato area—the largest market in Southwest Minnesota. On the positive side, overall employment grew at an annual rate of 3.4 percent (led by rapid growth in goods-producing employment), jobless claims fell, total business filings increased, and the unemployment rate declined. Showing weakness was Mankato area residential building permits and average weekly work hours. Average hourly earnings were nearly unchanged from one year earlier.

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. After experiencing a healthy increase of 7.61 points in this year's first quarter, the LEI was nearly unchanged last quarter and declined in the third quarter of 2014. For the year as a whole, the index has decreased by 1.4 percent, suggesting a cautionary outlook for the Southwest Minnesota regional economy in the coming months.

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, 3rd quarter 2014	Contribution to LEI, 2nd quarter 2014
Rural Mainstreet Index	-4.16	2.64
Southwest Minnesota initial claims for unemployment insurance	2.19	-7.41
Southwest Minnesota new filings of incorporation and LLCs	-0.07	0.68
Mankato MSA single-family building permits	-2.12	4.51
TOTAL CHANGE	**-4.16**	**0.42**

The Southwest Minnesota LEI has four components, three of which experienced declines in the third quarter. A slight decline in the new business filings component and a decrease in Mankato-North Mankato Metropolitan Statistical Area (MSA) residential building permits helped drive the LEI lower. 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 10 Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. After a rebound in the second quarter, this index fell in the most recent quarter. The one factor that lifted the regional outlook was initial claims for unemployment insurance in the planning region. These claims fell in recent months and are now slightly lower than they were one year ago.

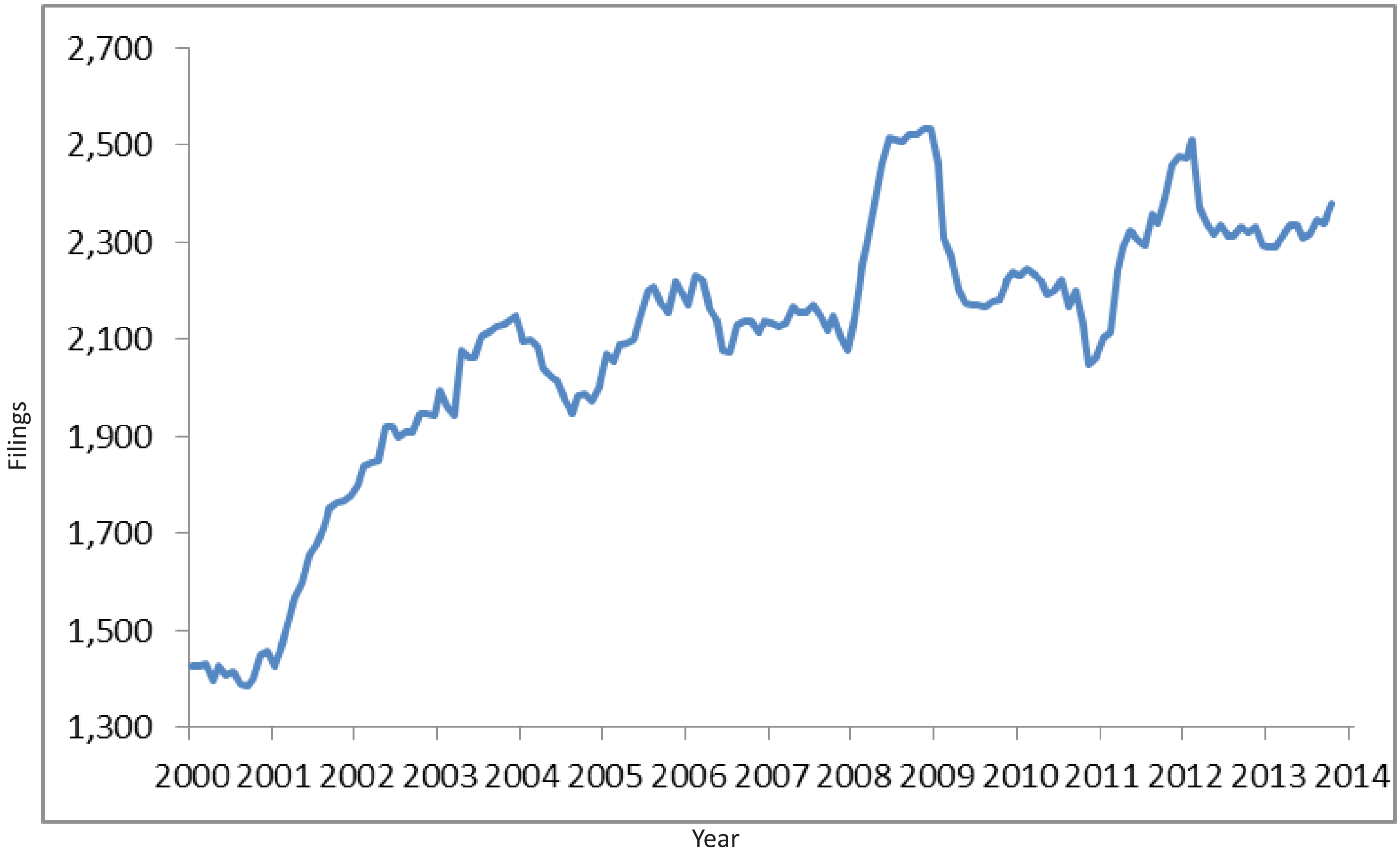
SCSU Southwest Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Rural Mainstreet Index, Creighton University September	50.9	52.4	-2.9%
Southwest Minnesota initial claims for unemployment insurance September	1,074	1,084	-0.9%
Southwest Minnesota new filings of incorporation and LLCs Second Quarter	356	332	7.2%
Mankato MSA single-family building permits September	19	23	-17.4%
Southwest Minnesota Leading Economic Indicators Index September (December 1999 = 100)	208.3	211.3	-1.4%

Southwest Minnesota Business Filings

Total new business filings rose by 12.1 percent from year earlier levels in the third quarter of this year. Note that 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 in the graph below) 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).

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

Total New Business Filings—Southwest 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
Southwest Minnesota Total New Business Filings	504	559	660	594	565	12.1%

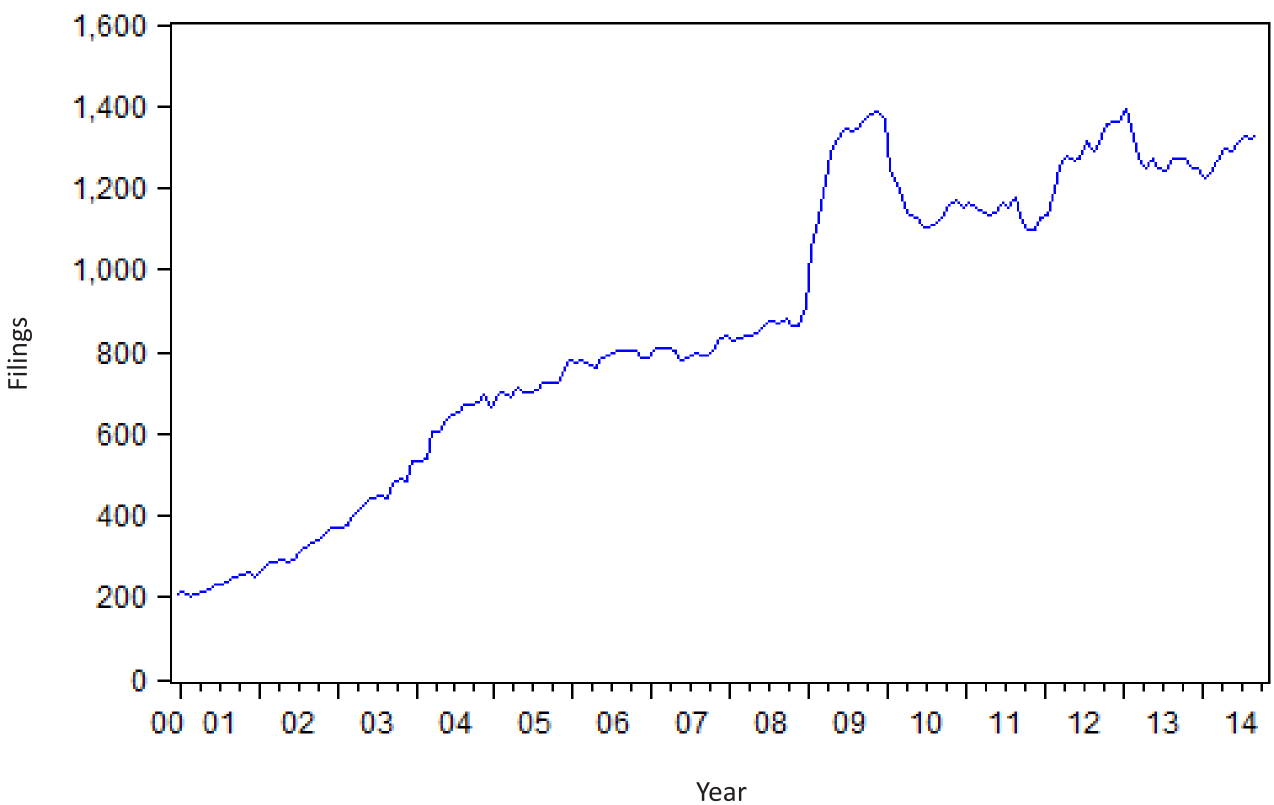
New business incorporations trended downward in Southwest Minnesota from 2005 to 2011, but they appear to have leveled off over the past several years. New regional incorporations totaled 47 in the third quarter of this year—a 2.1 percent reduction from last year.

New Incorporations—Southwest 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
Southwest Minnesota New Business Incorporations	48	60	59	53	47	-2.1%

There has been a move in Southwest Minnesota, as in the rest of the state, away from the traditional form of incorporation and towards the limited liability company (LLC). While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Southwest Minnesota since 2000. This trend continued with a strong 8.8 percent increase from year earlier levels in the most recent quarter.

New Limited Liability Companies—Southwest 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
Southwest Minnesota New Limited Liability Companies	284	310	352	360	309	8.8%

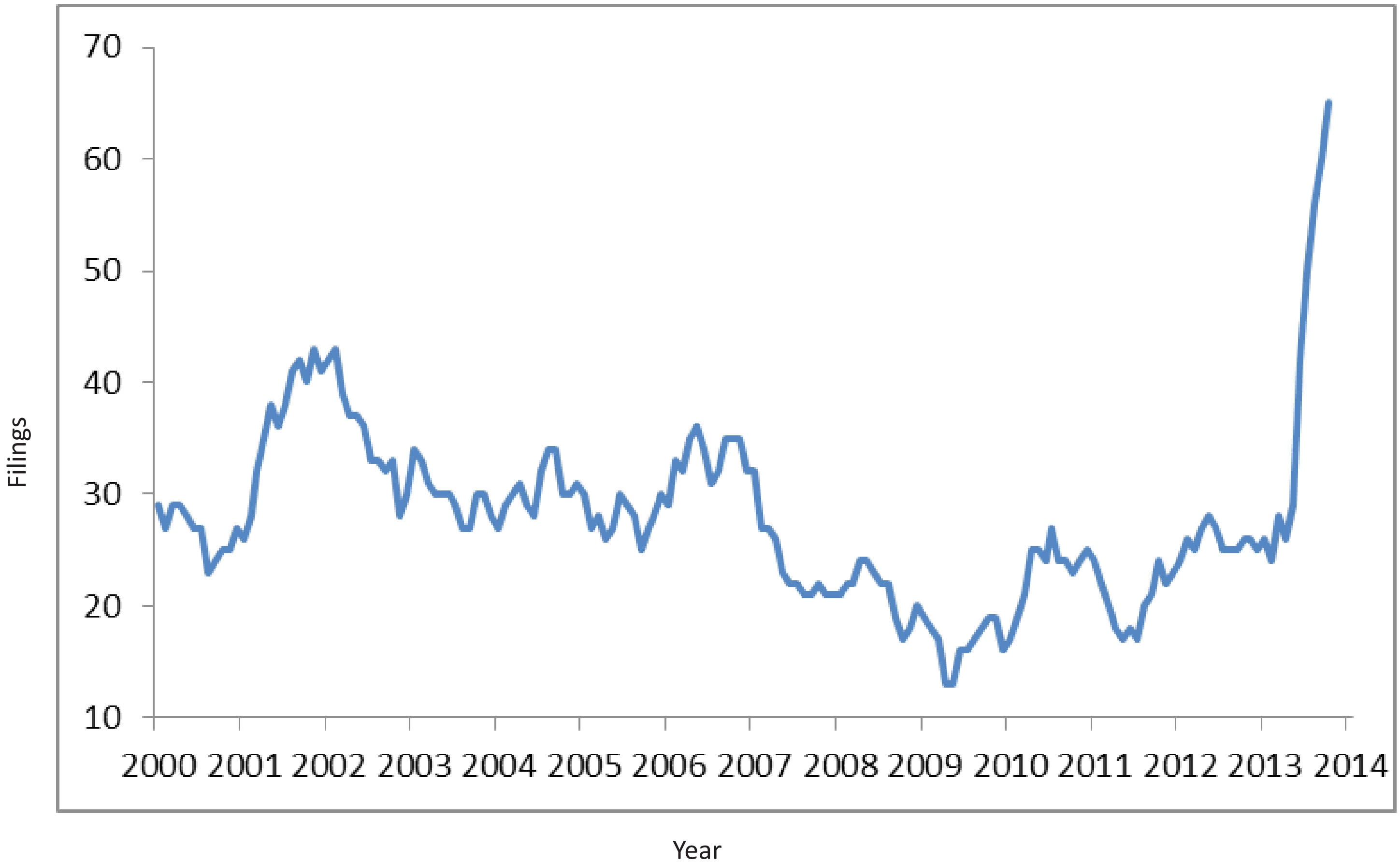
Third quarter assumed names increased by 25.2 percent compared to the same period in 2013. This was the largest increase in this category in any of the state's planning areas. By comparison, four of the state's six planning areas reported declining new assumed names over the past 12 months.

New Assumed Names—Southwest 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
Southwest Minnesota New Assumed Names	147	164	213	153	184	25.2%

For the second straight quarter, Southwest Minnesota experienced a significant jump in the number of new non-profits registered with the Office of the Minnesota Secretary of State. With 25 newly registered non-profits, this series increased by 150 percent from one year ago.

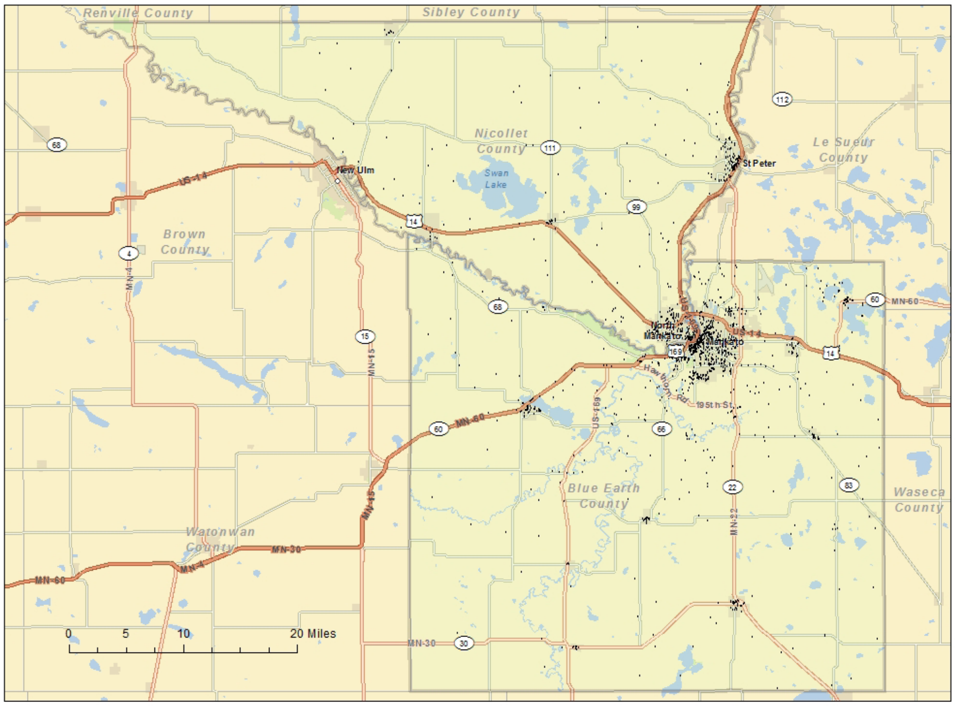
New Non-Profits—Southwest Minnesota Planning Area (12-month moving total)



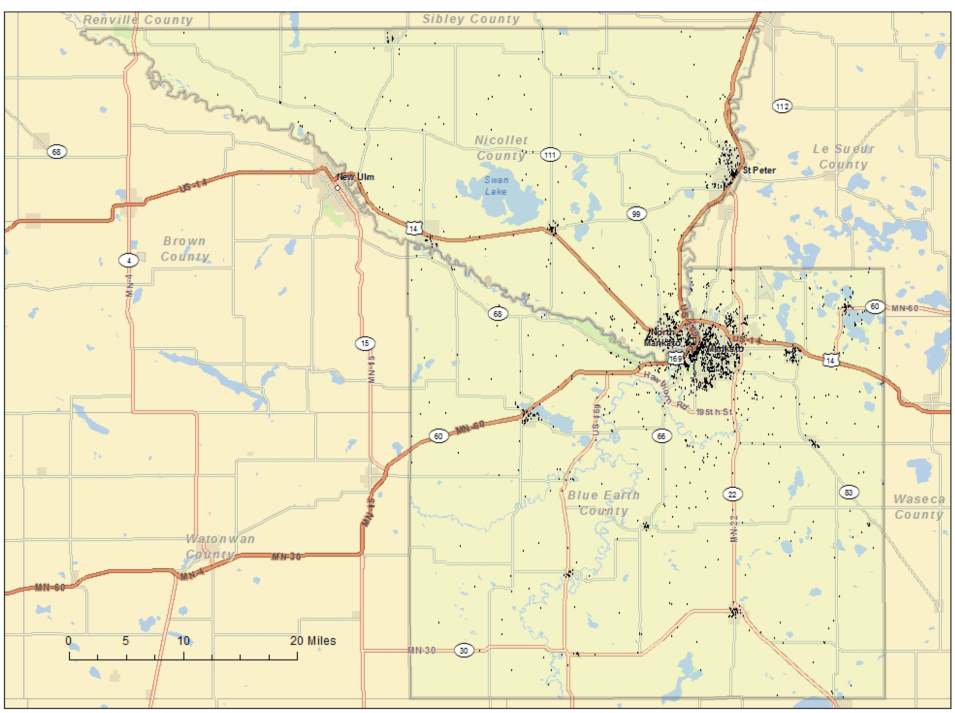
Quarter	III: 2013	IV: 2013	I: 2014	II: 2014	III: 2014	2014 Quarter III: Percent change from prior year
Southwest Minnesota New Non-Profits	10	5	7	28	25	150%

The two maps below attempt to highlight new business formation in the Mankato-North Mankato Metropolitan Statistical Area (MSA) in two periods: 2000–2004 (quarter 3) and 2010–2014 (quarter 3). This MSA consists of two counties—Nicollet and Blue Earth. 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 Mankato-North Mankato MSA since the beginning of the 21st century. Most newly formed businesses are in the city of Mankato and other clusters of business filings tend to follow key roadways.

New Business Formation Between 2000 and 2004:III—Mankato-North Mankato MSA



New Business Formation Between 2010 and 2014:III—Mankato-North Mankato MSA

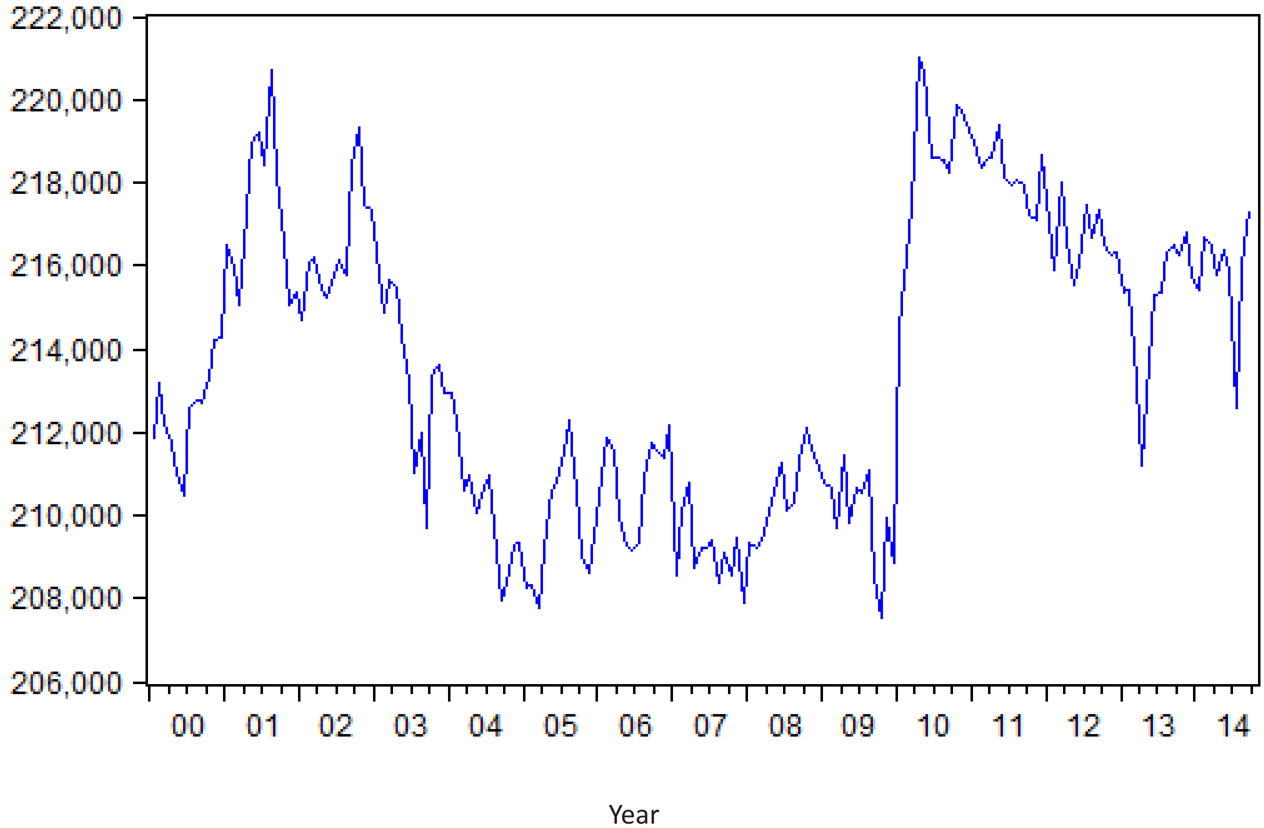


Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 0.5 percent over the past year. As noted in last quarter's report, compared to other planning areas in Minnesota, the 12-month moving employment average has not changed much from 13 years ago in the southwestern part of the state. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in September 2014 (see accompanying table) was 218,778.

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, soparesearch@stcloudstate.edu.

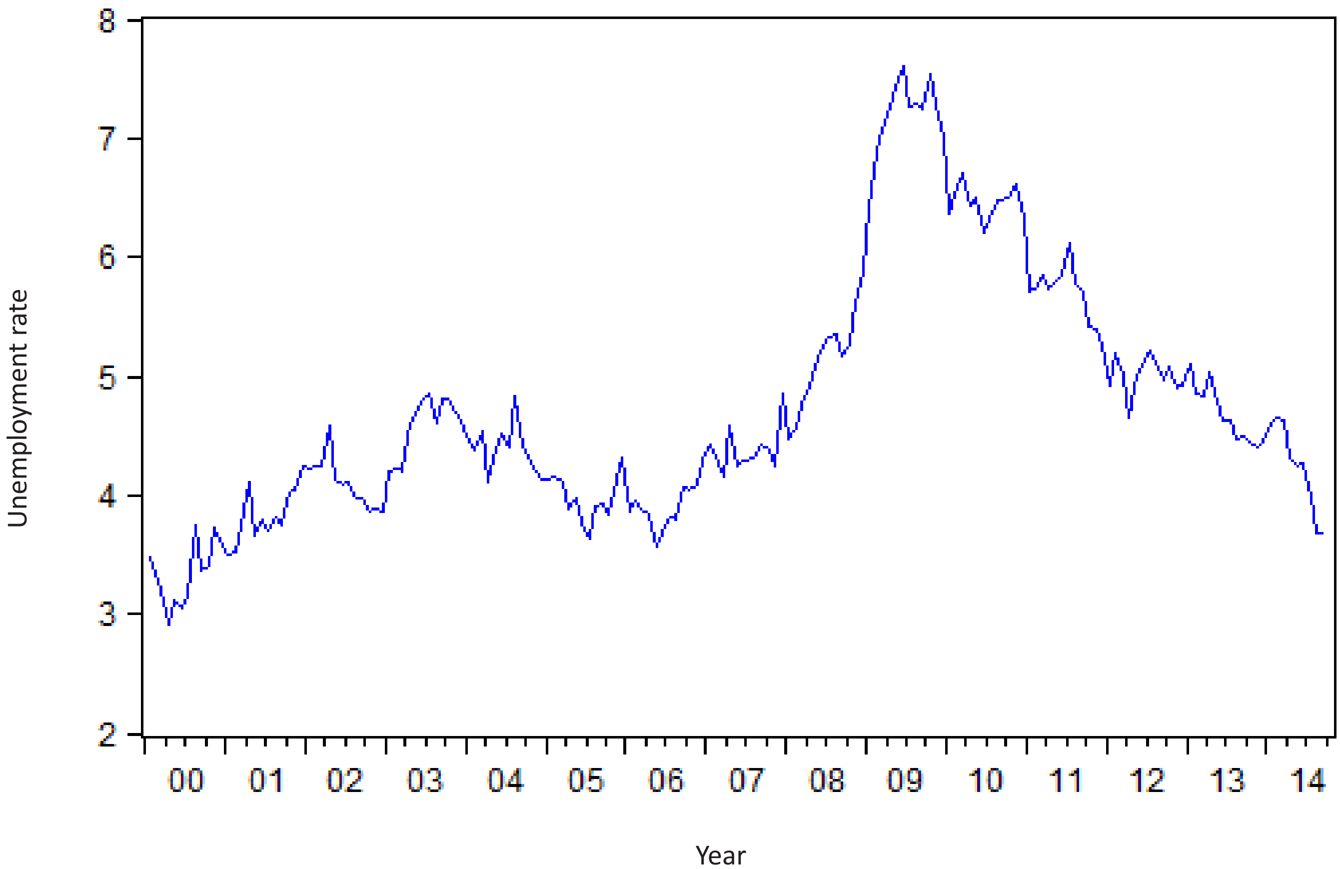
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	September 2013	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Employment (Not seasonally adjusted)	217,717	215,499	217,342	218,155	218,052	217,299	218,788

The seasonally adjusted unemployment rate in Southwest Minnesota continued to decline from its late 2009 peak through the third quarter of 2014. The non-seasonally adjusted unemployment rate now stands at 3.2 percent—an improvement on the 3.9 percent rate recorded in September 2013.

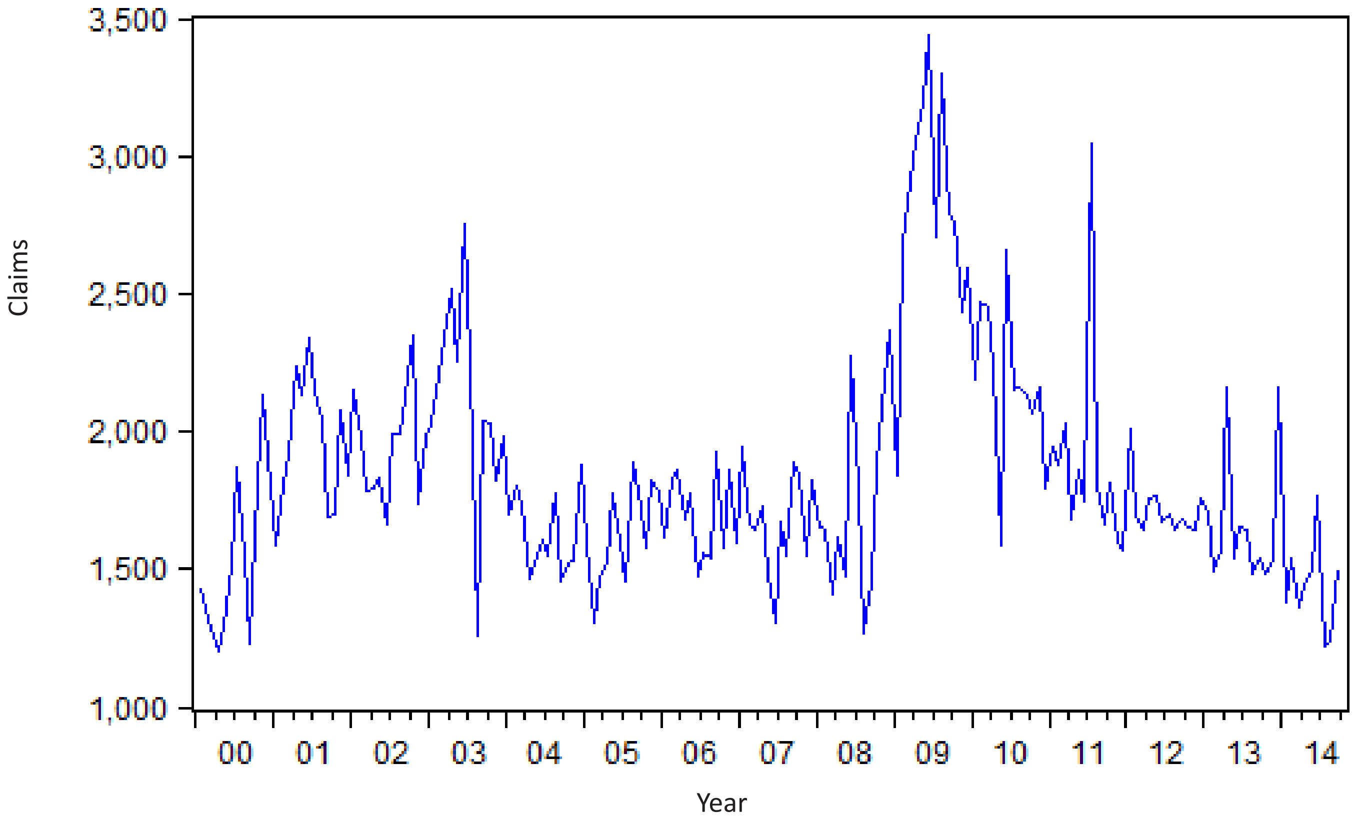
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	September 2013	April 2014	May 2014	June 2014	July 2014	August 2014	September 2014
Unemployment Rate (Not seasonally adjusted)	3.9%	4.3%	3.8%	4.4%	4.1%	3.4%	3.2%

New claims for unemployment insurance in October 2014 were below levels from one year ago. There were 1,174 initial claims for unemployment benefits in this most recent month, 324 fewer than one year ago—a 21.6 percent decrease. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series remains volatile, but has drifted downward since the end of the Great Recession.

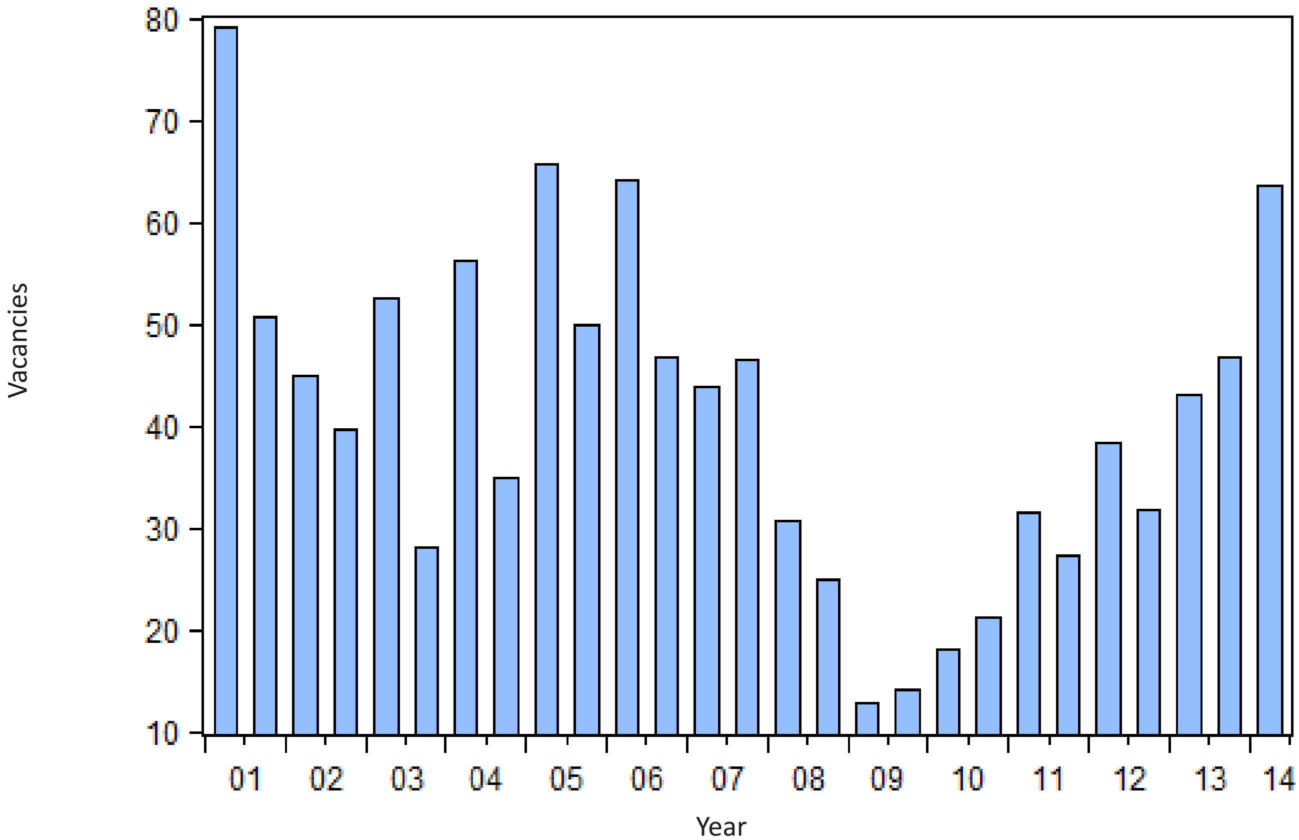
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Period	October 2013	May 2014	June 2014	July 2014	August 2014	September 2014	October 2014
Initial claims (Not seasonally adjusted)	1,498	1,216	1,354	1,093	817	995	1,174

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Southwest Minnesota planning area, the rate of job vacancies per 100 unemployed was 68.24 in the second quarter of 2014 (the most recently available data). This is the highest reading for this series in several years.

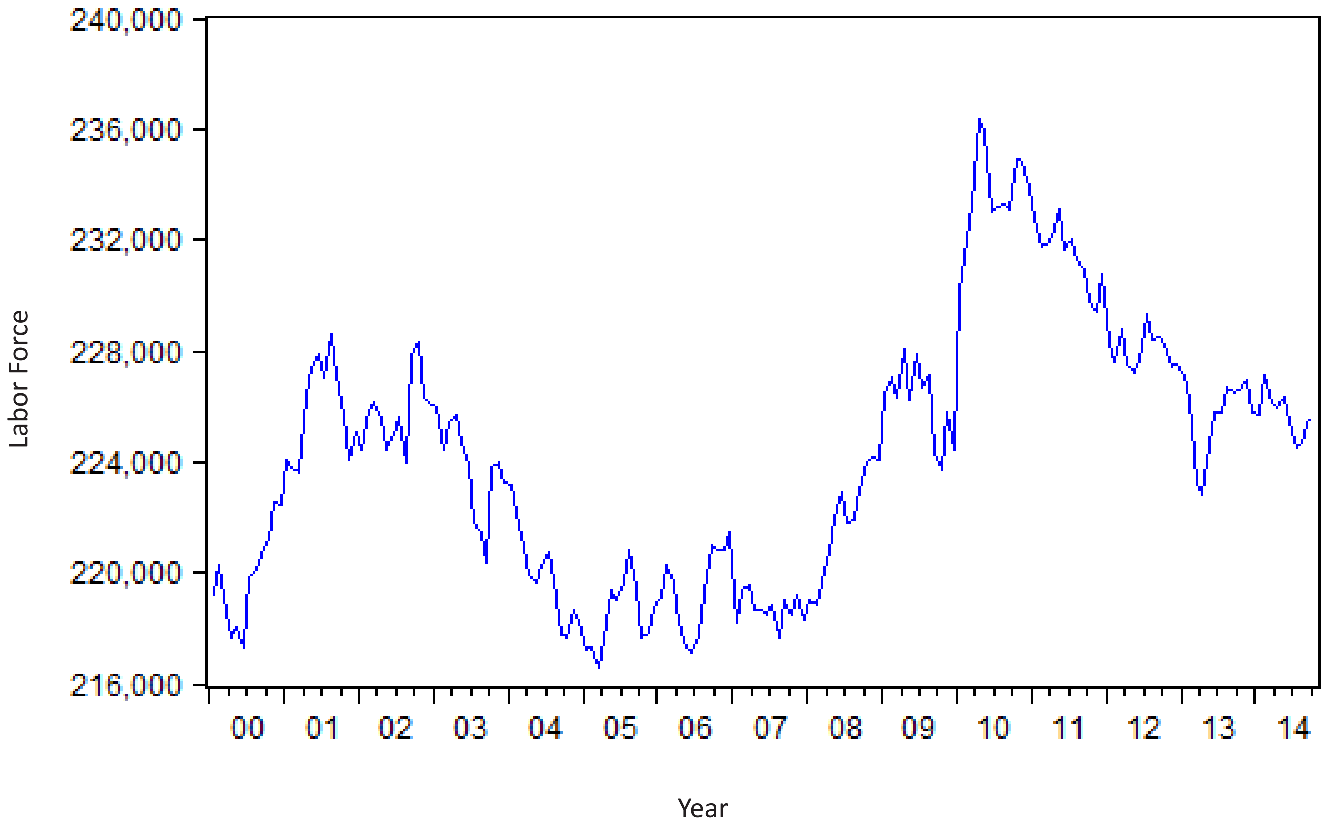
Job Vacancies per 100 Unemployed—Southwest Minnesota Planning Area



Quarter	2011:IV	2012:II	2012:IV	2013:II	2013:IV	2014:II
Job Vacancies per 100 Unemployed	32.2	39.84	36.33	44.92	53.66	68.24

Using a 12-month moving average to remove some of the seasonal patterns in labor force activity, the Southwest Minnesota labor force appears to have leveled out over the last several quarters. As seen in the accompanying graph, the size of the regional labor force is little changed from 2001. As was noted in last quarter's report, the large influx of workers between 2008 and 2010 is unlike other regions and may be an aberration that has subsided in recent years. Compared to September 2010, the Southwest Minnesota planning region's labor force is lower by 5,644—this slide in the labor force may constrain the area's potential growth.

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

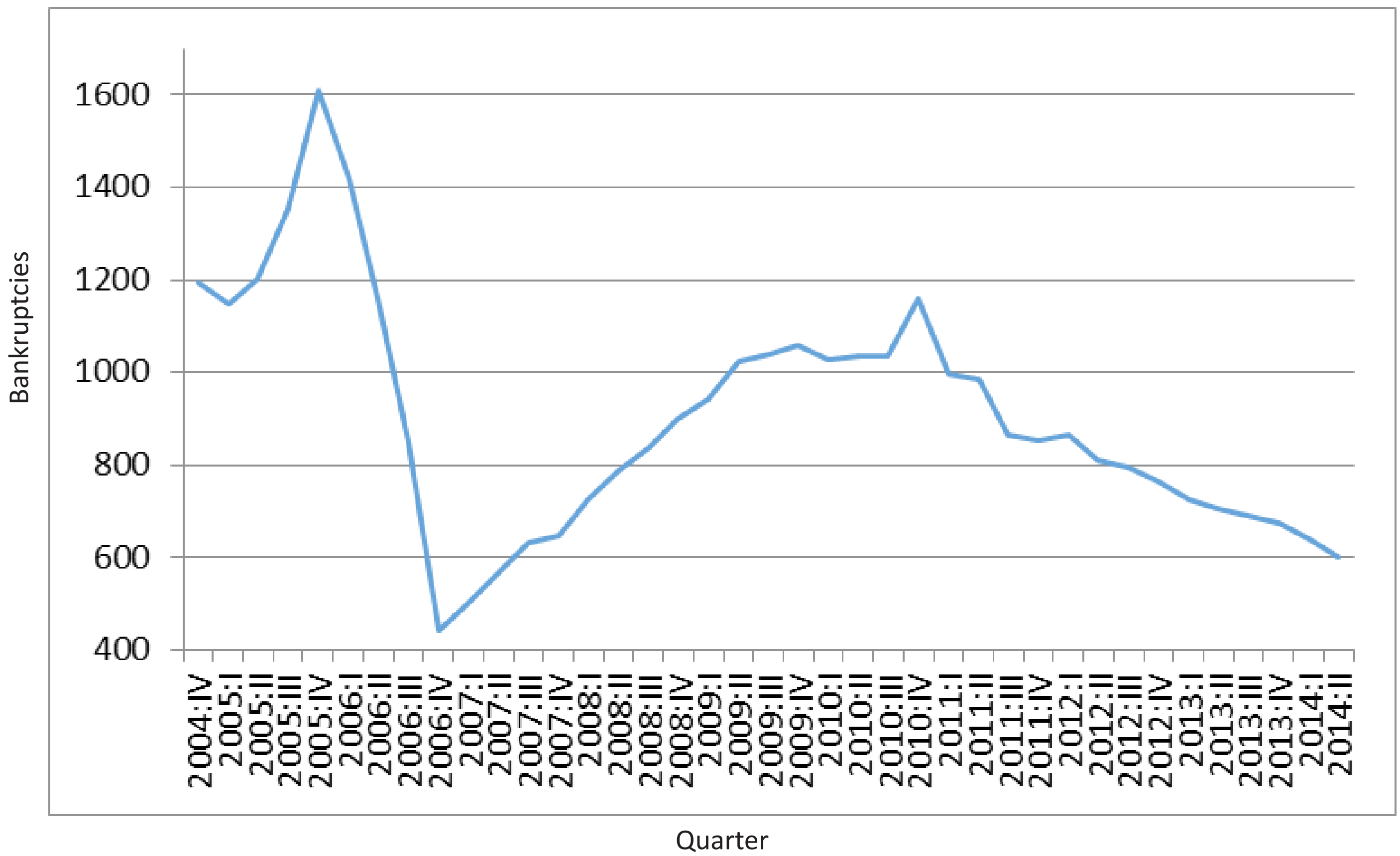


Year (September)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	222,980	231,654	229,906	228,119	226,612	226,010

Southwest Minnesota Bankruptcies

This quarter's report includes a measure of bankruptcies in Southwest Minnesota. The 12-month moving total shown below illustrates the annual number of bankruptcies in the southwestern region since 2004. After trending upward since 2007, the annual number of Southwest Minnesota bankruptcies has steadily declined since the beginning of 2011. The region has now returned 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'a six planning areas.

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



Year (Second Quarter)	2009	2010	2011	2012	2013	2014
Annual Bankruptcies (Not seasonally adjusted)	1,040	1,035	985	811	704	600

Mankato-North Mankato MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	September 2014 (m)	56,210	54,357	3.4% ↑	1.0%
Goods-Producing Employment	September 2014 (m)	10,407	10,039	3.7% ↑	-0.5%
Average Weekly Work Hours - Private Sector	September 2014 (m)	30.0	32.8	-8.5% ↓	32.9 (since 2008)
Average Earnings Per Hour - Private Sector	September 2014 (m)	$22.19	$22.15	0.2% ↑	-0.2% (since 2008)
Unemployment Rate	September 2014 (m)	2.9%	3.7%	NA ↓	3.9%
Labor Force	September 2014 (m)	59,519	58,143	2.4% ↑	1.1%
Initial Jobless Claims	October 2014 (m)	176	277	-36.5% ↓	NA
Business Formation					
Total New Business Filings	Third Quarter 2014	164	158	3.8% ↑	131
New Business Incorporations	Third Quarter 2014	13	9	44.4% ↑	19
New Limited Liability Companies	Third Quarter 2014	95	90	5.6% ↑	57
New Assumed Names	Third Quarter 2014	48	54	-11.1% ↓	48
New Non-profits	Third Quarter 2014	8	5	60.0% ↑	7
Mankato / North Mankato Residential Building Permit Valuation	September 2014 (m)	4,534	14,785	-69.3% ↓	5342 (since 2009)
Mankato / North Mankato Cost of Living Index	Second Quarter 2014	95.6	92.7	3.1% ↑	NA

(m) represents a monthly series

Southwest Minnesota contains the Mankato-North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. As the accompanying table shows, Mankato was a bright spot in the regional labor market in the third quarter of 2014. Mankato experienced annualized employment growth of 3.4 percent over the year ending September 2014, and employment in its goods-producing sector grew at a 3.7 percent rate over this same period. The unemployment rate fell, initial jobless claims declined and the labor force expanded. There does appear to be some cost-of-living pressures that are being felt in Mankato, but the area still is very affordable compared to other U.S. metropolitan areas. The value of residential building permits in Mankato declined in September 2014 compared to one year earlier and average hours worked in the private sector fell.

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 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.

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.

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Minnesota Department of Employment and Economic Development (and U.S. Department of Labor Bureau of Labor Statistics): Average Hourly Earnings, Average Weekly Work Hours, Employment, Initial Claims for Unemployment Insurance, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.

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

Standard & Poor's: Standard & Poor's 500 Stock Price Index.

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

U.S. Bankruptcy Courts: Total Annual Bankruptcies

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.