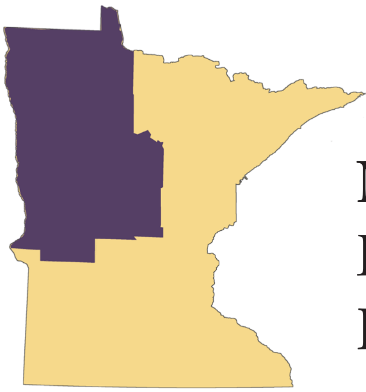

Northwest Minnesota
Economic and Business Conditions Report
First Quarter 2016

This issue is part of a series for the six planning areas of Minnesota –
The Northwest Minnesota Planning Area consists of 26 counties:
Becker; Beltrami; Cass; Clay; Clearwater; Crow Wing; Douglas; Grant; Hubbard; Kittson;
Lake of the Woods; Mahnomen; Marshall; Morrison; Norman; Otter Tail; Pennington; Polk;
Pope; Red Lake; Roseau; Stevens; Todd; Traverse; Wadena; and Wilkin.

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

An increased pace of economic activity is expected in Northwest Minnesota over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI). While two of the five components of the leading index were lower in the first quarter, the LEI still increased by 5.49 points. A rise in the Rural Mainstreet Index (which signals a less challenging macroeconomic environment for rural America), lower initial jobless claims in the region, and a slight increase in Fargo/Moorhead and Grand Forks/East Grand Forks residential building permits helped drive the index higher in the first quarter.

There were 1,225 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the first quarter of 2016 — representing an 11.2 percent increase from one year ago. 134 new regional business incorporations were recorded in the most recent quarter, a 14.5 percent increase from the same quarter in 2015. In the first quarter, new LLC filings in Northwest Minnesota were up 7.8 percent from one year earlier—increasing to 639. New assumed names totaled 397 in the first quarter—15.7 percent more filings than the same period in 2015. There were 55 new filings for Northwest Minnesota non-profits in the first quarter—six more filings than one year ago.

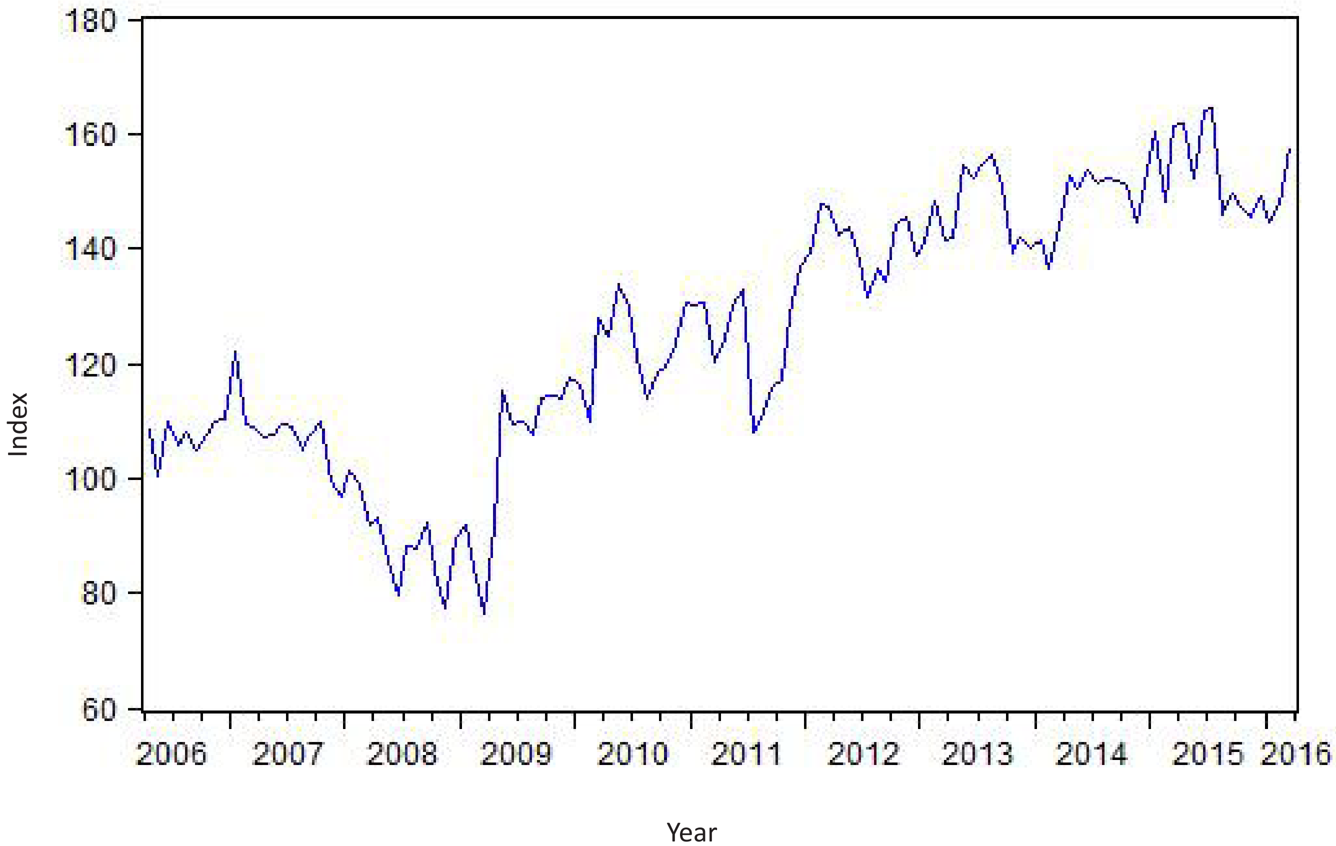
Employment of Northwest Minnesota residents increased by 1.1 percent over the year ending March 2016. The regional unemployment rate was 6.6 percent in March, significantly higher than one year ago. This is partly explained by a 1.7 percent increase in the Northwest Minnesota labor force over the past twelve months (4,667 more people are now in the regional labor force). Initial claims for unemployment insurance in March were 228 lower (a decrease of 11.8 percent) than in March 2015. Job vacancies per 100 unemployed were 65.03 in Northwest Minnesota in the fourth quarter of 2015. This is the lowest job vacancy rate in two years. The region’s total bankruptcies fell to their lowest level in several years.

The Fargo/Moorhead Metropolitan Statistical Area (MSA) experienced a mixed economic performance over the past quarter. This MSA tallied gains in overall employment (but decreased manufacturing employment), steady hourly earnings, and a rise in the regional workforce. This was offset by reduced valuation of residential building permits, a lower average workweek, higher initial jobless claims, and an increased unemployment rate. **Economic activity in the Grand Forks/East Grand Forks MSA was strong in the first quarter.** Higher overall employment, a lower unemployment rate, a rising labor force, higher average hourly earnings, lower initial jobless claims and an increase in the value of residential building permits all contributed favorably to the overall economy. A decline in the length of the workweek was the only indicator that was negative in Grand Forks/East Grand Forks in the first quarter.

Northwest Minnesota Leading Economic Indicators Index

The SCSU Northwest 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 5.49 points in the first quarter after being essentially unchanged in the fourth quarter of 2015. The index now stands 2.3 percent below its level of the first quarter of 2015. As shown in the accompanying graph, the LEI had flattened out in recent quarters but may have once again returned to its upward trend.

SCSU Northwest Minnesota Leading Economic Indicators Index (December 1999=100)



Components of SCSU Northwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2016	Contribution to LEI, 4th quarter 2015
Rural Mainstreet Index	4.84	-7.30
Northwest Minnesota initial claims for unemployment insurance	2.49	-1.18
Northwest Minnesota new filings of incorporation and LLCs	-1.28	1.92
Fargo-Moorhead + Grand Forks-EGF MSA residential building permits	0.18	3.77
Consumer Sentiment, University of Michigan	-0.74	2.55
TOTAL CHANGE	5.49	-0.24

The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns averaging a population of 1,300 in 10 Midwestern states. This series is used as a proxy for economic activity in the rural areas of Northwest Minnesota. As can be seen in the accompanying table, this rural index had a favorable impact on this quarter's index. Because Northwest Minnesota exports many recreational vehicles, consumer sentiment is included as a proxy for demand in that industry. The University of Michigan's Consumer Sentiment Index had a negative impact on the regional outlook in the most recent quarter. Higher residential building permits in Fargo/Moorhead and Grand Forks/East Grand Forks in the recent quarter also helped lift the leading index as did a decrease in initial jobless claims.

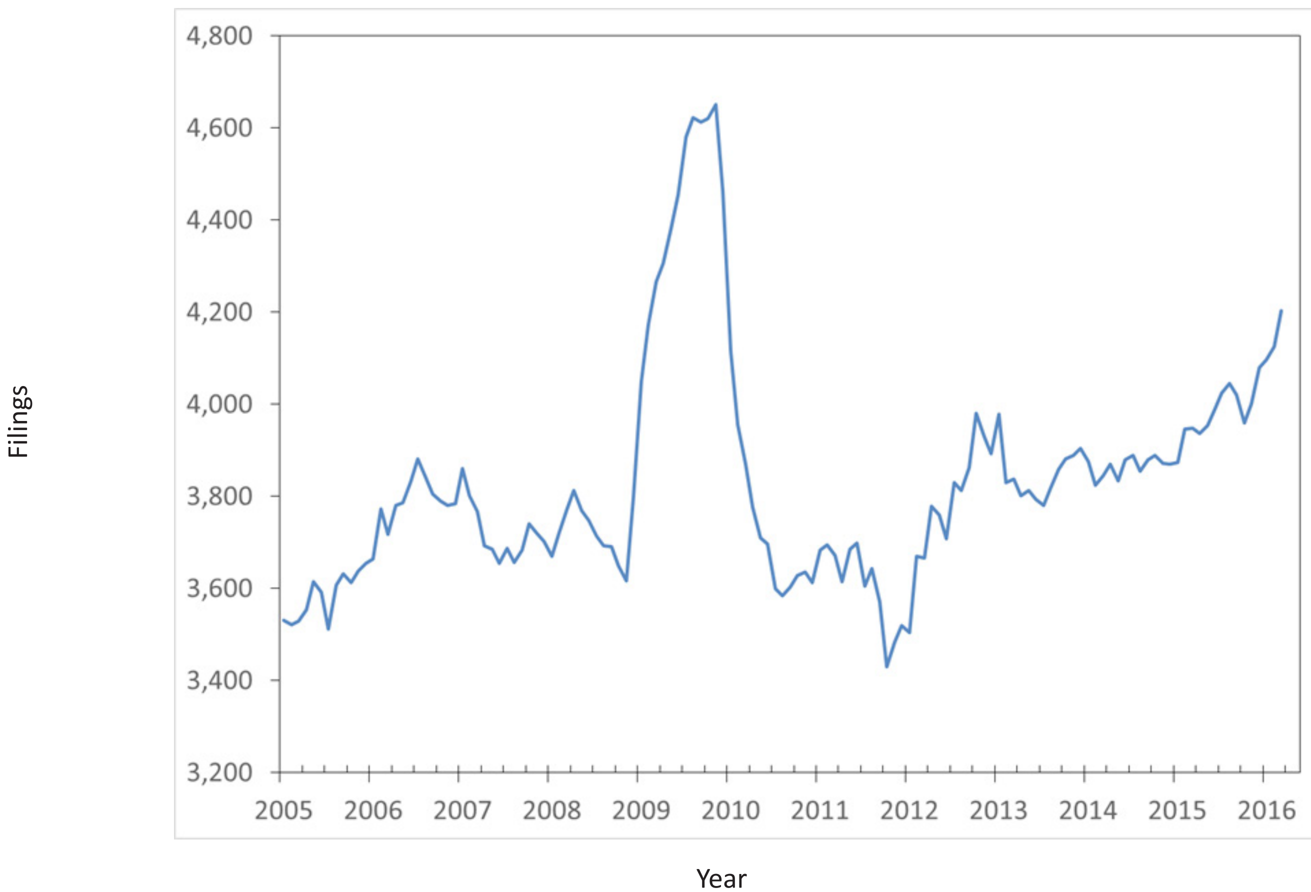
SCSU Northwest Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Rural Mainstreet Index, Creighton University, March	44.7	50	-10.6%
Northwest Minnesota initial claims for unemployment insurance, March	1,335	1,933	-30.9%
Northwest Minnesota new filings of incorporation and LLCs, First Quarter	773	710	8.9%
Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, March	105	126	-16.7%
Consumer Sentiment, University of Michigan, March	91.0	93.0	-2.2%
Northwest Minnesota Leading Economic Indicators Index March (March 1999 = 100)	157.6	161.3	-2.3%

Northwest Minnnesota Business Filings

The 12-month moving total of new business filings in this region has trended upward since the end of 2011. This trend continued through the first quarter of 2016. 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) 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. As shown in the accompanying table, first quarter total new business filings increased by 11.2 percent from the prior year in Northwest Minnesota.

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

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



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northwest Minnesota Total New Business Filings	1,102	1,129	926	923	1,225	11.2%

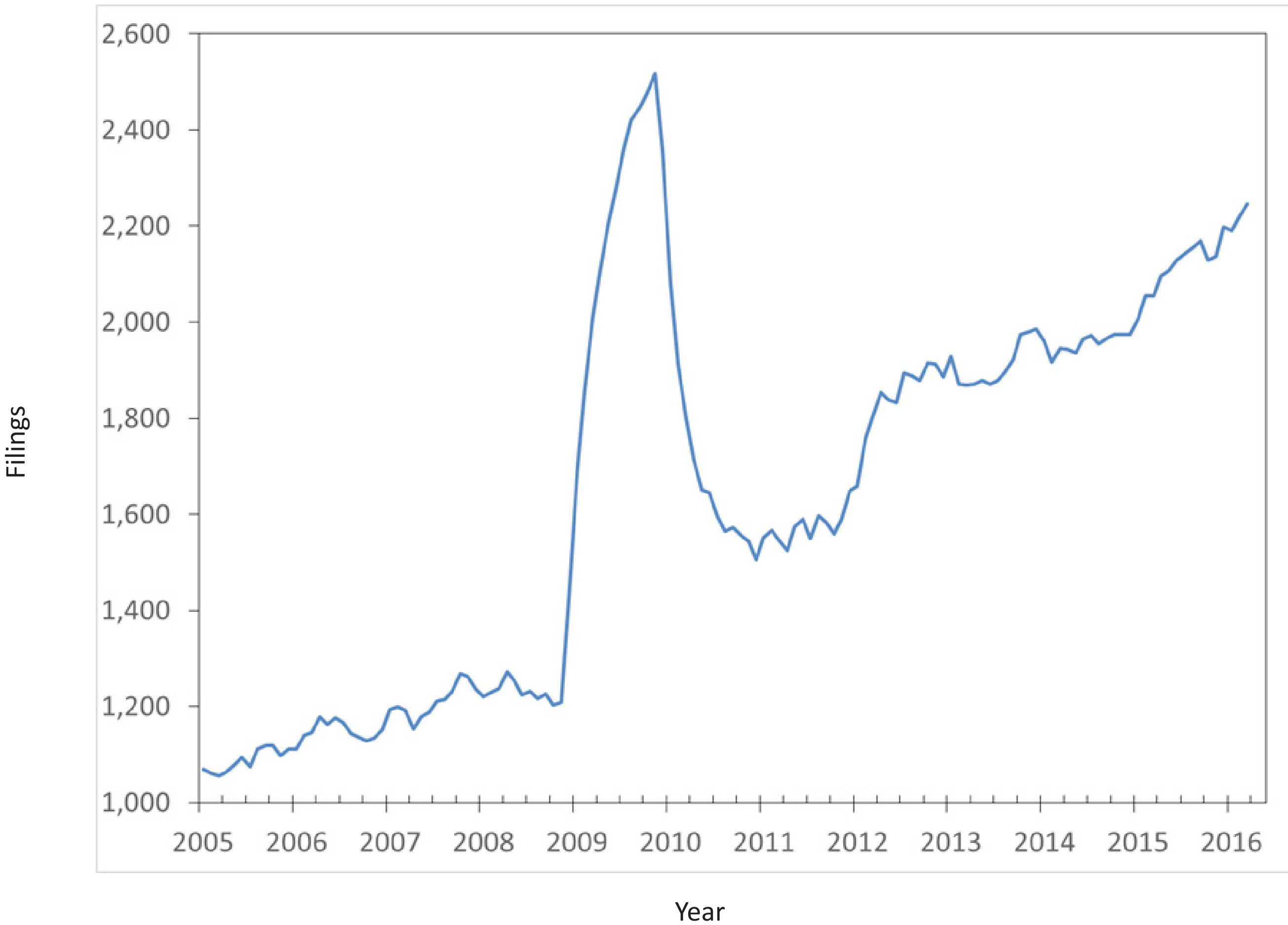
New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, but have since leveled out. New business incorporations totaled 134 (an increase of 14.5 percent over the prior year) in the first quarter of 2016.

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

Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northwest Minnesota New Business Incorporations	117	118	84	112	134	14.5%

There has been a move in Northwest Minnesota (and the rest of the state) away from the traditional incorporation form of business organization towards the LLC. While new business incorporations remain an important indicator of new business formation in Northwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northwest Minnesota. With the exception of the outlier period in 2008–2009, new LLC formation has shown a fairly steady rate of growth over the last ten years. First quarter 2016 LLC filings increased by 7.8 percent compared to the same period in 2015.

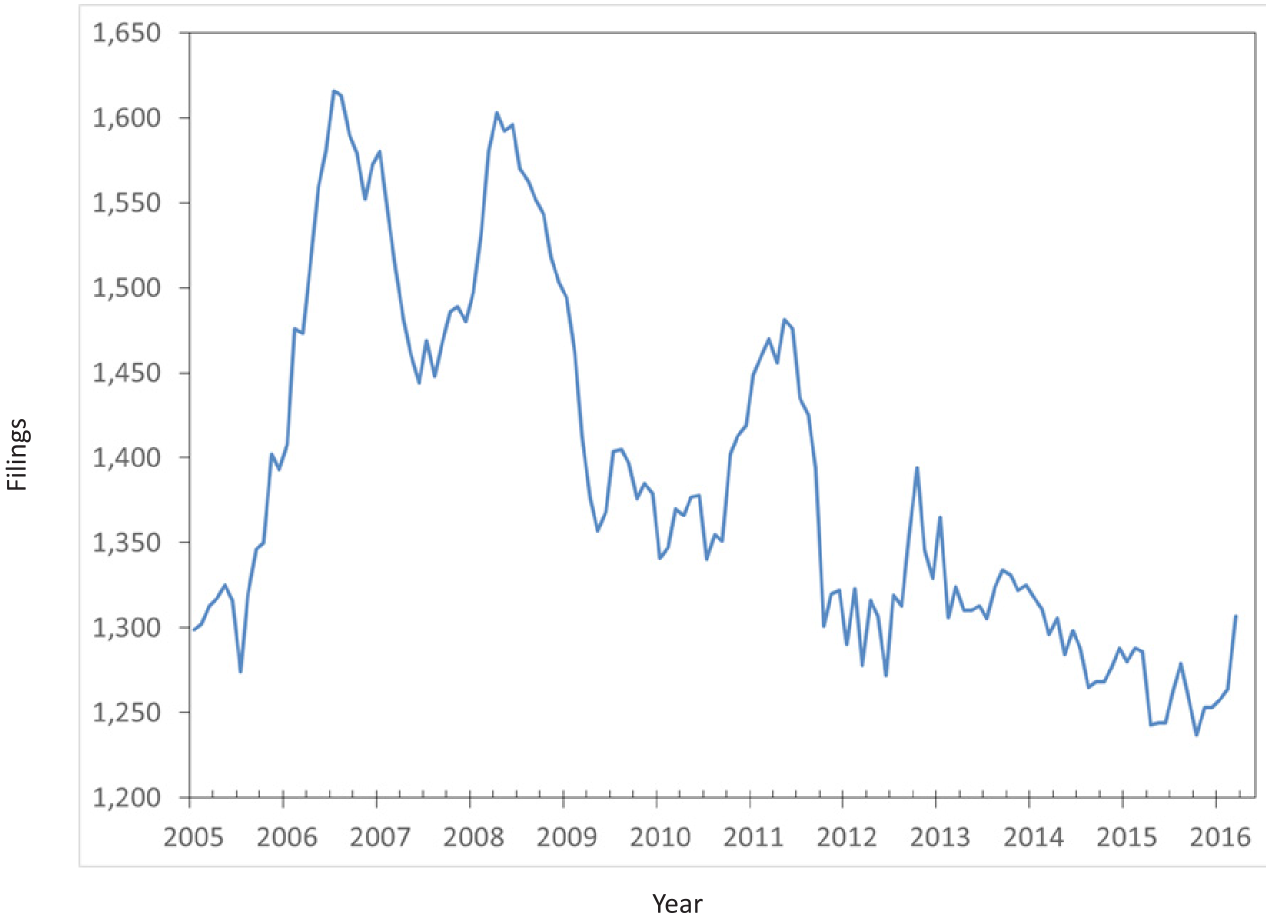
New Limited Liability Companies—Northwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	593	614	488	504	639	7.8%

Assumed names, which include sole proprietors or organizations that do not have limited liability, increased by 15.7 percent from the same period last year. However, this series has still not recovered from its peak levels of 2006–2007.

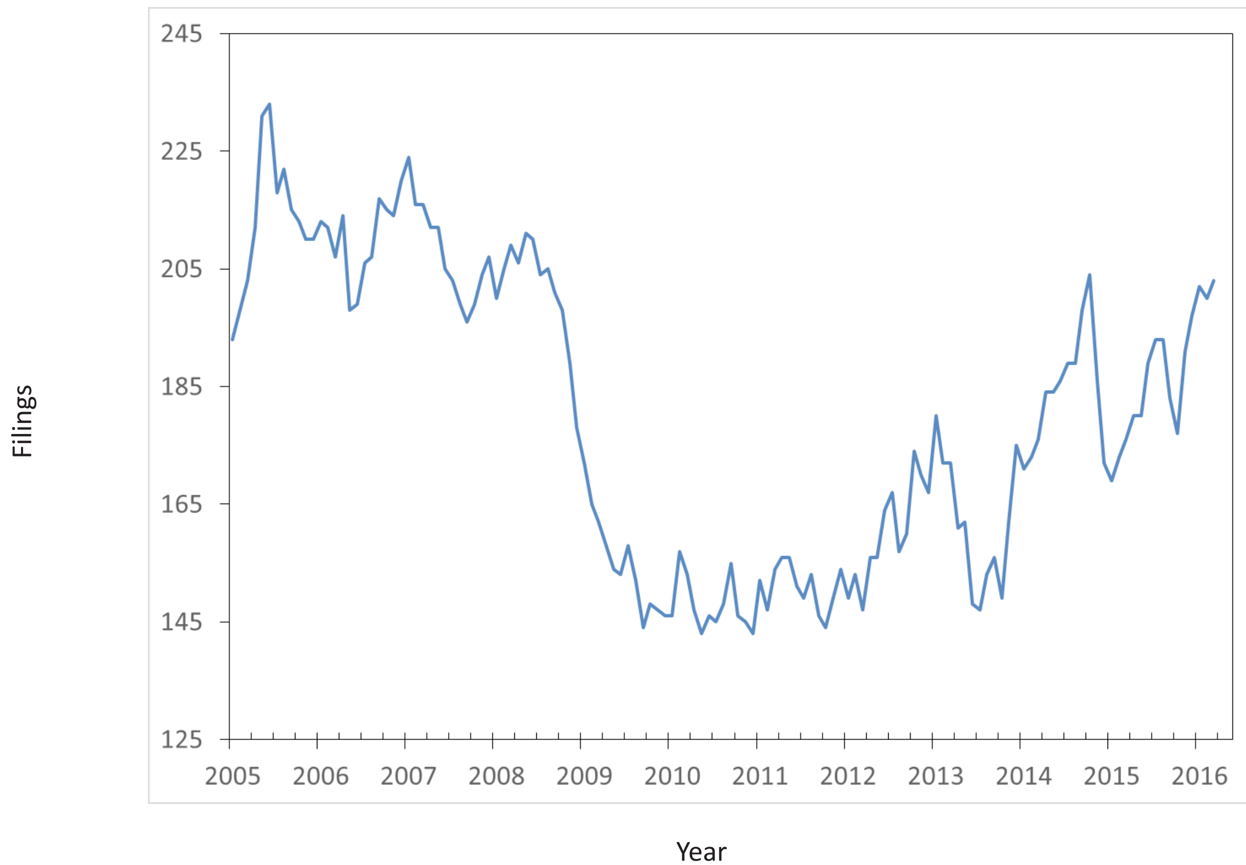
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northwest Minnesota New Assumed Names	343	343	308	259	397	15.7%

The number of new non-profits in the Northwest Minnesota planning area was 55 in the first quarter. This was six more filings than one year earlier.

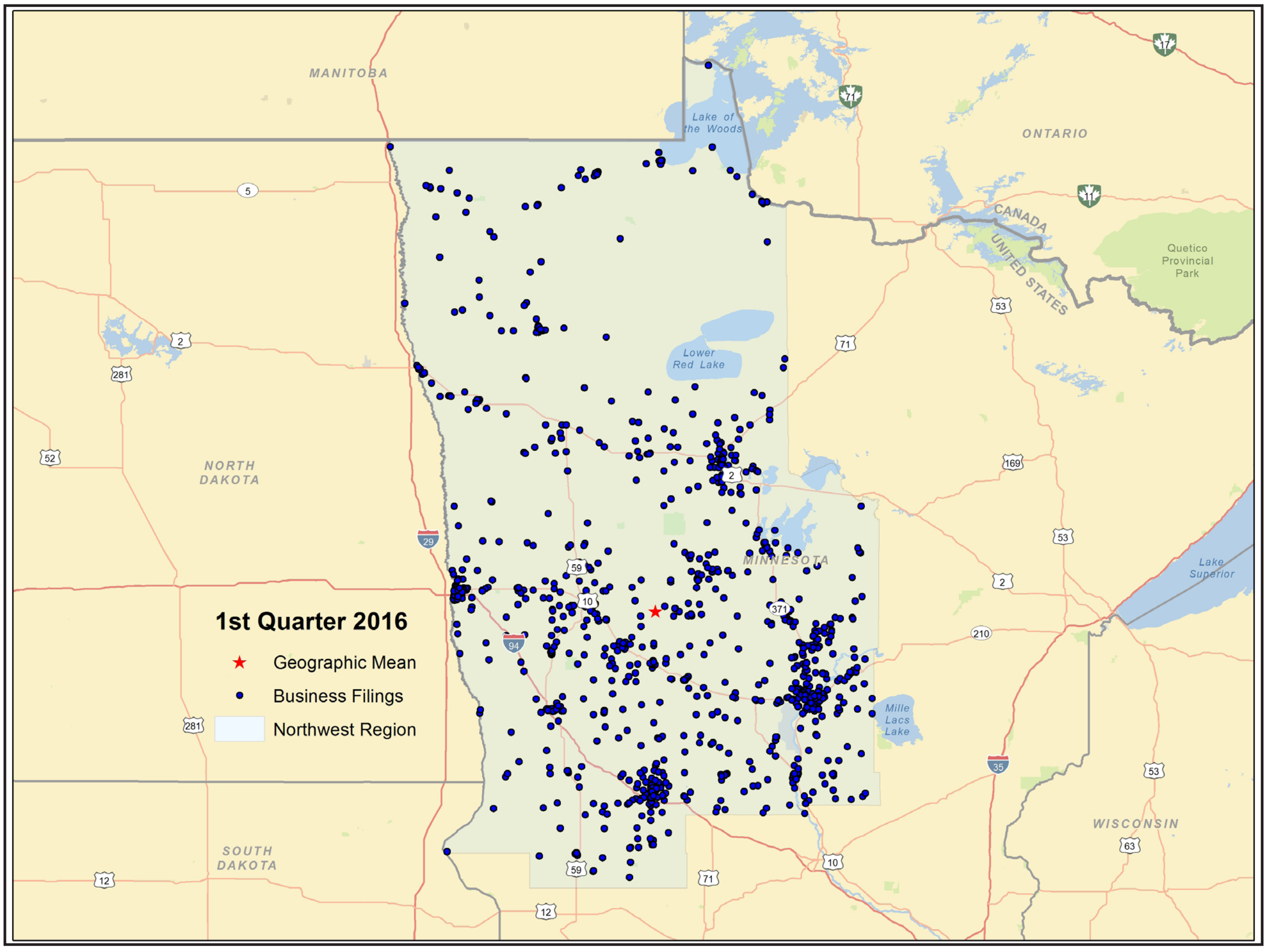
New Non-Profits—Northwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northwest Minnesota New Non-Profits	49	54	46	48	55	12.2%

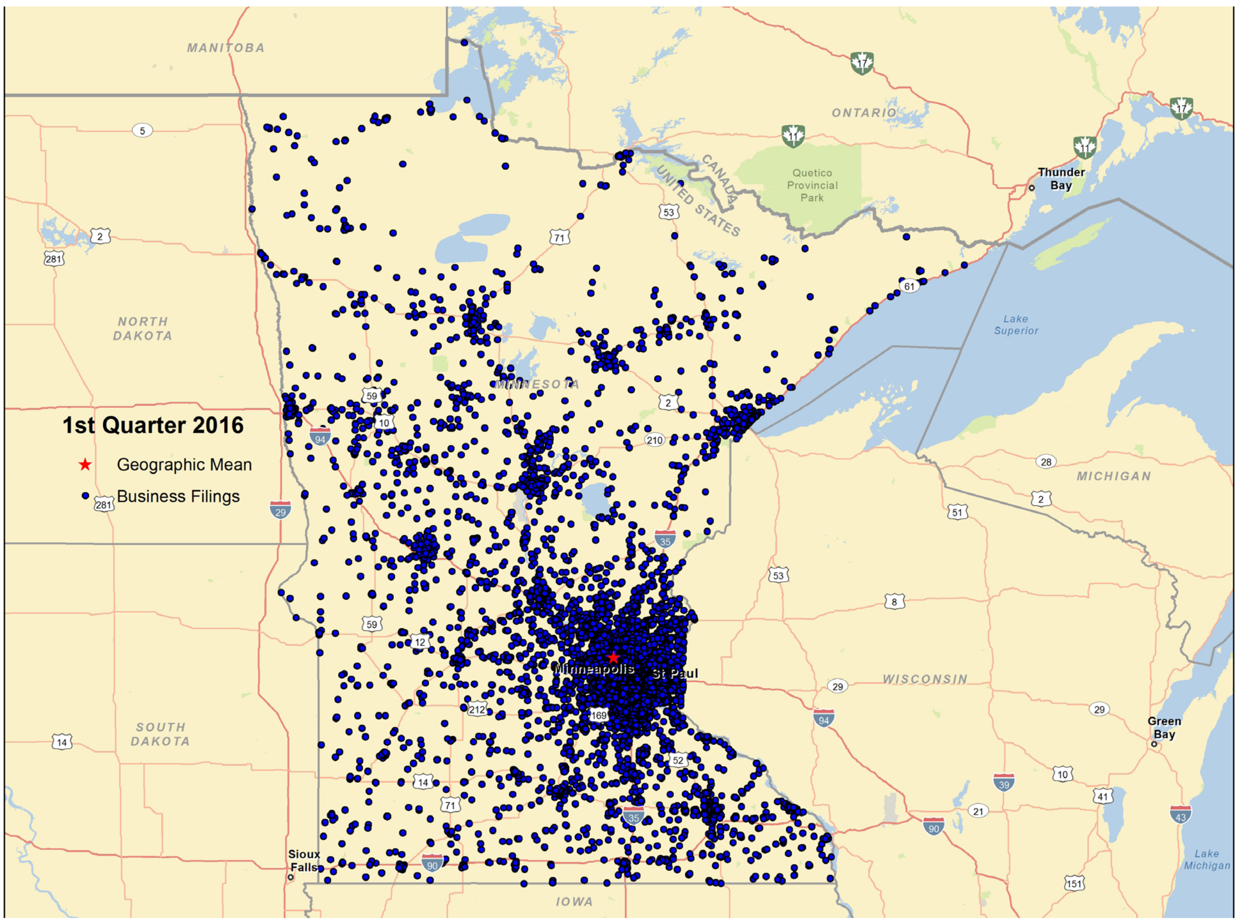
The first map shown below is a visual representation of new business formation around the Northwest Minnesota planning area in the first quarter of 2016. The densest areas of new business formation are in the Alexandria, Brainerd, Bemidji, and Moorhead areas. Well-traveled roadways are also a predictor of new business formation in Northwest Minnesota.

Northwest Minnesota Planning Area--New Business Formation--Quarter 1: 2016



The second map shows new business formation for the state as a whole. This visual aid demonstrates the considerable extent to which the Twin Cities metro area dominates new business formation in the state. The map shows how the Twin Cities metro stretches along roadways into the Southeast, Southwest and Central planning areas. Clusters of new business formation can also be seen in Duluth, Grand Rapids, Bemidji, Brainerd, Moorhead, Alexandria, St. Cloud, Rochester, and Mankato. The latter three cities are slowly losing their independent economic identity as they become increasingly connected to the Twin Cities metro.

Minnesota--New Business Formation--Quarter 1: 2016

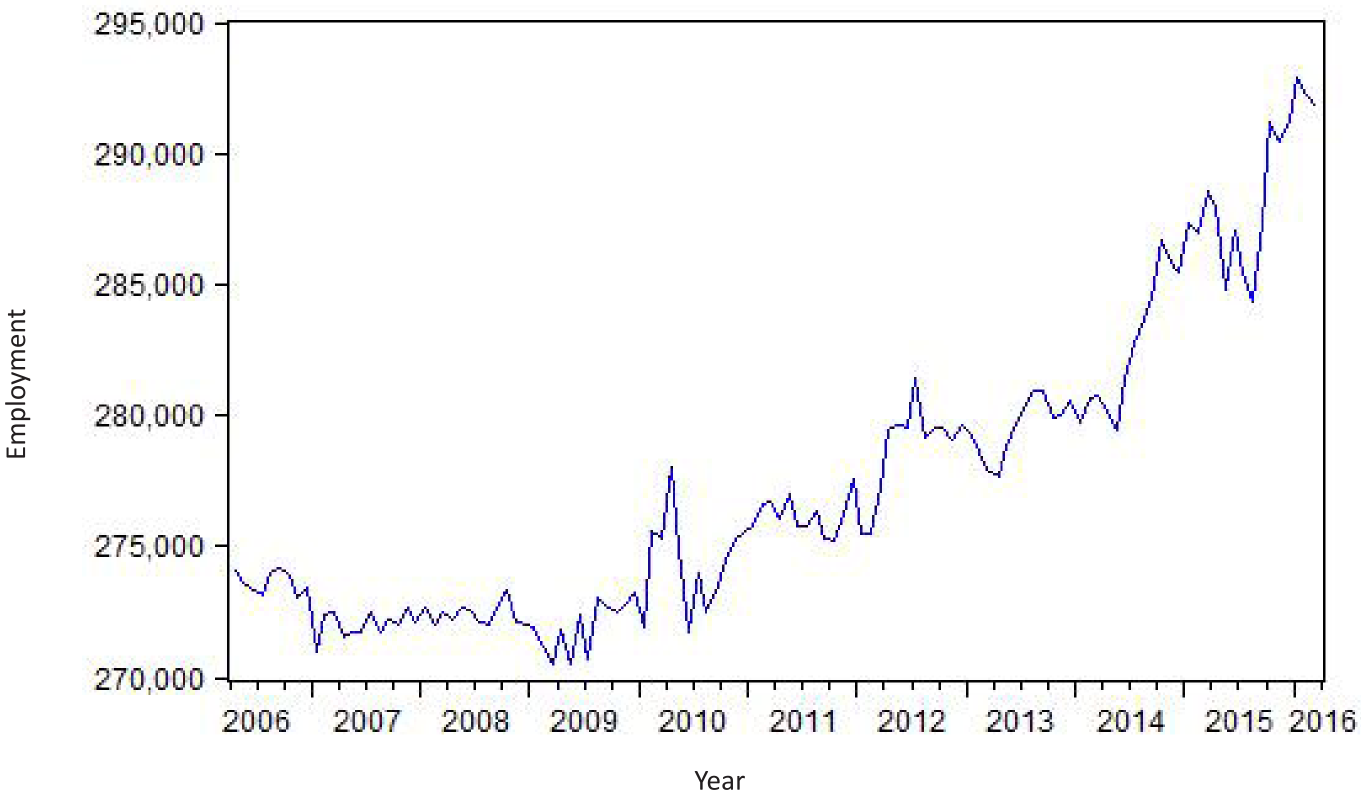


Labor Market Conditions

Employment in the Northwest Minnesota planning area grew 1.1 percent over the year ending March 2016. As can be seen in the accompanying graph, after a decline in the moving average of regional employment early in 2015, the area has now returned to the trend employment increases it has enjoyed since the beginning of 2013.

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.

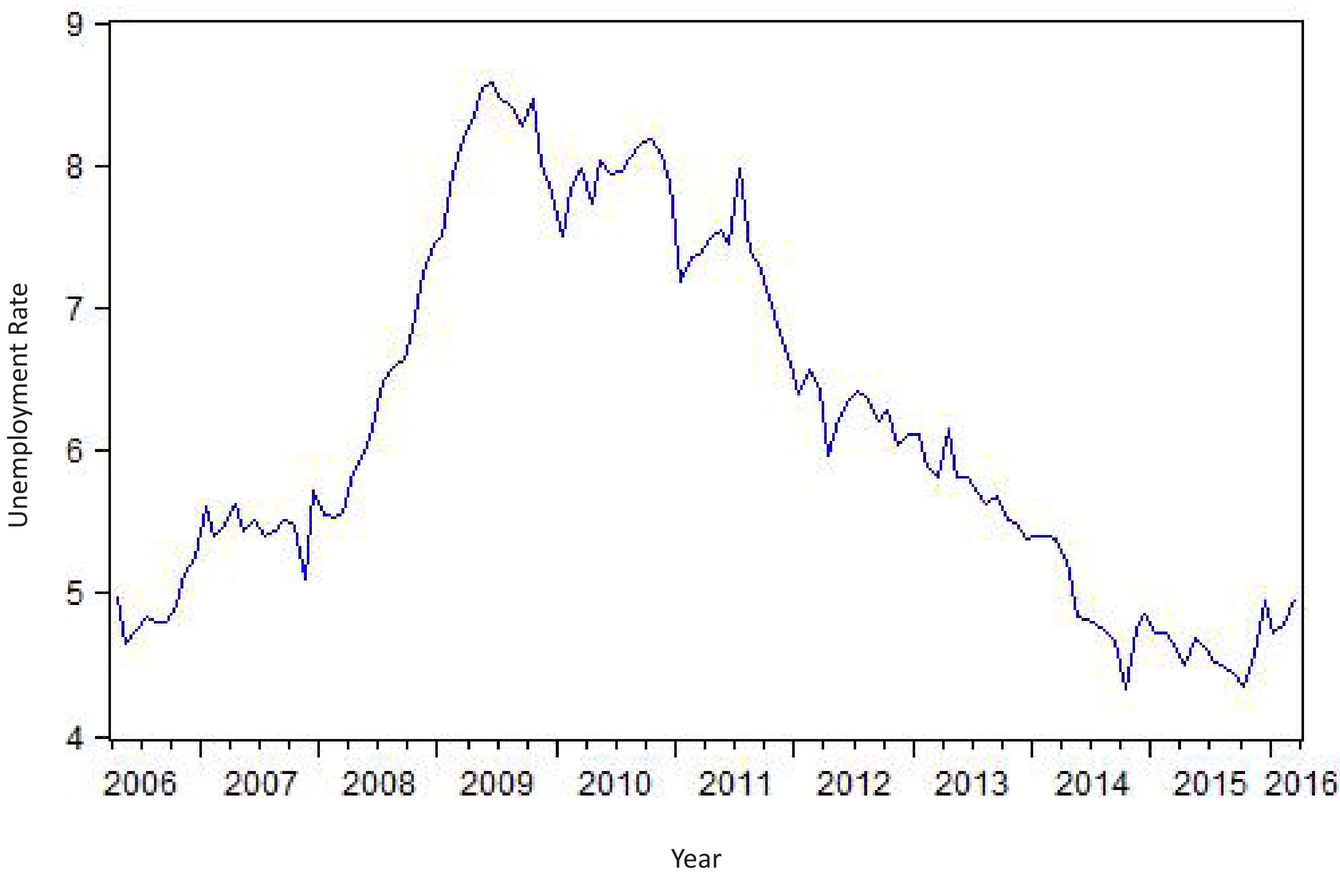
Employment—Northwest Minnesota Planning Area (12-month moving average)



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Employment (Not seasonally adjusted)	282,510	293,319	290,133	287,815	285,340	284,106	285,735

After bottoming out in the third quarter of 2014, the seasonally adjusted unemployment rate has started to rise in recent quarters. The non-seasonally adjusted unemployment rate is now considerably higher than it was in March 2015. This can be partially attributed to an increase in the labor force in the Northwest Minnesota planning area.

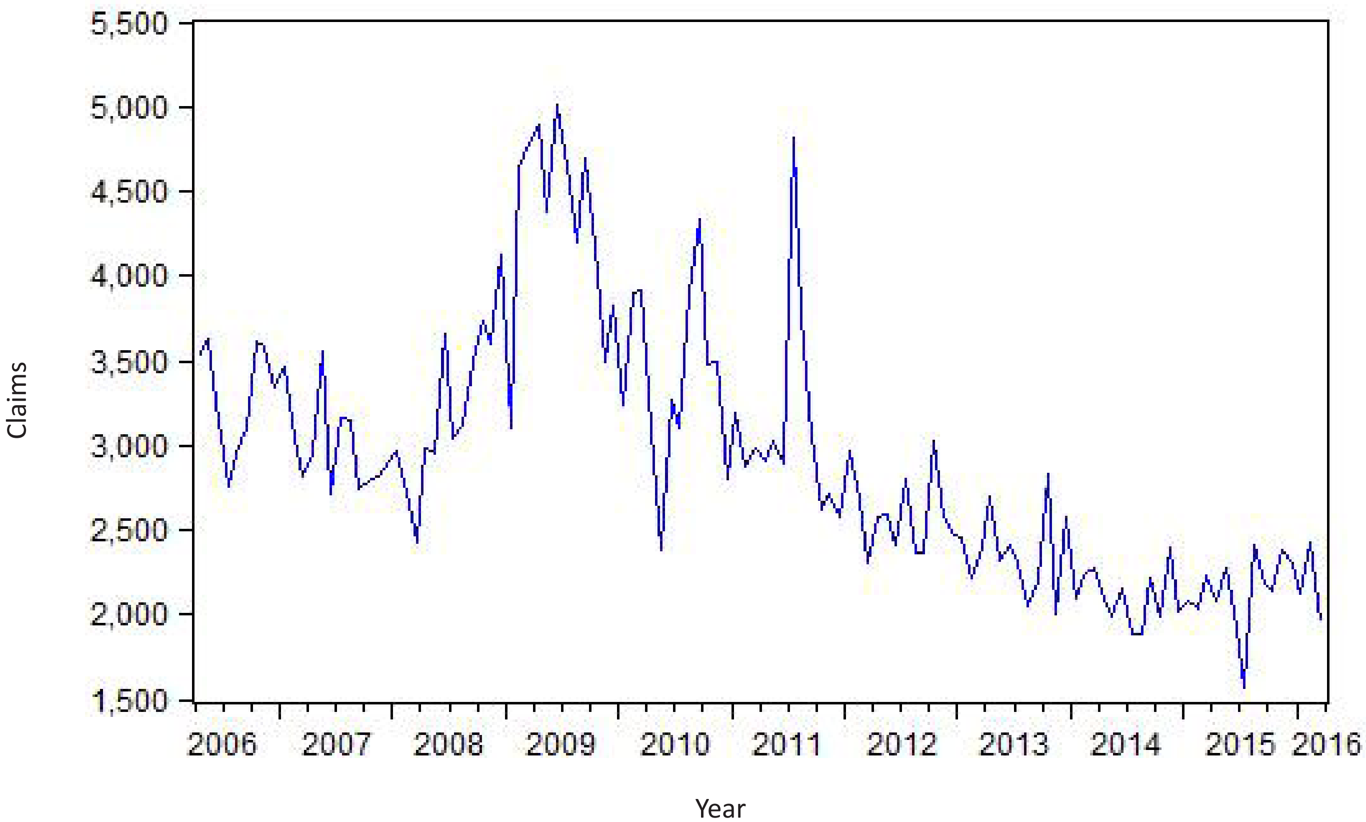
Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Unemployment Rate (Not seasonally adjusted)	6.1%	3.2%	4.0%	5.3%	6.5%	6.3%	6.6%

New claims for March 2016 unemployment insurance decreased from year-ago levels. They are now lower than one year earlier by 228 (an 11.8 percent decrease). Seasonally adjusted jobless claims appear to have bottomed out in the middle months of 2015.

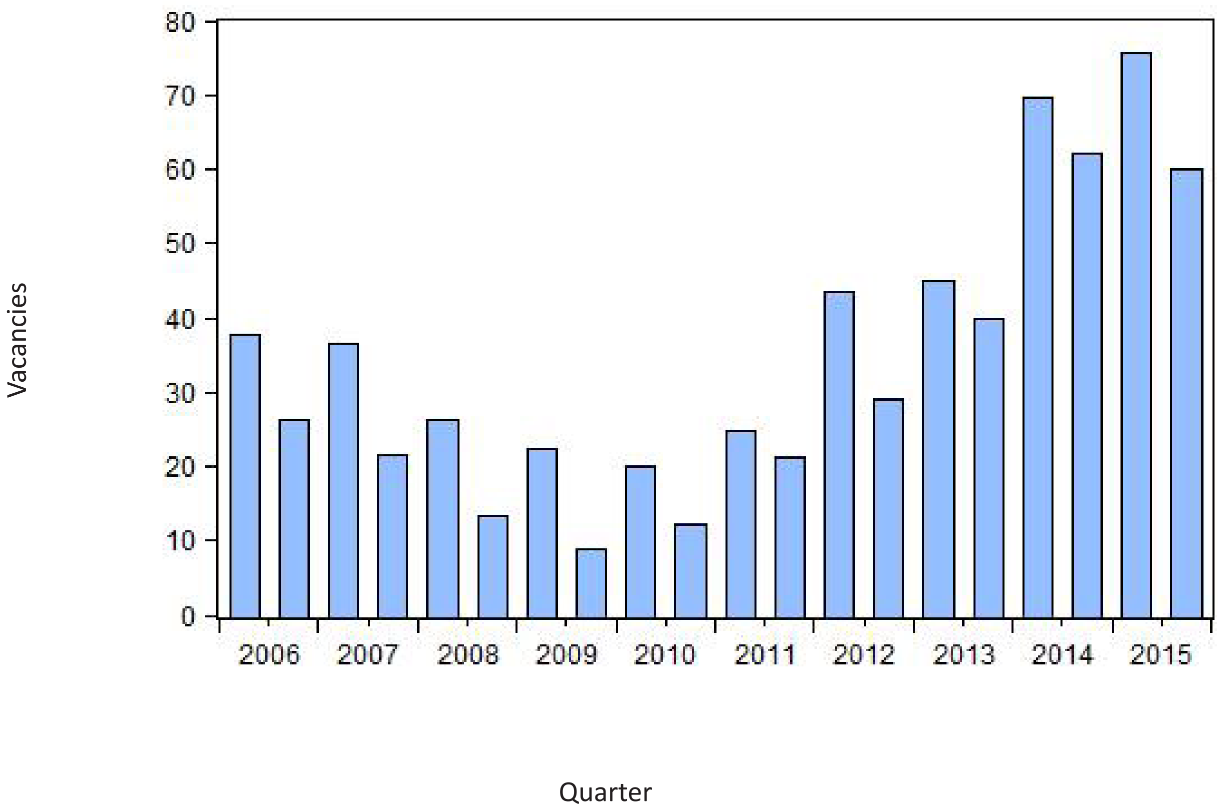
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Initial claims (Not seasonally adjusted)	1,933	1,744	5,001	5,523	2,484	2,015	1,705

The number of job vacancies per 100 unemployed fell to a two year low in last year's fourth quarter (this is the most recently available data). While the rate of job vacancies has declined in recent quarters, it is still well above what was observed during the Great Recession. Seasonally adjusted unemployment data are used in constructing the chart below. None of the figures reported in the table are seasonally adjusted.

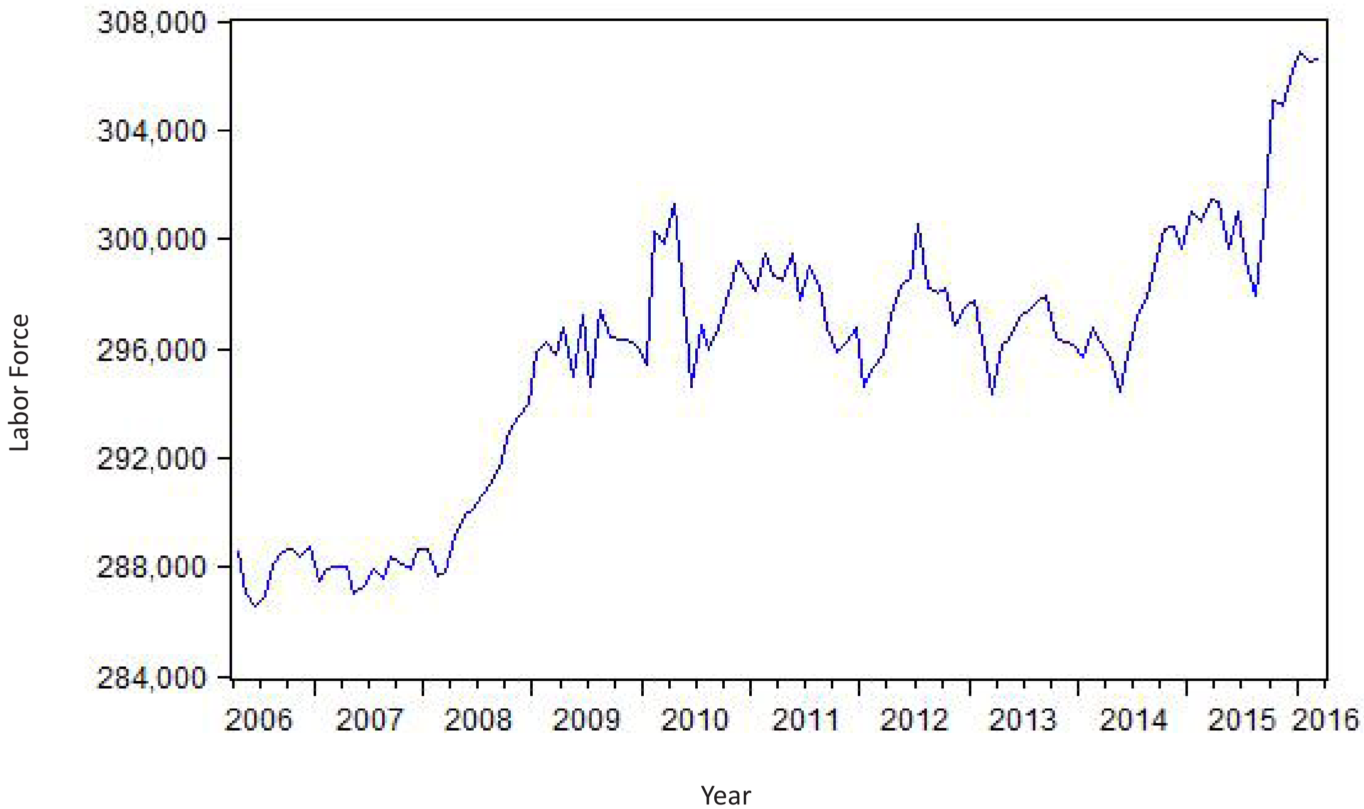
Job Vacancies per 100 Unemployed--Northwest Minnesota Planning Area



Quarter	2013:II	2013:IV	2014:II	2014:IV	2015:II	2015:IV
Job Vacancies per 100 Unemployed	46.57	45.97	75.79	69.84	79.97	65.03

The size of the Northwest Minnesota labor force grew over the year ending March 2016. At 305,883, the regional labor force is 5,167 larger (representing a 1.7 percent increase) than one year earlier.

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

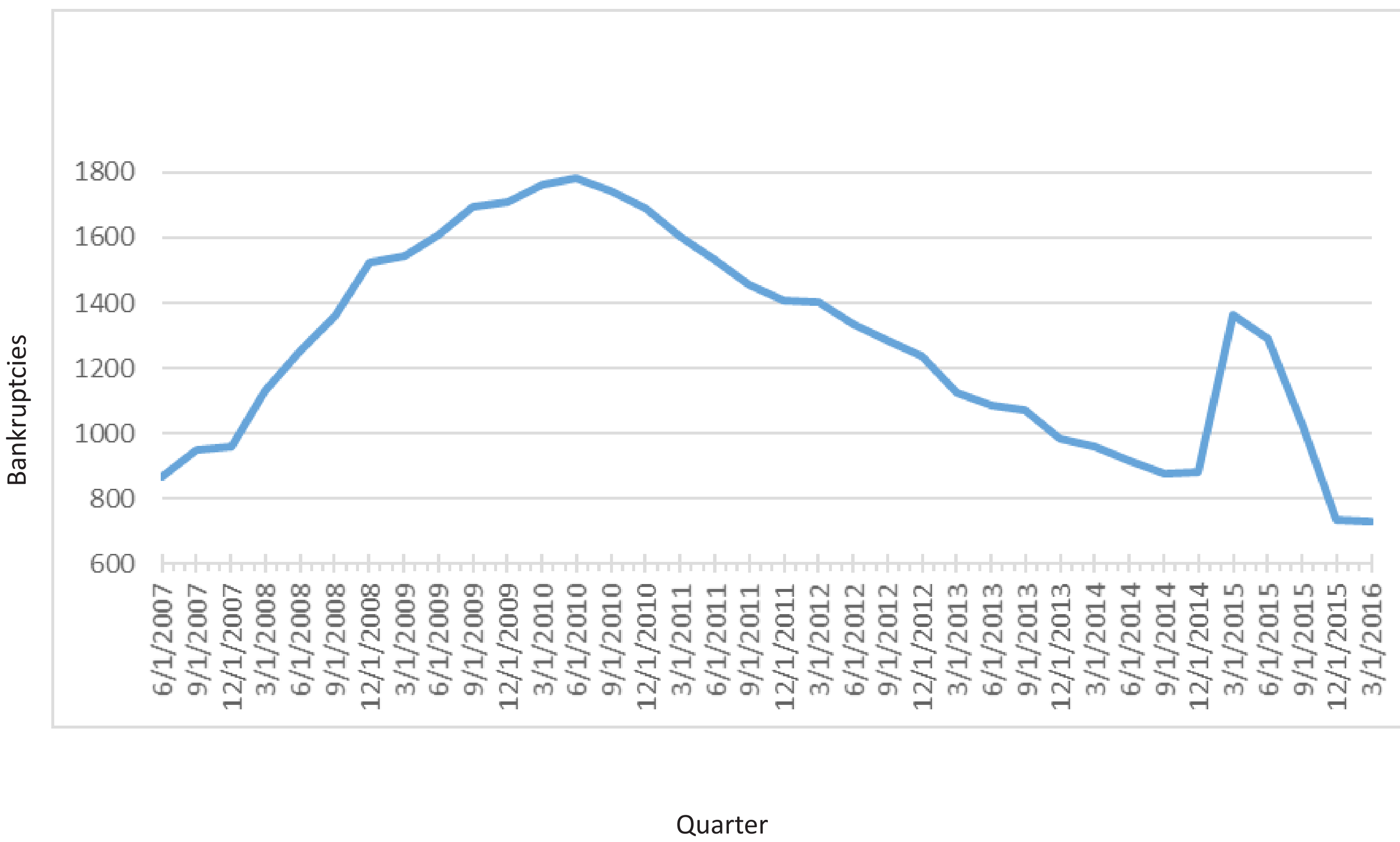


Year (March)	2011	2012	2013	2014	2015	2016
Labor Force(not seasonally adjusted)	297,734	294,981	293,566	295,504	300,716	305,883

Northwest Minnesota Bankruptcies

The figure below shows the 12-month moving total for Northwest 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 through the second quarter of 2010, and then declined steadily until the end of last year. However, the series began to rise in the first quarter of 2015. A closer inspection of the Northwest Minnesota bankuptcy data suggests a disproportionately large number of bankruptcies came from Polk, Becker, and Clay counties at the beginning of 2015. This is the only one of Minnesota's six planning areas to see a rise in this series at that time, so we took a closer look at the bankruptcy data set received from the US Bankruptcy Courts. The jump in bankruptcies in these three counties is in non-business bankruptcy filings (for example, personal bankruptcies). Since these three counties are close to the North Dakota border, one might imagine that an abrupt increase in non-business bankruptcies in the first quarter of 2015 would be seen in North Dakota's Clay and Grand Forks counties, but bankruptcy filings in these counties did not jump like they did in the three Minnesota counties. These data points may simply have been an aberration. This interpretation seems to be confirmed by this quarter's data reading. The series has now returned to its trend value last observed at the end of 2014. Northwest Minnesota bankruptcies are now lower than at any time in recent years.

Northwest Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (not seasonally adjusted)	1,600	1,403	1,127	959	1,363	731

Economic Indicators

Fargo-Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2016 (m)	139,100	136,600	1.8% ↑	2.0%
Manufacturing Employment	March 2016 (m)	9,700	10,000	-3.0% ↓	1.4%
Mining, Logging, Construction Employment	March 2016 (m)	8,300	8,000	3.8% ↑	3.5%
Average Weekly Work Hours, Private Sector	March 2016 (m)	33.1	33.4	-0.9% ↓	NA
Average Earnings Per Hour, Private Sector	March 2016 (m)	$23.91	$23.91	0.0% ↔	3.1% (since 2007)
Unemployment Rate	March 2016 (m)	3.2%	3.1%	NA ↑	NA
Labor Force	March 2016 (m)	135,413	128,945	5.0% ↑	1.6%
Initial Jobless Claims	March 2016 (m)	498	469	6.2% ↑	NA
Fargo-Moorhead Residential Building Permit Valuation, in thousands	March 2016 (m)	21,681	37,865	-42.7% ↓	NA
Fargo-Moorhead Cost of Living Index	Annual Average 2015	99.2	93.8	5.8% ↑	NA

Grand Forks-East Grand Forks MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2016 (m)	57,000	56,600	0.7% ↑	1.0%
Maufacturing Employment	March 2016 (m)	4,000	3,800	5.3% ↑	0.8%
Mining, Logging, Construction Employment	March 2016 (m)	2,900	2,700	7.4% ↑	1.6%
Average Weekly Work Hours, Private Sector	March 2016 (m)	31.5	31.8	-0.9% ↓	NA
Average Earnings Per Hour, Private Sector	March 2016 (m)	$22.75	$20.71	9.9% ↑	1.3% (since 2007)
Unemployment Rate	March 2016 (m)	3.6%	3.7%	NA ↓	NA
Labor Force	March 2016 (m)	56,553	54,936	2.9% ↑	0.6%
Initial Jobless Claims	March 2016 (m)	164	171	-4.1% ↓	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation, in thousands	March 2015 (m)	3,099	2,058	50.6% ↑	NA

(m) represents a monthly series

The Bureau of Labor Statistics identifies two MSAs in Northwest Minnesota—each of which crosses the North Dakota/Minnesota border. While North Dakota business filing data are not incorporated into this report, a variety of economic measures can be analyzed. The data in the table show employment gains in the Fargo/Moorhead area (but declining employment in the manufacturing sector), a rise in the unemployment rate, a reduction in average weekly hours worked, and a rise in the regional labor force. The value of Fargo/Moorhead residential building permits fell, average hourly earnings were steady, and initial jobless claims rose.

Grand Forks/East Grand Forks MSA economic activity was strong in the first quarter of 2016. MSA employment rose at a 0.7 percent annual pace and the key mining/logging/construction and manufacturing sectors also experienced significant job growth. The area unemployment rate fell, average hourly earnings rose, and the labor force expanded. Initial jobless claims were lower and the value of residential building permits rose. The length of the workweek declined.

State and National Indicators

MINNESOTA Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,876,500	2,875,700	2,845,500	0.3%	1.1%
Average weekly hours worked, private sector	33.5	33.7	33.9	-0.6%	-1.2%
Unemployment rate, seasonally adjusted	3.7%	3.7%	3.6%	NA	NA
Earnings per hour, private sector	$26.82	$26.36	$26.32	1.7%	1.9%
Philadelphia Fed Coincident Indicator, MN	177.73	176.69	173.74	0.6%	2.3%
Philadelphia Fed Leading Indicator, MN	1.42	1.06	1.89	33.4%	-24.9%
Minnesota Business Conditions Index	50.7	39.4	50.0	28.7%	1.4%
Price of milk received by farmers (cwt)	$15.80	$17.00	$17.40	-7.1%	-9.2%
Enplanements, MSP airport, thousands	1,662.9	1,429.0	1,629.6	16.4%	2.0%

NATIONAL Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	143,774	143,146	140,972	0.4%	2.0%
Industrial production, index, SA	103.4	104.1	105.5	-0.7%	-2.0%
Real retail sales, SA ($)	187,831	188,936	186,219	-0.6%	0.9%
Real personal income less transfers ($, bill.)	11,821.5	11,737.8	11,422.4	0.7%	3.5%
Real personal consumption expenditures ($, bill.)	11,397.1	11,358.5	11,104.4	0.3%	2.6%
Unemployment rate, SA	5.0%	5.0%	5.5%	NA	NA
New building permits, SA, thousands	19,300	17,620	17,477	9.5%	10.4%
Standard & Poor's 500 stock price index	2,022	2,054.1	2,080	-1.6%	-2.8%
Oil, price per barrel in Cushing, OK	$37.55	$37.19	$47.82	1.0%	-21.5%

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 inched up over the past twelve months and average weekly hours worked in the private sector declined. Indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy (although the leading indicators index was lower than last year). The Minnesota Business Conditions index surged in recent months. Milk prices were 9.2 percent lower than one year ago in March. This has been a particularly difficult period for those who make a living in milk production. Enplanements at the Minneapolis-St. Paul airport increased by 2 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 fell, most of the indicators showed strength. Employment, consumer expenditures, and income all experienced growth over the recent quarter and the national unemployment rate stabilized. Retail sales have shown some recent weakness and oil prices have stabilized in recent months (which is a welcome sign in the domestic energy sector). 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 Northwest 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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