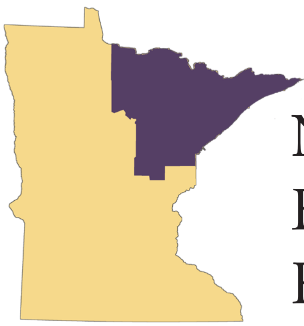

Northeast Minnesota
Economic and Business Conditions Report
Fourth Quarter 2015

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

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Northeast Minnesota economic performance is expected to weaken over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). Four of the five components of the LEI decreased in the fourth quarter as the overall index followed up a slight negative reading in the third quarter with a more significant decline in the final three months of 2015. A jump in initial jobless claims in the region and a large decline in filings for new business incorporation weighed on the fourth quarter LEI. In addition, weakness in a general measure of state business conditions and a decline in a supply managers' survey index also served as a drag on the leading index.

There were 487 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the fourth quarter of 2015 — representing a 1.9 percent increase from one year earlier. Forty-seven new regional business incorporations were filed in the fourth quarter—a 31.9 percent reduction from 2014. New limited liability company (LLC) filings in Northeast Minnesota rose 2.7 percent to a level of 266. New assumed names totaled 145 in the fourth quarter—a 13.3 percent increase from the fourth quarter of 2014. There were 29 new filings for Northeast Minnesota non-profits in the 2015 fourth quarter—seven more than one year earlier.

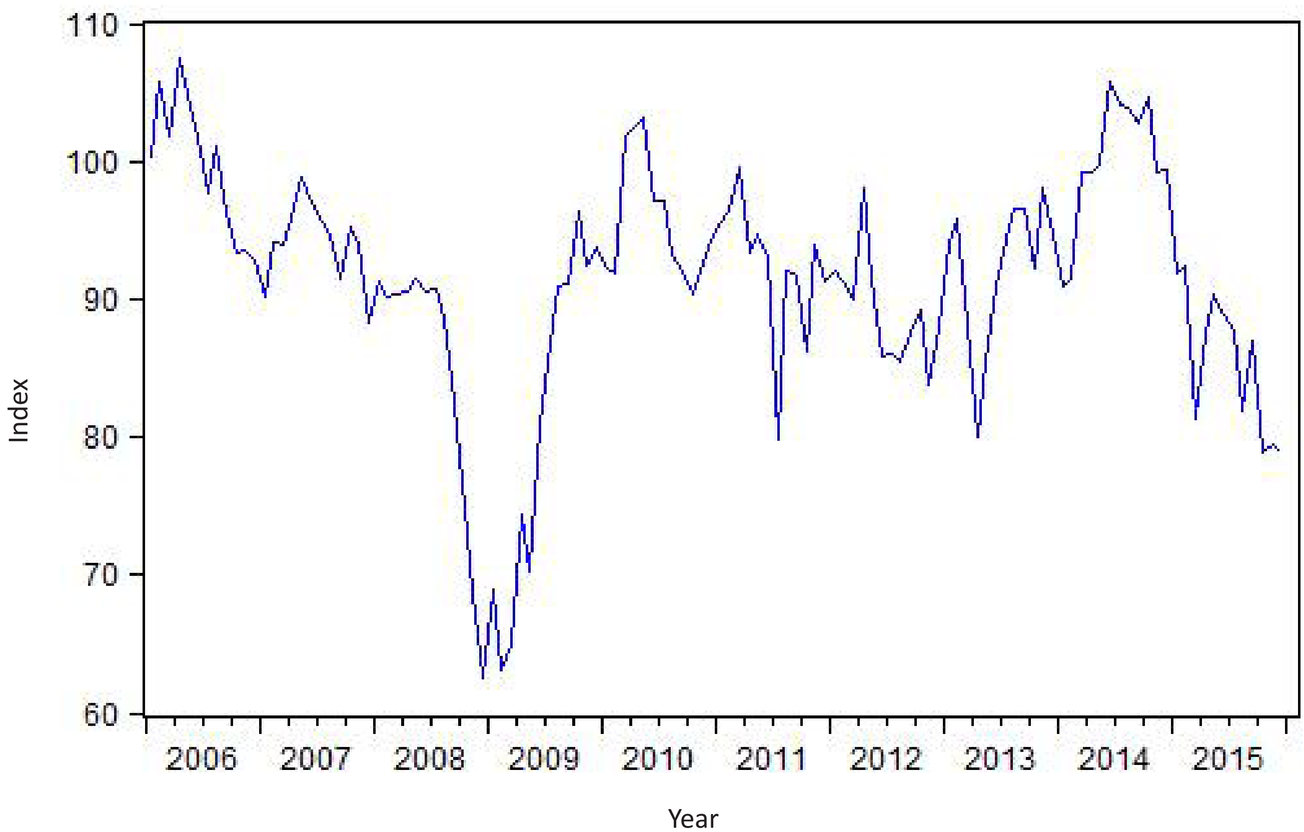
Northeast Minnesota employment was 1.1 percent higher than year earlier levels in December. The regional unemployment rate swelled to 6.2 percent (it was 4.7 percent in December 2014) as the labor force rose by 2.8 percent. The regional labor force is now 4,495 higher than it was at the end of 2014. December 2015 initial claims for unemployment insurance were 568 higher than the year earlier (a 24.3 percent increase). Average weekly wages rose 3.3 percent to a level of $761 in the second quarter of 2014. After trending downward for nearly 5 years, Northeast Minnesota bankruptcies appear to have leveled out.

Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was mixed. Northeast Minnesota's largest market experienced a 0.5 percent rise in overall employment over the year ending December 2015, and the key education/health sector added jobs. The length of the workweek also rose. However, average hourly earnings fell, the area unemployment rate rose and the value of residential building permits fell. The MSA labor force increased, but manufacturing employment was flat.

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. After a 1.81 point decline in the third quarter, the LEI fell a more substantial 9.44 points in the final quarter of 2015. The LEI is now 20.5 percent below its December 2014 level. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility since the end of the Great Recession, but has trended downward since mid-2014.

The SCSU Northeast Minnesota Leading Economic Indicators Index



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2015	Contribution to LEI, 3rd quarter 2015
Minnesota Business Conditions Index	-1.97	-0.17
Northeast Minnesota initial claims for unemployment insurance	-4.39	3.85
Northeast Minnesota new filings of incorporation	-1.83	0.09
Duluth-Superior MSA residential building permits	0.80	-2.38
Institute of Supply Management Purchasing Managers Index for manufacturing	-2.05	-3.20
TOTAL CHANGE	**-9.44**	**-1.81**

Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This indicator decreased in the fourth quarter. A large decline in new filings for business incorporation and a rise in initial unemployment claims also pulled down the LEI. Recent weakness in the Minnesota Business Conditions Index (which is used an indicator of general statewide business conditions) also made a negative contribution to the Northeast Minnesota leading index.

SCSU Northeast Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index December	48.2	61.4	-21.5%
Northeast Minnesota initial claims for unemployment insurance December	2,905	2,337	24.3%
Northeast Minnesota new filings of incorporation Fourth Quarter	47	69	-31.9%
Duluth-Superior MSA single-family building permits December	2	6	-66.7%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, December	48.2	61.4	-21.5%
Northeast Minnesota Leading Economic Indicators Index December (December 1999 = 100)	79.0	99.4	-20.5%

Northeast Minnesota Business Filings

Total new business filings rose by 1.9 percent compared to the fourth quarter of 2014. The 12-month moving total of this series had trended upward since the end of 2011, but it has leveled out in recent quarters. After a precipitous drop in the pace of new business formation during the Great Recession, new business filings in Northeast Minnesota still have not returned to the pace observed ten years ago.

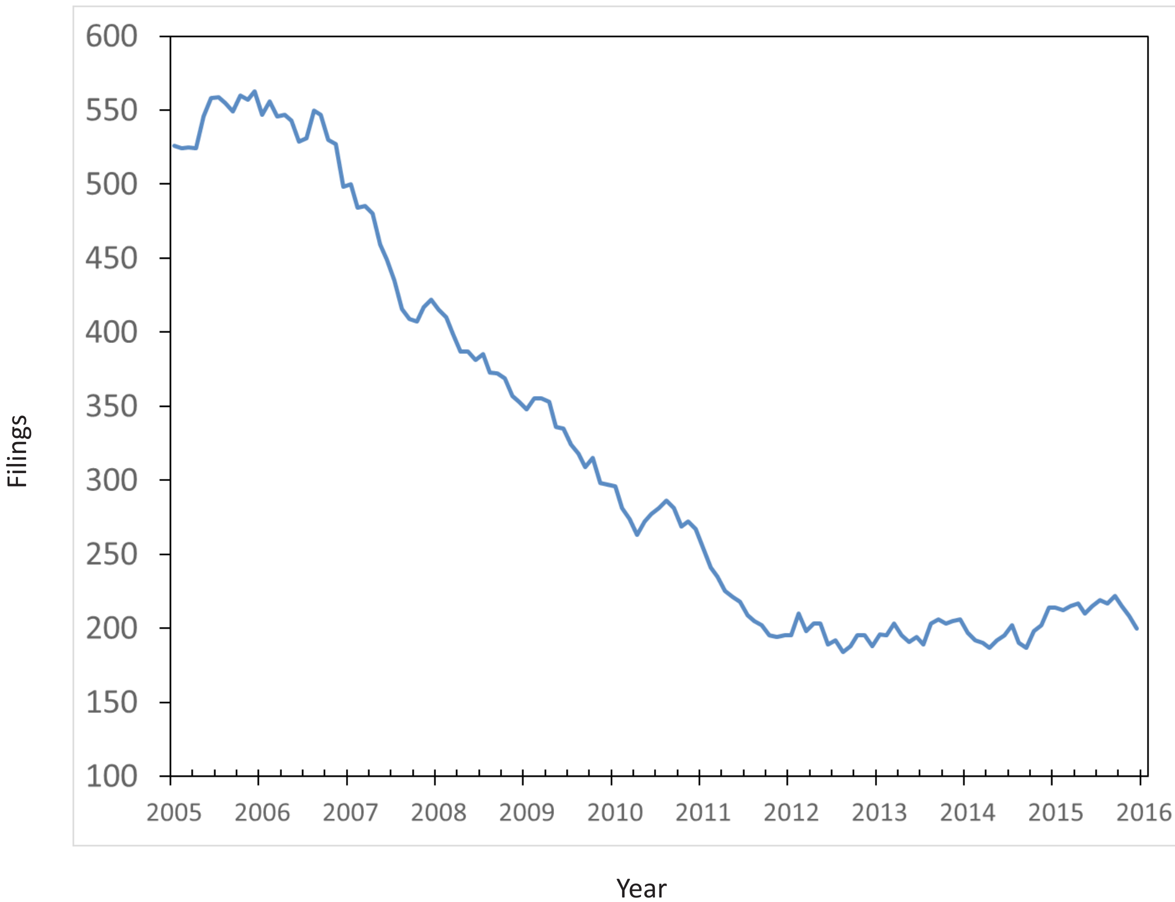
Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data.

Total New Business Filings—Northeast 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
Northeast Minnesota Total New Business Filings	478	547	559	467	487	1.9%

Compared to one year earlier, new filings for business incorporation plummeted in the fourth quarter. As can be seen in the accompanying graph, the 12 month moving total of Northeast Minnesota new business incorporations has been essentially unchanged since the beginning of 2012.

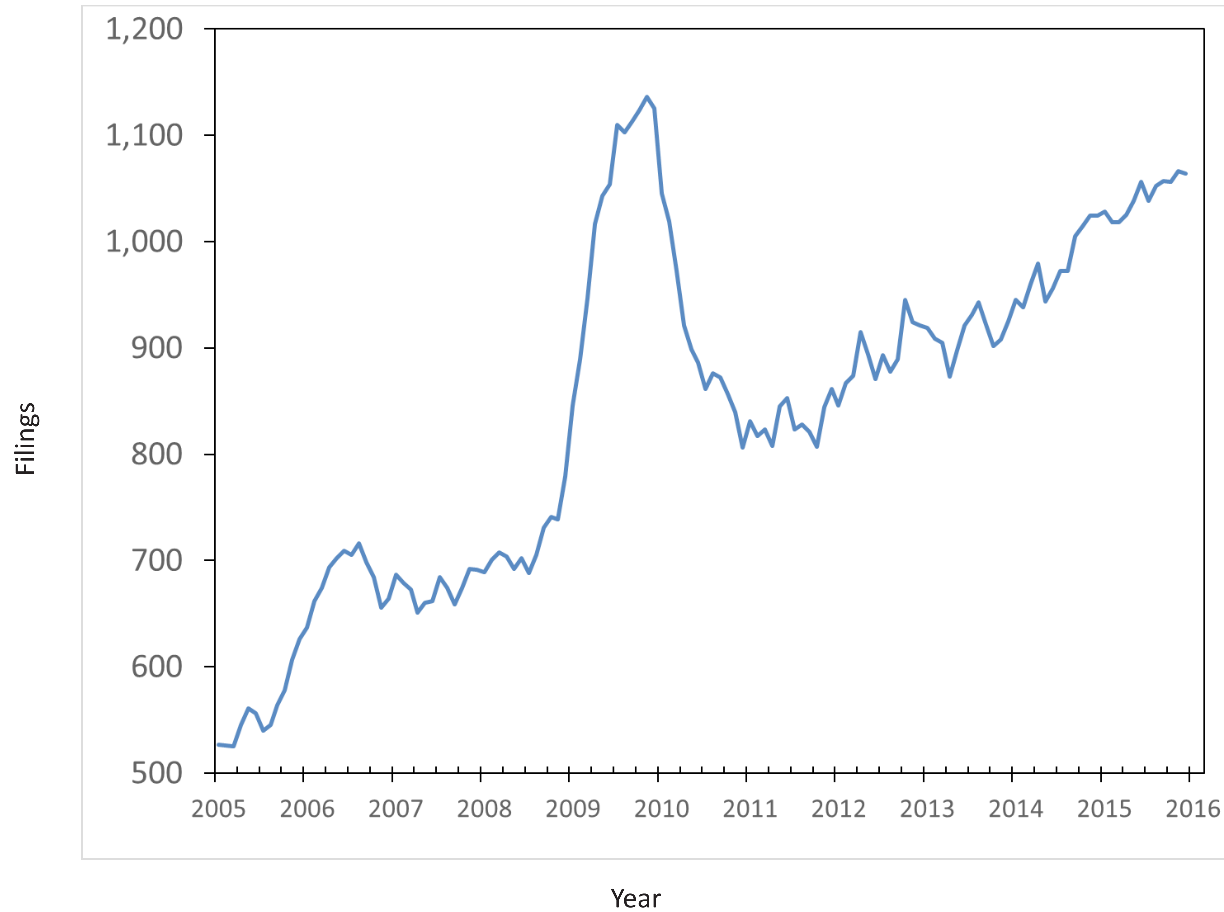
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Northeast Minnesota New Business Incorporations	69	55	52	46	47	-31.9%

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 fourth quarter as new LLC filings grew 2.7 percent compared to the same period one year earlier. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) 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.

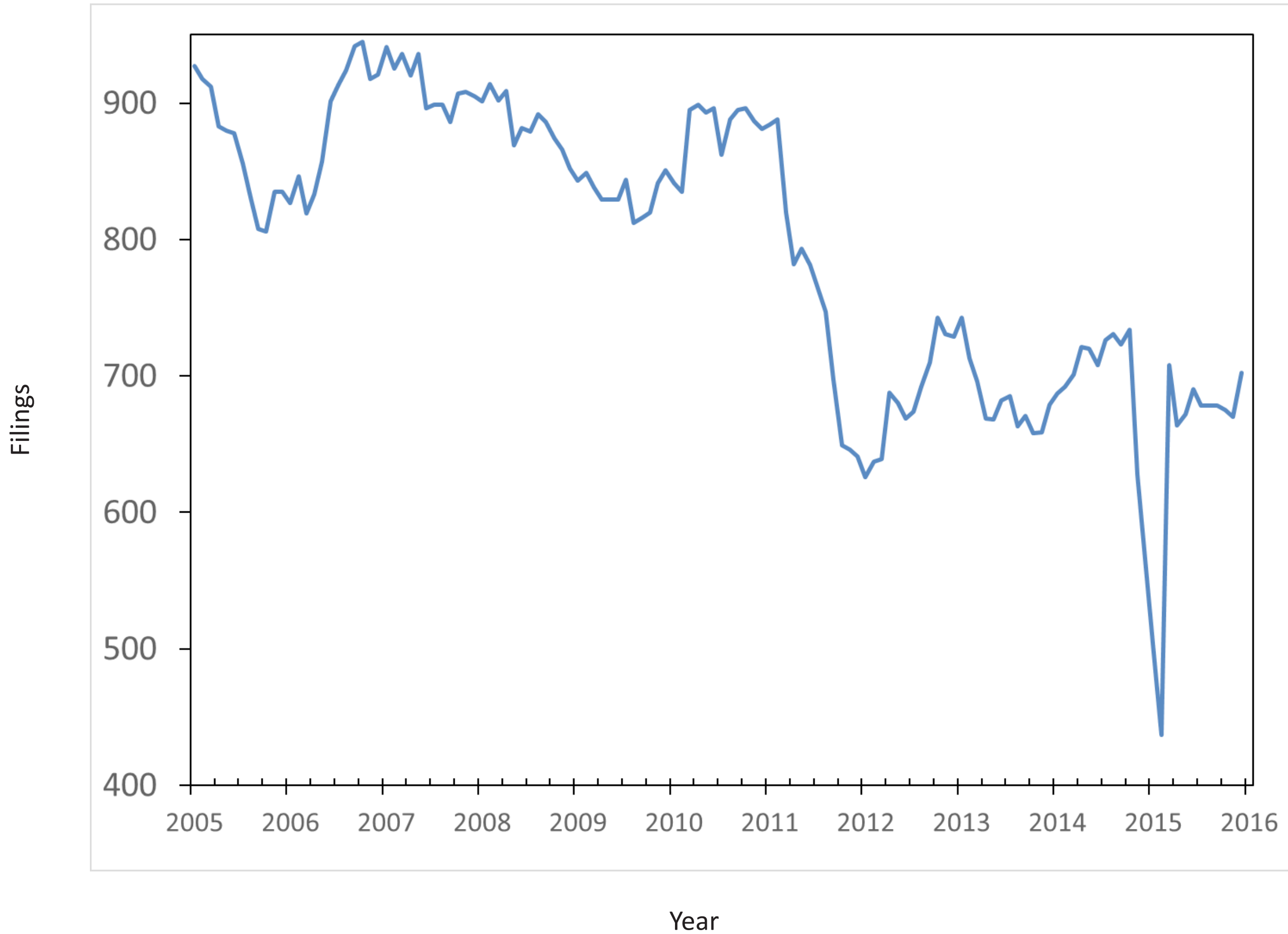
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	259	260	293	245	266	2.7%

Compared to the fourth quarter of 2014, assumed names increased by 13.3 percent in Northeast Minnesota. After leveling out from 2011 to 2014, new assumed names filings in Northeast Minnesota declined precipitously in 2014, but has since returned to its 2011-14 trend. However, the series still remains well below its level of the mid-2000s.

New Assumed Names—Northeast 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
Northeast Minnesota New Assumed Names	128	106	192	159	145	13.3%

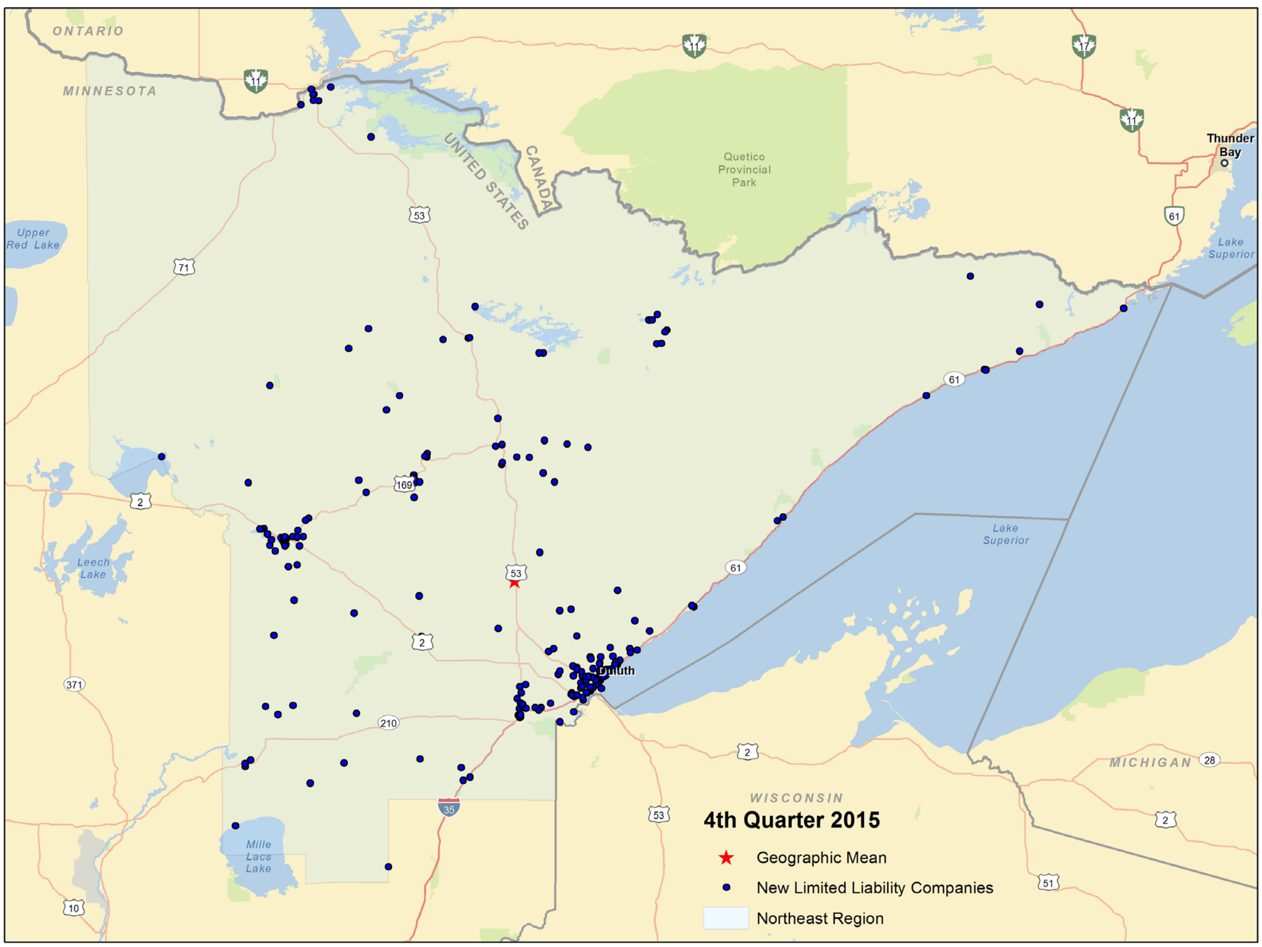
There were 29 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the fourth quarter of 2015, seven more than were recorded one year ago.

New Non-Profits—Northeast 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
Northeast Minnesota New Non-Profits	22	26	22	17	29	31.8%

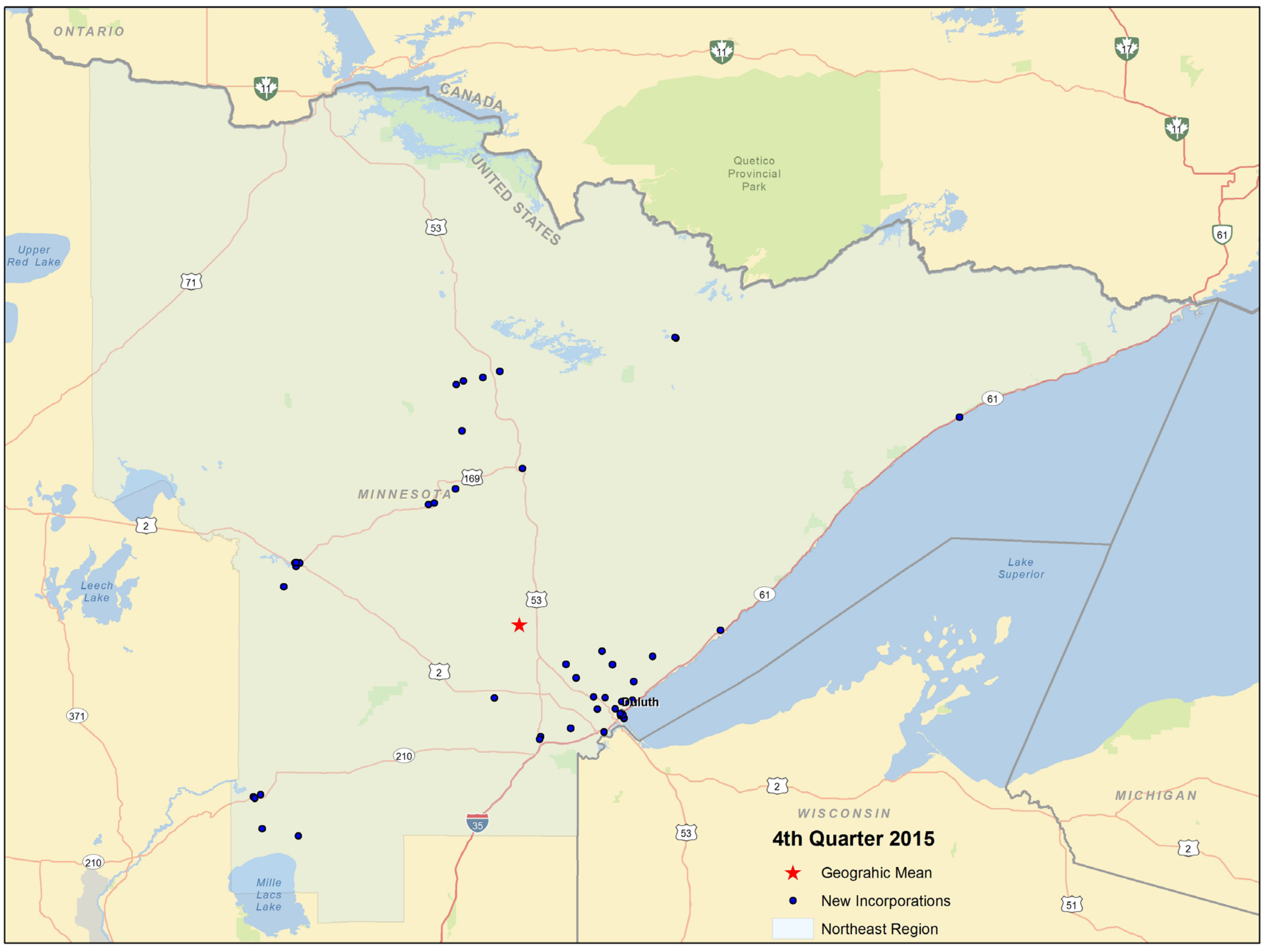
The first map shown below is a visual representation of new limited liability company formation around the Northeast Minnesota planning area in the fourth quarter of 2015. The densest areas of new business formation are in the Duluth metro. Grand Rapids (and to a lesser extent International Falls, Hibbing, Virginia, and Ely) also had clusters of new LLC formation in the fourth quarter. The geographic center of new LLC filings lies along US-53 north of Duluth, approximately midway between Virginia and Duluth. Well-traveled roadways are also a predictor of new LLC formation in Northeast Minnesota.

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



The second map shows new incorporations in the Northeast Minnesota planning area. While there are considerably fewer new incorporations than LLCs, the distribution of newly incorporated businesses is somewhat similar to new LLCs. However, the share of new incorporations in Aitkin and Cook is larger than it is for LLCs. International Falls, Ely, and Virginia experienced relatively few new incorporations. The ratio of new LLCs to incorporations was 5.7 in Northeast Minnesota in the fourth quarter. This is the second highest ratio of Minnesota's six planning areas. By comparison, the ratio of new LLCs to corporations was 4.1 in the Twin Cities planning area and 6.9 in Southeast Minnesota.

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

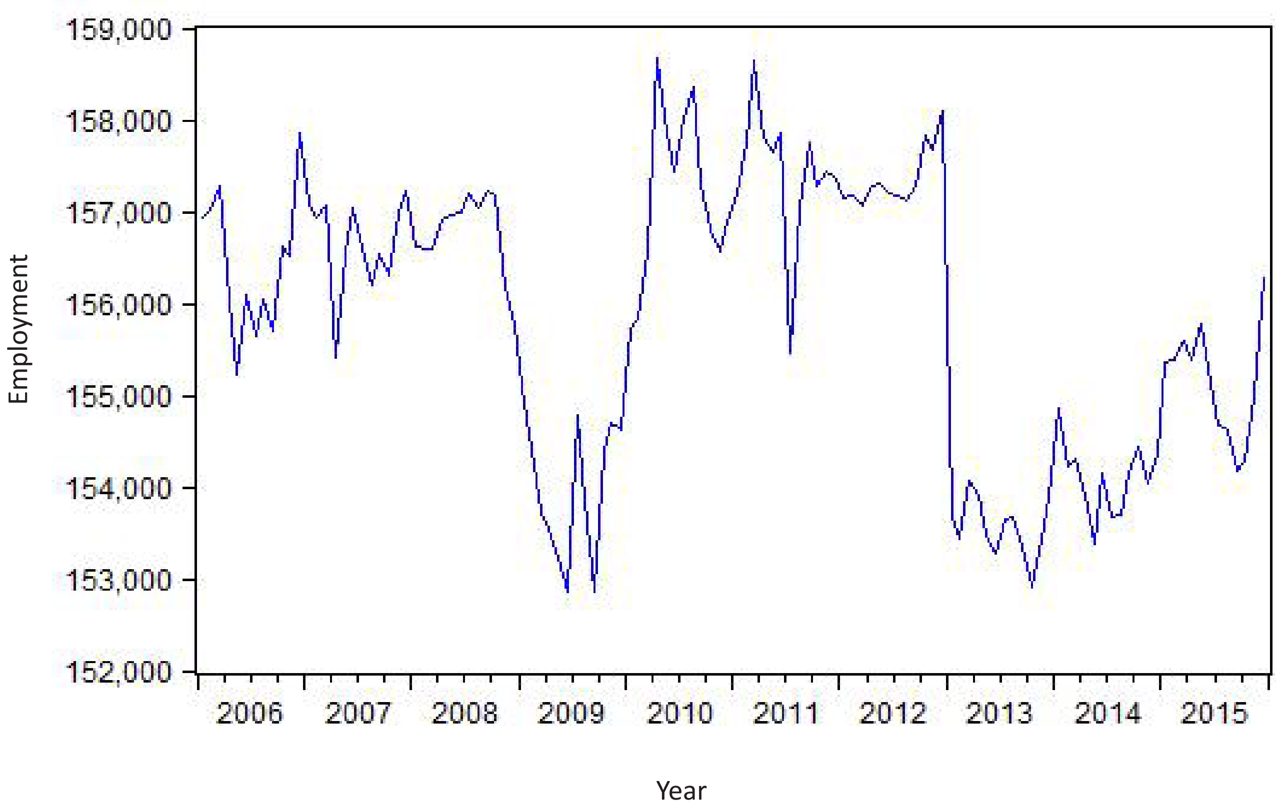


Northeast Minnesota Labor Market Conditions

December 2015 employment in the Northeast Minnesota planning area was 1.1 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 had been slowly rising from the end of 2013 to the beginning of 2015, but this pattern reversed in the middle quarters of 2015. However, employment gains in the fourth quarter appear to have returned this series back to its recent growth trend.

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.

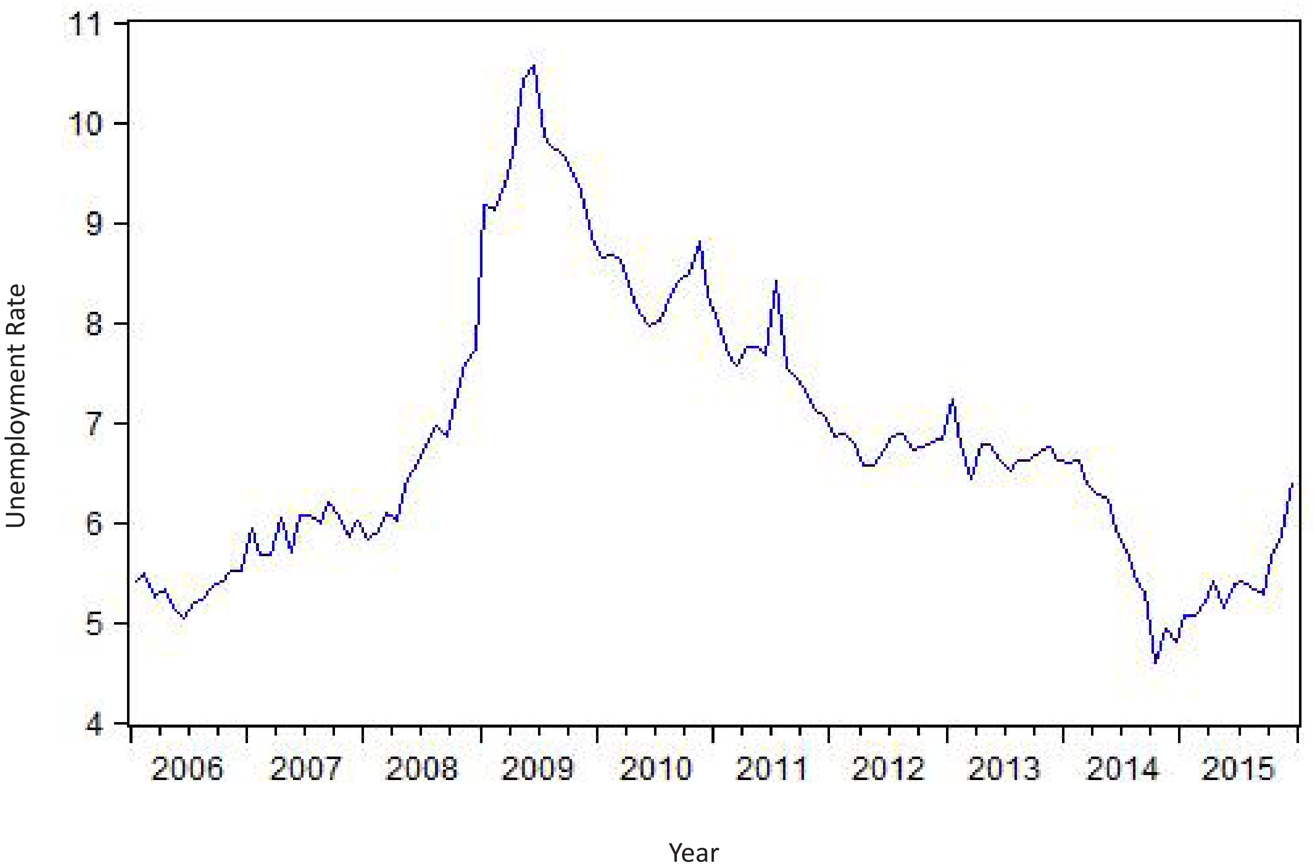
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Employment (Not seasonally adjusted)	153,398	157,250	156,470	155,680	155,702	155,239	155,110

The seasonally adjusted unemployment rate in Northeast Minnesota has been rising since the end of 2014. At 6.2 percent, the non-seasonally adjusted rate was substantially higher than one year earlier. Note that Northeast Minnesota's labor force expanded by 2.8 percent (an increase of 4,495) in 2015, so the large increase in the unemployment rate may have resulted from the swelling of the regional workforce. The unemployment rate in Northeast Minnesota is higher than in any of Minnesota's six planning areas.

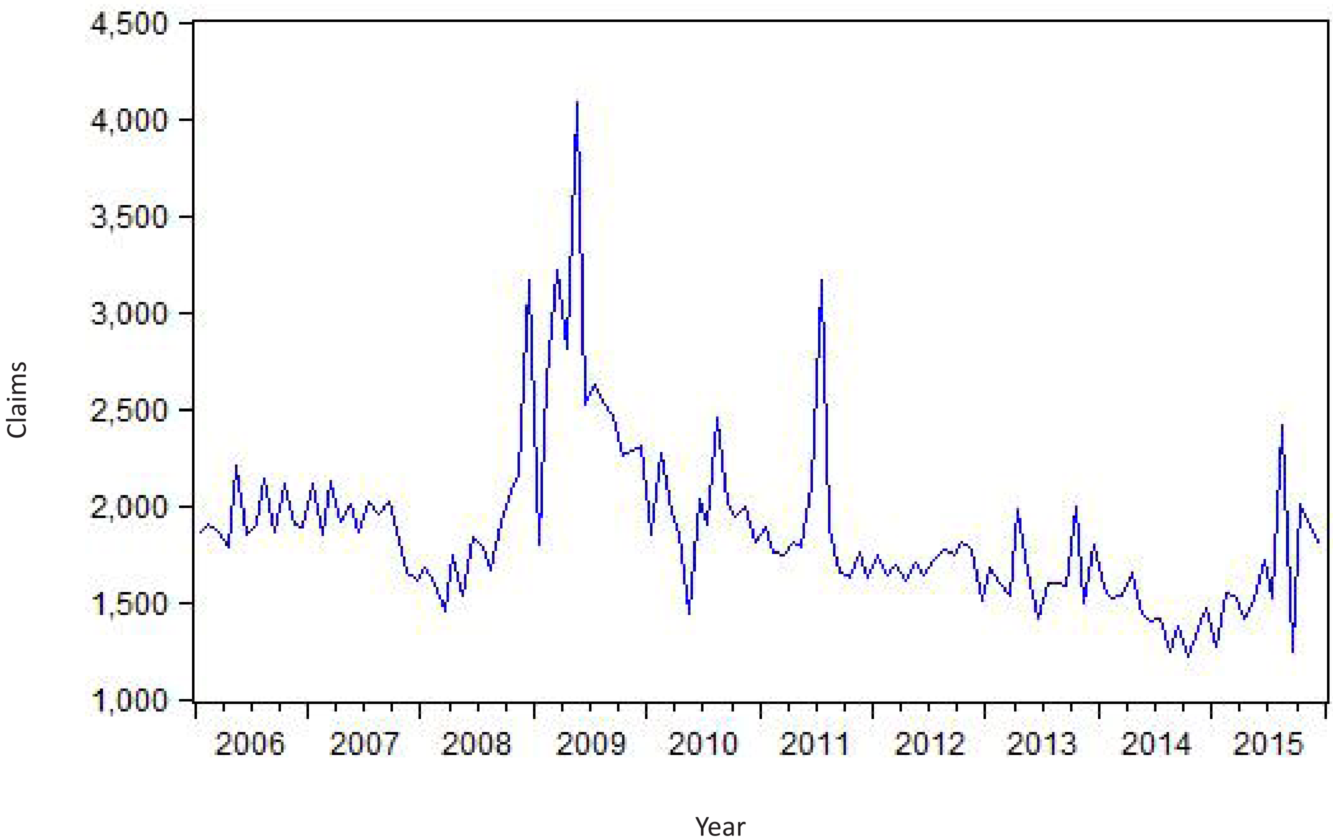
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Unemployment Rate (Not seasonally adjusted)	4.7%	5.4%	4.8%	4.6%	4.6%	5.3%	6.2%

On a seasonally adjusted basis, initial jobless claims in the Northeast region have been trending upward since the end of 2014. December initial jobless claims were 24.3 percent higher than in the same month of 2014.

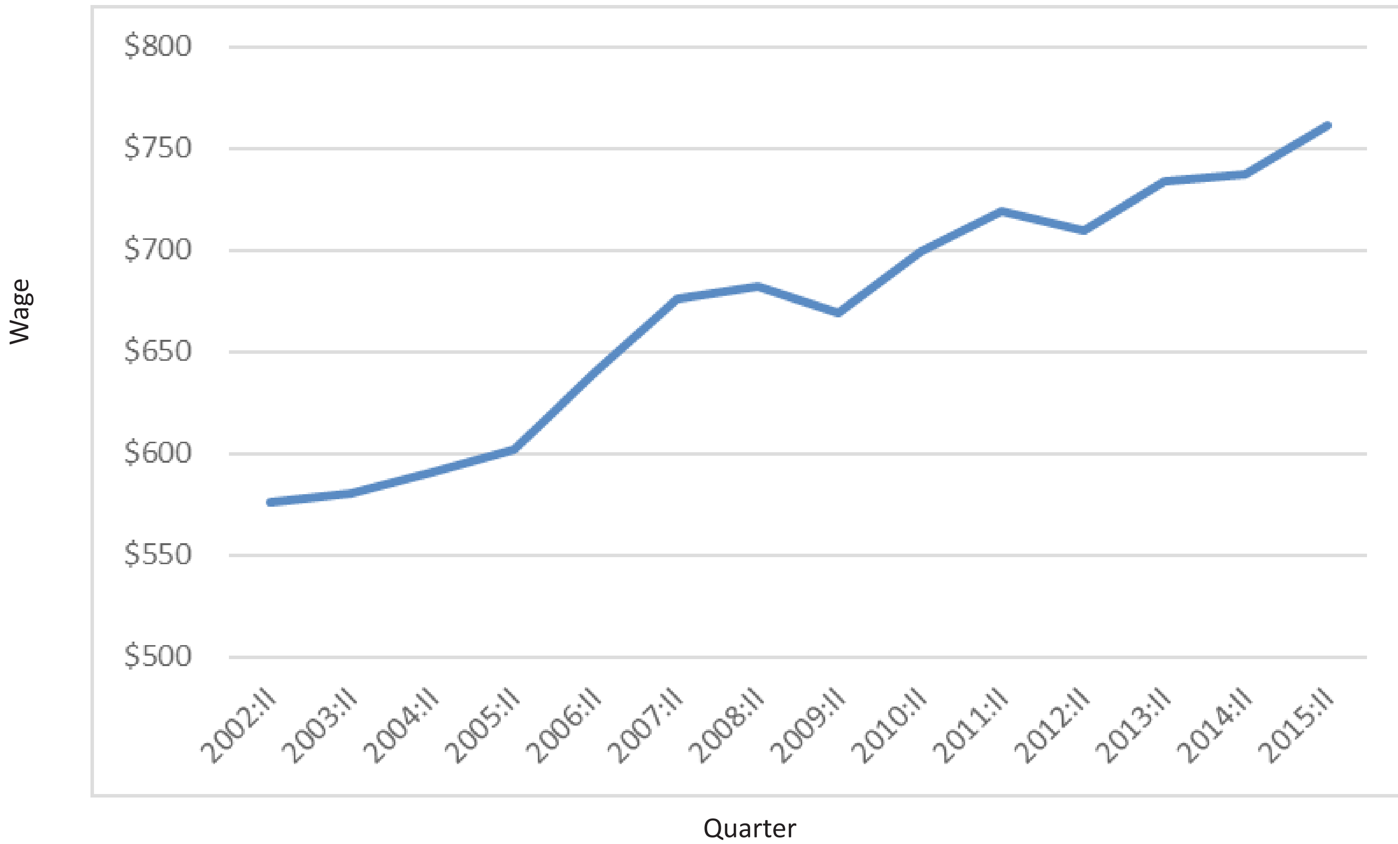
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Initial claims (Not seasonally adjusted)	2,337	1,186	1,515	918	2,014	2,843	2,905

Northeast Minnesota average weekly wages rose in the second quarter of 2015 (this is the most recently available data). The $761 weekly wage rate (an increase of 3.3 percent from one year earlier) is higher than in the Central, Southwest and Northwest planning areas (where average weekly wage rates are $740, $703 and $680, respectively). However, Northeast Minnesota wages are below those found in the other two planning areas of Minnesota. At $1,098, Twin Cities' average weekly wages lead the state (and are considerably higher than all other planning areas).

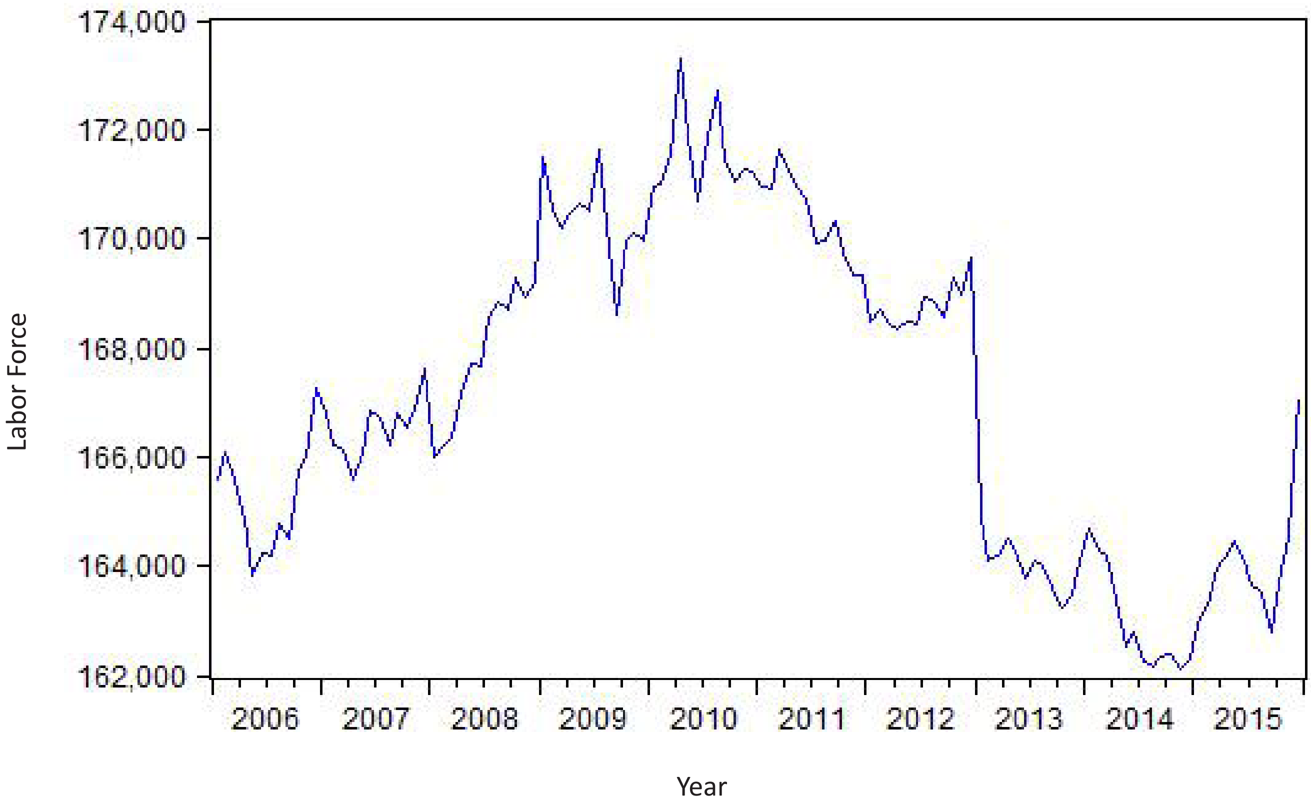
Average Weekly Wages--Northeast Minnesota Planning Area



Quarter	2010:II	2011:II	2012:II	2013:II	2014:II	2015:II
Average Weekly Wage	$699	$719	$710	$734	$737	$761

The Northeast Minnesota labor force rose by 2.8 percent over the twelve-month period ending December 2015. Using a 12-month moving average to account for seasonality, the regional labor force has started to rise after bottoming out over the previous two years.

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

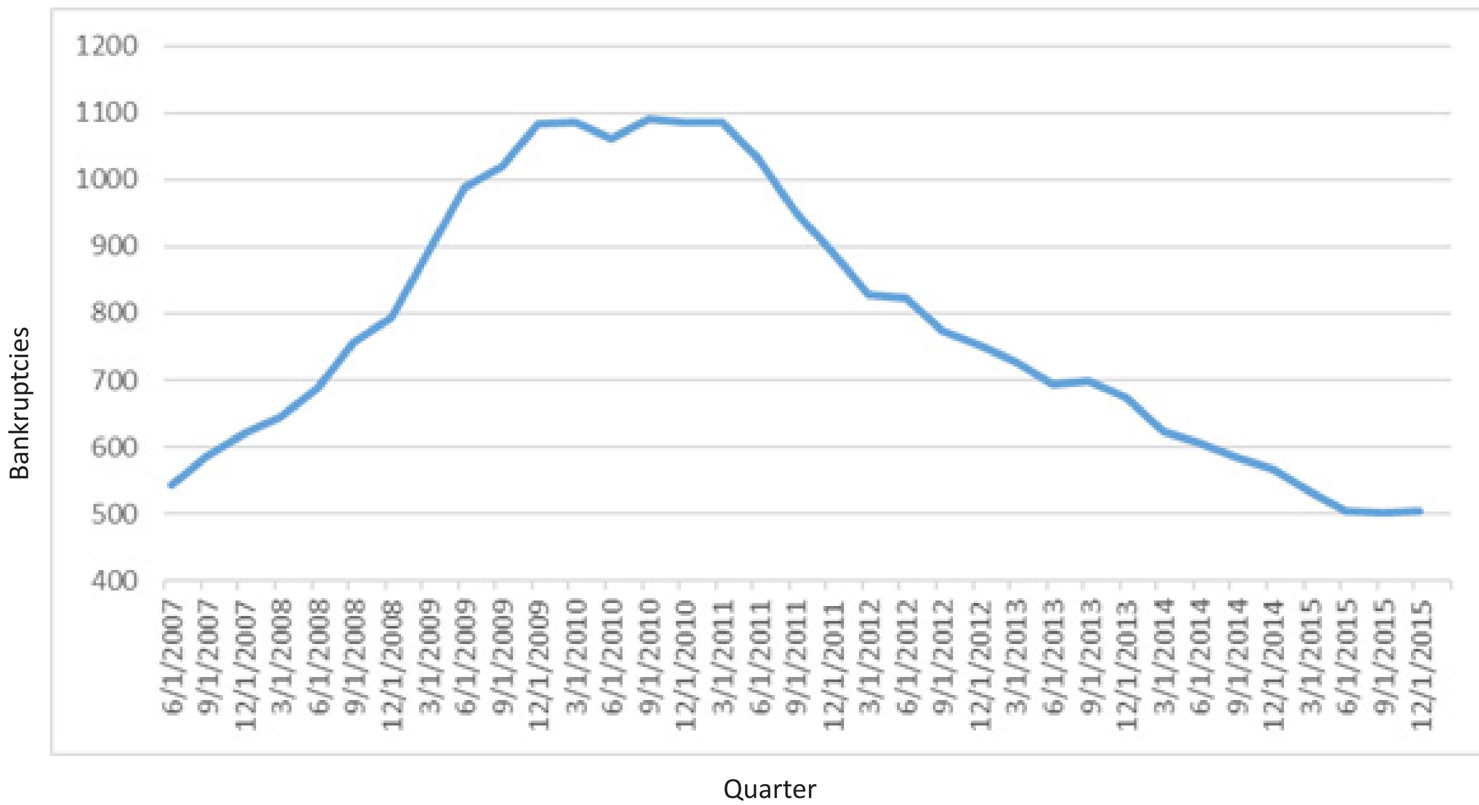


Year (December)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	164,731	162,445	164,150	162,685	160,901	165,396

Northeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Northeast 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 third quarter of 2009, then leveled out for a few quarters. The series gradually declined until the middle part of 2015. Since that time, Northeast Minnesota bankruptcies have leveled out. With 504 bankruptcies over the past twelve months, the level of bankruptcies in Northeast Minnesota has now returned to a level last seen prior to the Great Recession.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (Fourth Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1,085	890	752	674	567	504

Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	December 2015 (m)	135,783	135,096	0.5% ↑	0.1%
Manufacturing Employment	December 2015 (m)	7,123	7,128	-0.1% ↓	-2.2%
Educational and Health Sector Employment	December 2015 (m)	32,008	31,580	1.4% ↑	2.7%
Average Weekly Work Hours-Private Sector	December 2015 (m)	32.6	32.3	0.9% ↑	32.3 (since 2006)
Average Earnings Per Hour-Private Sector	December 2015 (m)	$24.69	$24.96	-1.1% ↓	2.4% (since 2006)
Unemployment Rate	December 2015 (m)	5.5%	4.3%	NA ↑	5.8%
Labor Force	December 2015 (m)	144,234	141,216	2.1% ↑	0.0%
Duluth-Superior Residential Building Permit Valuation, in thousands	December 2015 (m)	400	2,811	-85.8% ↓	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mixed in December. Overall employment increased by 0.5 percent over the year ending December 2015 and employment in the key education/health sector (where more than 30,000 people have jobs) expanded at a 1.4 percent annual pace. The length of the average workweek rose, but average hourly earnings fell. The area unemployment rate also increased, although the labor force rose. The value of residential building permits in the Duluth/Superior MSA declined sharply from levels reported one year earlier.

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 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.

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

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

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