Southwest Minnesota
Economic and Business Conditions Report
Fourth Quarter 2015

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

Economic conditions are expected to improve in Southwest Minnesota 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 rise in Mankato area single family residential building permits and fewer initial jobless claims in the fourth quarter helped drive the leading index higher. A weakening in the rural outlook made a negative contribution to the LEI this quarter. Lower new filings for incorporation and limited liability company (LLC) also served as a drag on the leading index in the fourth quarter.

There were 550 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the fourth quarter of 2015 — representing 2.3 percent fewer new filings than one year earlier. There were 61 new regional business incorporations in the fourth quarter, a 29.8 percent increase from one year ago. New LLC filings in Southwest Minnesota fell by 8.8 percent—decreasing to 291 in the fourth quarter of 2015. New assumed names totaled 163 in the fourth quarter—7.9 percent fewer filings than in December 2014. There were 35 new filings for Southwest Minnesota non-profits in the fourth quarter—15 more than one year earlier.

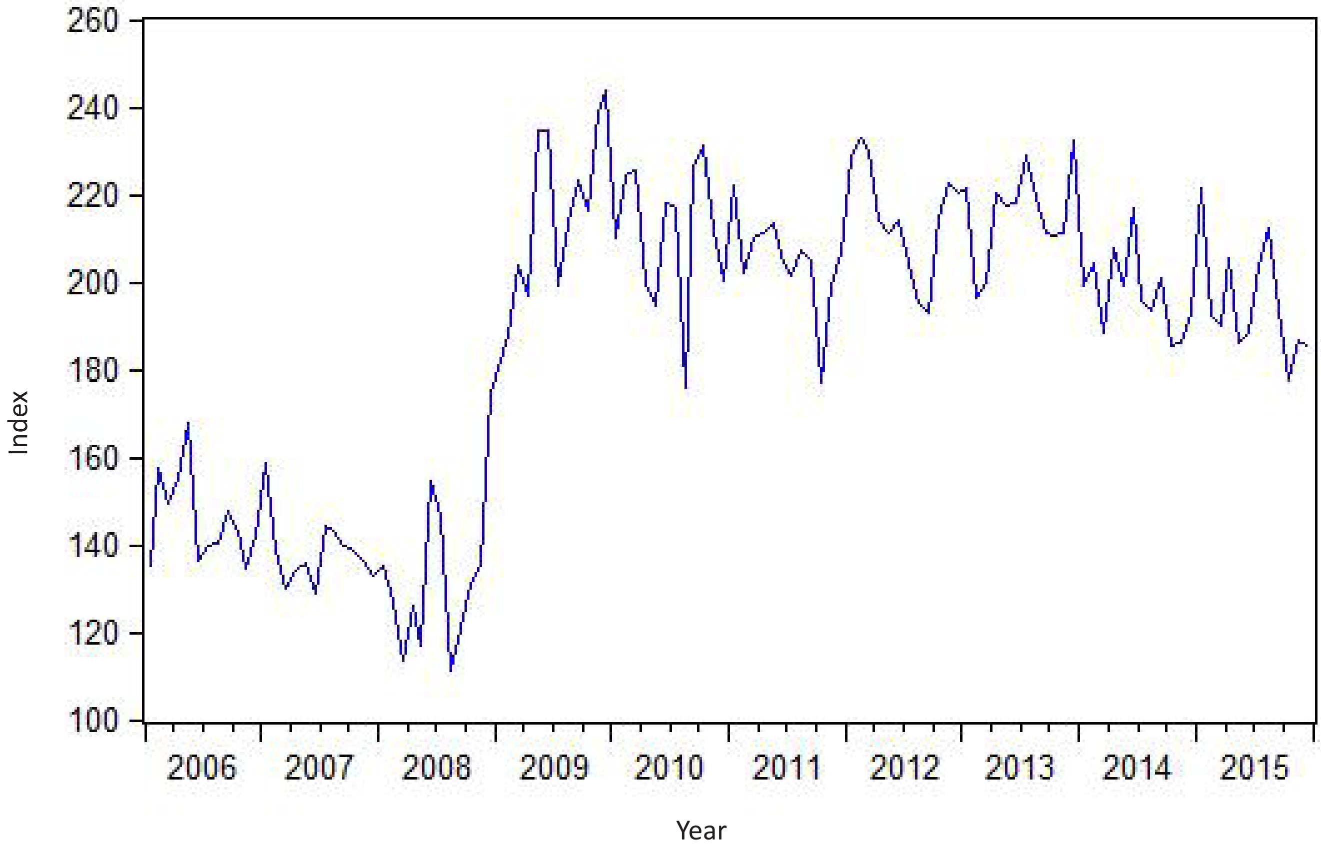
Employment of Southwest Minnesota residents expanded by 3.4 percent over the year ending December 2015. 7,171 more Southwest Minnesota residents have jobs than did one year earlier. The regional unemployment rate was 3.8 percent in December, an increase from a 3.7 percent reading in December 2014. Initial claims for unemployment insurance rose by 228 from year-ago levels in December—a 7.3 percent increase. The Southwest Minnesota labor force rose by 7,774 (a 3.5 percent increase) over the year ending December 2015 and average weekly wages finished the second quarter of 2015 at $703—a 2.6 percent rise from one year earlier. Southwest Minnesota bankruptcies started to inch up in the fourth quarter of 2015.

There was mixed economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota. On the positive side, the workweek expanded, the unemployment rate fell, employment rose, the labor force expanded, and the relative cost of living went down. However, this was offset by a decline in average hourly earnings, a lower value of residential building permits, higher initial jobless claims, and lower new business filings.

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. The LEI rose by 5.11 points in the fourth quarter and is now 4.2 percent lower than one year earlier. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has been highly variable since the end of the Great Recession (for example, the index fell by 15.24 points last quarter) but has slowly drifted down since the end of 2013.

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, 4th quarter 2015	Contribution to LEI, 3rd quarter 2015
Rural Mainstreet Index	-9.34	-2.19
Southwest Minnesota initial claims for unemployment insurance	4.84	-8.97
Southwest Minnesota new filings of incorporation and LLCs	-3.54	3.48
Mankato MSA single-family building permits	13.15	-7.56
TOTAL CHANGE	**5.11**	**-15.24**

The Southwest Minnesota LEI has four components, two of which declined in the fourth quarter. A decrease in new business filings for incorporation and LLC weighed on the index, but a higher number of Mankato/North Mankato Metropolitan Statistical Area (MSA) single family residential building permits had a positive effect on the LEI. A decrease in the number of initial jobless claims also contributed favorably to the index. 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. This index also had an unfavorable impact on the LEI in the most recent quarter.

SCSU Southwest Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Rural Mainstreet Index, Creighton University December	37.0	51.0	-27.5%
Southwest Minnesota initial claims for unemployment insurance December	352	356	-3.8%
Southwest Minnesota new filings of incorporation and LLCs Fourth Quarter	3,366	3,138	7.3%
Mankato MSA single-family building permits December	6	4	50.0%
Southwest Minnesota Leading Economic Indicators Index December (December 1999 = 100)	184.7	192.8	-4.2%

Southwest Minnesota Business Filings

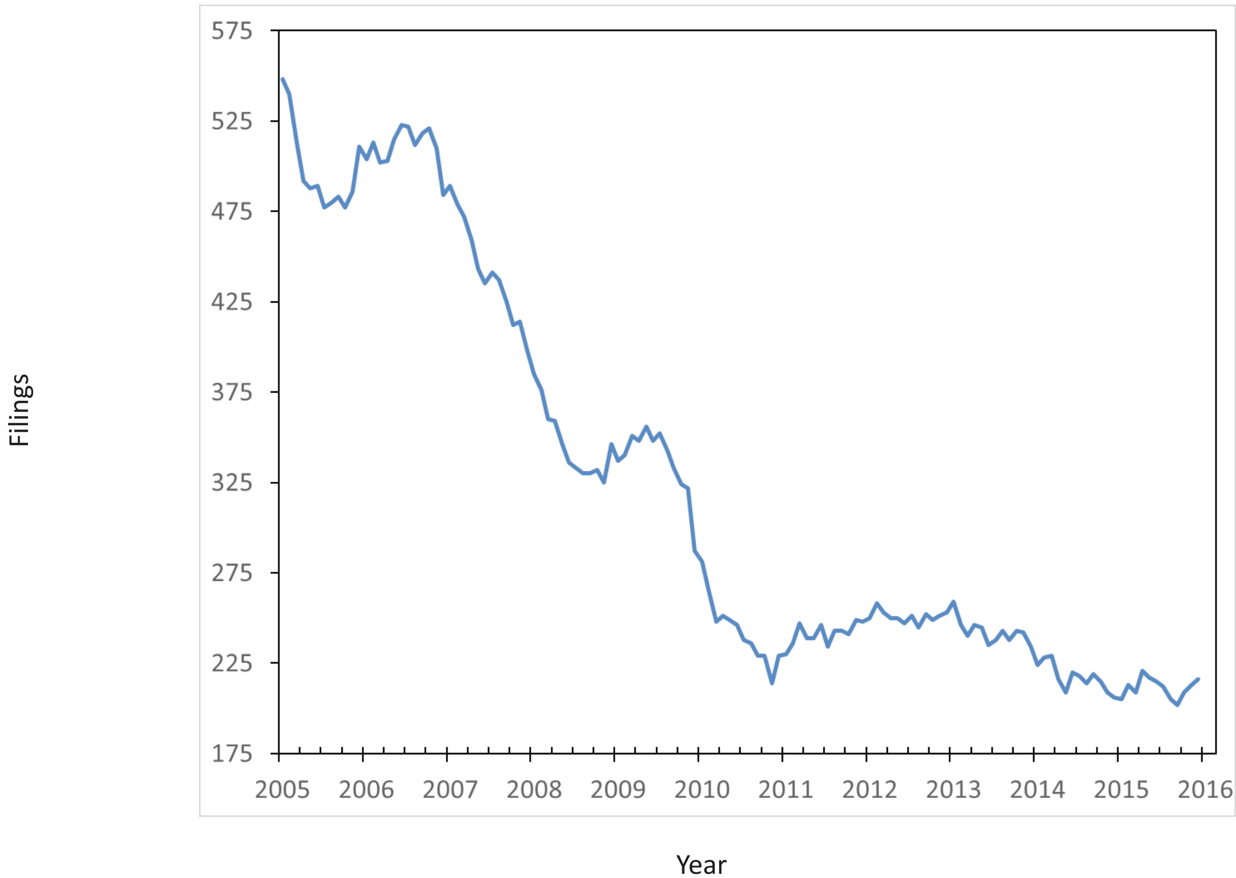
The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings fell by 2.3 percent from year earlier levels in the fourth quarter. After rising since the beginning of 2014, this series now appears to have peaked out in the middle months of 2015. 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	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Southwest Minnesota Total New Business Filings	563	690	646	518	550	-2.3%

New business incorporations trended downward in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend had resumed until the most recent quarter, when new regional incorporations increased by 29.8 percent compared to the same quarter in 2014.

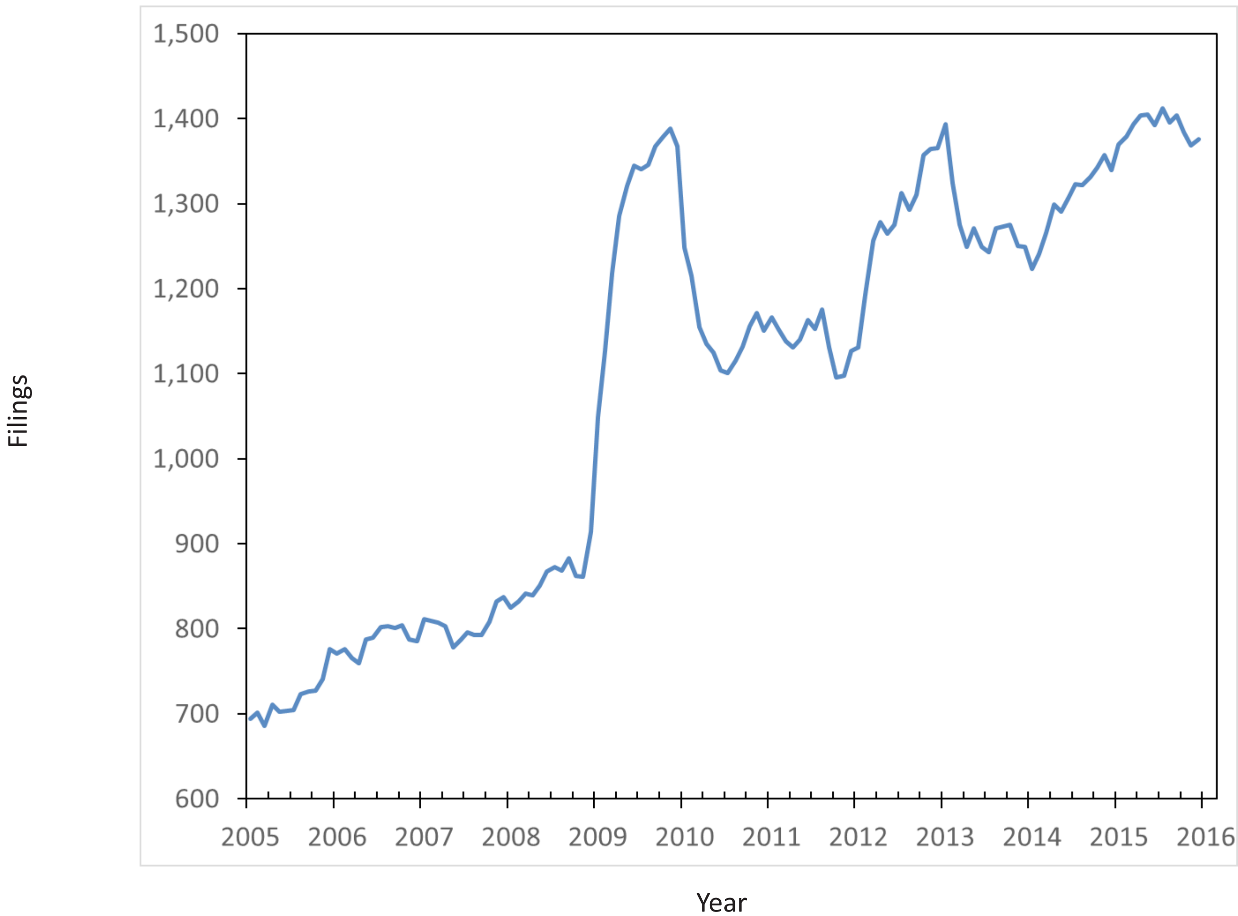
New Incorporations—Southwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Southwest Minnesota New Business Incorporations	47	62	59	34	61	29.8%

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 considerable upward trend in LLCs in Southwest Minnesota since 2005. This trend may have peaked out in the middle months of 2015. New LLC filings fell by 8.8 percent compared to one year earlier in the most recent quarter.

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



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	319	405	359	321	291	-8.8%

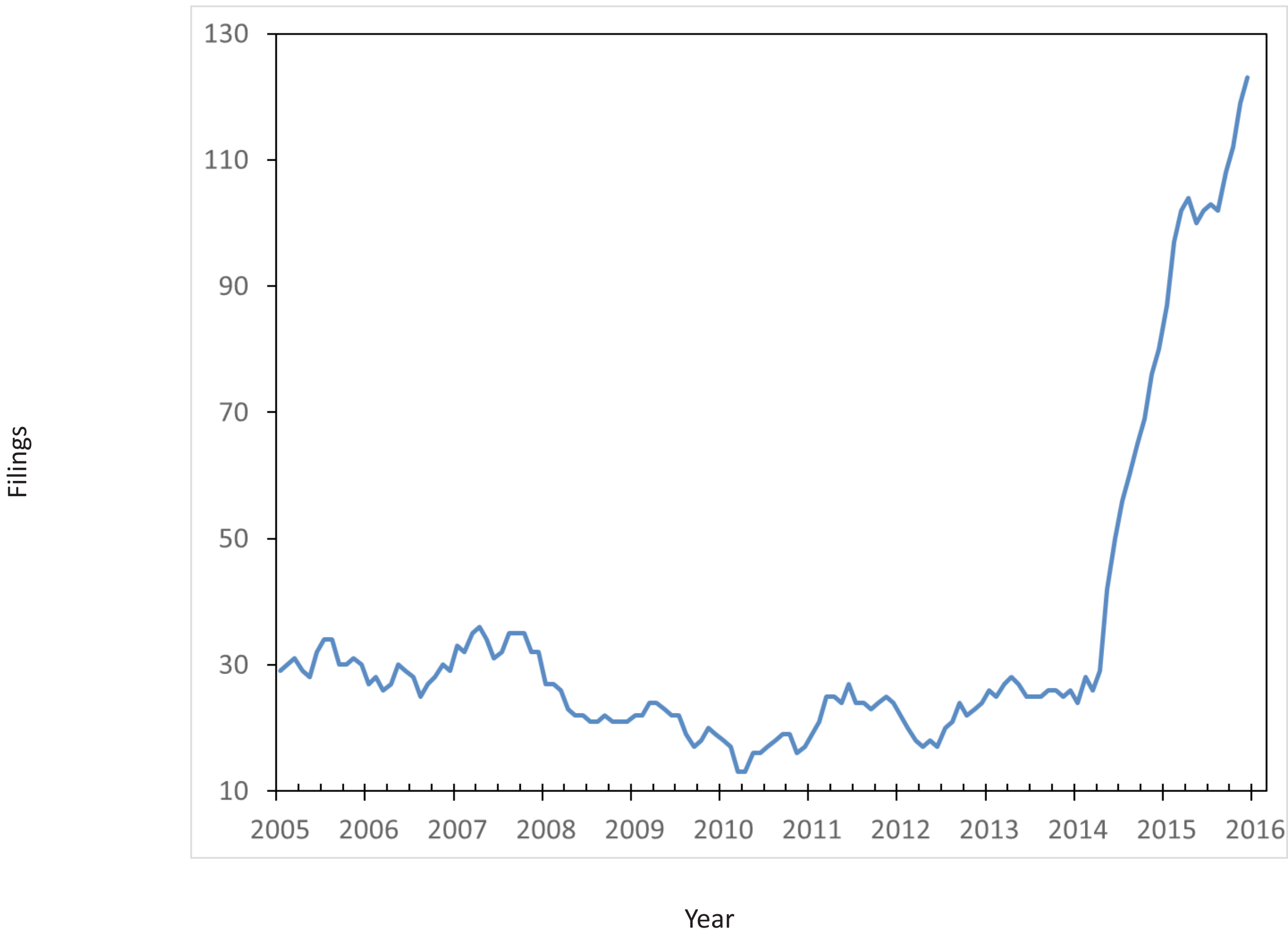
Fourth quarter assumed names fell by 7.9 percent compared to the same period in 2014. As can be seen in the accompanying figure, while this series has been very volatile in recent years, new assumed names are little changed since the beginning of 2013.

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

Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Southwest Minnesota New Assumed Names	177	194	200	132	163	-7.9%

There were 35 newly registered non-profits in the fourth quarter. This is 15 more than one year ago. As can be seen in the graph below, the non-profits series has increased considerably since the beginning of 2014.

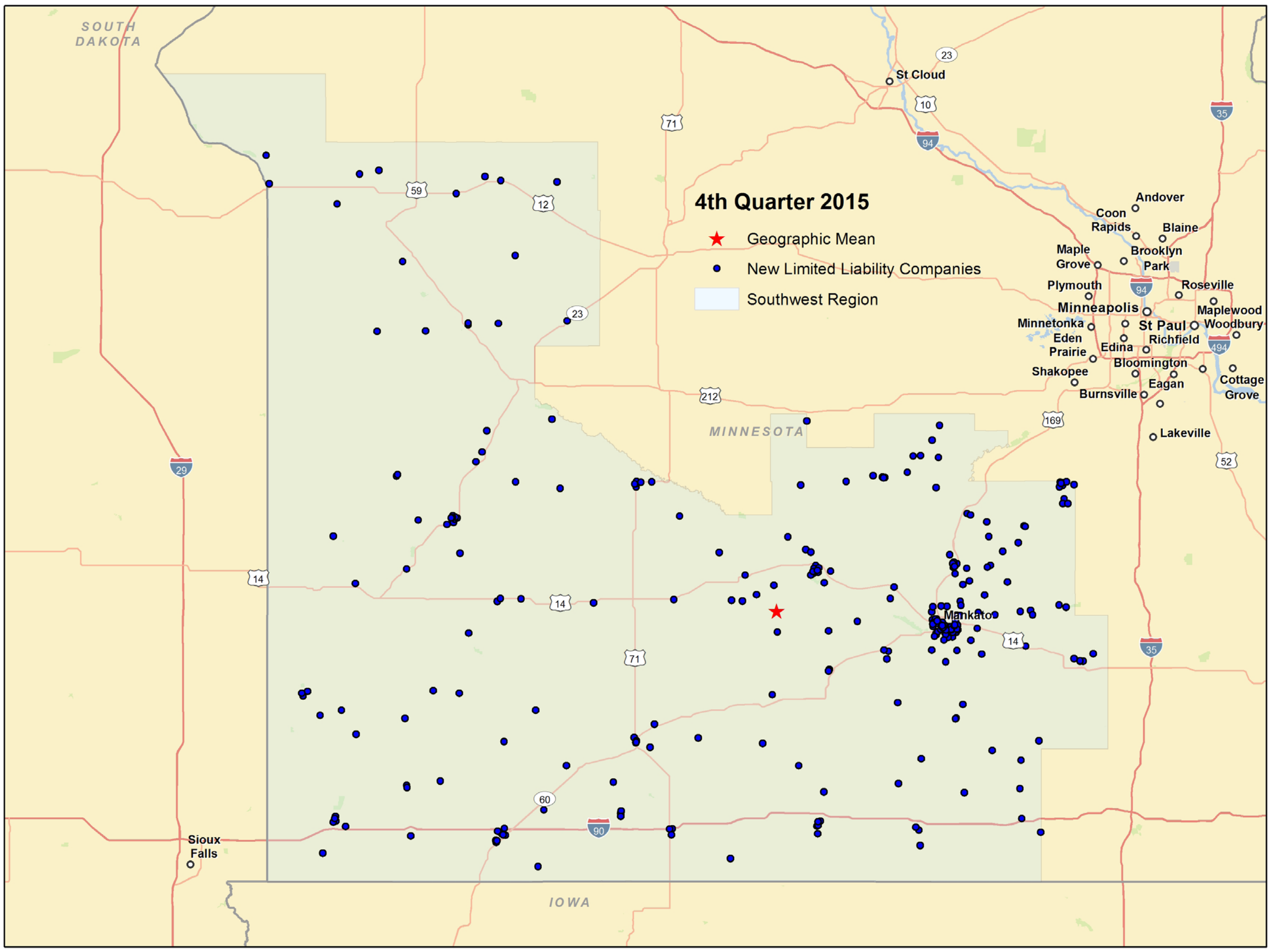
New Non-Profits—Southwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Southwest Minnesota New Non-Profits	20	29	28	31	35	75%

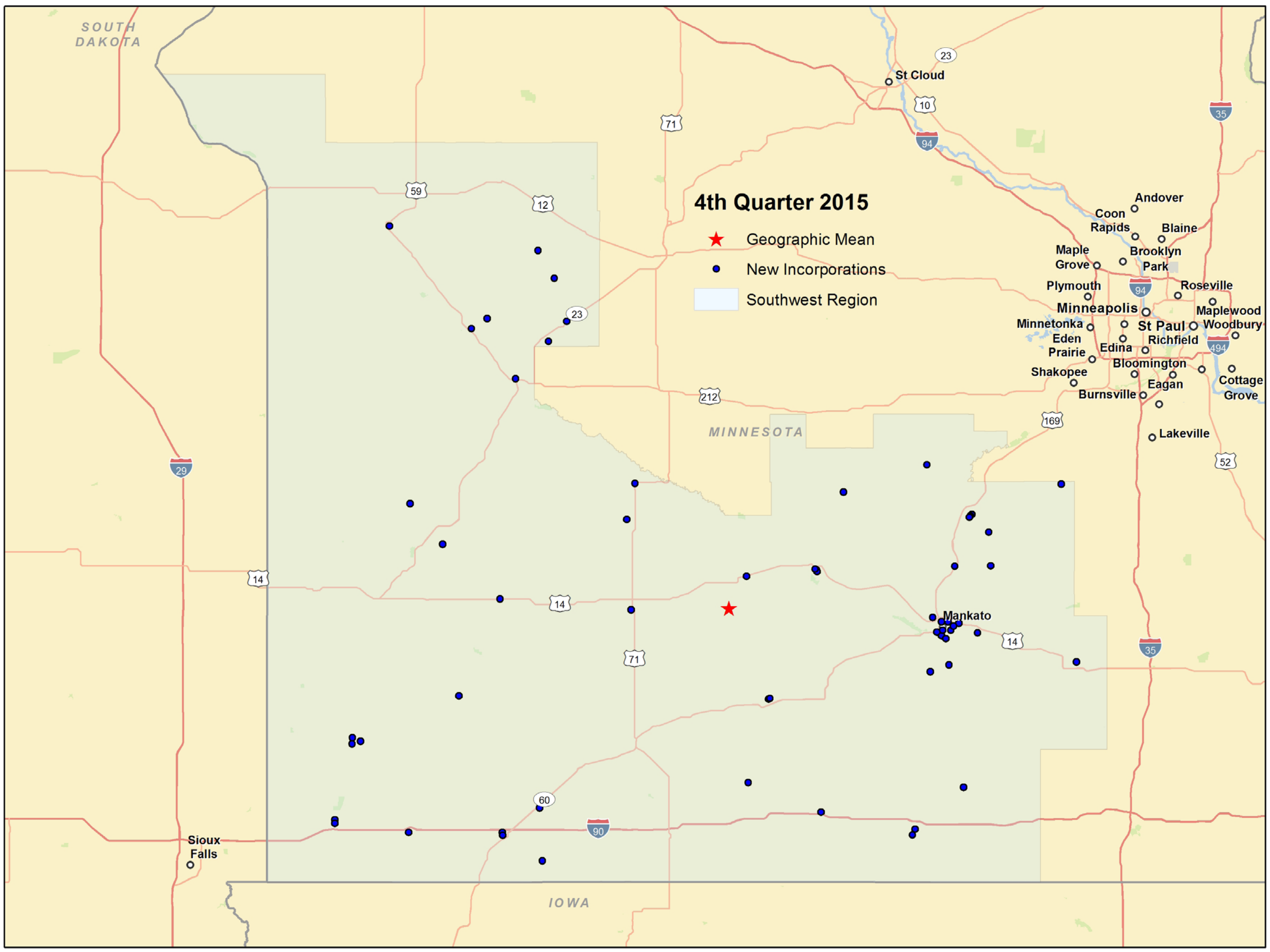
The first map shown below is a visual representation of new limited liability company formation around the Southwest Minnesota planning area in the fourth quarter of 2015. The densest areas of new business formation are in the Mankato metro. There are relatively few other clusters of new LLC formation in the planning area (although New Ulm, New Prague, Marshall, and various towns along I-94 registered multiple new filings). The geographic center of new LLC filings lies west of Mankato. As the map demonstrates, well-traveled roadways are a predictor of new LLC formation in Southwest Minnesota.

Southwest Minnesota Planning Area--New Limited Liability Company Formation--Quarter 4: 2015



The second map shows new incorporations in the Southwest Minnesota planning area. There are considerably fewer new incorporations than LLCs, and Mankato is the only area that had at least ten new incorporation filings. The geographic mean is largely the same in the two maps. The ratio of new LLCs to incorporations was 4.8 in Southwest Minnesota in the fourth quarter. This is higher than the Twin Cities planning area ratio (which was 4.05), but is much lower than the ratio of new LLCs to new incorporations in the Southeast Minnesota planning area (where it was a statewide high of 6.9).

Southwest Minnesota Planning Area--New Incorporations--
Quarter 4: 2015

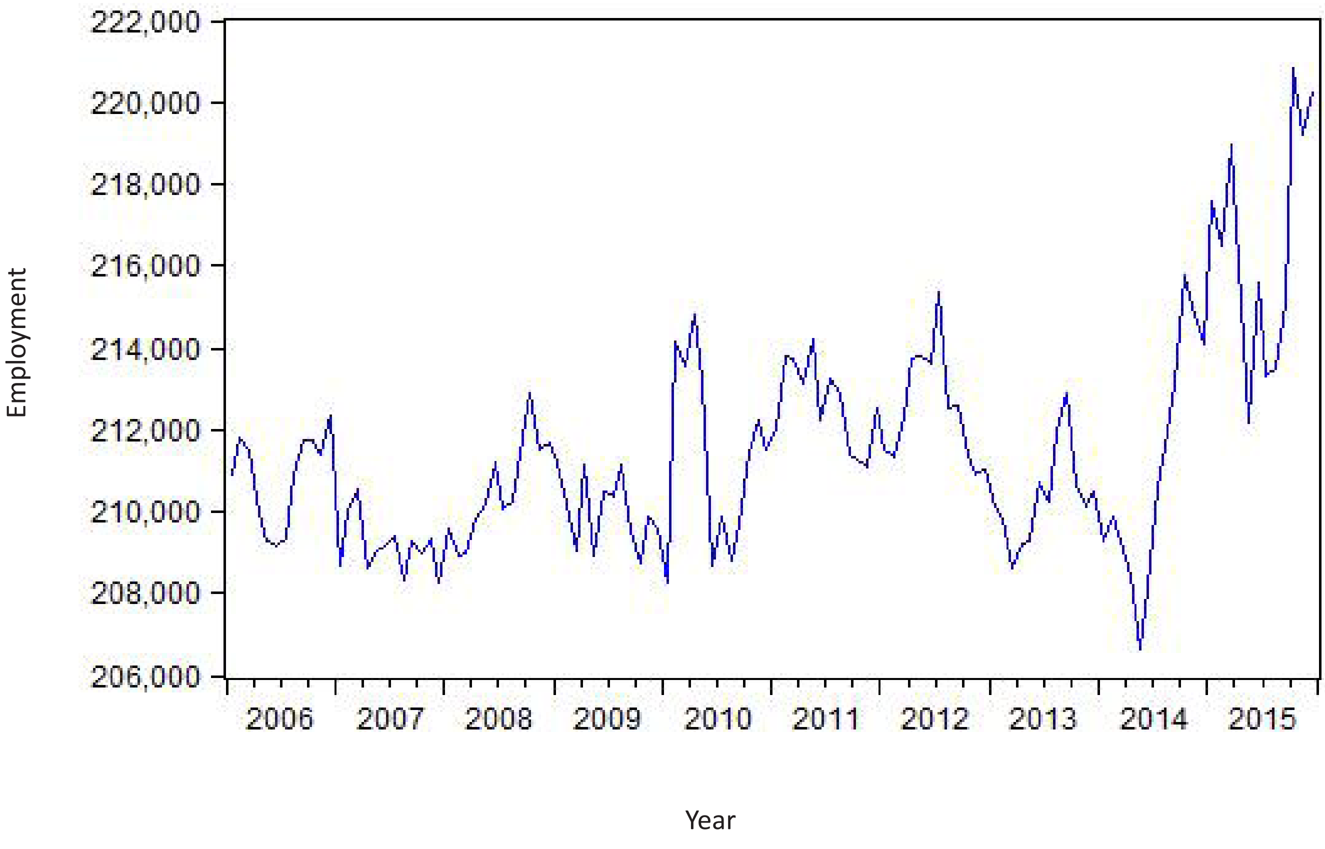


Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 3.4 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average had declined through the first half of 2015, but has since recovered. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in December 2015 (see accompanying table) was 220,540, an increase of 7,171 over the prior year.

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



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Employment (Not seasonally adjusted)	213,369	214,922	213,697	213,666	222,110	220,309	220,540

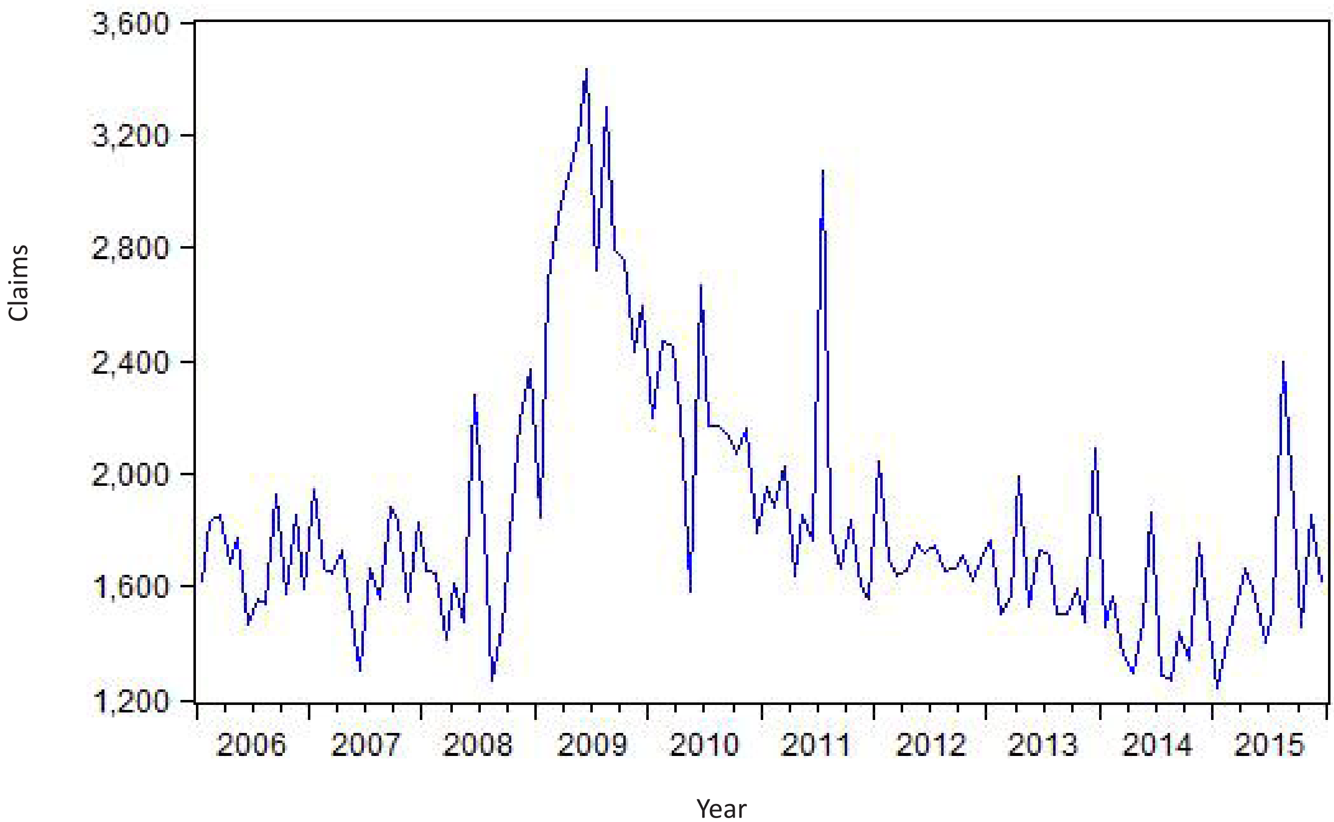
The seasonally adjusted unemployment rate in Southwest Minnesota may have bottomed out in the third quarter of 2015. Both the seasonally and non-seasonally adjusted unemployment rates rose in the fourth quarter. The non-seasonally adjusted measure now stands at 3.8 percent — an increase from the 3.7 percent rate recorded in December 2014. Note that an increase in the planning area labor force may help explain this rise in the regional unemployment rate.

Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area

Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Unemployment rate (not seasonally adjusted)	3.7%	3.7%	3.3%	3.0%	2.9%	2.8%	3.8%

New claims for unemployment insurance in December 2015 were 7.3 percent higher than one year earlier. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series drifted upward in 2015.

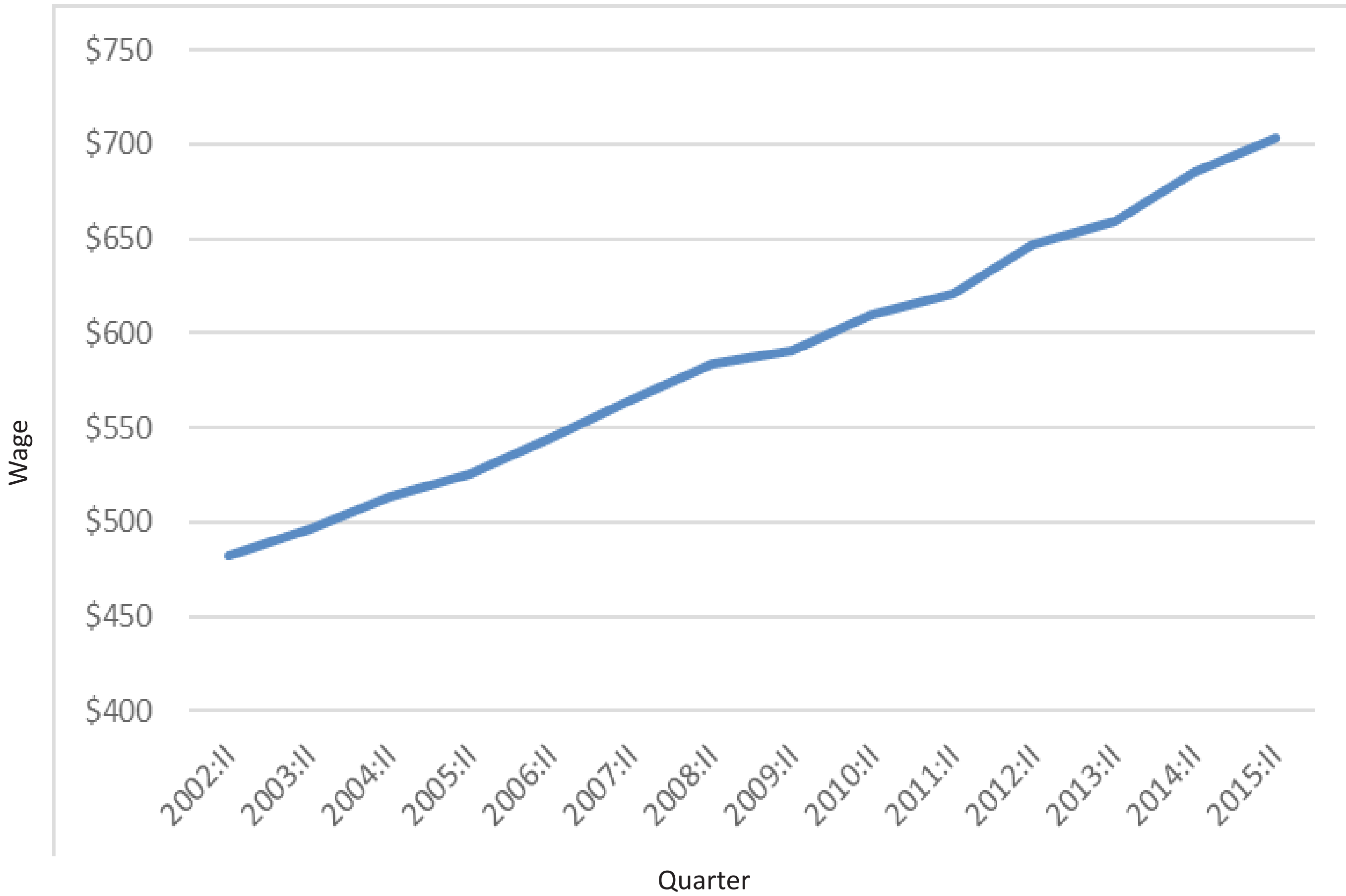
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Initial claims (Not seasonally adjusted)	3,138	1,100	1,253	1,413	1,229	2,830	3,366

Southwest Minnesota's average weekly wages rose in the second quarter (this is the most recently available data). The $703 weekly wage rate (an increase of 2.6 percent from one year earlier) is only higher than the Northwest Minnesota planning area's wages (where average weekly rates are $680). The other four planning areas have higher average wages. At $1,098, Twin Cities' average weekly wages lead the state (and are considerably higher than all other planning areas).

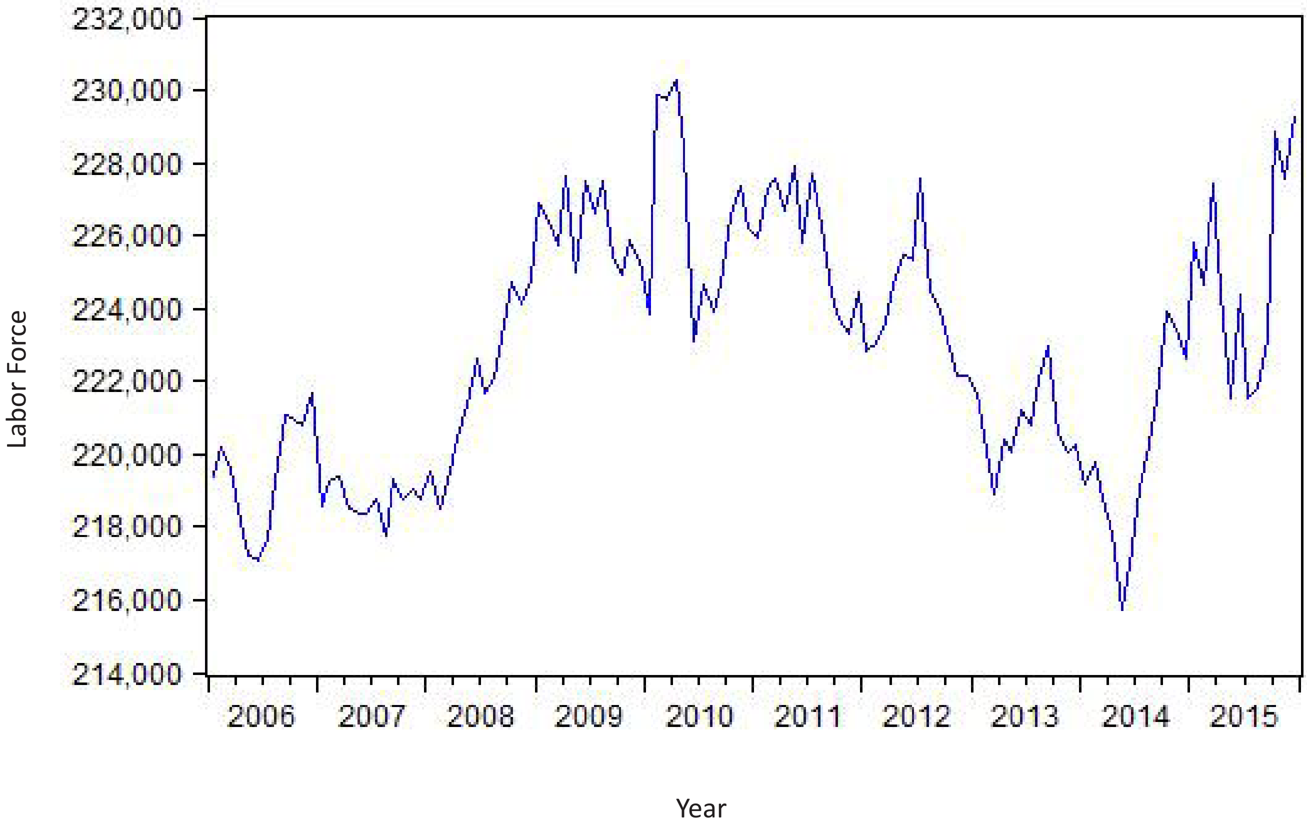
Average Weekly Wages--Southwest Minnesota Planning Area



Quarter	2010:II	2011:II	2012:II	2013:II	2014:II	2015:II
Average Weekly Wage	$610	$621	$647	$659	$685	$703

The Southwest Minnesota labor force expanded by 7,774–a 3.5 percent annual increase—over the year ending December 2015. As can be seen in the accompanying figure, the planning area's labor force has grown over the past several months and its moving average has now returned to a level that was last seen in 2010

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

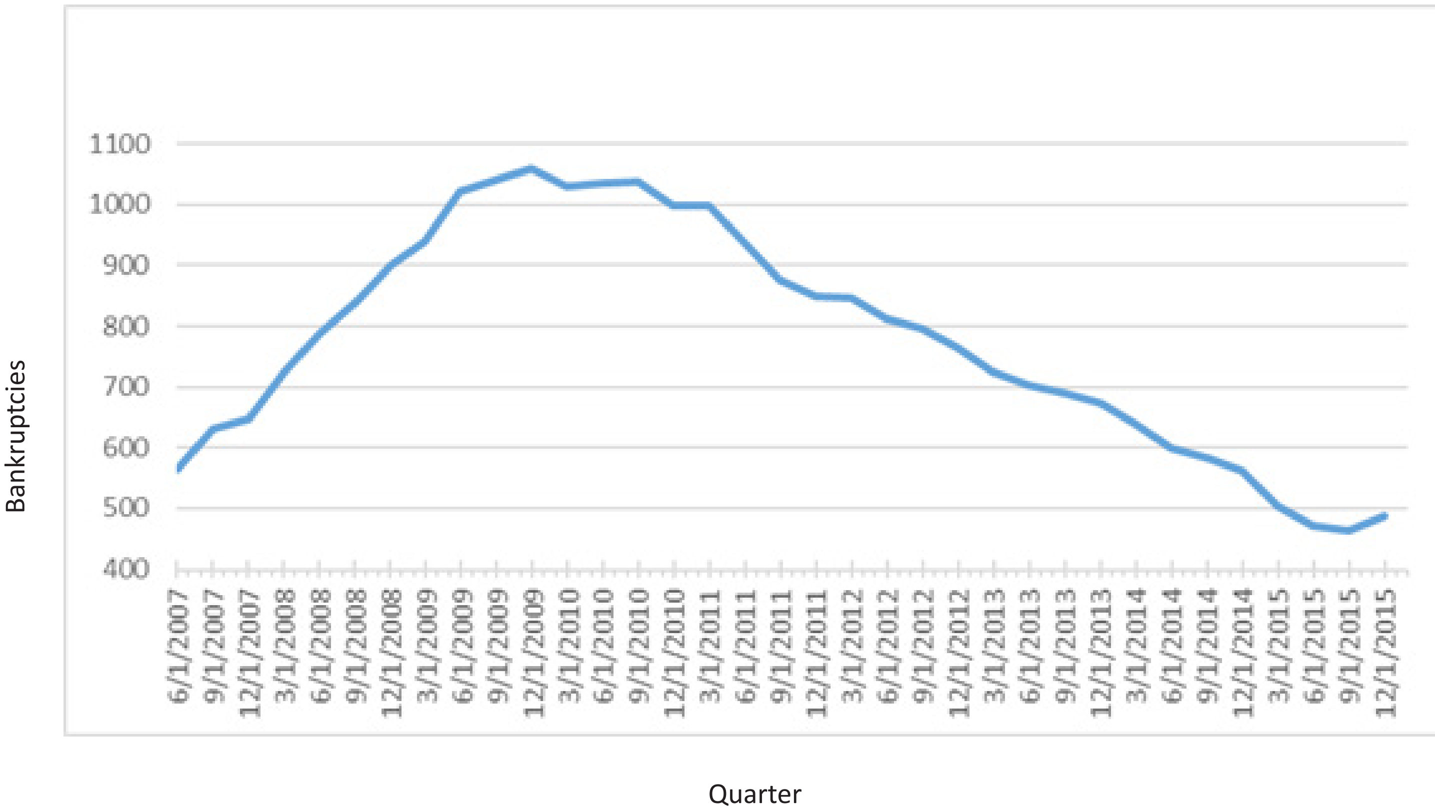


Year (December)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	223,007	221,867	219,971	218,618	221,480	229,254

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 last quarter. With 486 bankruptcies over the past twelve months, the level of bankruptcies in Southwest Minnesota now appear to have inched up in the fourth quarter of 2015. However, the level of annual bankruputcies in the fourth quarter of 2015 is still well below that which was observed the prior year.

Southwest Minnesota Bankruptcies (12-month moving total)



Year (Fourth Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	999	849	765	674	561	486

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	December 2015 (m)	56,463	56,387	0.2% ↑	0.7%
Goods-Producing Employment	December 2015 (m)	10,116	10,093	0.2% ↑	-0.5%
Average Weekly Work Hours - Private Sector	December 2015 (m)	30.7	30.1	2.0% ↑	32.6 (since 2008)
Average Earnings Per Hour - Private Sector	December 2015 (m)	$22.65	$23.05	-1.7% ↓	0.9% (since 2008)
Unemployment Rate	December 2015 (m)	2.5%	2.6%	NA ↓	3.7%
Labor Force	December 2015 (m)	59,653	59,014	1.1% ↑	0.7%
Initial Jobless Claims	December 2015 (m)	636	472	34.7% ↑	NA
Business Formation					
Total New Business Filings	Fourth Quarter 2015	162	171	-5.3% ↓	145 (since 2000)
New Business Incorporations	Fourth Quarter 2015	14	12	16.7% ↑	25 (since 2000)
New Limited Liability Companies	Fourth Quarter 2015	92	96	-4.2% ↓	68 (since 2000)
New Assumed Names	Fourth Quarter 2015	46	58	-20.7% ↓	46 (since 2000)
New Non-profits	Fourth Quarter 2015	10	5	100.0% ↑	6 (since 2000)
Mankato / North Mankato Residential Building Permit Valuation, in thousands	December 2015 (m)	1,728	11,609	-85.1% ↓	NA
Mankato / North Mankato Cost of Living Index	Annual Average 2015	94.5	95.1	-0.6% ↓	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 employment increased slightly over the year ending December 2015. The unemployment rate fell, the length of the workweek rose, and the labor force expanded. New business filings fell (with the exception of new incorporations and non-profits). Initial jobless claims jumped 34.7 percent from December 2014 and average hourly earnings fell. The relative cost of living in Mankato declined over the year and the value of residential building permits decreased by 85 percent over the same period last year.

State and National Indicators

MINNESOTA Indicators	Dec 2015	Sep 2015	Dec 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,873,700	2,855,200	2,831,400	0.6%	1.5%
Average weekly hours worked, private sector	33.7	33.9	33.9	-0.6%	-0.6%
Unemployment rate, seasonally adjusted	3.5%	3.8%	3.7%	NA	NA
Earnings per hour, private sector	$26.49	$26.00	$25.82	1.9%	2.6%
Philadelphia Fed Coincident Indicator, MN	176.47	175.40	172.34	0.6%	2.4%
Philadelphia Fed Leading Indicator, MN	1.53	1.30	1.84	17.7%	-16.8%
Minnesota Business Conditions Index	39.4	53.0	61.4	-25.7%	-35.8%
Price of milk received by farmers (cwt)	$17.00	$17.80	$20.50	-4.5%	-17.1%
Enplanements, MSP airport, thousands	1,429.0	1,506.7	1,387.6	-5.2%	3.0%

NATIONAL Indicators	Dec 2015	Sep 2015	Dec 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	143,242	142,391	140,592	0.6%	1.9%
Industrial production, index, SA	106.0	107.6	107.9	-1.5%	-1.8%
Real retail sales, SA	188,393	188,097	185,548	0.2%	1.5%
Real personal Income less transfers	11,782.3	11,690.1	11,396.9	0.8%	3.4%
Real personal consumption expenditures	11,344.7	11,292.7	11,061.0	0.5%	2.6%
Unemployment rate, SA	5.0%	5.1%	5.6%	NA	NA
New building permits, SA, thousands	17,620	18,482	15,098	-4.7%	16.7%
Standard & Poor's 500 stock price index	2,054.1	1,944.4	2,054.3	5.6%	0%
Oil, price per barrel in Cushing, OK	$37.19	$45.48	$59.29	-18.2%	-37.3%

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate was lower, but average weekly hours worked in the private sector declined. Two indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy. Milk prices were 35.8 percent lower than one year ago in December. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 3 percent over the last twelve months.

On balance, the national economic indicators reported in the table suggest improved economic activity in recent months. While industrial production was lower and stock prices flat, most of the indicators showed strength. Employment, retail sales, consumer expenditures, and income all experienced growth over the recent quarter and the national unemployment rate fell. Oil prices continued to decline. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. New building permits were much stronger than one year ago as residential construction continues to recover from historically low levels during the Great Recession.

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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Federal Reserve Board of Governors: Industrial Production.

Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.

Metropolitan Airports Commission: MSP Enplanements.

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: Bankruptcies

U.S. Bureau of Census: 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.