Central Minnesota
Economic and Business Conditions Report
First Quarter 2015

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

TABLE OF CONTENTS

Executive Summary

Central Minnesota business conditions are expected to soften over the next several months according to predictions of the Central Minnesota Index of Leading Economic Indicators (LEI). Four of the five components of the LEI turned negative in the first quarter with recent weakness in St. Cloud area residential building permits driving the projected softening of the regional economy. Also causing a drag on the LEI is recent weakness in a general measure of state business conditions, higher initial jobless claims in recent months, and lower new business filings for incorporation at the end of last year. A fifth indicator—national durable goods orders—were largely neutral in the first quarter.

There were 1,478 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the first quarter of 2015 — representing a 1.9 percent increase from one year ago. There were 191 new regional business incorporations in the first quarter, a 7.9 percent increase from year ago levels. Over the past 12 months, new limited liability company (LLC) filings in Central Minnesota increased 3.6 percent—rising to 773 in this year's first quarter. New assumed names totaled 458 in this year's first three months—a reduction of 3.6 percent from the same period in 2014. There were 56 new filings for Central Minnesota non-profits in the first quarter—four more filings than one year ago.

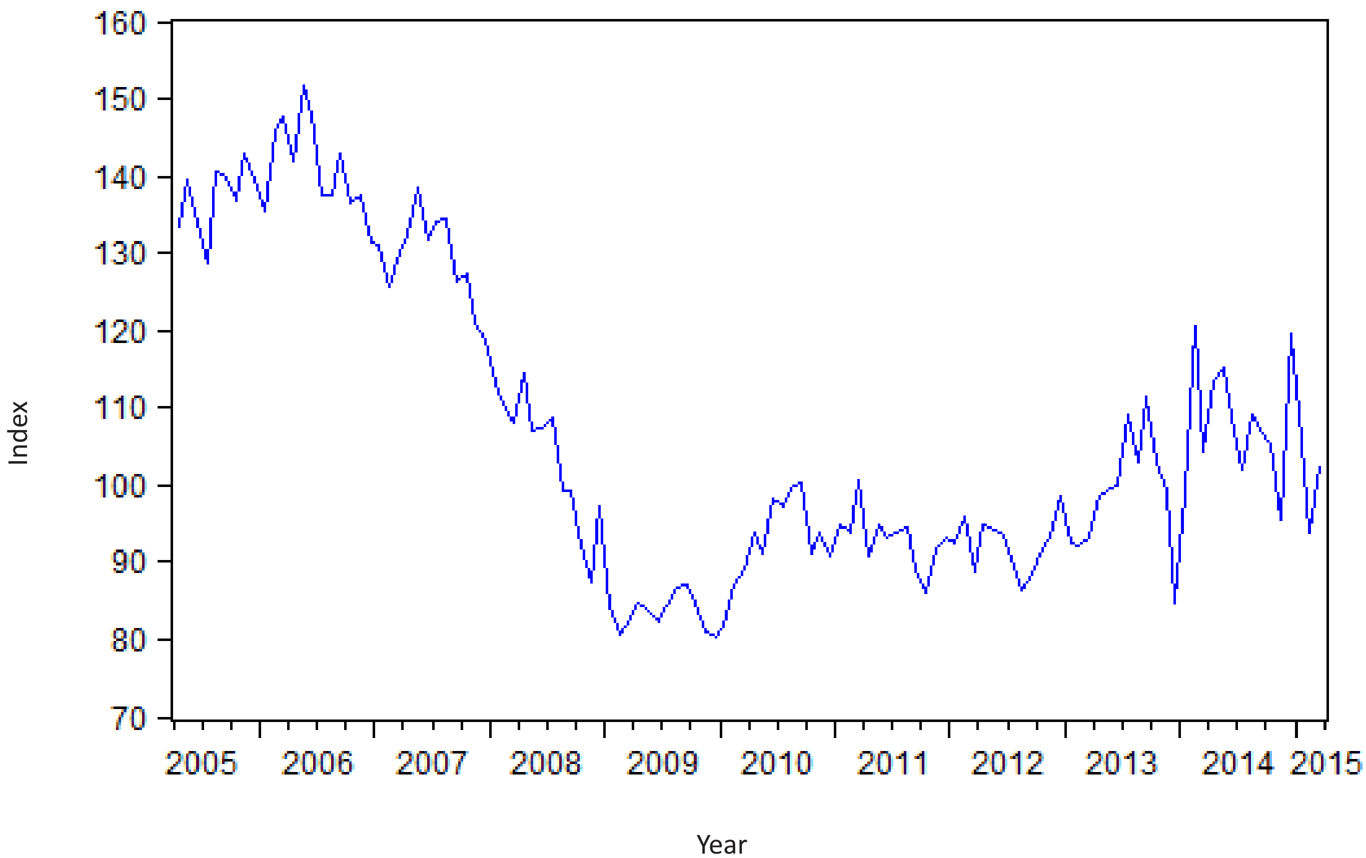
Central Minnesota employment was 3.3 percent higher in March 2015 than it was one year earlier. Compared to one year ago, 11,775 more residents of Central Minnesota now have jobs. The regional unemployment rate was 5.4 percent in March, well below the 6.4 percent rate reported one year ago. Initial claims for unemployment insurance were 15.2 percent lower in April than they were one year earlier. The Central Minnesota labor force continues to grow (rising 2.2 percent over the past year) and job vacancies per 100 unemployed are higher than they have been in many years.

Economic performance in the St. Cloud area was mixed, with improvements in the labor market being offset by recent weakness in residential building permits and somewhat weaker results of a recent survey of area business leaders. New business filings remain strong in the largest market in the Central Minnesota planning area and growth is still expected to continue as the expansion matures.

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 finished 17.52 points lower in this year's first quarter, and is now 7.90 percent below its level one year ago. As can be seen in the accompanying figure, the LEI has shown a high degree of quarterly volatility so this period's negative reading does not yet signal sustained future economic weakness in Central Minnesota. Instead, the regional economy may have hit a soft patch, with less rapid growth likely in coming quarters.

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, 1st quarter 2015	Contribution to LEI, 4th quarter 2014
Minnesota Business Conditions Index	-4.27	-1.82
Central Minnesota initial claims for unemployment insurance	-1.16	-1.78
Central Minnesota new filings of incorporation	-0.93	-0.86
St. Cloud MSA residential building permits	-11.26	11.72
National new orders for durable goods, real	0.10	0.64
TOTAL CHANGE	**-17.52**	**7.90**

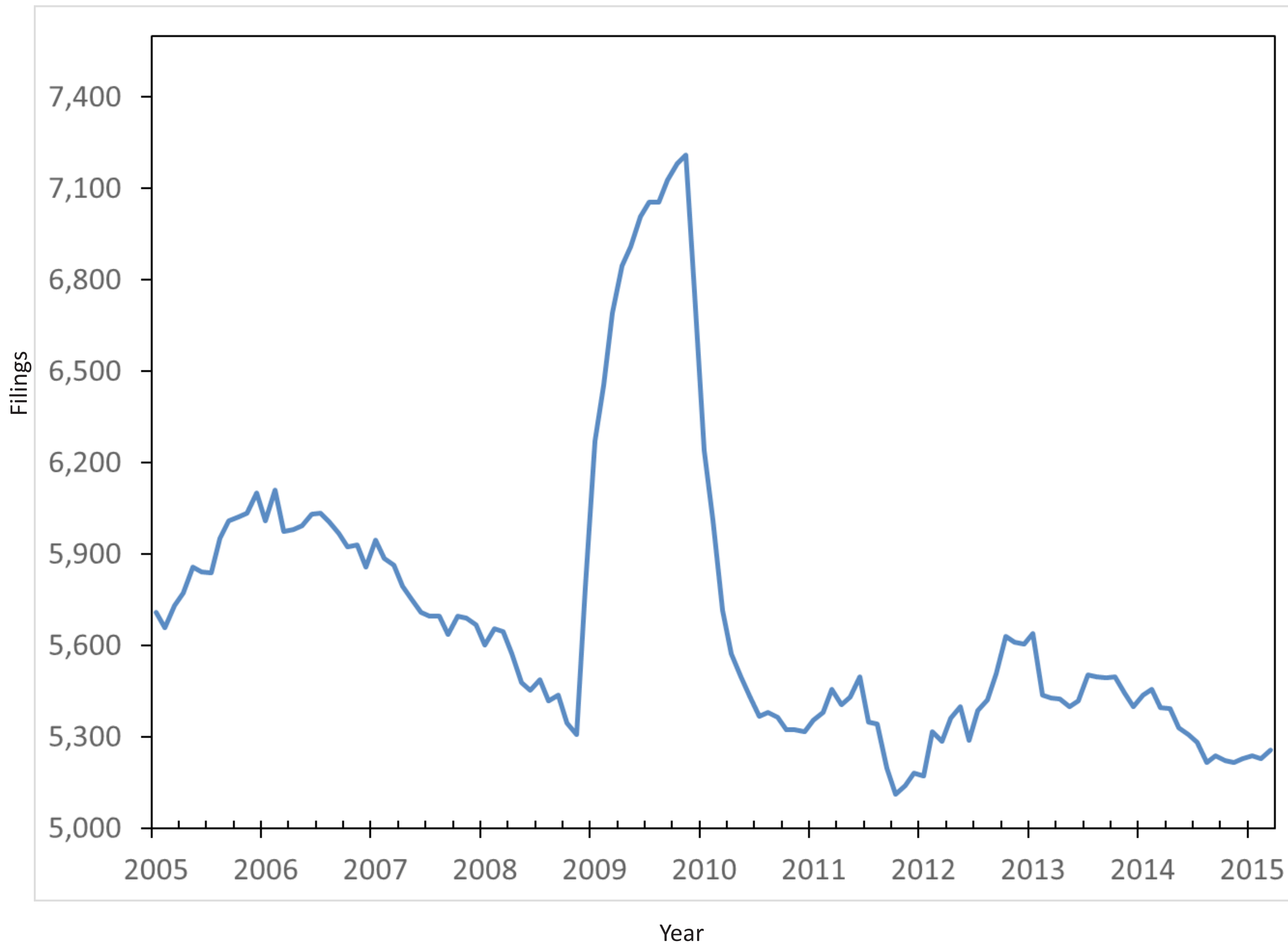
Four index components—Central Minnesota initial claims for unemployment insurance, the Minnesota Business Conditions index, new filings of incorporation, and St. Cloud area residential building permits—had a negative impact on the LEI in the first quarter. Central Minnesota is an exporter of consumer durables, so national durable goods orders are a proxy for regional economic performance. This indicator was slightly positive in the first quarter.

SCSU Central Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index March	50	66.1	-24.36%
Central Minnesota initial claims for unemployment insurance March	2,860	3,446	-17.01%
Central Minnesota new filings of incorporation First Quarter	966	921	4.89%
St. Cloud MSA single-family building permits March	1	17	-94.12%
National new orders for durable goods, billions of real 1984 dollars, March	213.7	207.4	3.01%
Central Minnesota Leading Economic Indicators Index March (December 1999 = 100)	102.8	111.6	-7.90%

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 1,478 new business filings in Central Minnesota in the first quarter. While this represents a 1.9 percent increase from the same period last year, the annual number of regional new business filings has been fairly steady since the beginning of 2011. 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.

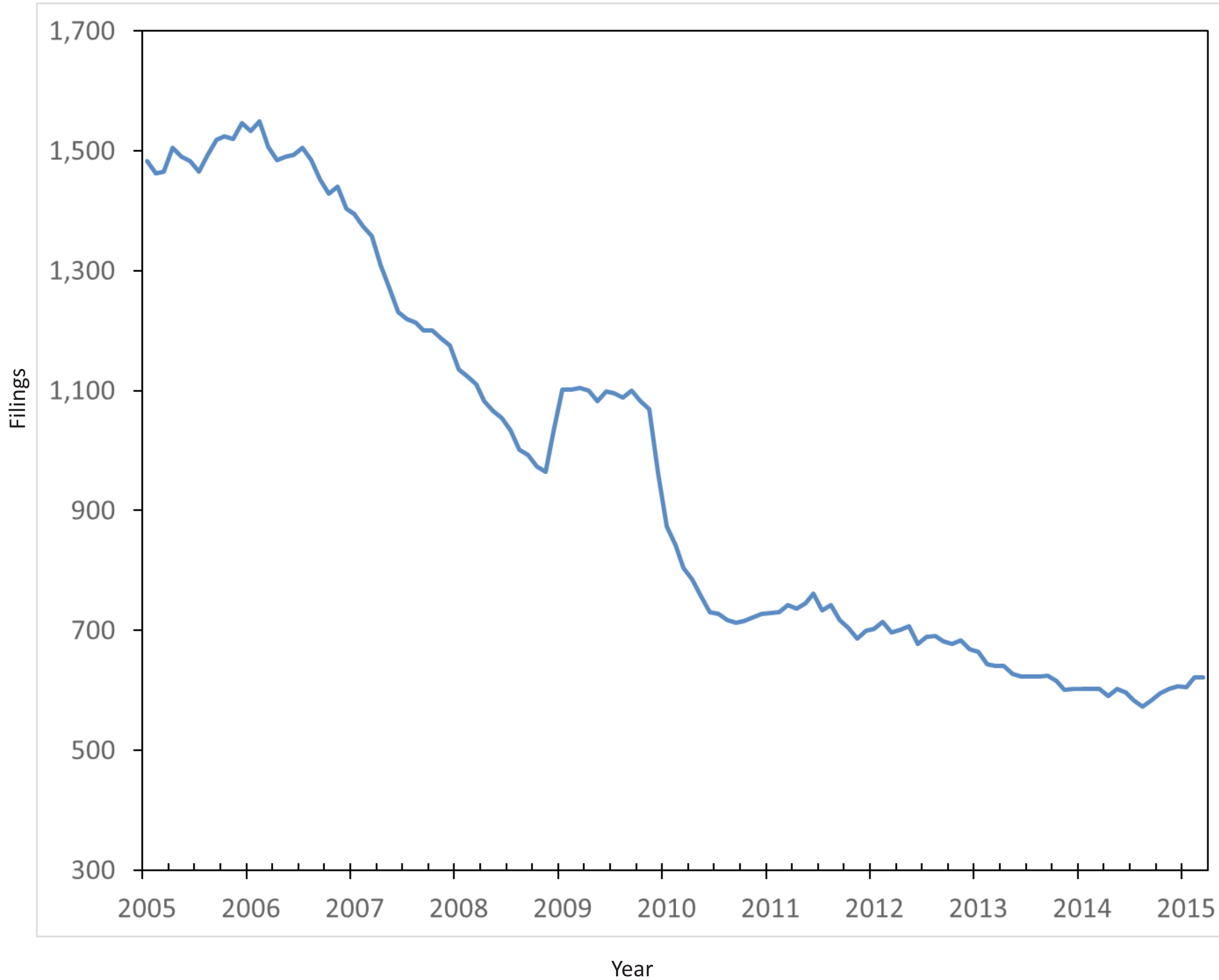
Total New Business Filings—Central Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter I: Percent change from prior year
Central Minnesota Total New Business Filings	1,450	1,370	1,217	1,192	1,478	1.9%

New business incorporations have trended downward in Central Minnesota for most of the past decade. However, over the past year, this series looks to have stabilized. Quarterly figures of new business incorporations actually increased by 7.9 percent in this year's first quarter—rising from 177 one year ago to 191 one year later.

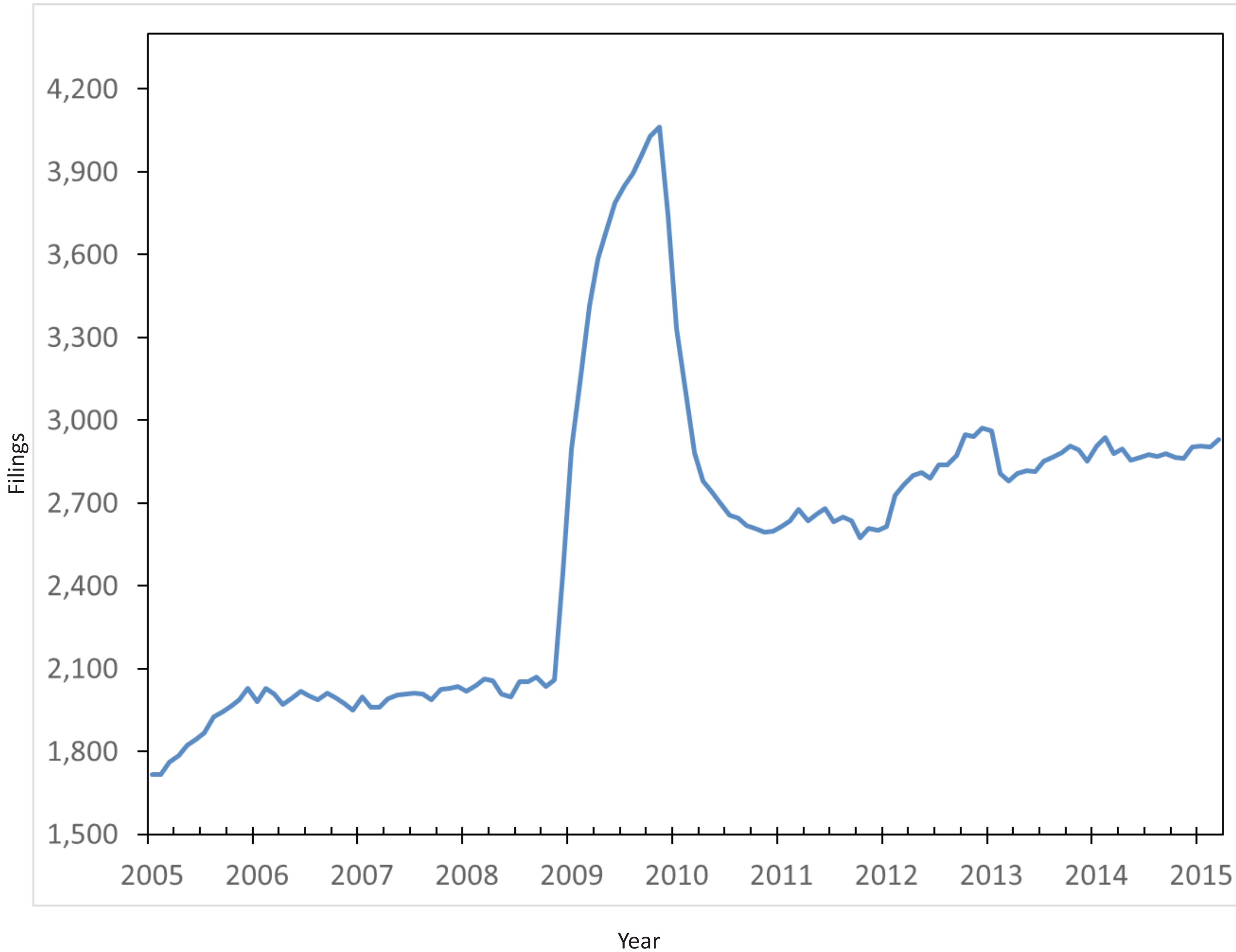
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter I: Percent change from prior year
Central Minnesota New Business Incorporations	177	151	125	154	191	7.9%

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 expanded by 3.6 percent (to 773) over the past twelve months. 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	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter I: Percent change from prior year
Central Minnesota New Limited Liability Companies	746	762	706	688	773	3.6%

Assumed names, which include sole proprietors or organizations that do not have limited liability, declined by 3.6 percent compared to last year's first quarter. With the exception of a brief steady period in 2011-12, this series has been trending downward for nearly a decade.

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

Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter I: Percent change from prior year
Central Minnesota New Assumed Names	475	415	345	306	458	-3.6%

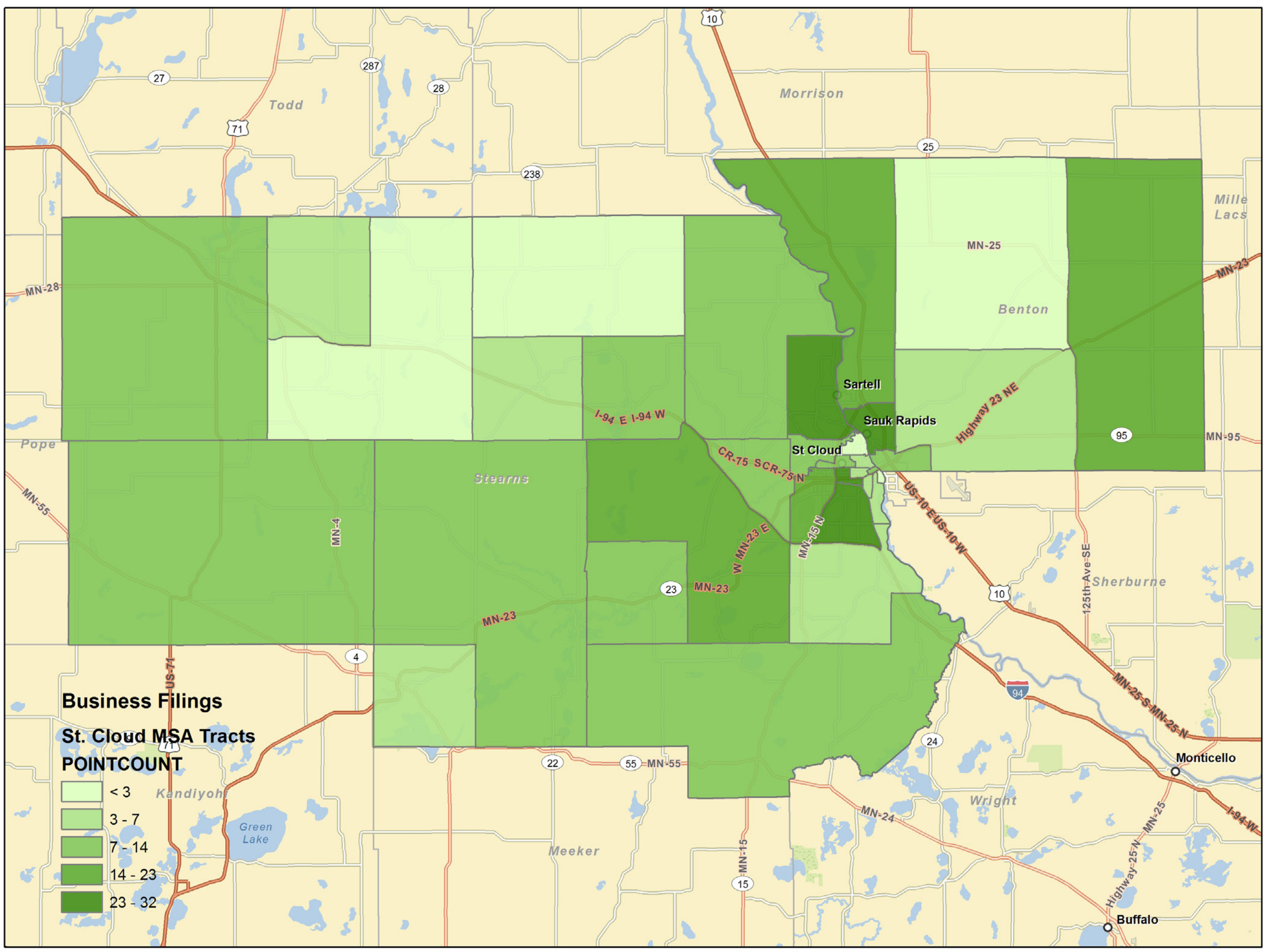
There were 56 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the first quarter of 2015 — four more new non-profits than were recorded one year ago. This represents a 7.7 percent increase in new non-profits compared to last year's first quarter.

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

Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter I: Percent change from prior year
Central Minnesota New Non-Profits	52	42	41	44	56	7.7%

The map below highlights new business formation by census tract in this year's first quarter in the St. Cloud Metropolitan Statistical Area (MSA). This MSA consists of two counties—Stearns and Benton. While there were 389 new business filings in the St. Cloud MSA in this year's first quarter, the distribution of new filings is clearly uneven over the metro area. Some portions (represented by the lighter colored blocks) of the St. Cloud MSA experienced relatively little new business formation in this period, while others (the darker colored blocks) enjoyed fairly strong gains. This mapping tool has the potential to focus on those areas within each MSA that are most likely to experience growth of new businesses which can inform regional economic development efforts. In coming issues of the Central Minnesota Quarterly Economic and Business Conditions Report, we hope to extend this analysis of targeted business formation by controlling for differences in population and households across the region.

New Business Formation By Census Tract in 2015, Quarter 1—St. Cloud MSA

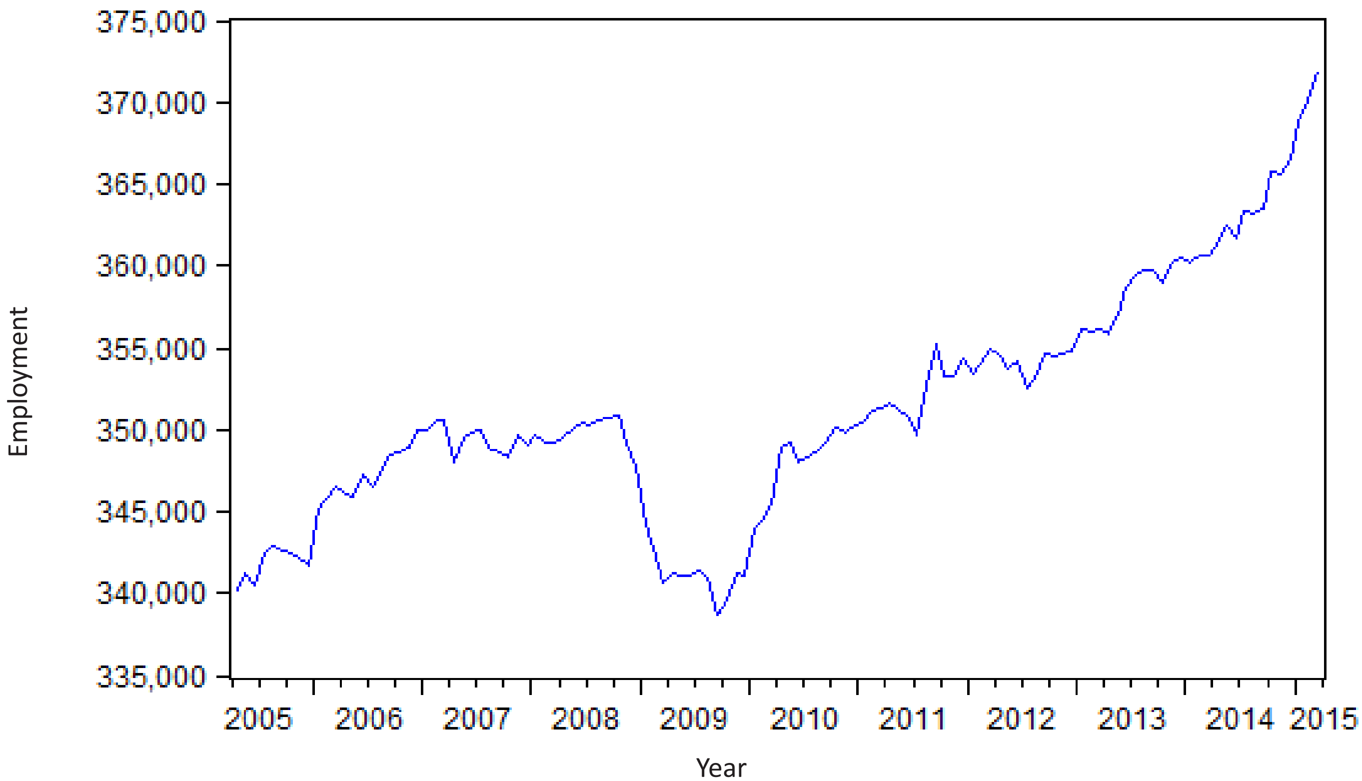


Central Minnesota Labor Market Conditions

Central Minnesota employment grew 3.3 percent over the past year. With the exception of the Great Recession of 2008–2009, Central Minnesota has continually demonstrated its ability to create jobs over the past decade.

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, please contact the SCSU School of Public Affairs Research Institute, soparesearch@stcloudstate.edu.

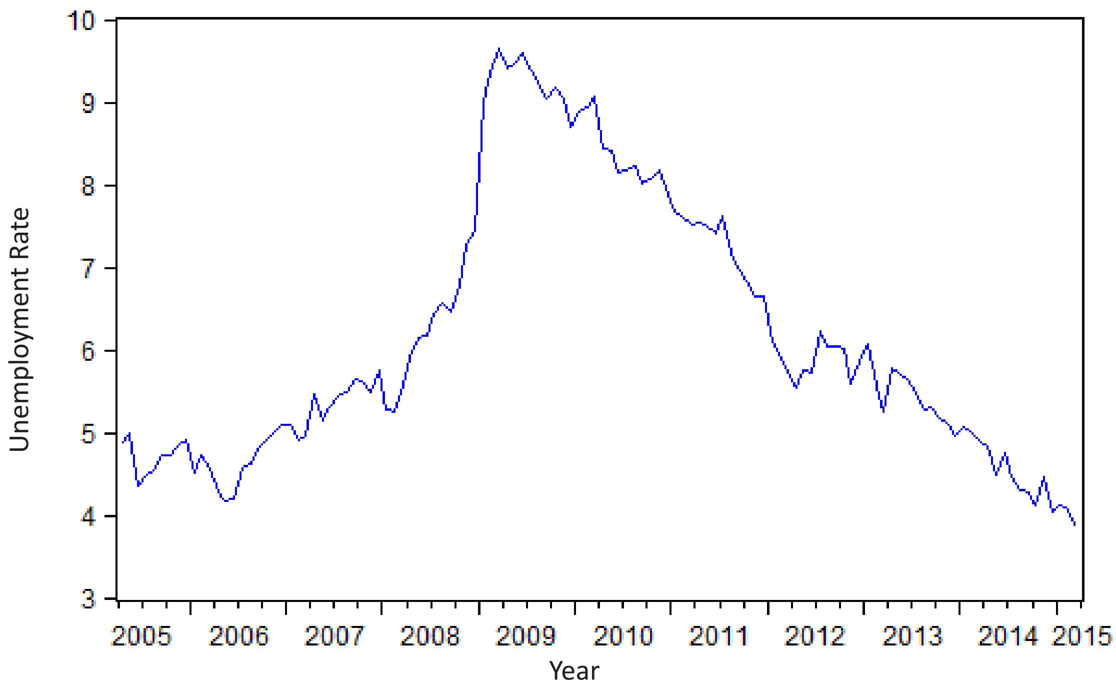
Employment—Central Minnesota Planning Area (12-month moving average)



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Employment (Not seasonally adjusted)	356,375	368,843	366,875	364,319	363,635	365,647	368,150

Central Minnesota's unemployment rate was 5.4 percent in March 2015. This is a full percentage point lower than the regional unemployment rate one year ago.

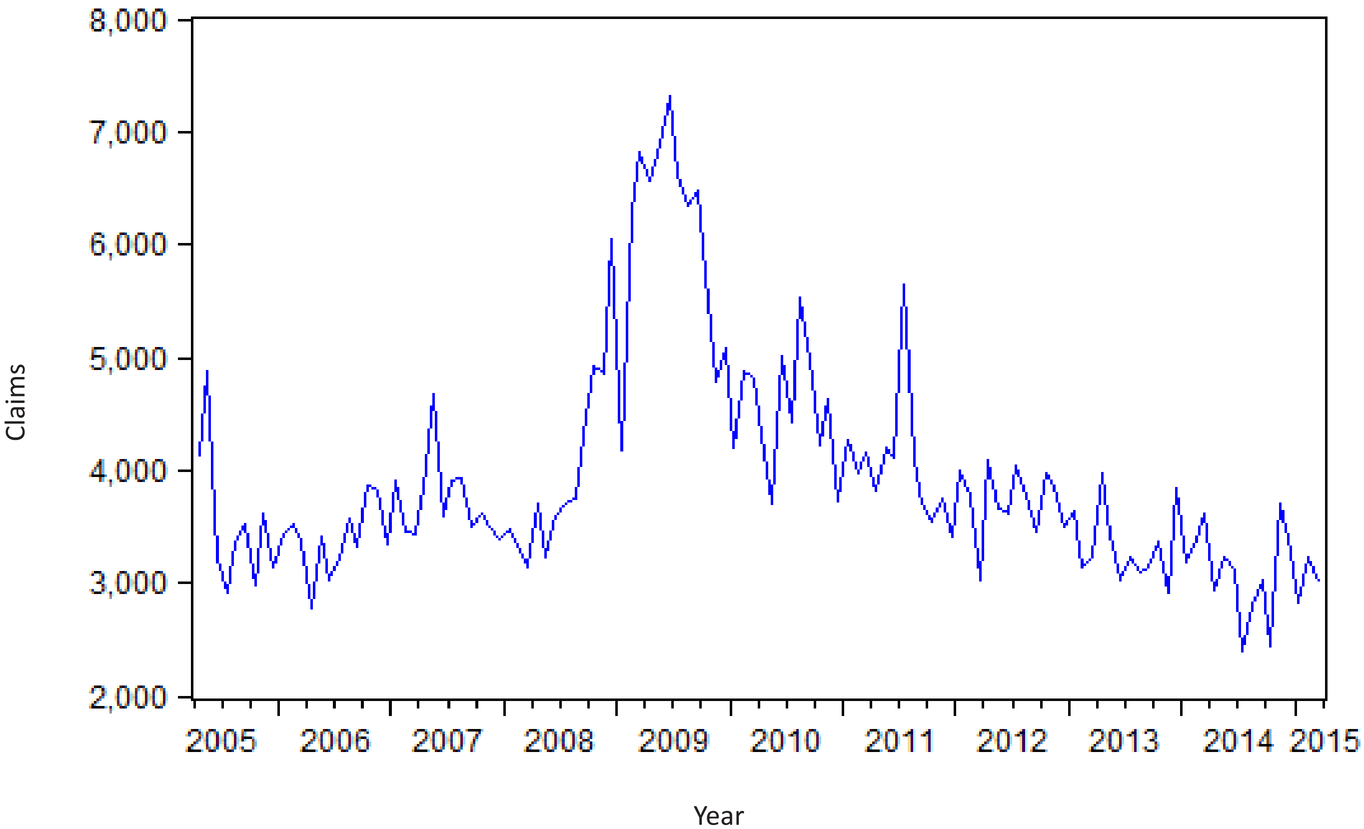
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Unemployment Rate (Not seasonally adjusted)	6.4%	3.0%	3.6%	4.2%	5.5%	5.4%	5.4%

Initial claims for unemployment insurance in the Central Minnesota planning area fell to 2,206 in April 2015. This represents 15.2 percent fewer claims than in April 2014.

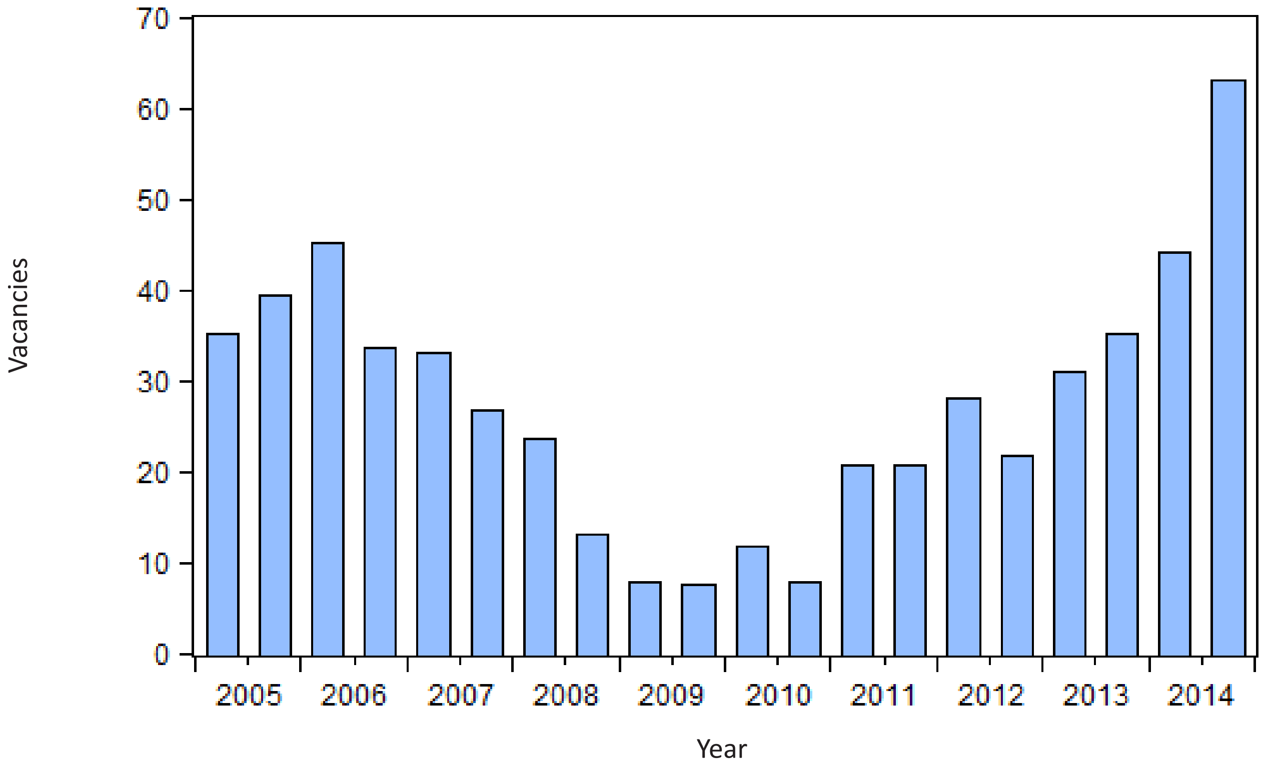
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Central Minnesota Planning Area



Month	April 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015
Initial claims (Not seasonally adjusted)	2,600	6,003	6,452	3,786	2,908	2,860	2,206

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Central Minnesota planning area the rate of job vacancies per 100 unemployed was 62.99 in the fourth quarter of 2014 (this is the most recently available data). As can be seen in the accompanying figure, this is the highest reading for this series over the last decade.

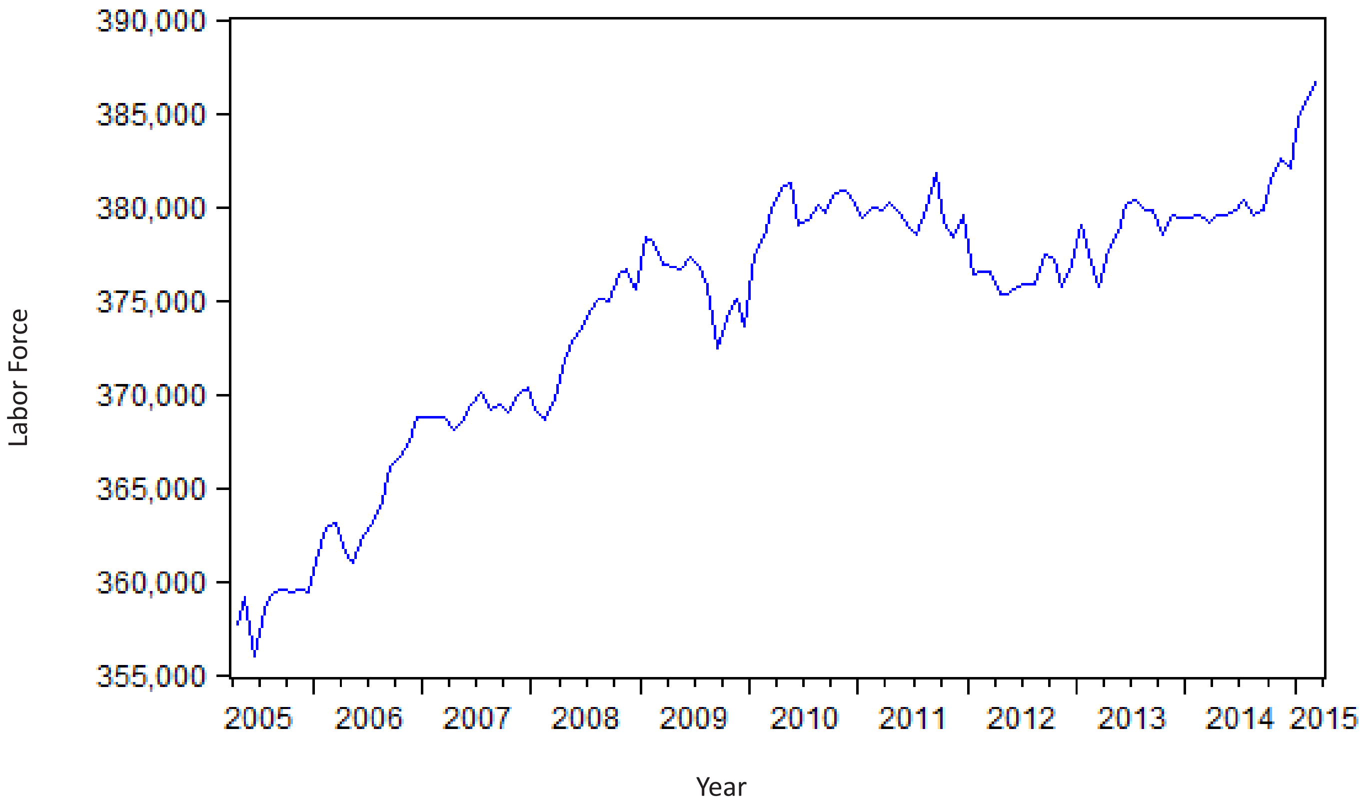
Job Vacancies per 100 Unemployed—Central Minnesota Planning Area



Quarter	2012:II	2012:IV	2013:II	2013:IV	2014:II	2014:IV
Job Vacancies per 100 Unemployed	29.89	25.06	33.02	39.90	47.53	62.99

The labor force grew rapidly in Central Minnesota in recent months. At 389,125, the region's labor force in March was 2.2 percent larger than it was twelve months earlier.

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



Year (March)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	381,777	379,437	378,120	377,360	380,714	389,125

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	March 2015 (m)	105,867	103,859	1.9% ↑	1.0%
Manufacturing Employment	March 2015 (m)	15,092	14,142	6.7% ↑	-0.8%
Average Weekly Work Hours--Private Sector	March 2015 (m)	31.7	31.9	-0.6% ↓	33.2 (since 2007)
Average Earnings Per Hour--Private Sector	March 2015 (m)	$24.10	$23.08	4.4% ↑	3.2% (since 2007)
Unemployment Rate	March 2015 (m)	4.8%	6.0%	NA ↓	6.0%
Labor Force	March 2015 (m)	111,541	109,740	1.6% ↑	0.8%
SCSU Future Employment Index	February 2015 (q)	37.1	36.5	1.6% ↑	32 (since 2005)
SCSU Future Length of Workweek Index	February 2015 (q)	9.7	23	-57.8% ↓	18.8 (since 2005)
SCSU Future Employee Compensation Index	February 2015 (q)	51.6	48.6	6.2% ↑	39.7 (since 2005)
SCSU Future Worker Shortage Index	February 2015 (q)	32.3	21.6	49.5% ↑	16.2 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	April 2015 (m)	633	765	-17.3% ↓	NA
St. Cloud Times Help Wanted Linage	January 2015 (m)	2,013	1,493	34.8% ↑	NA
BUSINESS FORMATION					
New Business Filings	First Quarter 2015	389	363	7.2% ↑	363 (since 2000)
Assumed Names	First Quarter 2015	112	140	-20.0% ↓	126 (since 2000)
Business Incorporations	First Quarter 2015	47	35	34.3% ↑	74 (since 2000)
Limited Liability Companies	First Quarter 2015	211	179	17.9% ↑	150 (since 2000)
Non-Profits	First Quarter 2015	19	9	111.1% ↑	13 (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	February 2015 (q)	53.2	56.8	-6.3% ↓	54.1 (since 2005)
SCSU Future Capital Expenditures Index	February 2015 (q)	25.8	35.2	-26.7% ↓	27.8 (since 2005)
SCSU Future National Business Activity Index	February 2015 (q)	22.5	39.1	-42.5% ↓	26.2 (since 2005)
St. Cloud Index of Leading Economic Indicators	January 2015 (m)	102.4	102.3	0.1% ↑	NA
St. Cloud Residential Building Permit Valuation	March 2015 (m)	220	4955	-95.6%	NA
PRICES					
St. Cloud Cost of Living Index	2014 (annual average)	95	94.6	0.4% ↑	NA
St. Cloud Median Home Prices	April 2015 (m)	147,000	137,350	7.0% ↑	NA
SCSU Future Prices Received Index	February 2015 (m)	24.2	13.5	79.3% ↑	21.1 (since 2005)

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

Central Minnesota contains the St. Cloud MSA, where a survey of business leaders is done quarterly by St. Cloud State University. Among other things, this survey indicates a tighter labor market in the St. Cloud area, as firms continue to report more difficulty attracting qualified workers and higher employee compensation. Payroll employment grew 1.9 percent over the year ending March 2015 in St. Cloud and the MSA unemployment rate fell from 6 percent to 4.8 percent over the same period. The St. Cloud labor force is now 111,541, an increase of 1.6 percent over the past twelve months. Median housing prices in St. Cloud increased over the last twelve months, and the cost of living index increased, suggesting the area became relatively less affordable in 2014. More area firms report that they expect to be able to increase prices over the next six months than last year at this time.

State and National Indicators

MINNESOTA Indicators	Mar 2015	Dec 2014	Mar 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,844,600	2,831,400	2,795,400	0.5%	1.8%
Average weekly hours worked, private sector	33.9	33.9	34.0	0%	-0.3%
Unemployment rate, seasonally adjusted	3.8%	3.7%	4.4%	NA	NA
Earnings per hour, private sector	$26.32	$25.82	$25.83	1.9%	1.9%
Philadelphia Fed Coincident Indicator, MN	167.33	166.07	162.38	0.8%	3.0%
Philadelphia Fed Leading Indicator, MN	1.81	1.73	2.04	4.6%	-11.3%
Minnesota Business Conditions Index	50.0	61.4	66.1	-18.6%	-24.4%
Price of milk received by farmers (cwt)	$17.10	$20.50	$26.10	-16.6%	-34.5%
Enplanements, MSP airport, thousands	1,629.6	1,387.6	1,615.7	17.4%	0.9%

NATIONAL Indicators	Mar 2015	Dec 2014	Mar 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	141,144	140,592	138,055	0.4%	2.2%
Industrial production, index, SA	105.2	106.2	103.1	-0.9%	2%
Real retail sales, SA	185,279	185,197	182,093	0%	1.7%
Real personal Income less transfers	11,506	11,435	11,161	0.6%	3.1%
Real personal consumption expenditures	11,193	11,145	10,903	0.4%	2.7%
Unemployment rate	5.5%	5.6%	6.6%	NA	NA
New building permits, SA, thousands	1,038	1,077	1,061	-3.6%	-2.2%
Standard & Poor’s 500 stock price index	2,079.99	2,054.27	1,863.52	1.3%	11.6%
Oil, price per barrel in Cushing, OK	$47.82	$59.29	$100.80	-19.3%	-52.6%

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 softening in the state economy in the first quarter. Milk prices were 34.5 percent lower than one year ago in March. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 0.9 percent over the last twelve months.

The national economic indicators reported in the table suggest continued strong economic performance at the national level—yet there are emerging signs of softness in national economic activity that have been reported since this table was constructed. Still, compared to year earlier levels, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment, and the unemployment rate are all improved. Oil prices have declined significantly over the past year. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. While there is little concern that the national economy will be entering recession in the coming months, observers will be wise to keep a watchful eye out for any continuation of the recent soft patch that seems to have emerged in the last couple of months.

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.

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.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Katie Kotschevar, Paul Ryan, and Joe Kucan. Professor David Wall of the SCSU Geography Department provided GIS assistance.

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Metropolitan Airports Commission: MSP Enplanements.

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

SCSU School of Public Affairs Research Institute: SCSU Central Minnesota Index of Leading Economic Indicators, SCSU Future Business Activity Index, SCSU Future Capital Expenditures Index, SCSU Future Employee Compensation Index, SCSU Future Employment Index, SCSU Future Length of Workweek Index, SCSU Future National Business Activity Index, SCSU Future Prices Received Index, SCSU Future Worker Shortage Index, St. Cloud Index of Leading Economic Indicators.

St. Cloud Area Association of REALTORS: Median Home Prices.

St. Cloud Times: Help Wanted Linage.

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

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

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

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