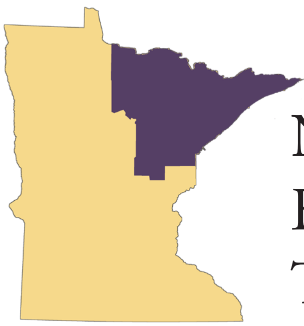

Northeast Minnesota
Economic and Business Conditions Report
Third Quarter 2016

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

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Executive Summary

A deceleration of economic growth in Northeast Minnesota is expected over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). Two of the five components of the LEI increased as the overall index fell by 1.36 points in the third quarter. An increase in new filings of incorporation in the Northeast Minnesota planning area and lower initial jobless claims had a positive impact on the LEI, while recent weakness in a general measure of statewide business conditions and a fall in a supply managers' survey helped drive the index lower. A decline in the number of Duluth area residential building permits also weighed on the index.

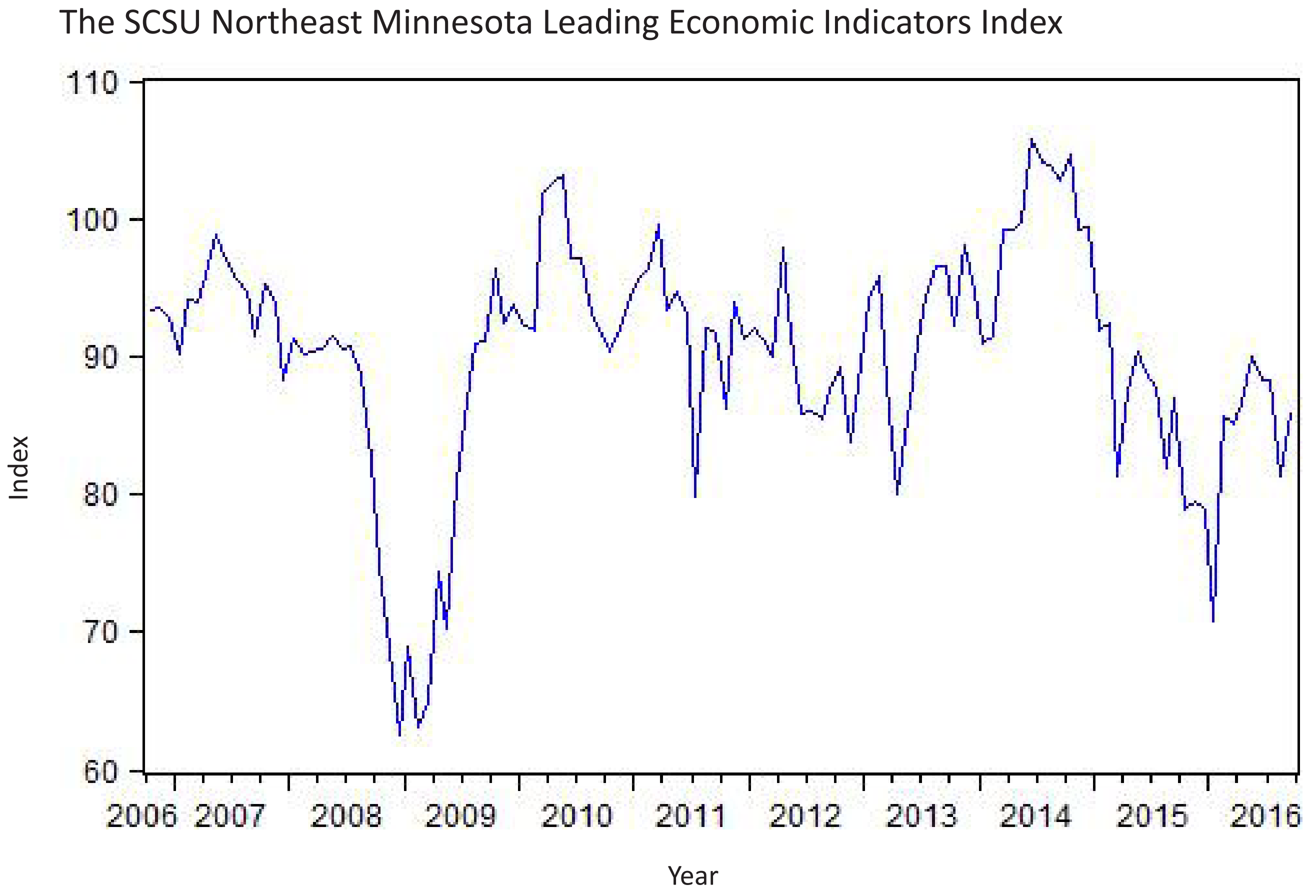
There were 479 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the third quarter of 2016 — representing a 2.6 percent increase from one year earlier. Forty-eight new regional business incorporations were filed in the third quarter—a 4.3 percent rise from 2015. New limited liability company (LLC) filings in Northeast Minnesota rose 10.6 percent to a level of 271. New assumed names totaled 134 in the third quarter—a 15.7 percent reduction from the third quarter of 2015. There were 26 new filings for Northeast Minnesota non-profit in the 2016 third quarter—nine more than one year earlier.

Northeast Minnesota employment was 2 percent lower than year ago levels in September. The regional unemployment rate was 5% (up from 4.6% one year ago) while the labor force contracted by 2,675, a 1.6% decline from one year earlier. September 2016 initial claims for unemployment insurance were 123 higher than the year earlier (a 13.4 percent increase). Job vacancies increased to 78.59 per 100 unemployed in the most recent quarter for which data are available. Northeast Minnesota bankruptcies continued to slowly decline in this year's third quarter.

Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was mixed. Northeast Minnesota's largest market experienced a 0.4 percent increase in overall employment over the year ending September 2016. It also added employment in its key education/health sector. Average weekly work hours also rose. However, average hourly earnings fell. The area unemployment rate rose to 4.7 percent and the labor force contracted. The value of residential building permits decreased in September compared to the same period in 2015.

Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast Minnesota Leading Economic Indicators Index (LEI) is designed to predict performance of the regional economy with a four-to-six month lead time. After a 0.53 point increase in the second quarter, this quarter's LEI fell a modest 1.36 points. The LEI is now 0.8 percent below its September 2015 level. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility since the end of the Great Recession, but had trended downward from mid-2014 until the beginning of 2016. On balance, 2016 has been a fairly good year for the Northeast Minnesota Leading Economic Indicators Index.



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2016	Contribution to LEI, 2nd quarter 2016
Minnesota Business Conditions Index	-1.34	0.37
Northeast Minnesota initial claims for unemployment insurance	0.56	-0.63
Northeast Minnesota new filings of incorporation	1.81	-0.42
Duluth Superior MSA residential building permits	-0.76	-0.13
Institute of Supply Management Purchasing Managers Index for manufacturing	-1.63	1.34
TOTAL CHANGE	**-1.36**	**0.53**

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 third quarter. Higher new filings for business incorporation and a decrease in initial unemployment claims had a positive impact on the index. Weaker performance of the Minnesota Business Conditions Index (which is used as an indicator of general statewide business conditions) weighed on the Northeast Minnesota leading index as did lower residential building permits in the Duluth/Superior MSA.

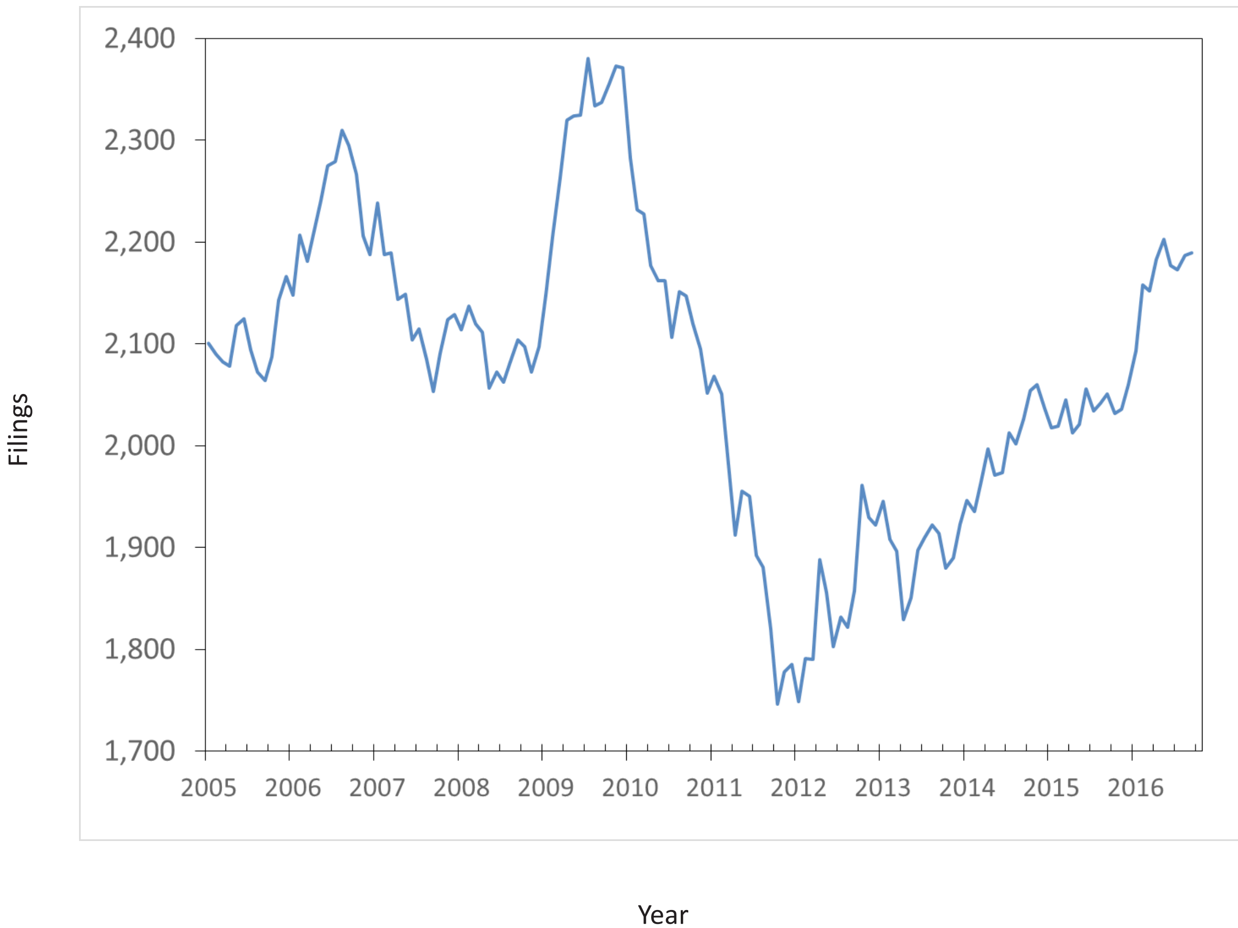
SCSU Northeast Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Minnesota Business Conditions Index September	48.4	53	-8.7%
Northeast Minnesota initial claims for unemployment insurance September	1,041	918	13.4%
Northeast Minnesota new filings of incorporation Third Quarter	48	46	4.3%
Duluth-Superior MSA single-family building permits September	8	9	-11.1%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, September	51.5	50.0	3.0%
Northeast Minnesota Leading Economic Indicators Index September (December 1999 = 100)	86.1	86.8	-0.8%

Northeast Minnesota Business Filings

Total new business filings rose by 2.6 percent compared to the third quarter of 2015. The 12-month moving total of this series has trended upward since the end of 2011. 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.

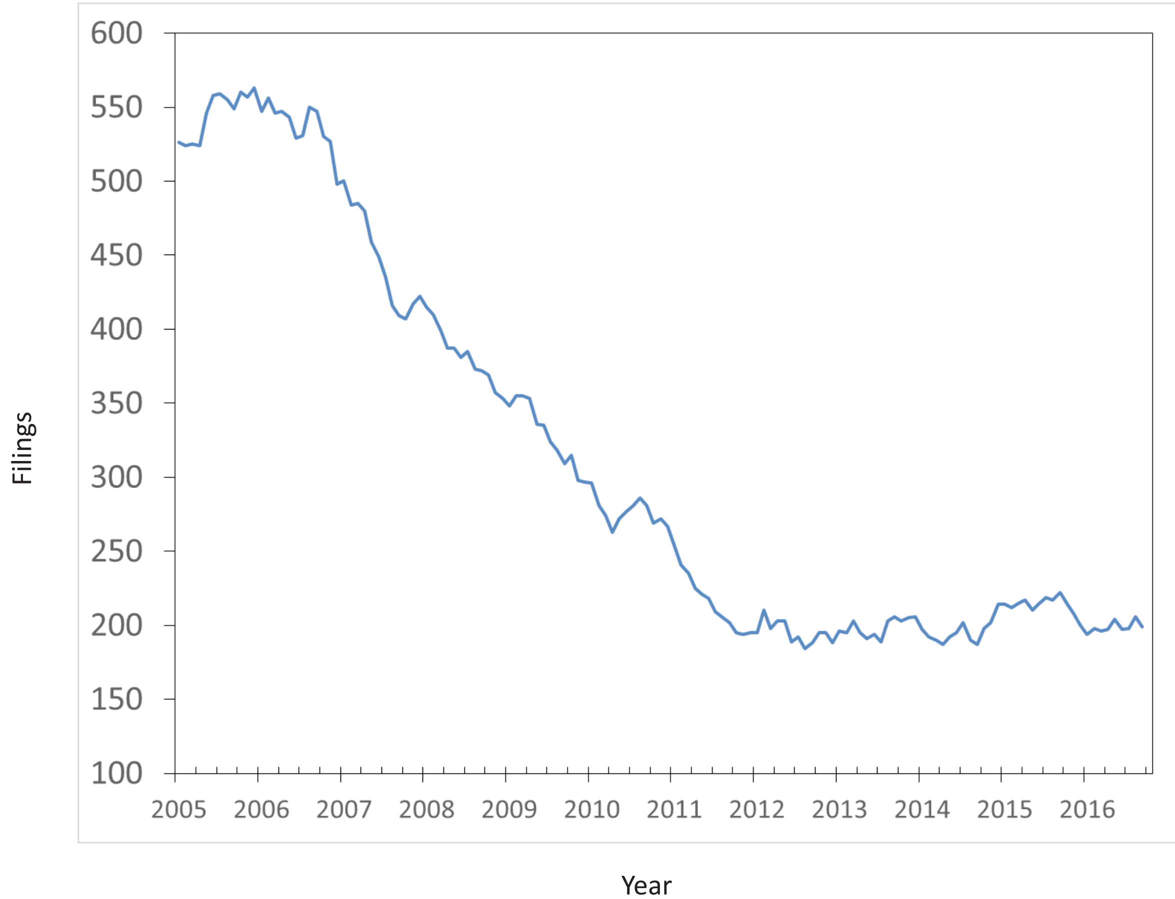
Total New Business Filings—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Northeast Minnesota Total New Business Filings	467	487	639	584	479	2.6%

New filings for business incorporation rose 4.3 percent from last year's third quarter. As can be seen in the accompanying graph, the 12 month moving total of Northeast Minnesota new business incorporations has flattened out since the beginning of 2012.

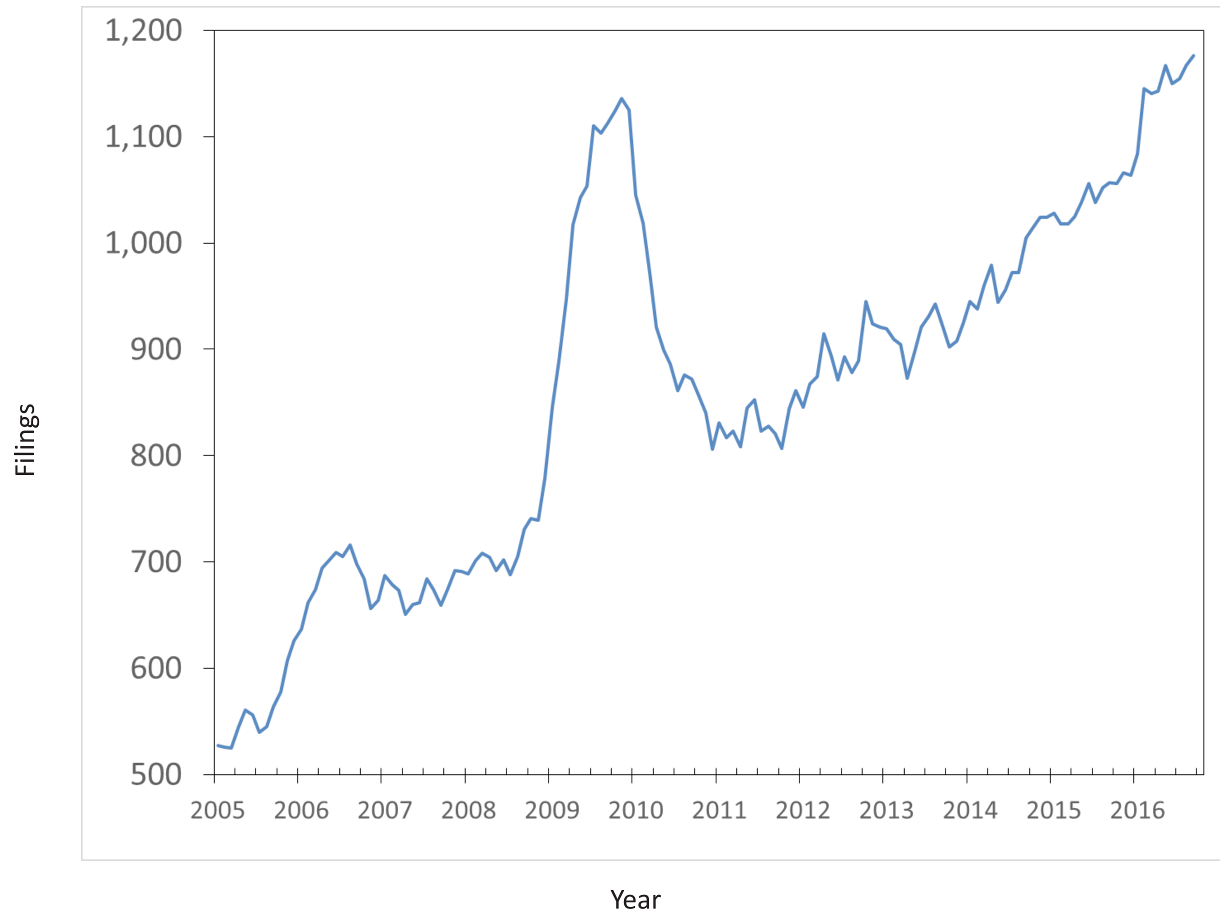
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Northeast Minnesota New Business Incorporations	46	47	51	53	48	4.3%

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 third quarter as new LLC filings grew 10.6 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.

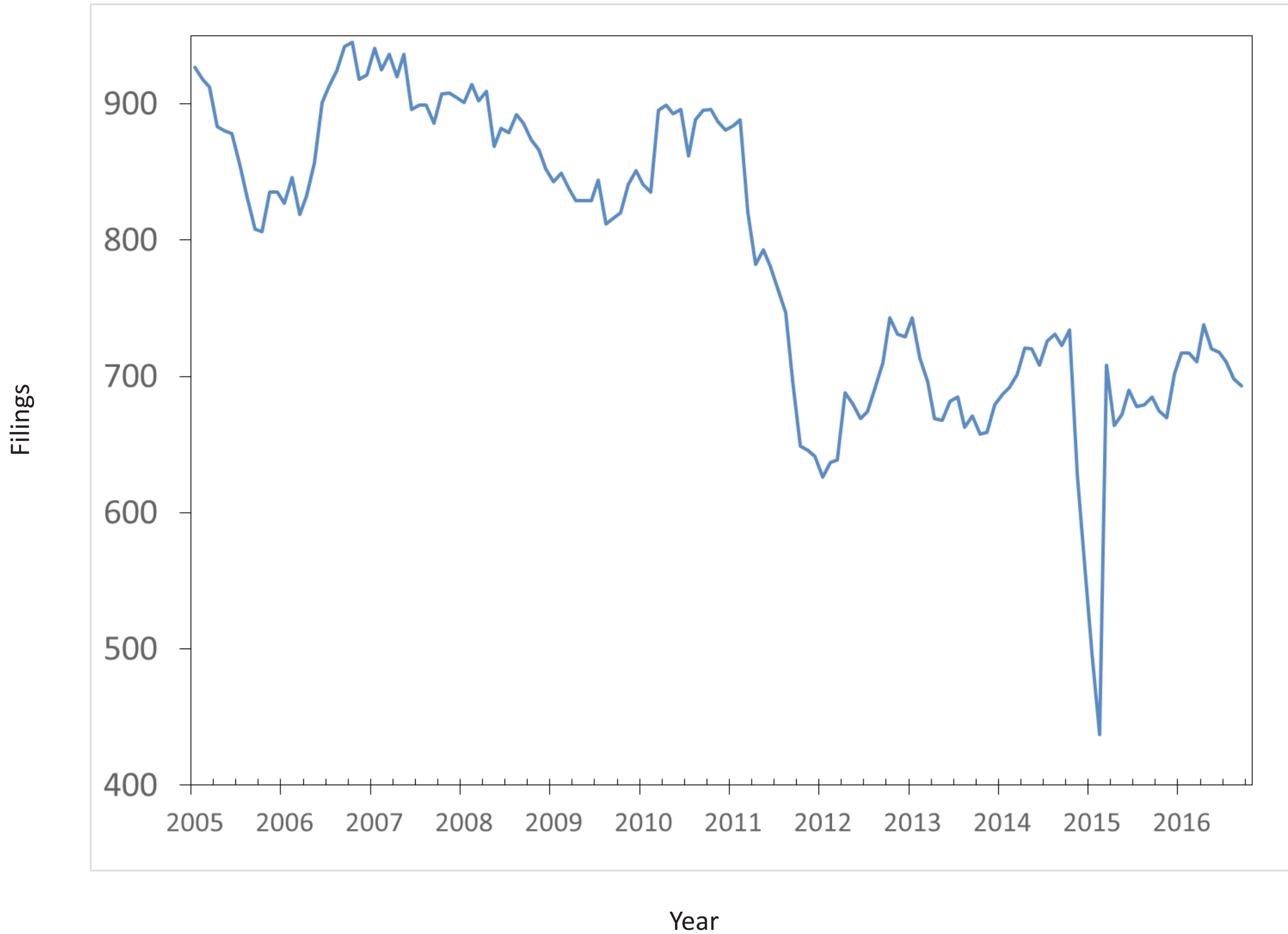
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	245	266	337	302	271	10.6%

Compared to the third quarter of 2015, assumed names plunged by 15.7 percent in Northeast Minnesota. After leveling out from 2011 to 2014, new assumed names filings in Northeast Minnesota declined precipitously in 2014, but have since returned to the 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	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Northeast Minnesota New Assumed Names	159	145	215	199	134	-15.7%

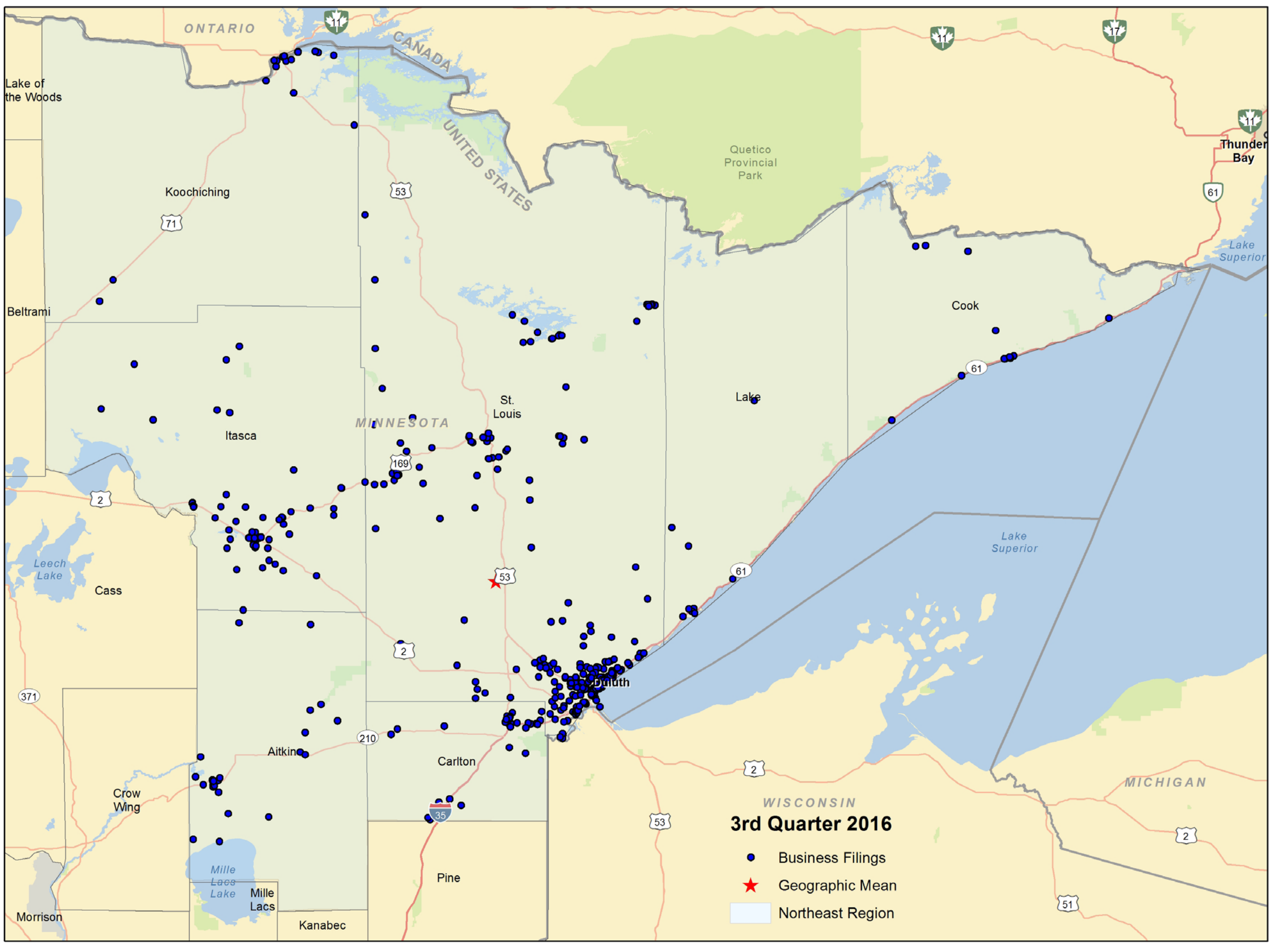
There were 26 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the third quarter of 2016, nine more than were recorded one year ago.

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

Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Northeast Minnesota New Non-Profits	17	29	36	30	26	52.9%

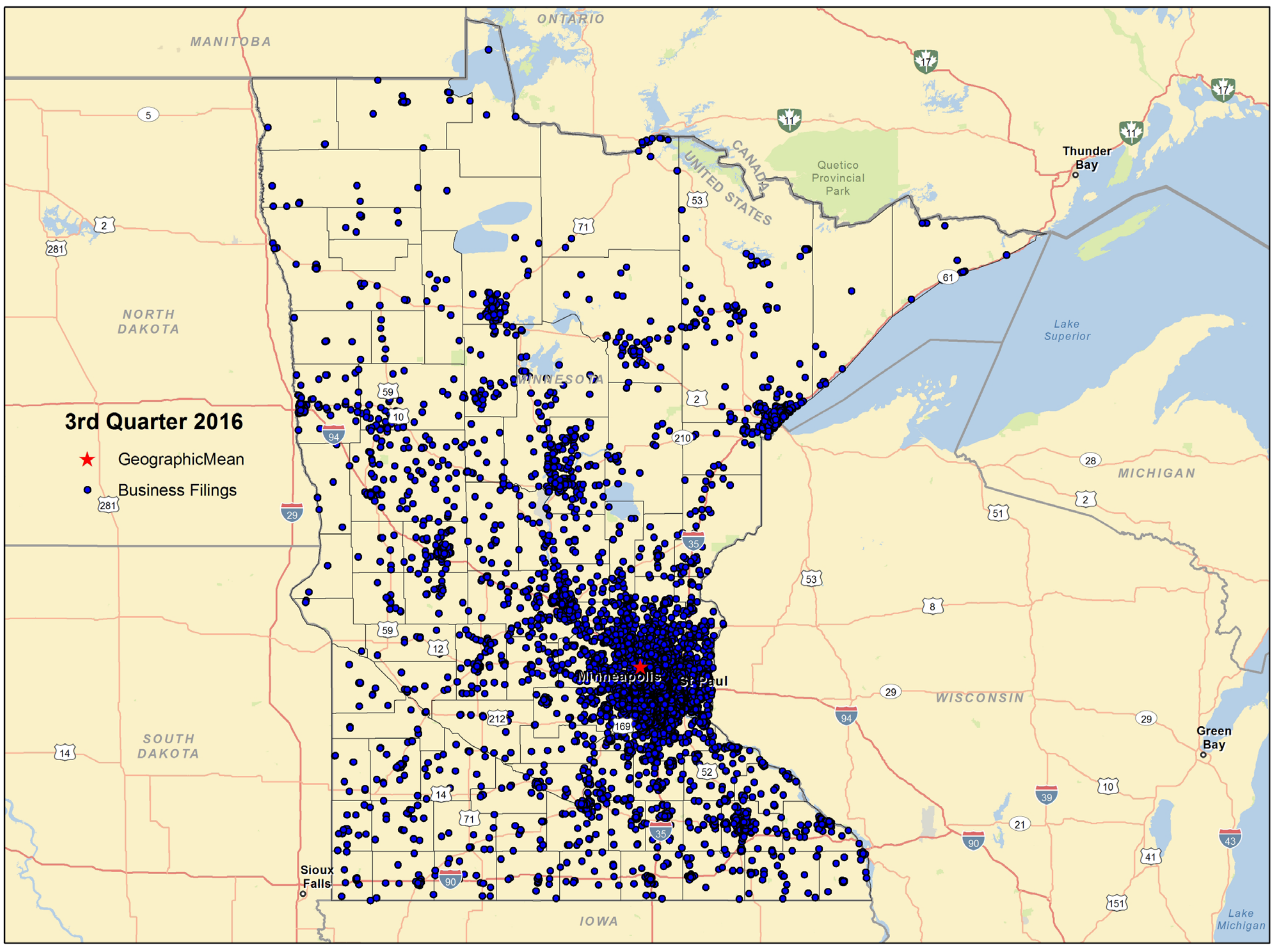
The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in the third quarter of 2016. The densest areas of new business formation are in the Duluth metro as well as along the region's well-traveled roadways. There was a noticeable cluster of new business formation along Highway 169, in the Virginia-Hibbing-Grand Rapids corridor. International Falls also saw a spurt of new business formation.

Northeast Minnesota Planning Area--New Business Formation--Quarter 3: 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. St. Cloud now appears to be integrated into the Twin Cities metro as the I-94/US-10 corridor continues to be a magnet for new business formation.

Minnesota--New Business Formation--Quarter 3: 2016

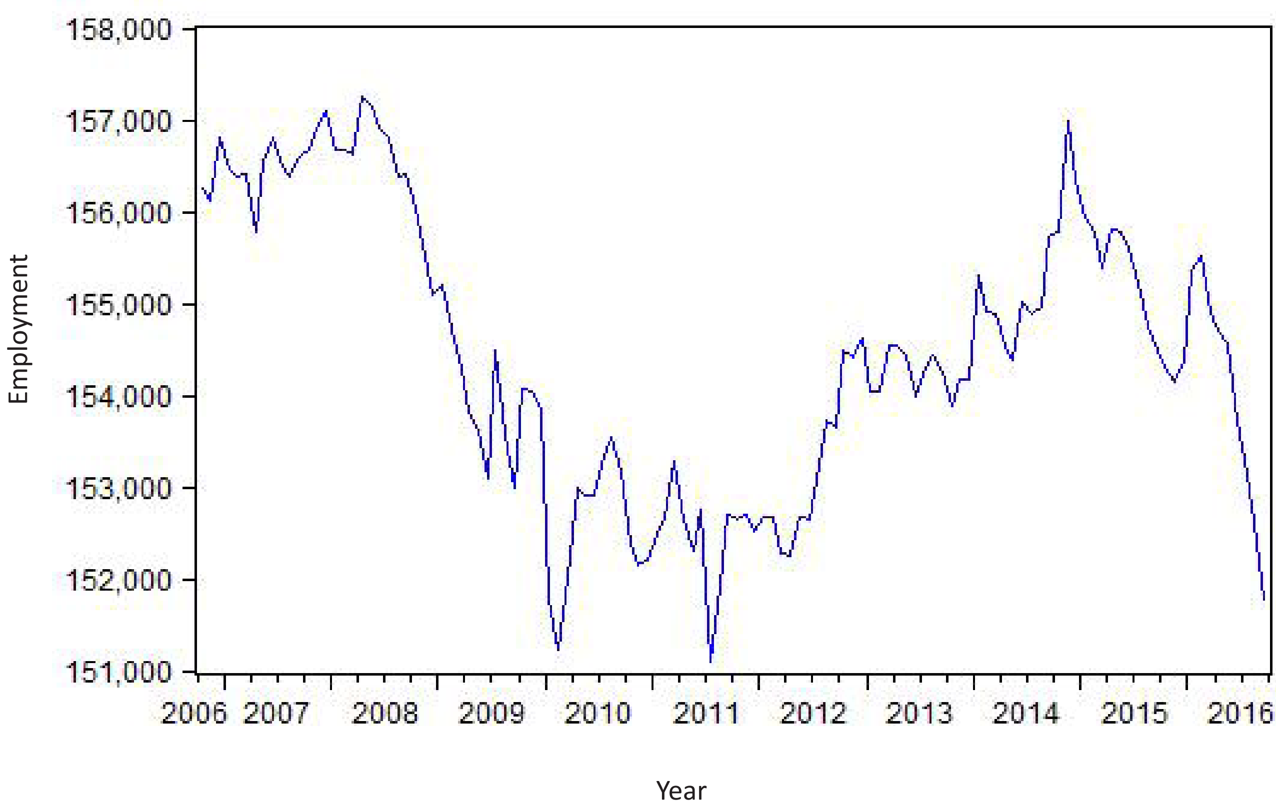


Northeast Minnesota Labor Market Conditions

September 2016 employment in the Northeast Minnesota planning area was 2 percent lower 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. Employment gains tallied in last year's fourth quarter appeared to have returned this series back to its recent growth trend, but recent job loss has slowed this progress.

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.

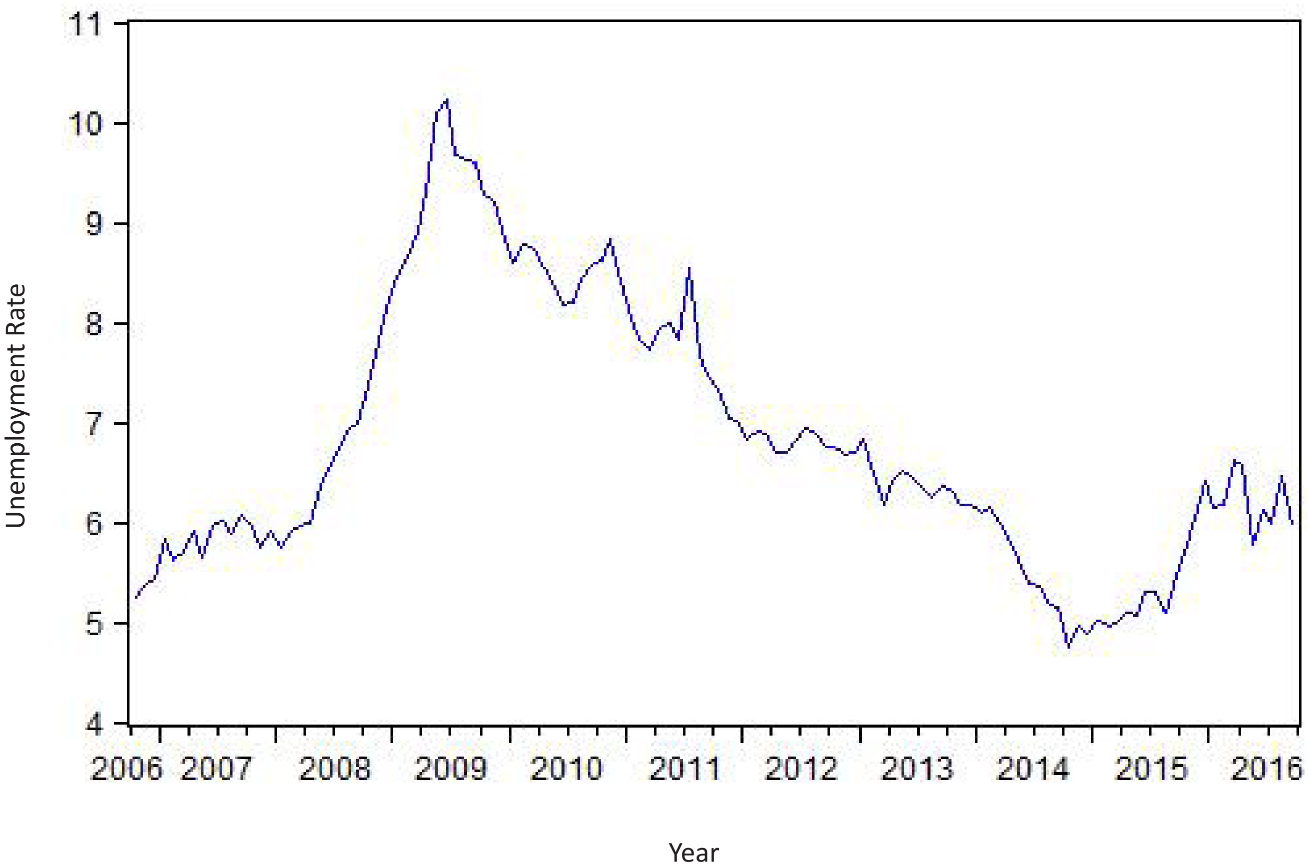
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Employment (Not seasonally adjusted)	155,649	153,724	155,501	155,951	155,721	153,924	152,467

The seasonally adjusted unemployment rate in Northeast Minnesota had been trending upward since the end of 2014. However, this series has flattened out in recent quarters. At 5 percent, the non-seasonally adjusted rate was higher than one year earlier. The unemployment rate in Northeast Minnesota is higher than in any of Minnesota's six planning areas.

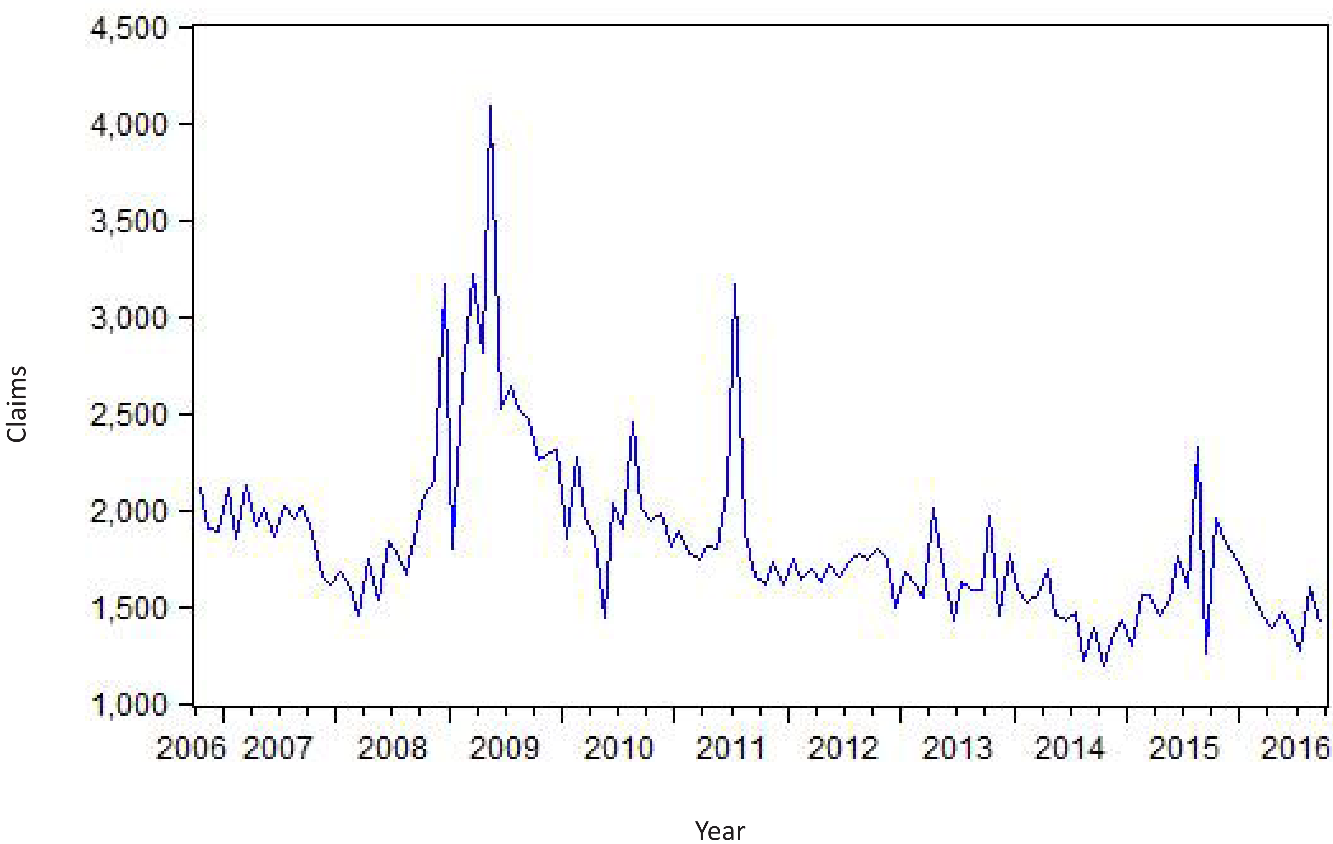
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Unemployment Rate (Not seasonally adjusted)	4.6%	6.9%	5.6%	6.2%	5.8%	5.9%	5%

On a seasonally adjusted basis, initial jobless claims in the Northeast region have shown considerable volatility since 2014. While there have been some sharp movements in this series over the past couple of years, the overall trend has been a flattening out of the claims series. This quarter's initial jobless claims rose by 13.4% compared to one year earlier.

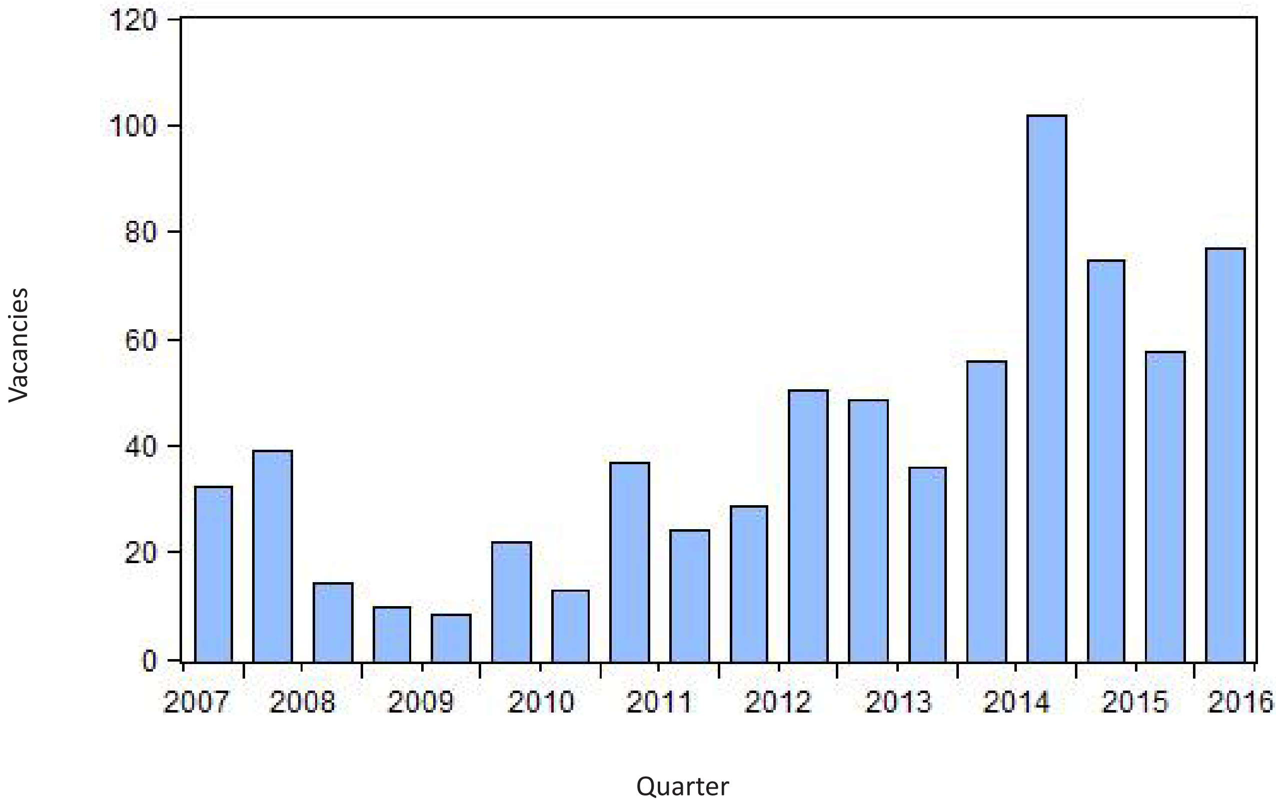
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Initial claims (Not seasonally adjusted)	918	1,189	1,277	1,173	931	1,039	1,041

The number of job vacancies per 100 unemployed rose in the second quarter of 2016 (this is the most recently available data). The job vacancy rate remains elevated in Northeast Minnesota (and throughout the state). This job vacancy rate is now several times higher than it was at its low point during the Great Recession.

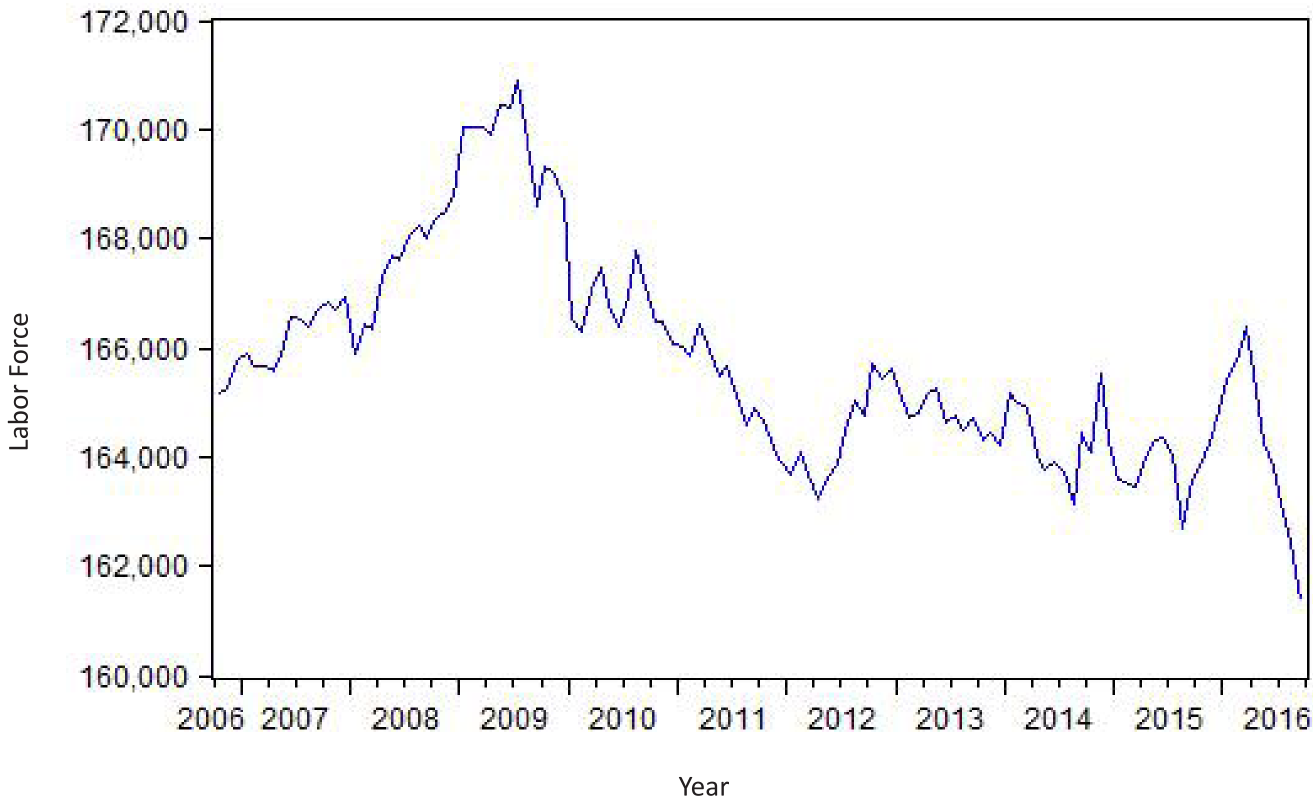
Job Vacancies per 100 Unemployed--Northeast Minnesota Planning Area



Quarter	2013:IV	2014:II	2014:IV	2015:II	2015:IV	2016:II
Job Vacancies per 100 Unemployed	39.84	57.97	116.23	72.83	68.03	78.59

The Northeast Minnesota labor force contracted by 1.6 percent over the past year. Using a 12-month moving average to account for seasonality, the regional labor force numbers have weakened in 2016.

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

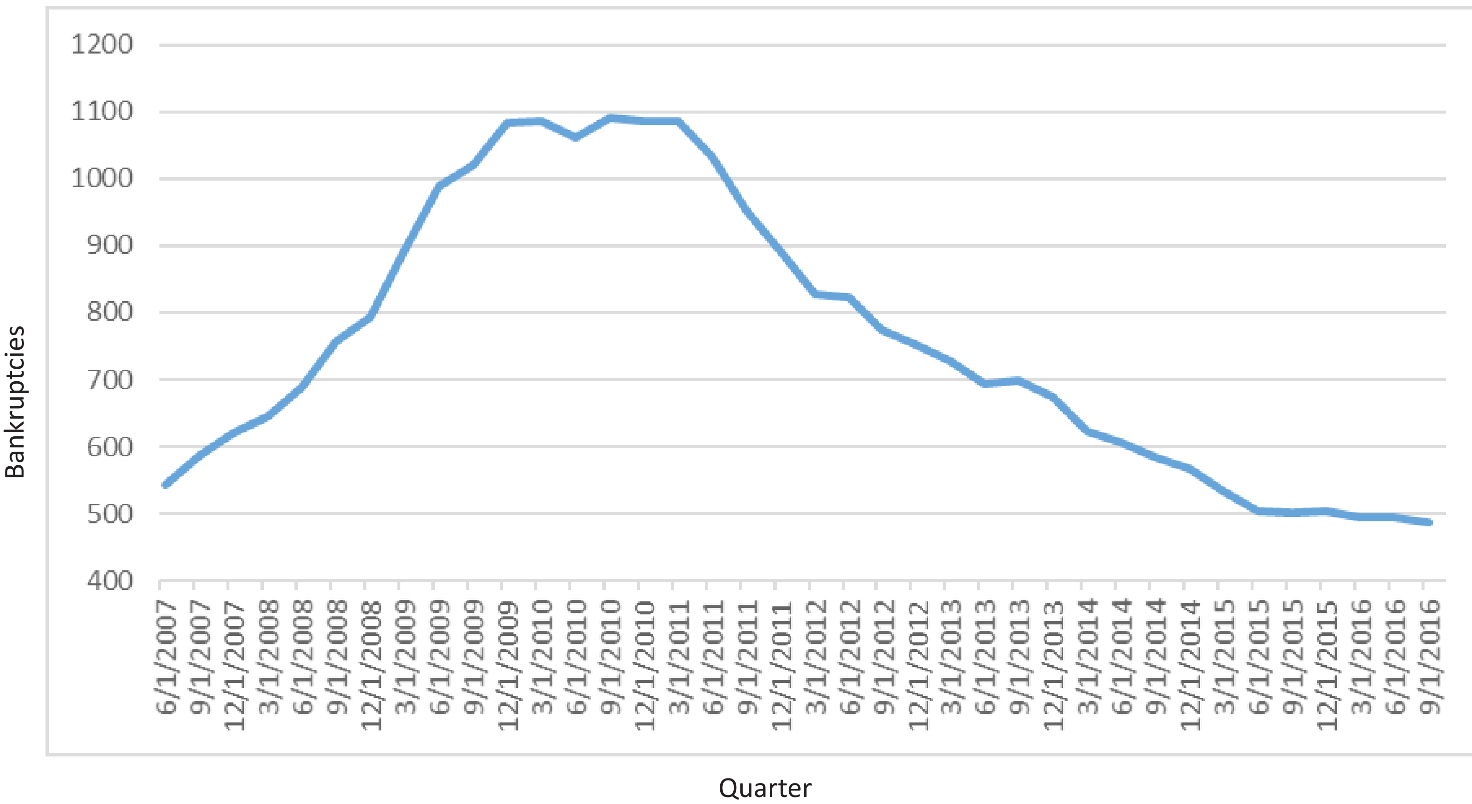


Year (September)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	165,281	164,991	164,696	164,191	163,161	160,486

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 at an historically low level.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (Third Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	951	774	699	585	501	486

Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	September 2016 (m)	134,975	134,449	0.4% ↑	0.2%
Manufacturing Employment	September 2016 (m)	6,682	6,824	-2.1% ↓	-2.4%
Educational and Health Sector Employment	September 2016 (m)	31,892	31,314	1.8% ↑	2.8%
Average Weekly Work Hours-Private Sector	September 2016 (m)	33.9	33.3	1.8% ↑	32.8 (since 2007)
Average Earnings Per Hour-Private Sector	September 2016 (m)	$24.73	$24.84	-0.4% ↓	3.2% (since 2007)
Unemployment Rate	September 2016 (m)	4.7%	4.5%	NA ↑	5.2%
Labor Force	September 2016 (m)	139,808	141,365	-1.1% ↓	-0.1%
Duluth-Superior Residential Building Permit Valuation, in thousands	September 2016 (m)	2,214	2,311	-4.2% ↓	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mixed in the recent quarter. Overall employment rose by 0.4 percent over the year ending September 2016 and employment in the key education/health sector (where more than 30,000 people have jobs) also rose. The length of the average workweek rose, but average hourly earnings fell. This is Minnesota's only MSA to have experienced declining earnings. The area unemployment rate increased and the labor force contracted. The value of residential building permits in the Duluth/Superior MSA declined from levels reported one year earlier.

State and National Indicators

MINNESOTA Indicators	Sep 2016	Jun 2015	Sep 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,905,600	2,891,800	2,859,200	0.5%	1.6%
Average weekly hours worked, private sector	34.1	34.3	33.9	-0.6%	0.6%
Unemployment rate, seasonally adjusted	4.0%	3.8%	3.6%	NA	NA
Earnings per hour, private sector	$27.33	$26.64	$26.00	2.6%	5.1%
Philadelphia Fed Coincident Indicator, MN	181.58	180.56	176.87	0.6%	2.7%
Philadelphia Fed Leading Indicator, MN	1.17	1.91	1.37	-38.7%	-14.6%
Minnesota Business Conditions Index	48.4	51.6	50.8	-6.2%	-4.7%
Price of milk received by farmers (cwt)	$17.90	$15.00	$17.80	19.3%	0.6%
Enplanements, MSP airport, thousands	1,542.9	1,726.5	1,506.7	-10.6%	2.4%

NATIONAL Indicators	Sep 2016	Jun 2015	Sep 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	144,791	144,172	142,300	0.4%	1.8%
Industrial production, index, SA	104.2	104.2	105.3	0%	-1.0%
Real retail sales, SA ($)	191,744	190,661	188,489	0.6%	1.7%
Real personal income less transfers ($, bill.)	11,966.8	11,907.8	11,745.3	0.5%	1.9%
Real personal consumption expenditures ($, bill.)	11,557.4	11,522.2	11,285.5	0.3%	2.4%
Unemployment rate, SA	5.0%	4.9%	5.1%	NA	NA
New building permits, SA, thousands	20,857	22,634	18,482	-7.9%	12.9%
Standard & Poor's 500 stock price index	2,157.7	2,083.9	1,944.4	3.5%	11%
Oil, price per barrel in Cushing, OK	$45.18	$48.76	$45.48	-7.3%	-0.7%

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. The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia are mixed—current conditions are stronger but the future conditions index declined by 14.6 percent from one year earlier. The Minnesota Business Conditions index also turned negative this quarter. Milk prices are largely unchanged from one year ago, but are 19.3 percent higher than last quarter. Enplanements at the Minneapolis-St. Paul airport increased by 2.4 percent over the last twelve months.

The national economic indicators reported in the table are largely favorable. Over the past twelve months, stock prices rose, building permits are higher, and oil prices have continued to fall. In addition, employment, consumer expenditures, and income all experienced growth and the national unemployment rate fell. Retail sales improved. Only industrial production contracted from year ago levels.

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.

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.

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Metropolitan Airports Commission: MSP Enplanements.

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

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.