Southeast Minnesota
Economic and Business Conditions Report
Second Quarter 2016

This issue is part of a series for the six planning areas of Minnesota –
Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities.
The Southeast Minnesota Planning Area consists of 11 counties:
Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona.

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

TABLE OF CONTENTS

Executive Summary

Economic growth in Southeast Minnesota is expected to be steady over the next several months according to the most recent prediction of the Southeast Minnesota Index of Leading Economic Indicators (LEI). After a quarter in which the LEI experienced a small decline, the Southeast Minnesota leading index fell by 3.18 points in the second quarter of 2016. The fall in the LEI was caused by a sharp rise in initial claims for unemployment benefits in recent months—the other four index components have positive readings. Improvement in the Minnesota Business Conditions Index (which serves as a general measure of state business conditions) and a small increase in the number of residential building permits in the Rochester area had a positive influence on the leading index. Stronger consumer sentiment also helped lift the index.

There were 911 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the second quarter of 2016 — representing a 5.4 percent increase from one year ago. There were 73 new regional business incorporations in the second quarter, a 21.7 percent increase from prior year levels. At a level of 536, second quarter new limited liability company (LLC) filings in Southeast Minnesota were 5.3 percent higher than the second quarter of 2015. New assumed names totaled 256 in the second quarter—a 4.1 percent improvement over the same quarter in 2015. There were 46 new filings for Southeast Minnesota non-profits over the three months ending June 2016—five fewer filings than one year earlier.

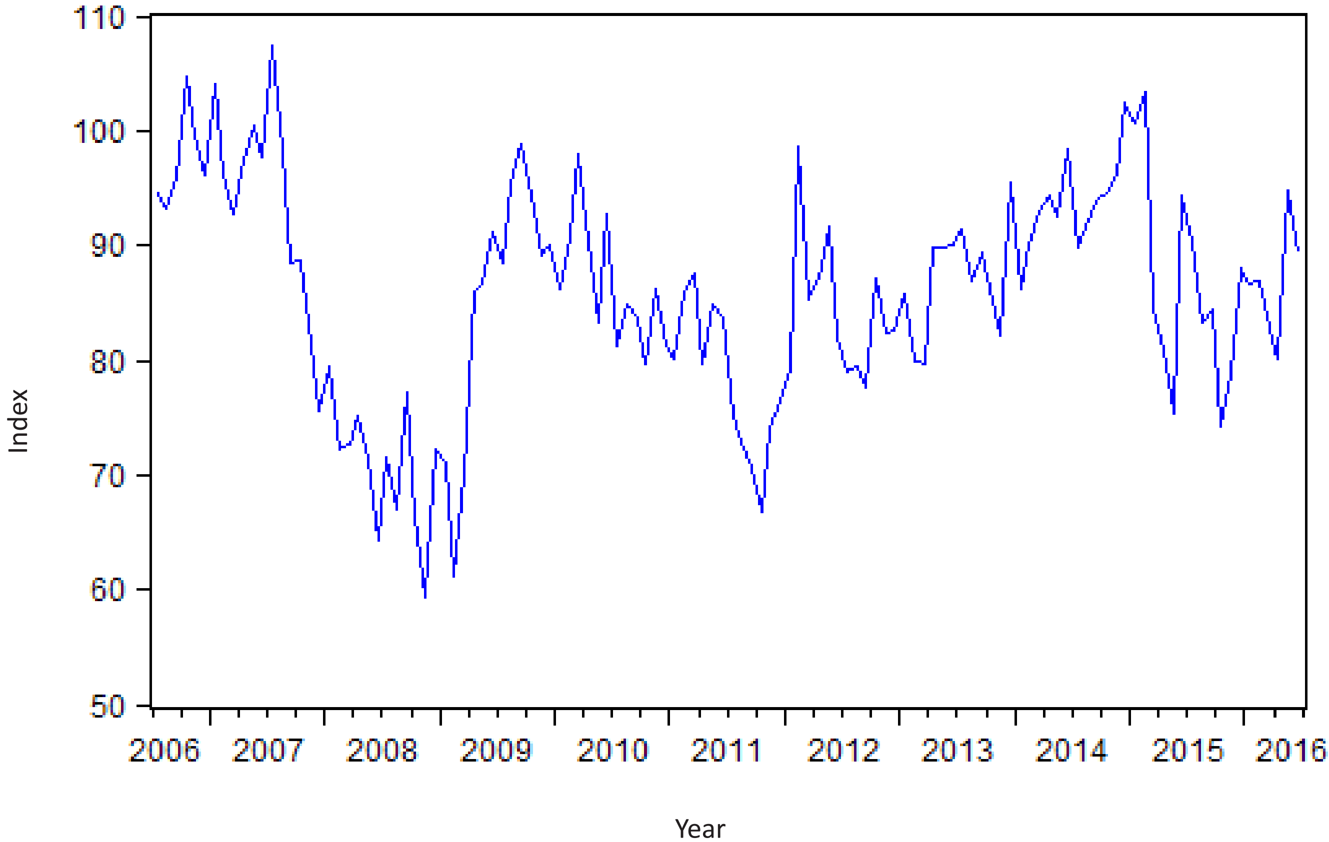
Employment of Southeast Minnesota residents fell by 0.4 percent over the year ending June 2016. Compared to June 2015, 1,219 fewer residents of Southeast Minnesota now have jobs. The regional unemployment rate was 3.6 percent in June, slightly higher than the 3.5 percent level recorded in June 2015. Initial claims for unemployment insurance in June 2016 were 2.6 percent lower than one year earlier. The Southeast Minnesota labor force contracted by 0.3 percent over the past year. The average weekly wage in the Southeast Minnesota planning area was $936 in last year's fourth quarter. This represents a 6.7 percent increase from the fourth quarter of 2014. The planning area's bankruptcies continued to fall and have now reached historically low levels.

Data from the Rochester area—the largest market in Southeast Minnesota—were mostly favorable, with an increase in overall employment (along with employment growth in the key health/education sector), higher average hourly earnings, an expanding labor force, higher new business filings, and a larger value of residential building permits having a positive impact on the outlook. On the negative side was a shorter workweek and lower new filings for incorporation. Initial jobless claims and the unemployment rate were unchanged from year ago levels.

Southeast Minnesota Leading Economic Indicators Index

The SCSU Southeast 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 3.81 points lower in the second quarter, and is now 5.3 percent below its level of one year earlier. As can be seen in the accompanying figure, the LEI was been essentially flat (with considerable volatility) since the beginning of 2015.

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



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2016	Contribution to LEI, 1st quarter 2016
Minnesota Business Conditions Index	0.21	0.61
Southeast Minnesota initial claims for unemployment insurance	-5.15	3.33
Southeast Minnesota new filings of incorporation and LLCs	0.03	0.40
Rochester MSA residential building permits	0.13	-4.12
Consumer Sentiment, University of Michigan	1.6	-1.03
TOTAL CHANGE	**-3.18**	**-0.81**

Four of five components of the LEI had a positive reading in the second quarter (although new filings of incorporation and LLC were nearly neutral). Recent improvement in the Minnesota Business Conditions survey (conducted by Creighton University), which serves as a general measure of state business conditions, contributed to an increase in the LEI, as did higher residential building permits in the Rochester area. Decisions to consume medical services depend in part on consumer choice, so consumer sentiment is used as a national-level indicator of Southeast Minnesota business activity. Consumer sentiment strengthened in the most recent quarter. Higher initial claims for unemployment insurance in recent months had a large negative impact on the index and is solely responsible for this quarter's decline in the LEI.

SCSU Southeast Minnesota Leading Economic Indicators Index

	2016	2015	Percentage change
Minnesota Business Conditions Index June	51.6	53.0	-2.6%
Southeast Minnesota initial claims for unemployment insurance June	1,118	1,334	-16.2%
Southeast Minnesota new filings of incorporation and LLCs Second Quarter	609	567	7.4%
Rochester MSA single-family building permits June	44	57	-22.8%
Consumer Sentiment, University of Michigan June	93.5	96.1	-2.7%
Southeast Minnesota Leading Economic Indicators Index June (June 1999 = 100)	89.3	94.3	-5.3%

Southeast Minnesota Business Filings

Second quarter new business filings rose 5.4 percent to a level of 911. As can be seen in the accompanying graph, the 12-month moving total of new business filings in Southeast Minnesota has slowly trended upward since the end of 2014. 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 due to legal and regulatory issues and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

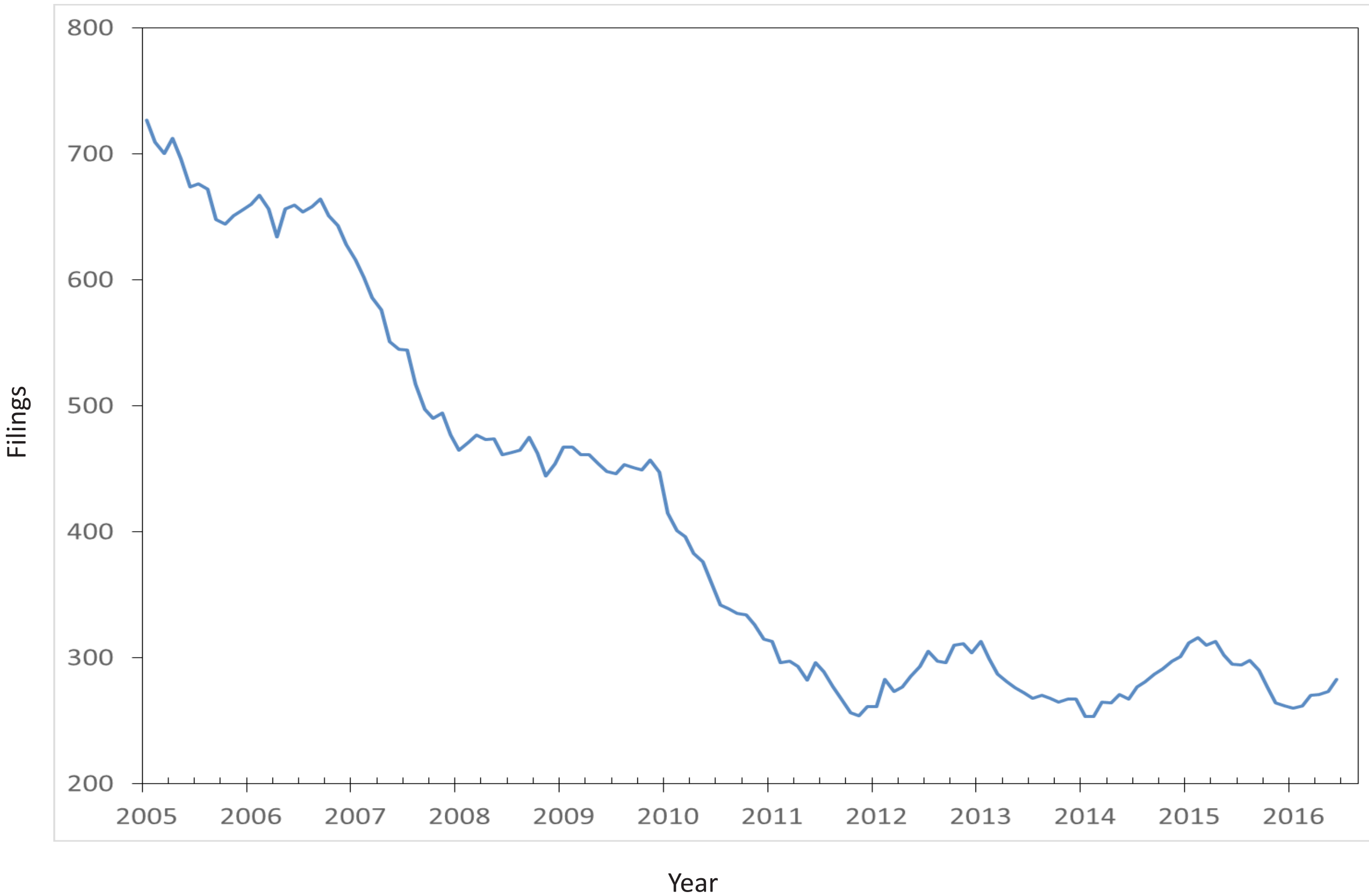
Note: The graphs in this section show the 12-month moving total for the various new business filings in Southeast Minnesota that are registered with the Office of the Minnesota Secretary of State. Doing so removes seasonal patterns in the data.

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

Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Southeast Minnesota Total New Business Filings	864	804	740	929	911	5.4%

New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but have fluctuated around a fairly constant trend in recent years. New incorporations rose 21.7 percent from year earlier levels in the most recent quarter.

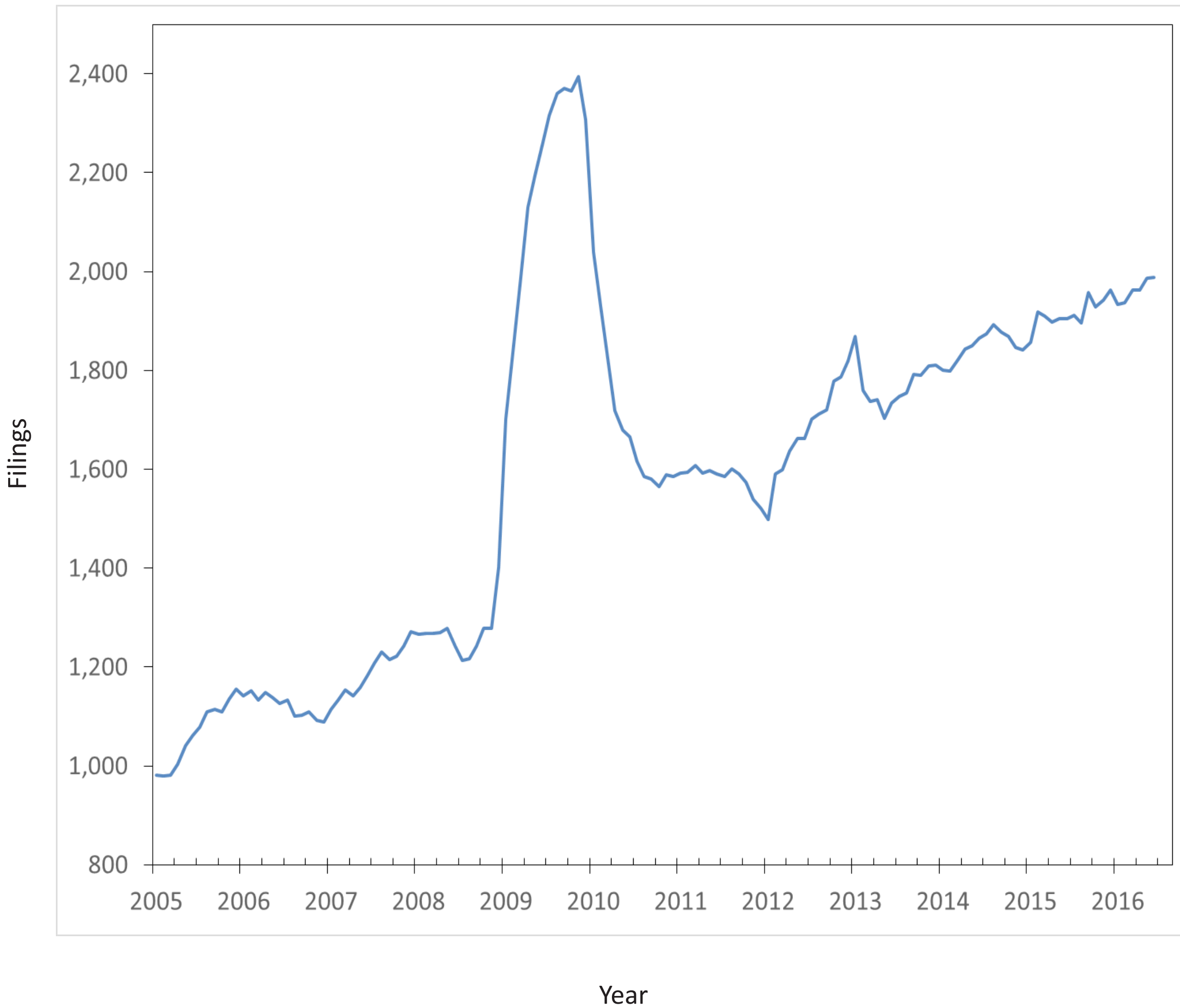
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Southeast Minnesota New Business Incorporations	60	69	61	80	73	21.7%

There has been a move in Southeast Minnesota, as in all 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 Southeast Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southeast Minnesota. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2005. Second quarter LLC filings rose by 5.3 percent over their year earlier level.

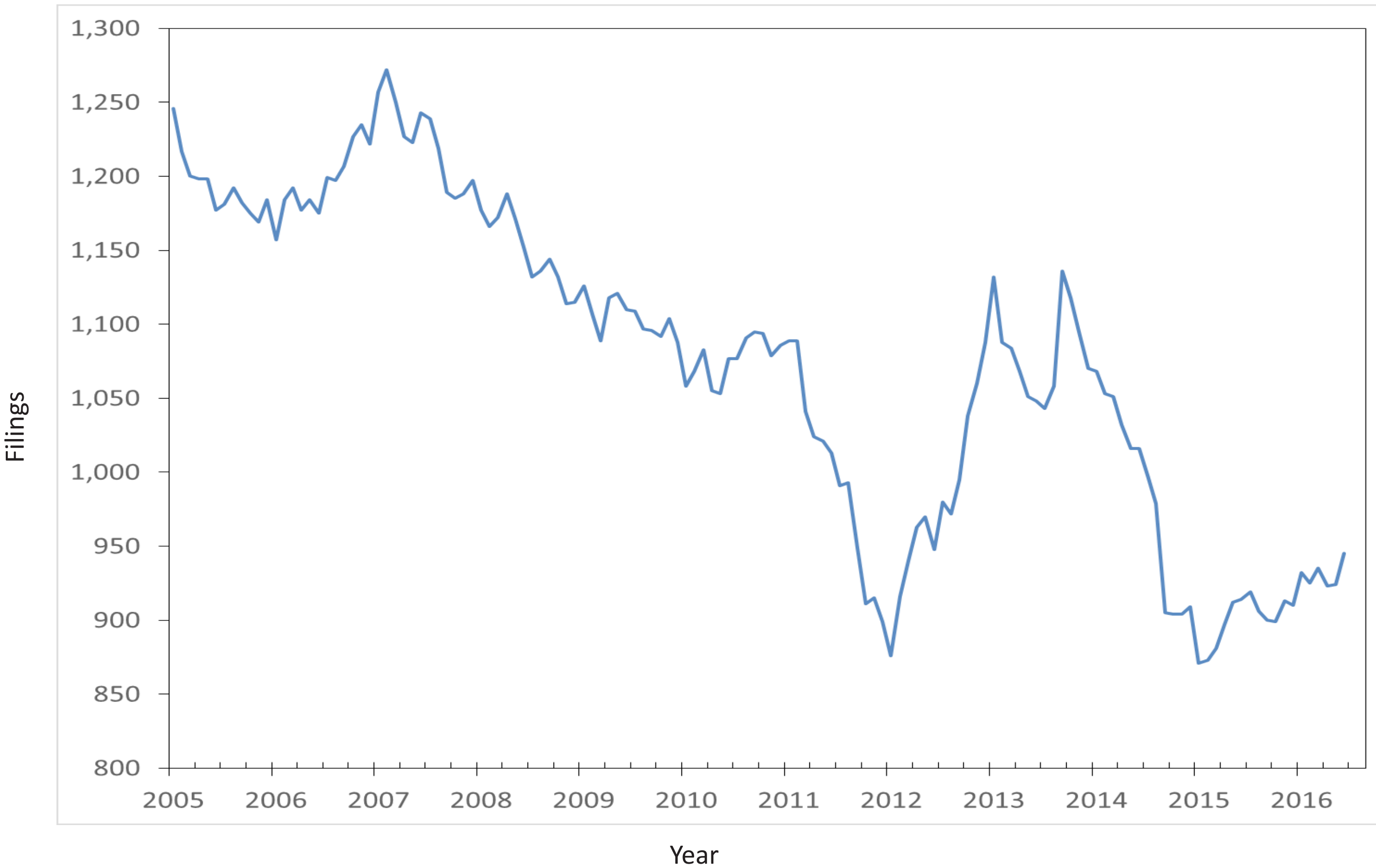
New Limited Liability Companies—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Southeast Minnesota New Limited Liability Companies	509	494	420	539	536	5.3%

On a year over year basis, assumed names, which include sole proprietors or organizations that do not have limited liability, increased by 4.1 percent in Southeast Minnesota in the second quarter. As can be seen in the accompanying graph, after increasing in 2012, this series moved downward until the beginning of 2015, at which time it began to slowly trend upward.

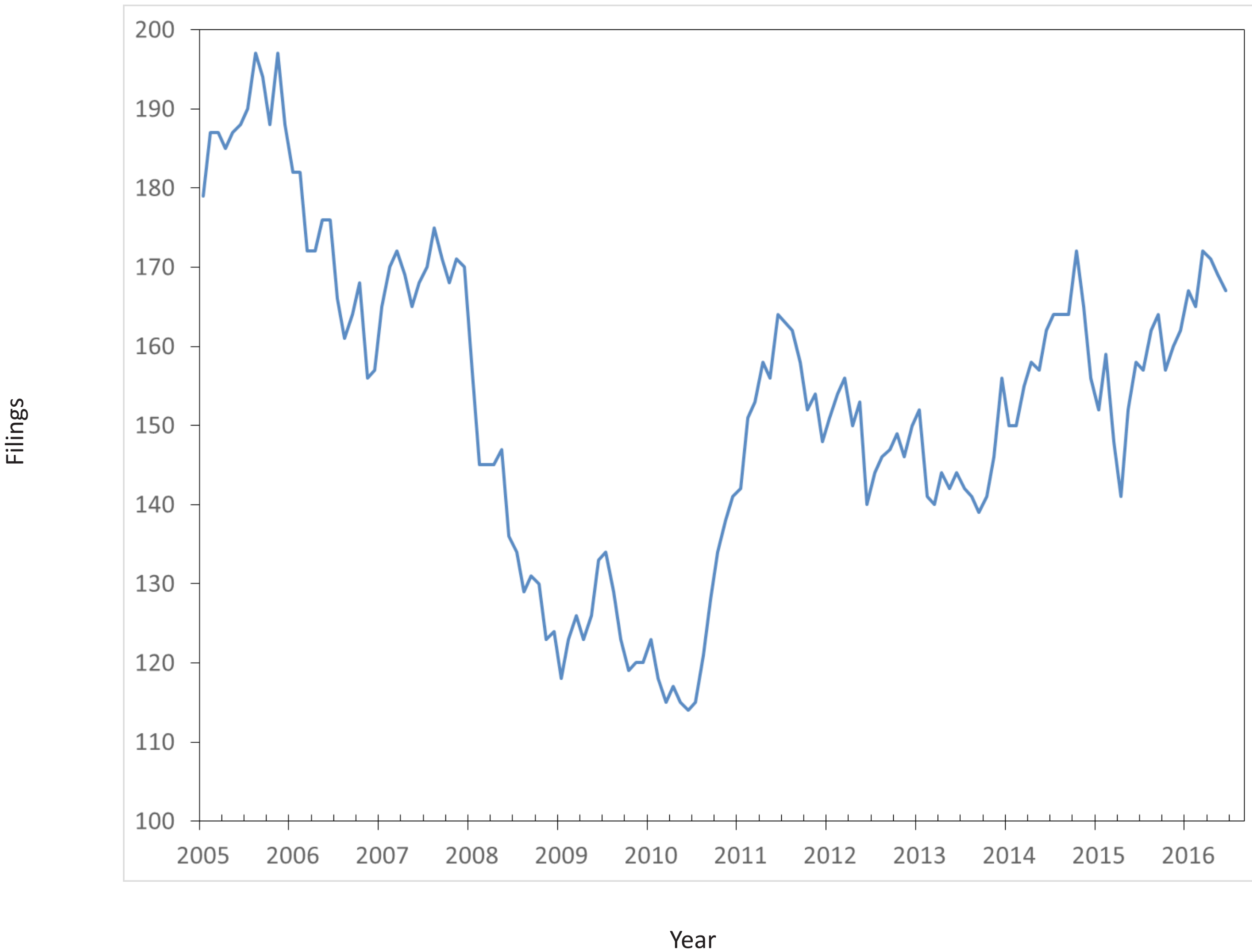
New Assumed Names—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Southeast Minnesota New Assumed Names	246	198	221	270	256	4.1%

After bottoming out in 2010, the number of new Southeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State have increased to levels seen just before the Great Recession. The number of newly formed non-profits totaled 46 in the recent quarter (a 9.8 percent reduction from the second quarter of 2015).

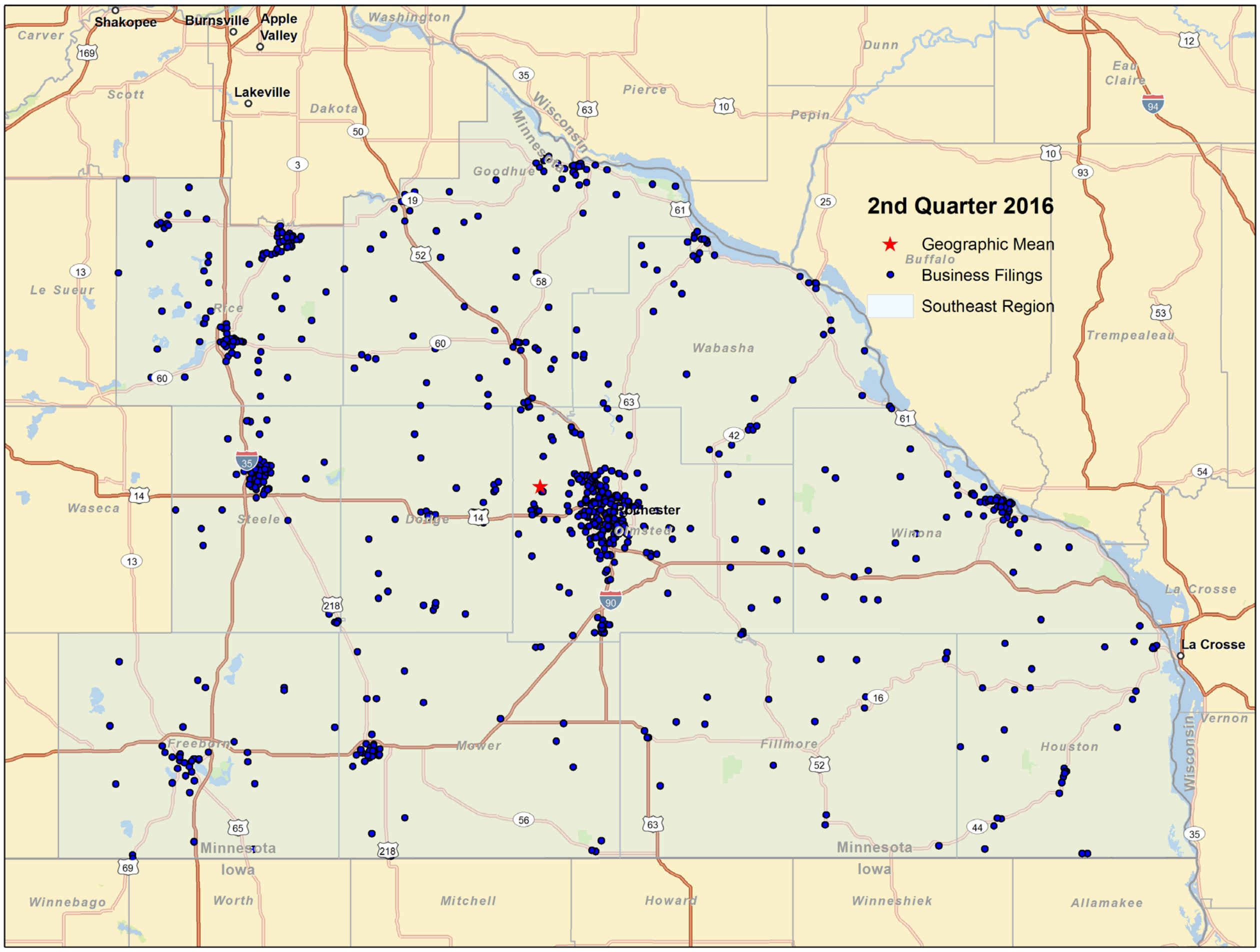
New Non-Profits—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Southeast Minnesota New Non-Profits	51	43	38	40	46	-9.8%

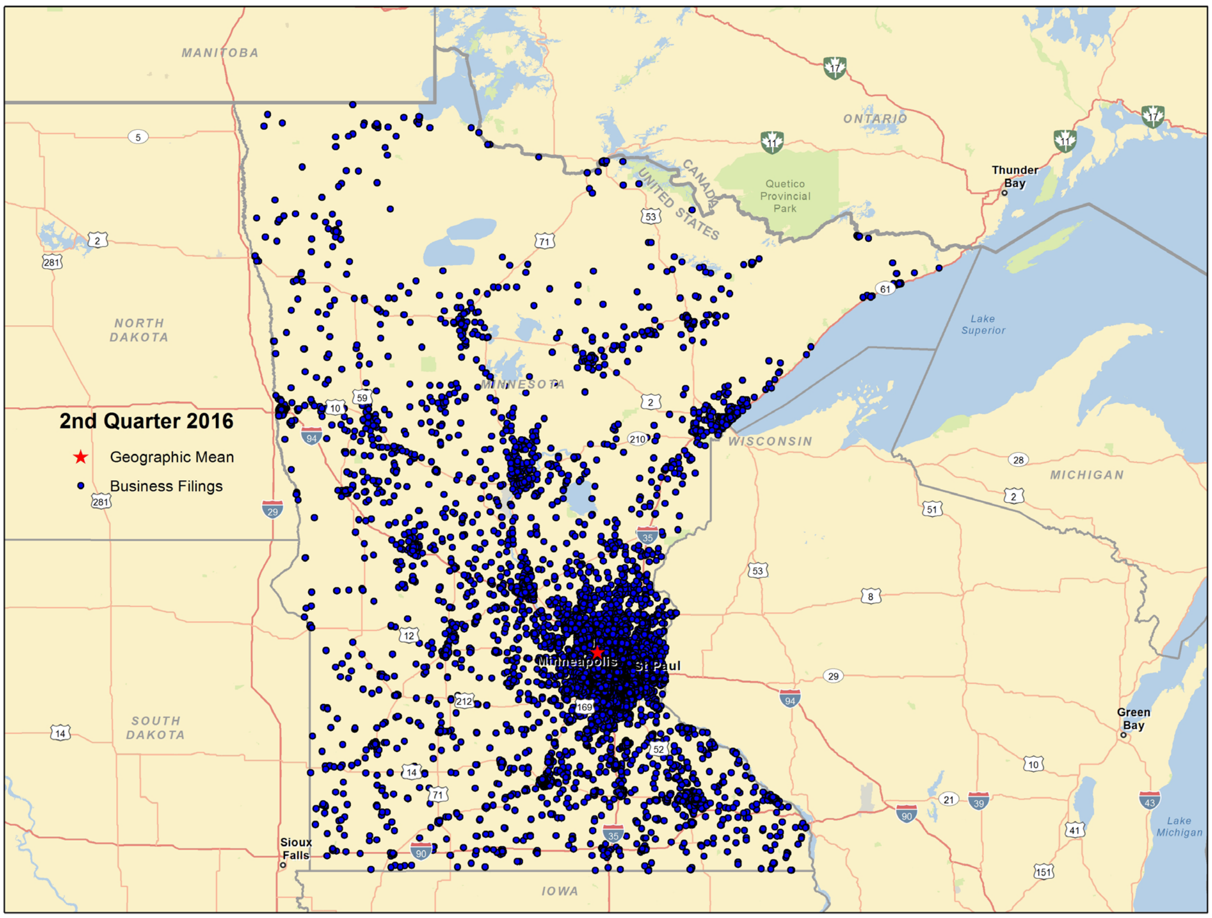
The first map shown below is a visual representation of new business filings around the Southeast Minnesota planning area in the second quarter of 2016. The densest areas of new business formation are in the Rochester metro. Owatonna, Faribault, Northfield, Albert Lea, Austin, and the river cities of Winona, Wabasha, and Red Wing also generated multiple new business filings. Well-traveled roadways are also a predictor of new business formation in Southeast Minnesota.

Southeast Minnesota Planning Area--New Business Formation--Quarter 2: 2016



The second map shows new business filings 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. The map demonstrates the importance of cities and roadways in encouraging economic development. With each passing quarter, St. Cloud, Rochester, and Mankato appear to be more connected to the Twin Cities metro.

Minnesota--New Business Formation--Quarter 2: 2016

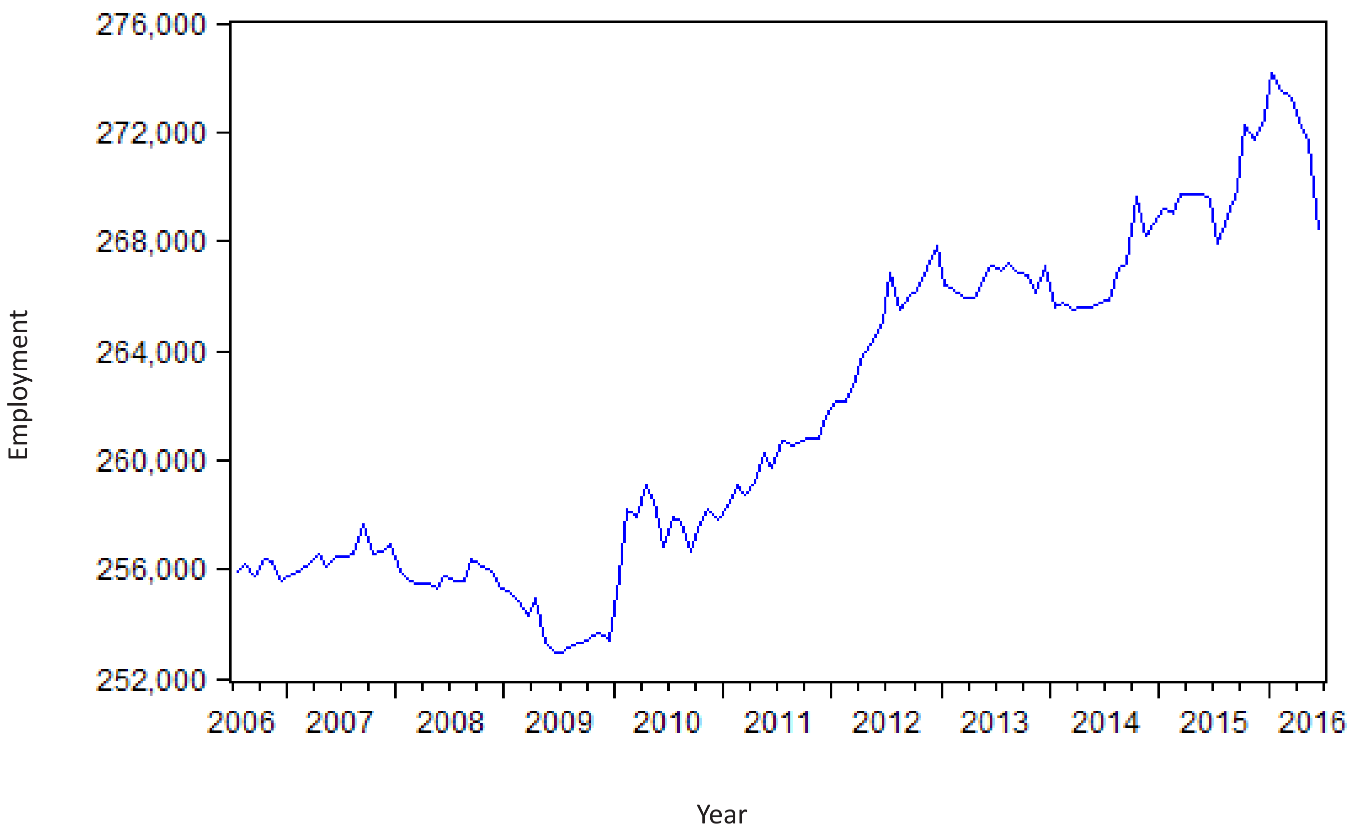


Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area fell by 0.4 percent over the past year. As shown in the accompanying graph, the 12-month moving average of total employment had been trending upward since the end of the Great Recession. But this trend appears to have been reversed in the first two quarters of 2016.

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.

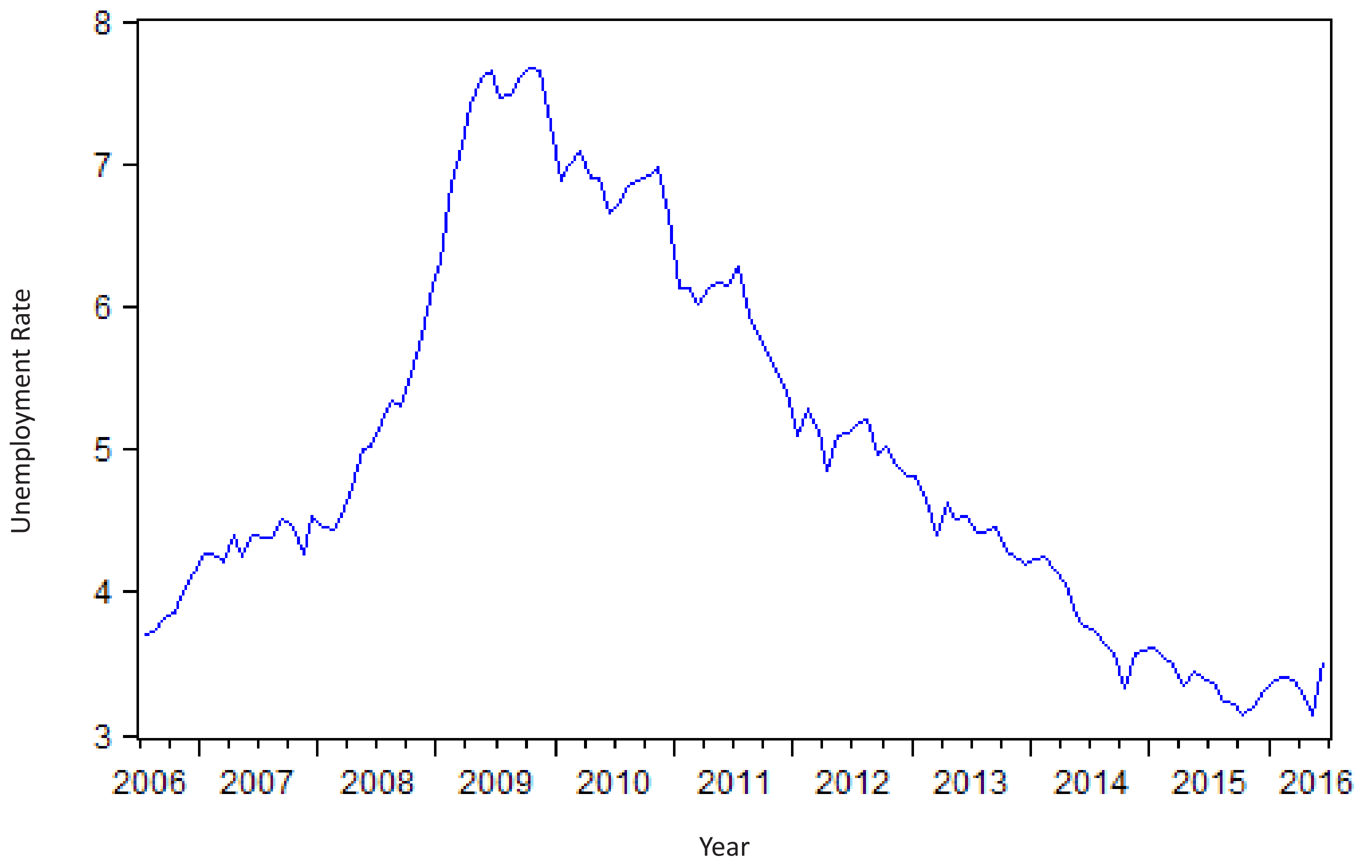
Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Employment (Not seasonally adjusted)	271,752	270,432	269,756	270,959	271,392	271,831	270,533

The seasonally adjusted unemployment rate in Southeast Minnesota has levelled out over the past couple of years. The non-seasonally adjusted unemployment rate stands at 3.6 percent, slightly higher than the 3.5 percent rate observed one year ago.

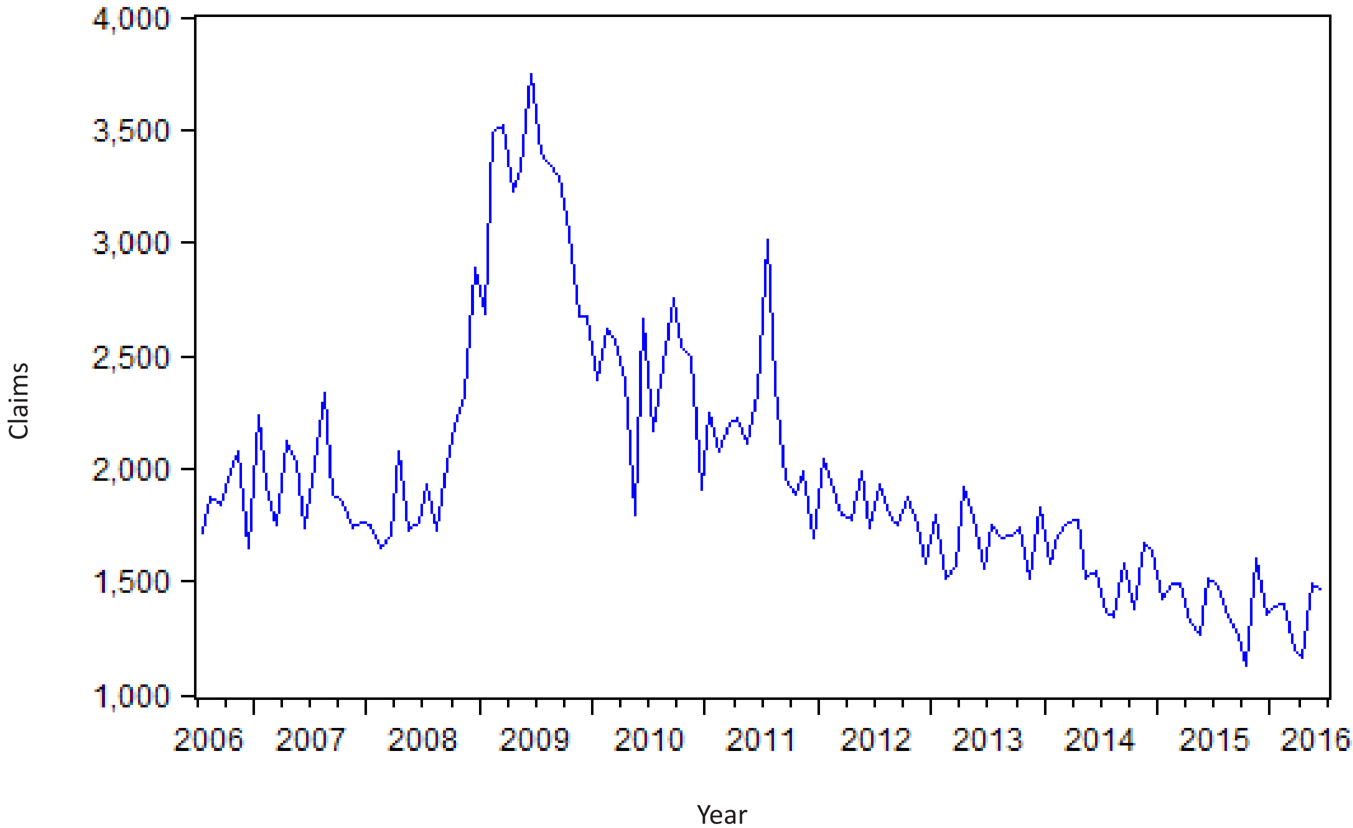
Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Unemployment Rate (Not seasonally adjusted)	3.5%	4.1%	4.1%	4.1%	3.2%	2.9%	3.6%

New claims for unemployment insurance in June 2016 were 2.6 percent lower than one year earlier. However, on a seasonally adjusted basis, these claims appear to have leveled out in recent quarters.

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



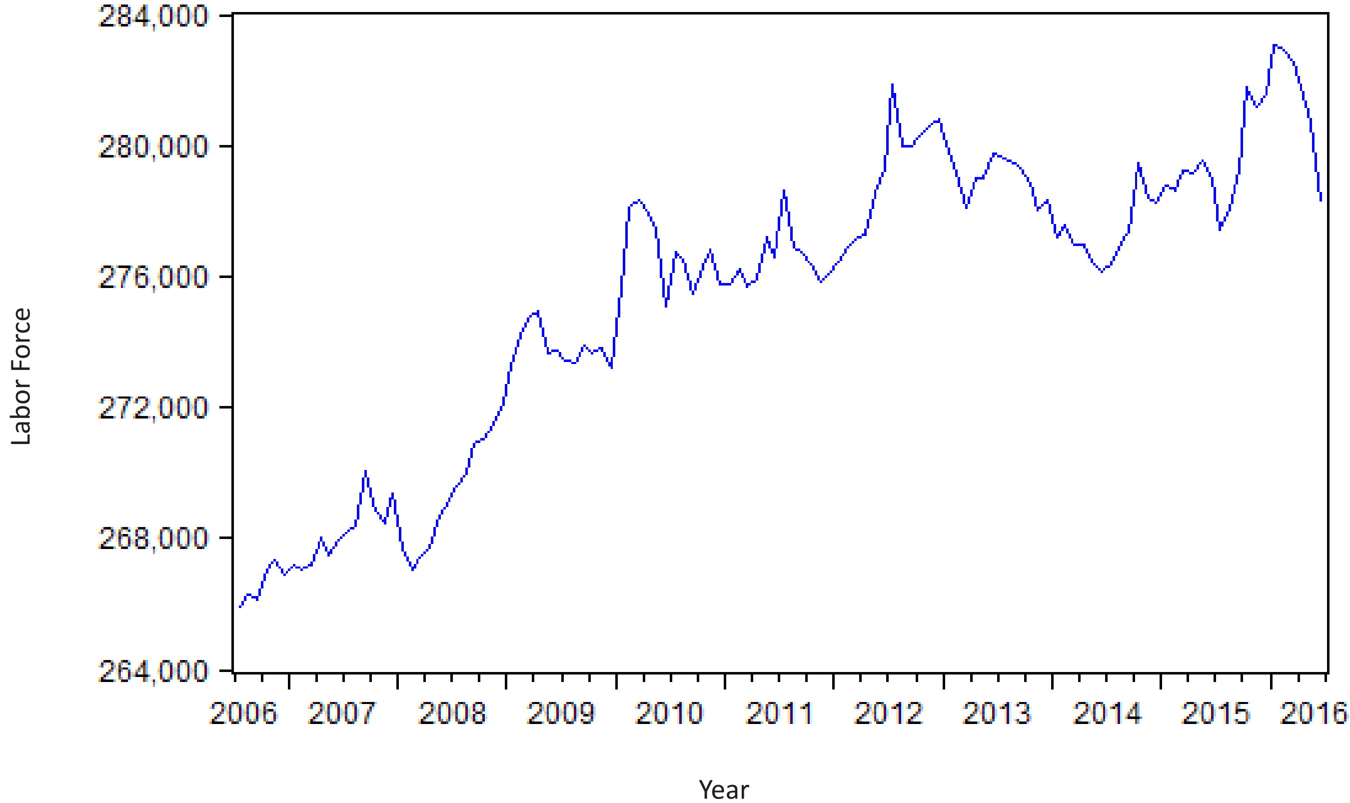
Period	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Initial claims (Not seasonally adjusted)	1,334	1,136	1,394	1,070	906	1,174	1,299

The average weekly wage in the Southeast Minnesota planning area increased 6.7 percent over the year ending in the fourth quarter of 2015 (this is the most recently available data). At $936, Southeast Minnesota has the second highest average weekly wage of Minnesota's six planning areas. Only the Twin Cities offers higher average weekly wages.

Quarter	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV	2015:IV
Average Weekly Wage	$960	$840	$873	$887	$877	$936

The Southeast Minnesota labor force contracted by 0.3 percent over the last year. The regional labor force is now 873 lower than June 2015.

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

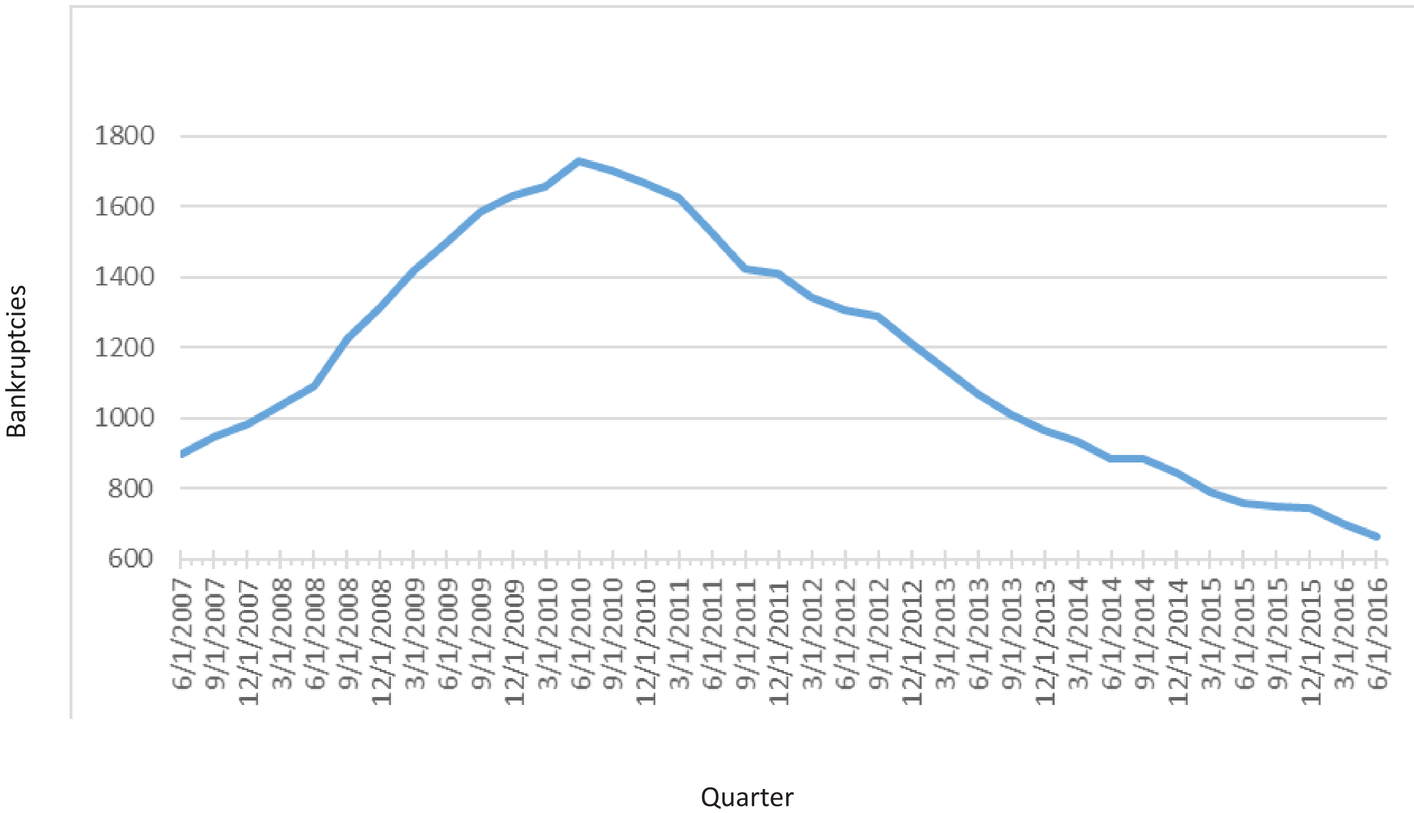


Year (June)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	279,878	282,532	282,824	278,965	281,631	280,758

Southeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southeast 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 has steadily declined since that time). With 662 bankruptcies over the past twelve months, the level of bankruptcies in Southeast Minnesota has now moved to a level that is the lowest recorded over the last nine years.

Southeast Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (not seasonally adjusted)	1,526	1,308	1,068	883	760	662

Economic Indicators

Rochester MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	June 2016 (m)	120,496	118,284	1.9% ↑	0.9%
Manufacturing Employment	June 2016 (m)	10,731	11,245	-4.6% ↓	-2.9%
Educational and Health Employment	June 2016 (m)	48,091	46,064	4.4% ↑	2.8%
Average Weekly Work Hours Private Sector	June 2016 (m)	34.2	35.3	-3.1% ↓	33 (since 2007)
Average Earnings Per Hour Private Sector	June 2016 (m)	$33.87	$33.38	1.5% ↑	3.4% (since 2007)
Unemployment Rate	June 2016 (m)	3.3%	3.3%	NA ↔	4.2%
Labor Force	June 2016 (m)	120,504	119,916	0.5% ↑	0.6%
Initial Jobless Claims	June 2016 (m)	459	459	0.0% ↔	NA
Business Formation					
Total New Business Filings	Second Quarter 2016 (q)	444	404	9.9% ↑	376 (since 2000)
New Business Incorporations	Second Quarter 2016 (q)	32	37	-13.5% ↓	55 (since 2000)
New Limited Liability Companies	Second Quarter 2016 (q)	268	238	12.6% ↑	173 (since 2000)
New Assumed Names	Second Quarter 2016 (q)	122	105	16.2% ↑	129 (since 2000)
New Non-profits	Second Quarter 2016 (q)	22	24	-8.3% ↓	18 (since 2000)
Rochester Residential Building Permit Valuation, in thousands	June 2016 (m)	28,113	20,284	38.6% ↑	NA

(m) represents a monthly series

Southeast Minnesota contains the Rochester MSA, an area that derives much of its employment from the educational and health sector. This sector continues to be a pillar of economic vitality for Rochester (and for Southeast Minnesota). Year-over-year overall employment in the Rochester area increased by 1.9 percent in June 2016 and employment in the key education/health sector rose by 4.4 percent (above the 2.8 percent long-term annualized growth of employment in this sector). Note that the share of employment in Rochester's educational and health sector has increased from 29.4 percent of employment to more than 40 percent since 1999. Average earnings per hour in the private sector increased over the year ending June 2016, the labor force expanded, the value of residential building permits rose, and new business filings increased. Both initial jobless claims and the unemployment rate were unchanged. The length of the workweek fell and manufacturing employment declined.

State and National Indicators

MINNESOTA Indicators	Jun 2016	Mar 2015	Jun 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,891,800	2,876,200	2,859,500	0.5%	1.1%
Average weekly hours worked, private sector	34.3	33.5	34.1	2.4%	0.6%
Unemployment rate, seasonally adjusted	3.8%	3.8%	3.6%	NA	NA
Earnings per hour, private sector	$26.64	$27.05	$25.71	-1.5%	3.6%
Philadelphia Fed Coincident Indicator, MN	180.34	179.04	175.78	0.7%	2.6%
Philadelphia Fed Leading Indicator, MN	1.70	1.31	1.50	29.8%	13.3%
Minnesota Business Conditions Index	51.6	50.7	54.3	1.8%	-5.0%
Price of milk received by farmers (cwt)	$15.00	$15.80	$17.90	-5.1%	-16.2%
Enplanements, MSP airport, thousands	1,725.6	1,662.9	1,680.9	3.8%	2.7%

NATIONAL Indicators	Jun 2016	Mar 2015	Jun 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	144,193	143,733	141,724	0.3%	1.7%
Industrial production, index, SA	104.1	103.4	104.9	0.7%	-0.8%
Real retail sales, SA ($)	190,850	188,259	187,323	1.4%	1.9%
Real personal income less transfers ($, bill.)	11,849.7	11,828.7	11,661.1	0.2%	1.6%
Real personal consumption expenditures ($, bill.)	11,514.3	11,374.4	11,199.2	1.2%	2.8%
Unemployment rate, SA	4.9%	5.0%	5.3%	NA	NA
New building permits, SA, thousands	22,634	19,300	24,190	17.3%	-6.4%
Standard & Poor's 500 stock price index	2,083.9	2,022	2,099	3.1%	-0.7%
Oil, price per barrel in Cushing, OK	$48.76	$37.55	$59.82	29.9%	-18.5%

Across the state there was growth in payrolls, higher earnings per hour, and more average weekly hours worked in the private sector over the past twelve months (note that June earnings were lower than three months earlier). The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy. The Minnesota Business Conditions index improved over the past three months, but was lower than year ago levels. Milk prices continue to fall across the state. As was noted in last quarter's report, 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 2.7 percent over the last twelve months.

The national economic indicators reported in the table are mixed. Over the past twelve months, industrial production and stock prices declined, building permits are lower, and oil prices have continued to fall. However, employment, consumer expenditures, and income all experienced growth over the recent quarter (and year) and the national unemployment rate fell. Retail sales improved. This all seems to fit with a general outlook of positive growth that is lower than normal for the U.S. economy. While there is little fear of recession, sluggish growth conditions persist.

The Southeast 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.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Alex Franta. Professor David Wall of the SCSU Geography Department provided GIS assistance.

Sources

Council for Community and Economic Research: Cost of Living Index.

Creighton University Heider College of Business: Minnesota Business Conditions Index, Rural MainStreet Index.

Federal Reserve Bank of Philadelphia: Minnesota Coincident Indicator Index, Minnesota Leading Indicators Index.

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.