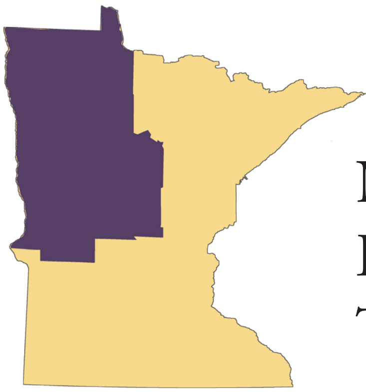

Northwest Minnesota
Economic and Business Conditions Report
Third Quarter 2016

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

The Northwest Minnesota planning area economy is expected to continue to grow at a pace that is somewhat below normal over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI). Two of the five components of the leading index were lower in the third quarter, as the LEI fell by 0.81 points. A declining Rural Mainstreet Index (which signals a more challenging macroeconomic environment for rural America) and weaker consumer sentiment helped drive the index lower. Lower initial jobless claims and rising new filings for incorporation and LLC in the planning area had a favorable impact on the index in the third quarter. A fifth LEI component (residential building permits in Fargo/Moorhead and Grand Forks/East Grand Forks) was largely neutral.

There were 993 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the third quarter of 2016 — representing a 7.2 percent increase from one year ago. 121 new regional business incorporations were recorded in the most recent quarter, which was 44 percent higher than in the same quarter of 2015. In the third quarter, new LLC filings in Northwest Minnesota were up 8.6 percent from one year earlier—rising to 530. New assumed names totaled 302 in the third quarter—1.9 percent fewer filings than the same period in 2015. There were 40 new filings for Northwest Minnesota non-profits in the third quarter—six fewer filings than one year ago.

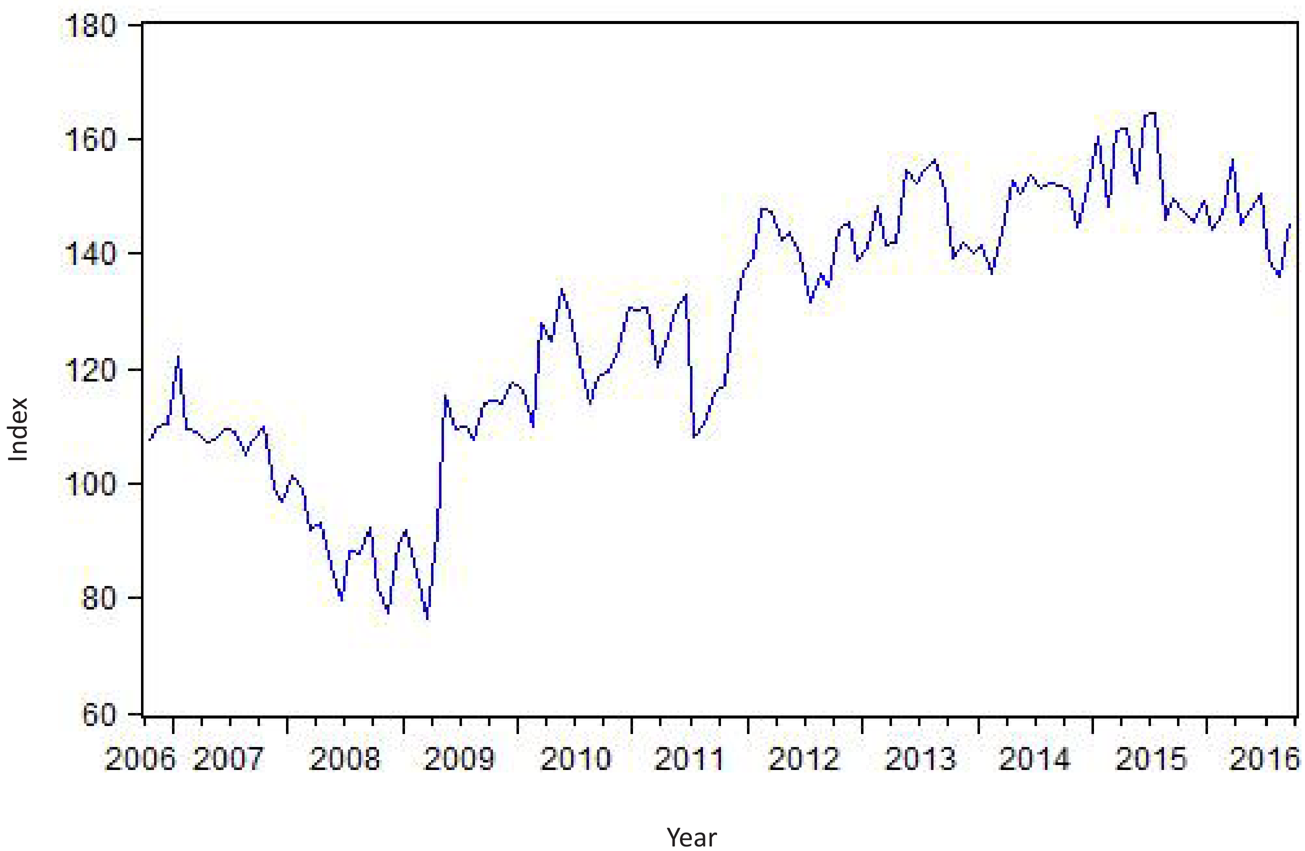
Employment of Northwest Minnesota residents declined by 1.8 percent over the year ending September 2016. The regional unemployment rate was 3.6 percent in September, which was higher than the 3.4 percent rate observed one year ago. The Northwest Minnesota labor force contracted over the past twelve months (there are now 4,899 fewer people in the regional labor force than there was one year ago). Initial claims for unemployment insurance in September were essentially unchanged from September 2015. The job vacancy rate in Northwest Minnesota in the second quarter of 2016 remained elevated at nearly 72 per 100 unemployed. The region's total bankruptcies continue to level out at an historically low level.

Economic performance in the Fargo/Moorhead Metropolitan Statistical Area (MSA) was mostly favorable in the past quarter. This MSA tallied gains in overall employment and in mining, logging and construction employment (but decreased manufacturing employment), lower initial jobless claims, a rise in the regional workforce, increased valuation of residential building permits, a higher average workweek, stronger average hourly earnings, and little change in the relative cost of living. The area did experience an increased unemployment rate, which can be partly explained by a rising labor force. **Economic activity in the Grand Forks/East Grand Forks MSA was mixed in the third quarter.** Higher overall employment (including an increase in manufacturing employment), a rising labor force, and increased average hourly earnings contributed favorably to regional economic performance. A shorter workweek, a higher unemployment rate, increased initial jobless claims, and a decline in the value of residential building permits all weighed on the Grand Forks/East Grand Forks outlook.

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 fell by 0.81 points in the third quarter after declining by a larger 3.66 points in the second quarter of 2016. The index now stands 2.6 percent below its level of the third quarter of 2015. As shown in the accompanying graph, the LEI has trended downward in 2016.

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, 3rd quarter 2016	Contribution to LEI, 2nd quarter 2016
Rural Mainstreet Index	-3.16	-0.34
Northwest Minnesota initial claims for unemployment insurance	1.20	0.02
Northwest Minnesota new filings of incorporation and LLCs	2.20	-1.36
Fargo-Moorhead + Grand Forks-EGF MSA residential building permits	0.01	-3.13
Consumer Sentiment, University of Michigan	-1.06	1.15
TOTAL CHANGE	-0.81	-3.66

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 an unfavorable 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 was the other LEI component that had a negative impact on the regional outlook in the most recent quarter. Reduced initial jobless claims for unemployment insurance and an increase in new filings for incorporation and LLC in Northwest Minnesota had a favorable effect on the index. Residential building permits in Fargo/Moorhead and Grand Forks/East Grand Forks were essentially neutral in the third quarter.

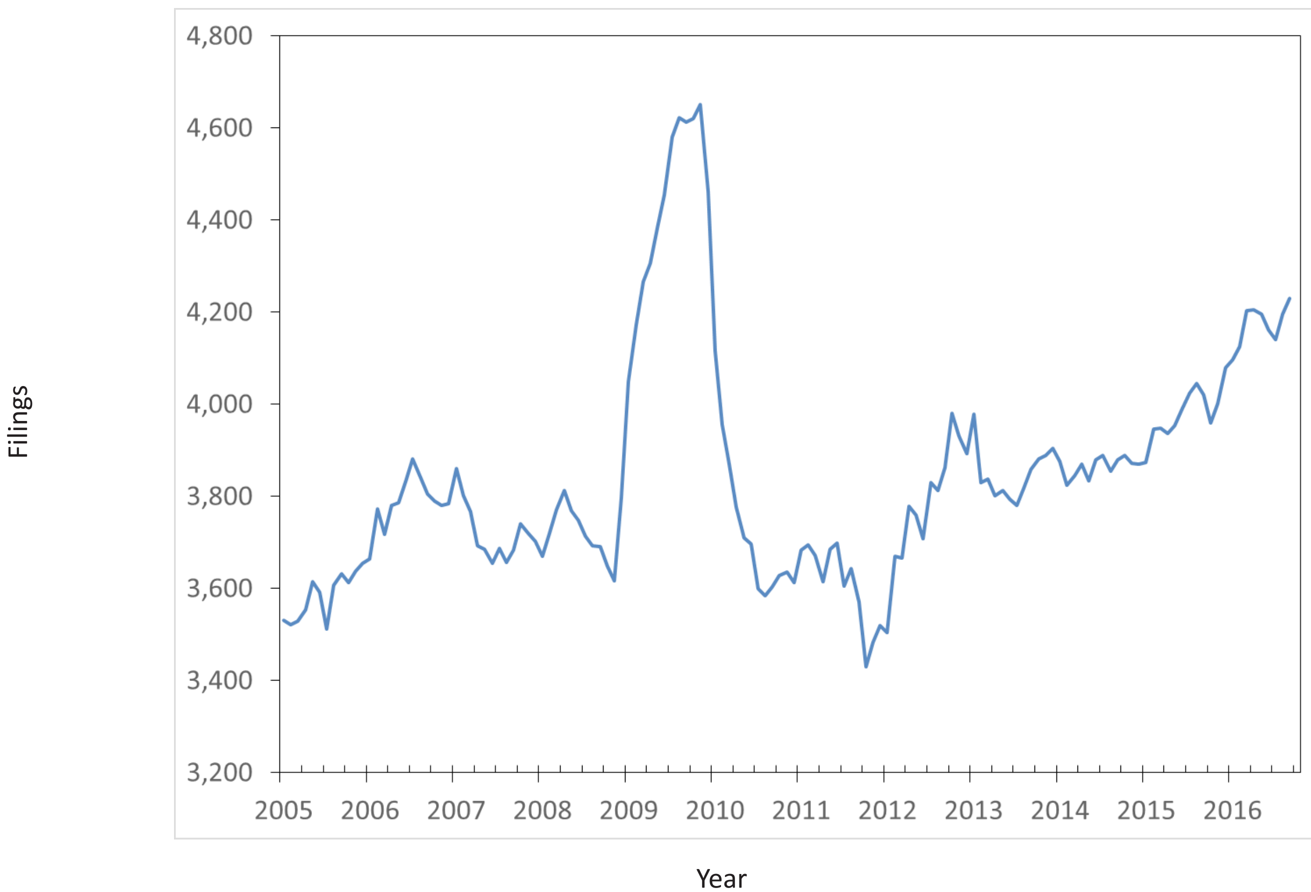
SCSU Northwest Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Rural Mainstreet Index, Creighton University, September	39.0	49.2	-20.7%
Northwest Minnesota initial claims for unemployment insurance, September	1,051	1,057	-0.6%
Northwest Minnesota new filings of incorporation and LLCs, Third Quarter	216	189	14.3%
Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, September	156	188	-17.0%
Consumer Sentiment, University of Michigan, September	91.2	87.2	4.6%
Northwest Minnesota Leading Economic Indicators Index September (September 1999 = 100)	145.6	149.5	-2.6%

Northwest Minnnesota Business Filings

The 12-month moving total of new business filings in this region has trended upward since the end of 2011. After a pause in this year's second quarter, the upward trend continued in the current quarter as total new filings rose by 7.2% compared to last year's third quarter. 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.

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	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Northwest Minnesota Total New Business Filings	926	923	1,225	1,088	993	7.2%

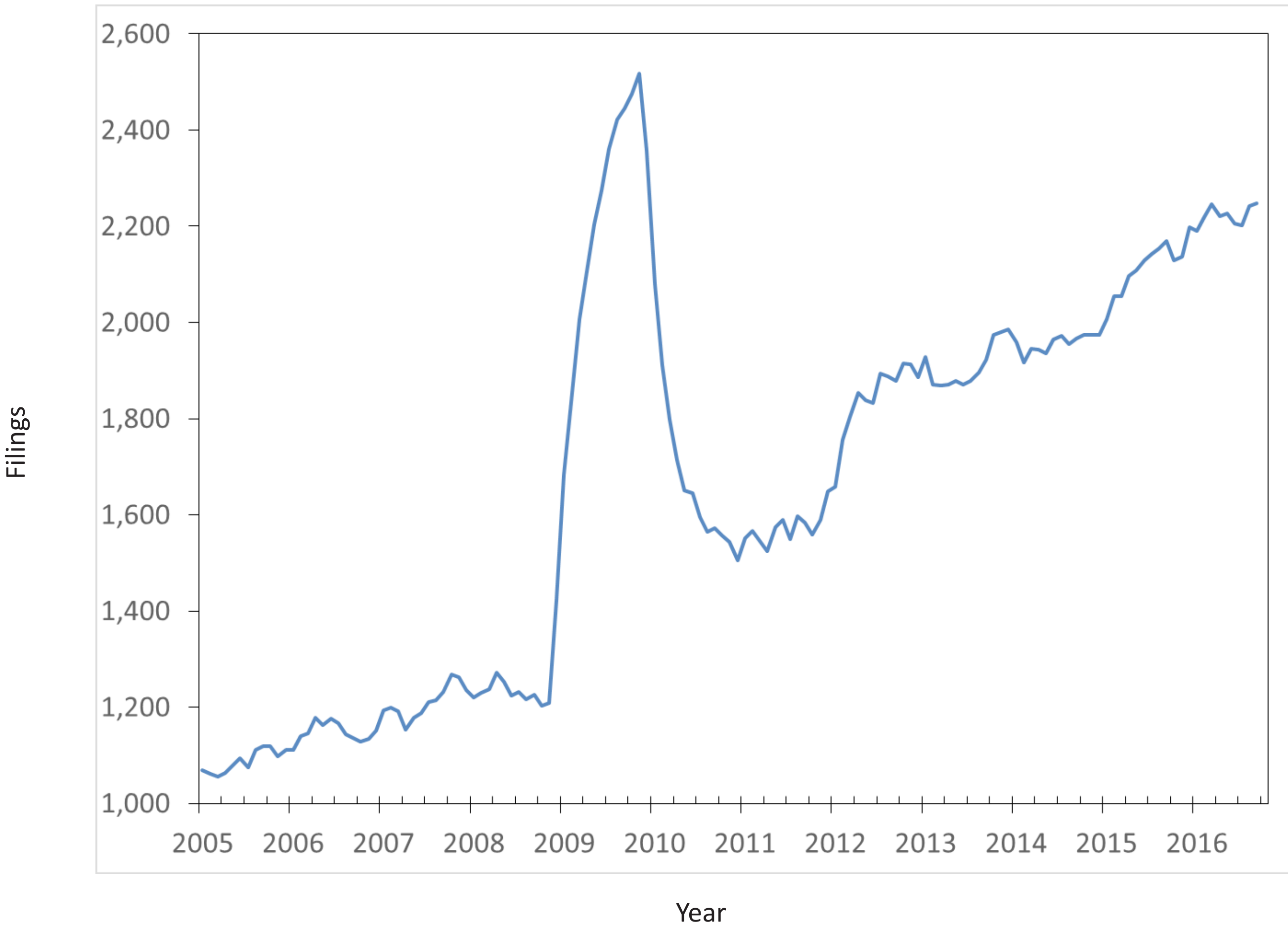
New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, but have since leveled out. New business incorporations in this year's third quarter jumped by 44 percent compared to one year ago.

New Incorporations—Northwest 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
Northwest Minnesota New Business Incorporations	84	112	134	119	121	44.0%

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 has been a 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 eleven years. This trend continued in the third quarter of 2016 as LLC filings rose by 8.6 percent compared to the same period in 2015.

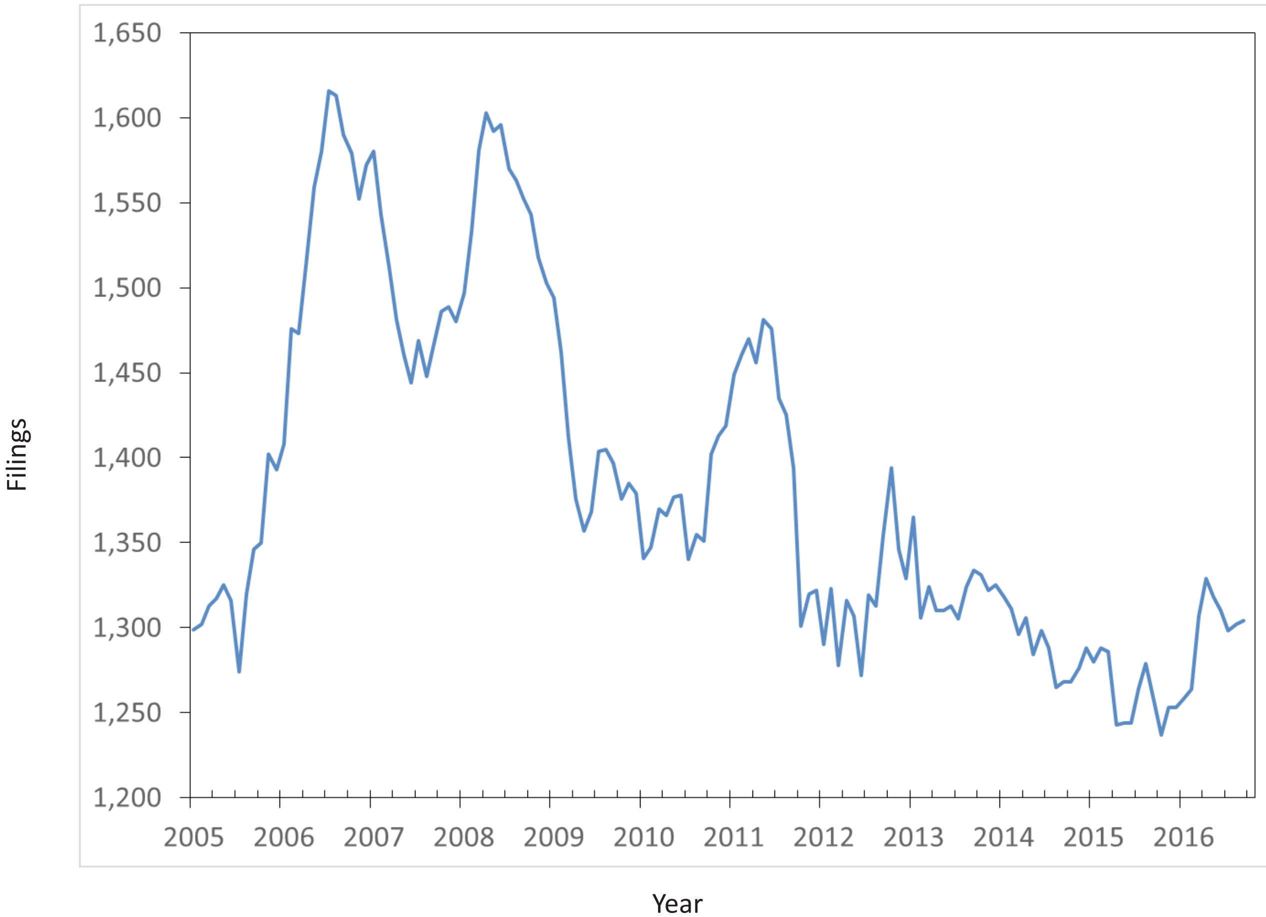
New Limited Liability Companies—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	488	504	639	575	530	8.6%

Assumed names, which include sole proprietors or organizations that do not have limited liability, fell by 1.9 percent compared to the same period last year. Despite this, the 12 month moving total suggests this series bottomed out at the end of 2015 and has begun to rise for the first time in several years.

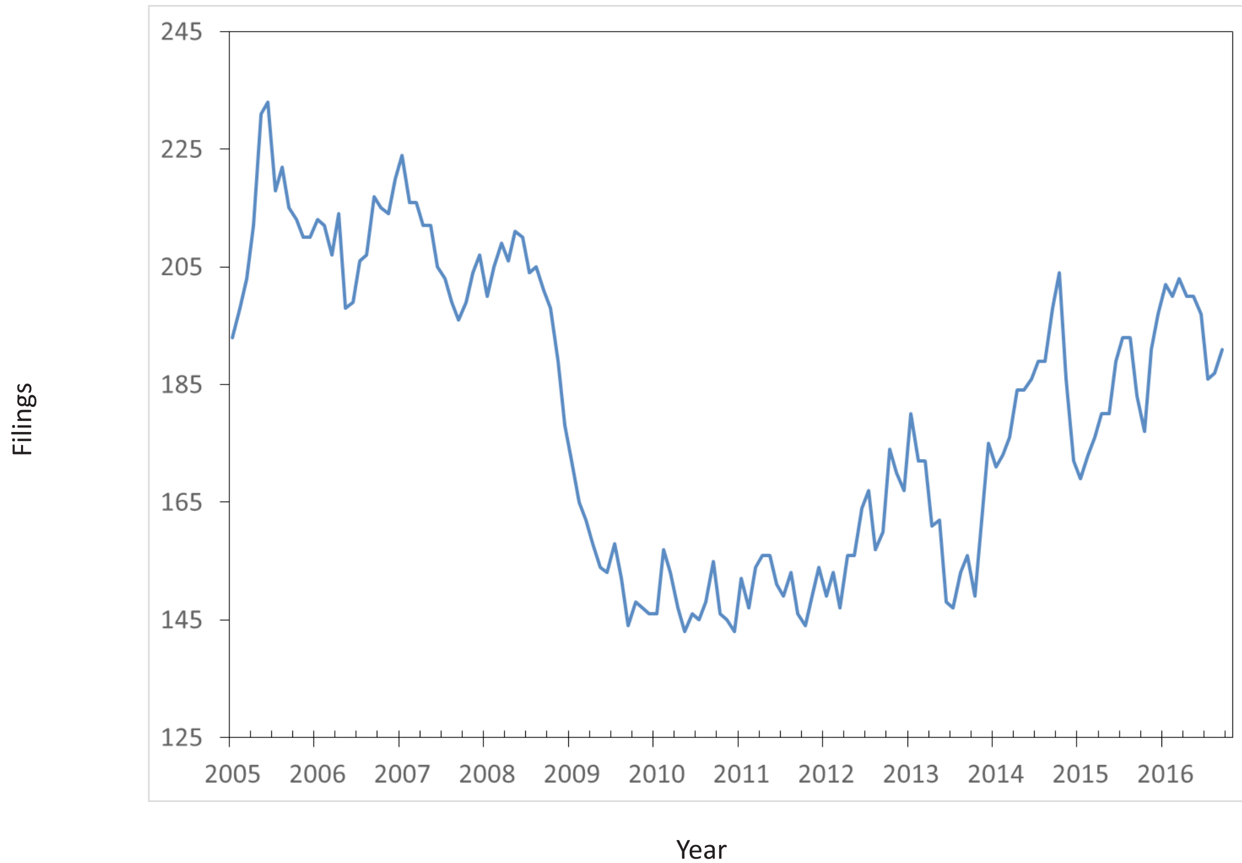
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Northwest Minnesota New Assumed Names	308	259	397	346	302	-1.9%

The number of new non-profits in the Northwest Minnesota planning area was 40 in the third quarter. This was six fewer filings than one year earlier.

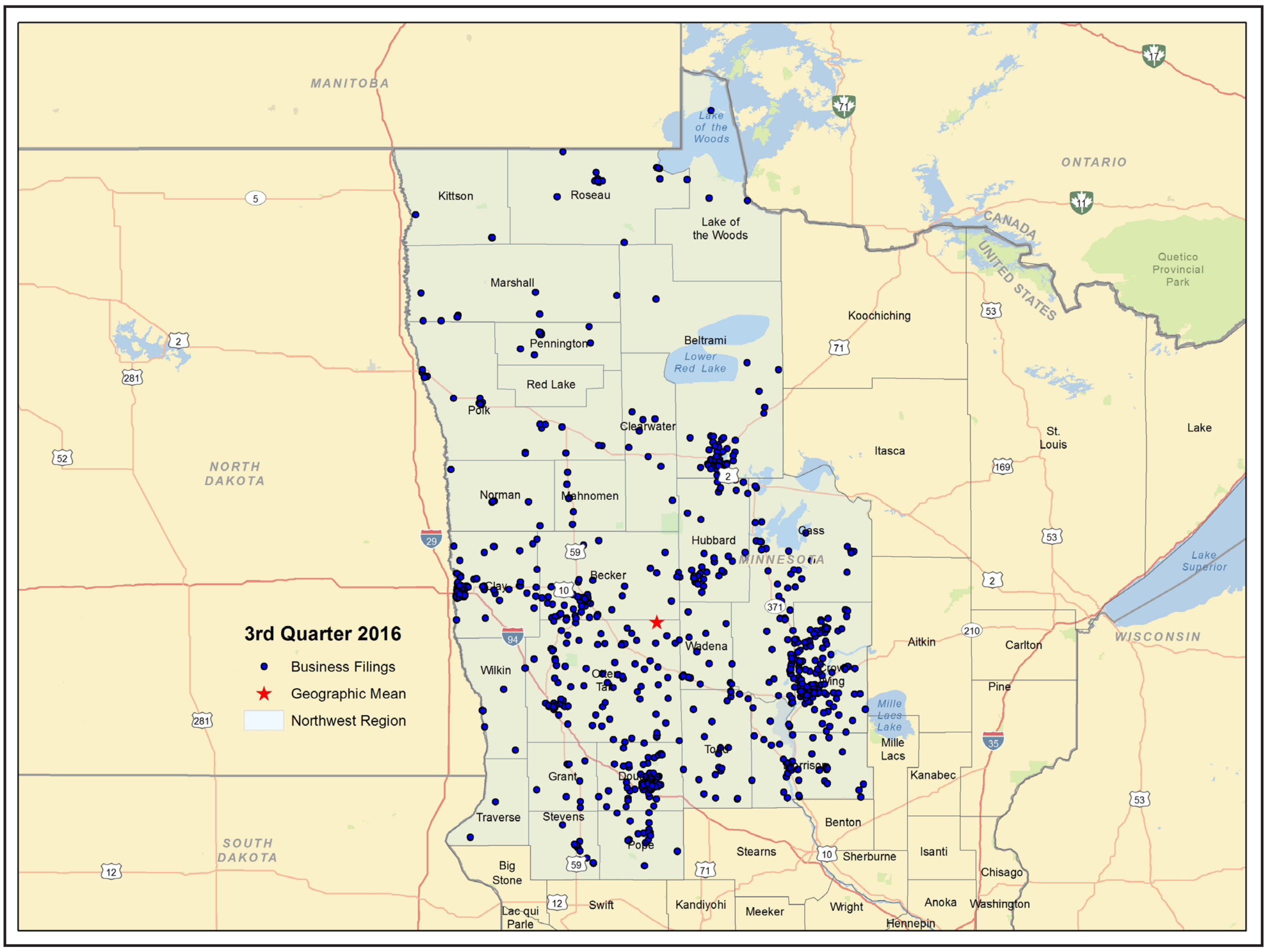
New Non-Profits—Northwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2015	IV: 2015	I: 2016	II: 2016	III: 2016	2016 Quarter III: Percent change from prior year
Northwest Minnesota New Non-Profits	46	48	55	48	40	-13.0%

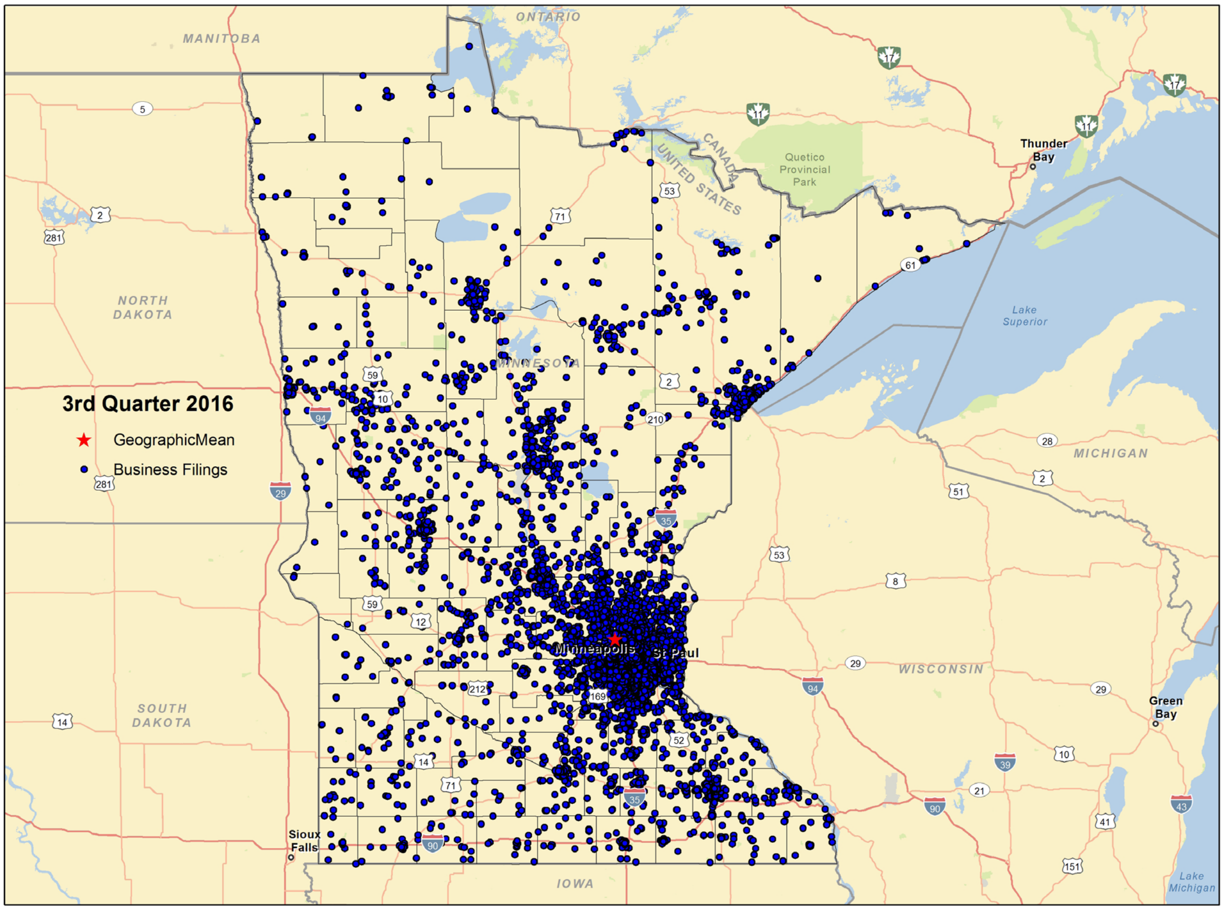
The first map shown below is a visual representation of new business formation around the Northwest Minnesota planning area in the third quarter of 2016. The densest areas of new business formation are in the Alexandria, Brainerd, Bemidji, Park Rapids, Fergus Falls, and Moorhead areas. Well-traveled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

Northwest Minnesota Planning Area--New Business Formation--Quarter 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

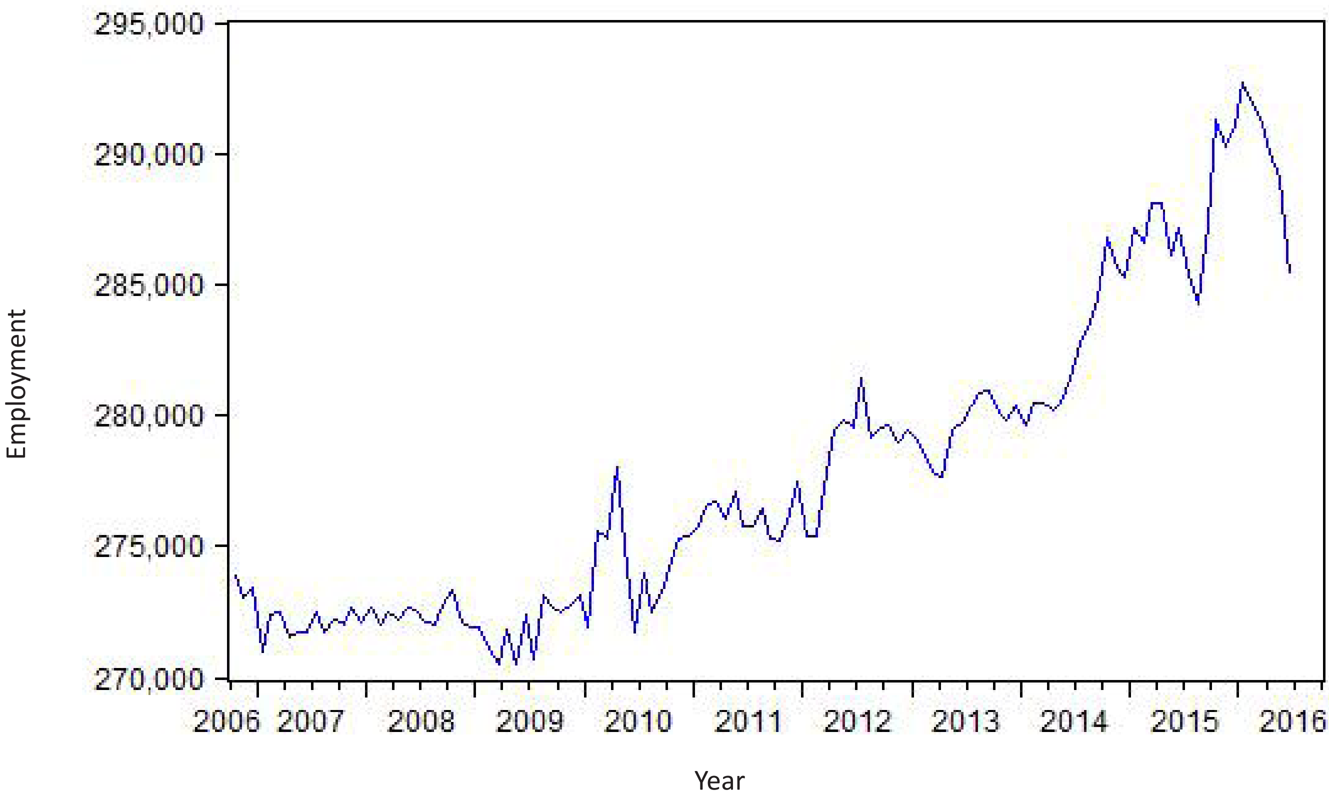


Northwest Minnesota Labor Market Conditions

Employment in the Northwest Minnesota planning area fell by 1.8 percent over the year ending September 2016. As can be seen in the accompanying graph, the 12-month moving average of total employment in the Northwest Minnesota planning area has been declining since the beginning of the year.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted.

Employment—Northwest 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)	289,220	287,454	291,947	291,894	289,195	286,088	283,949

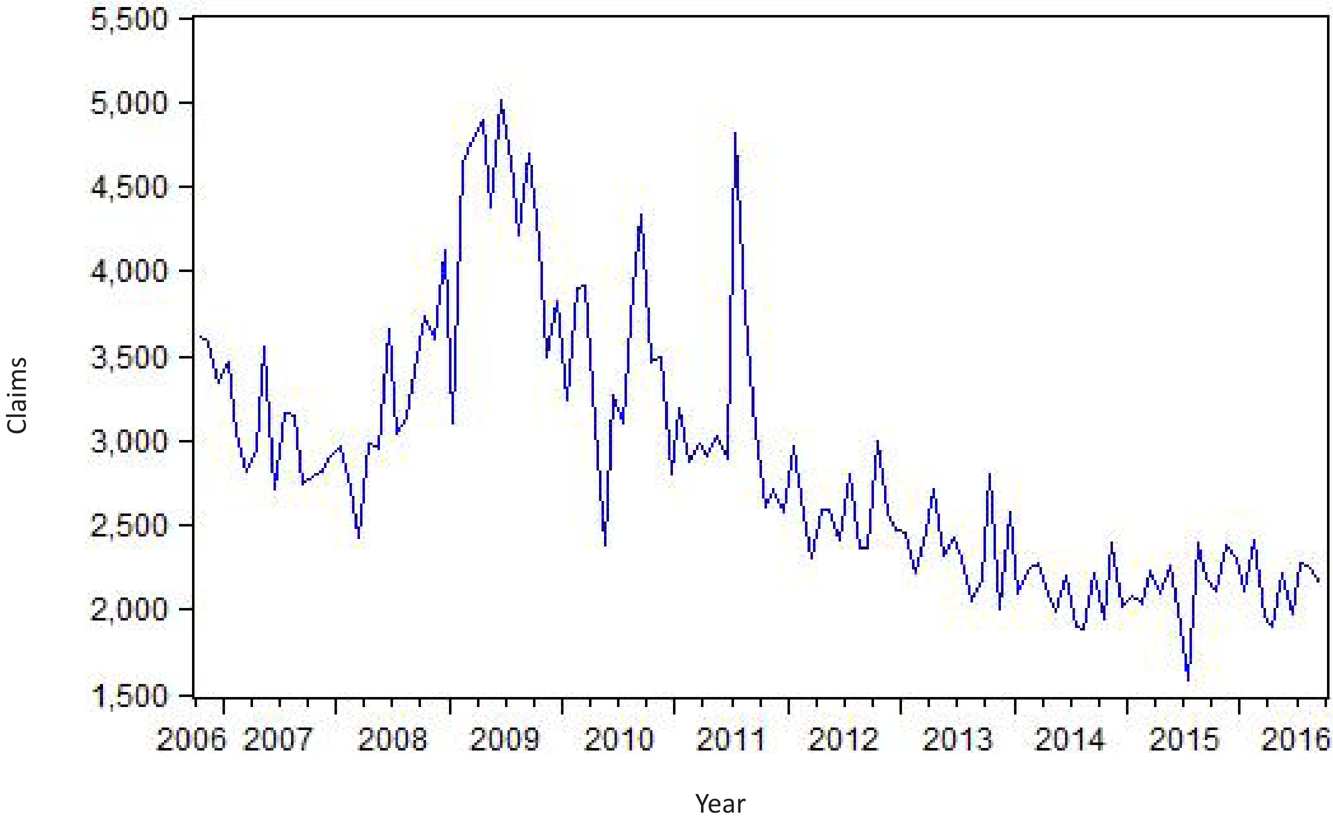
After bottoming out in the third quarter of 2014, the seasonally adjusted unemployment rate in the region had leveled out until rising in recent quarters. At 3.6 percent, the non-seasonally adjusted unemployment rate is now higher than it was in September 2015.

Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area

Month	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Unemployment Rate (Not seasonally adjusted)	3.4%	5.0%	3.8%	4.5%	4.2%	4.2%	3.6%

New claims for September 2016 unemployment insurance were little changed from year-ago levels. Seasonally adjusted jobless claims appear to have leveled out over the past couple of years.

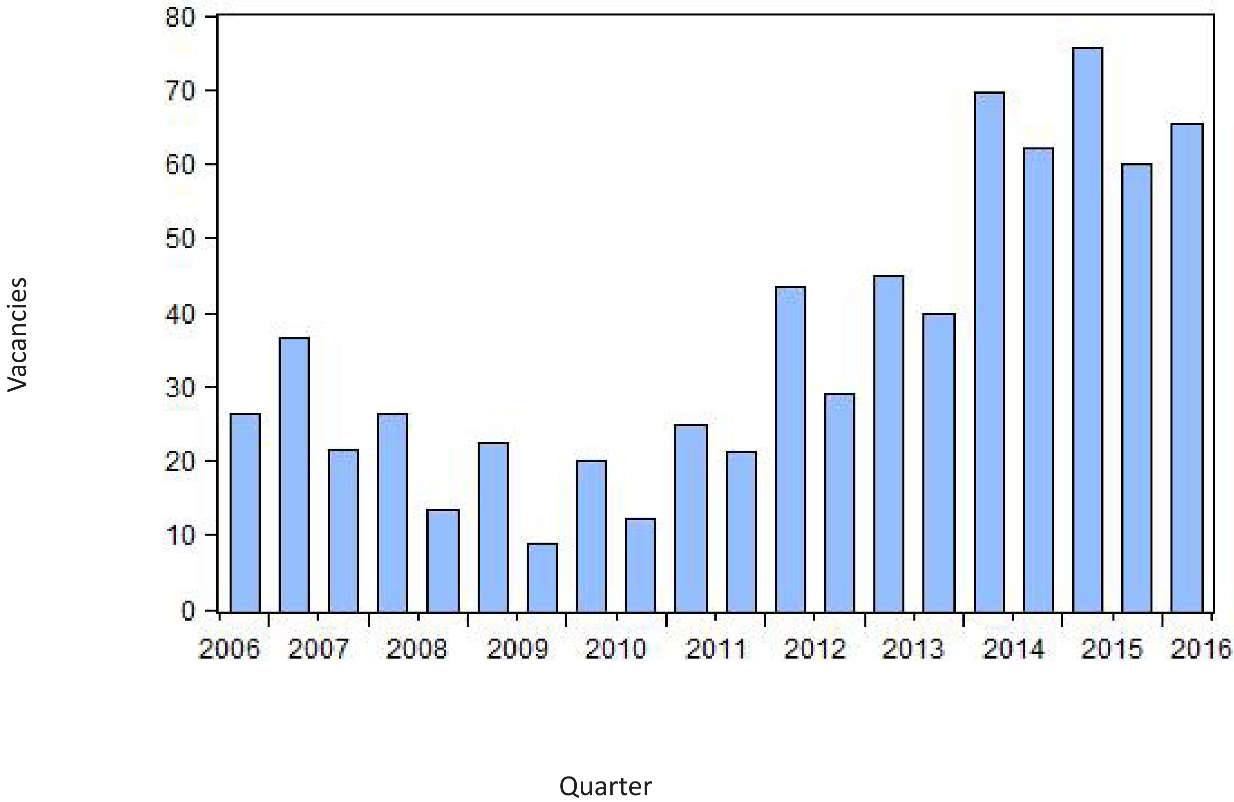
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Period	September 2015	April 2016	May 2016	June 2016	July 2016	August 2016	September 2016
Initial claims (Not seasonally adjusted)	1,057	1,335	1,612	1,302	1,677	1,048	1,051

The number of regional job vacancies per 100 unemployed was somewhat higher in the second quarter of 2016 (this is the most recently available data). At 71.93 per 100 unemployed, the job vacancy rate remains elevated in Northwest 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.

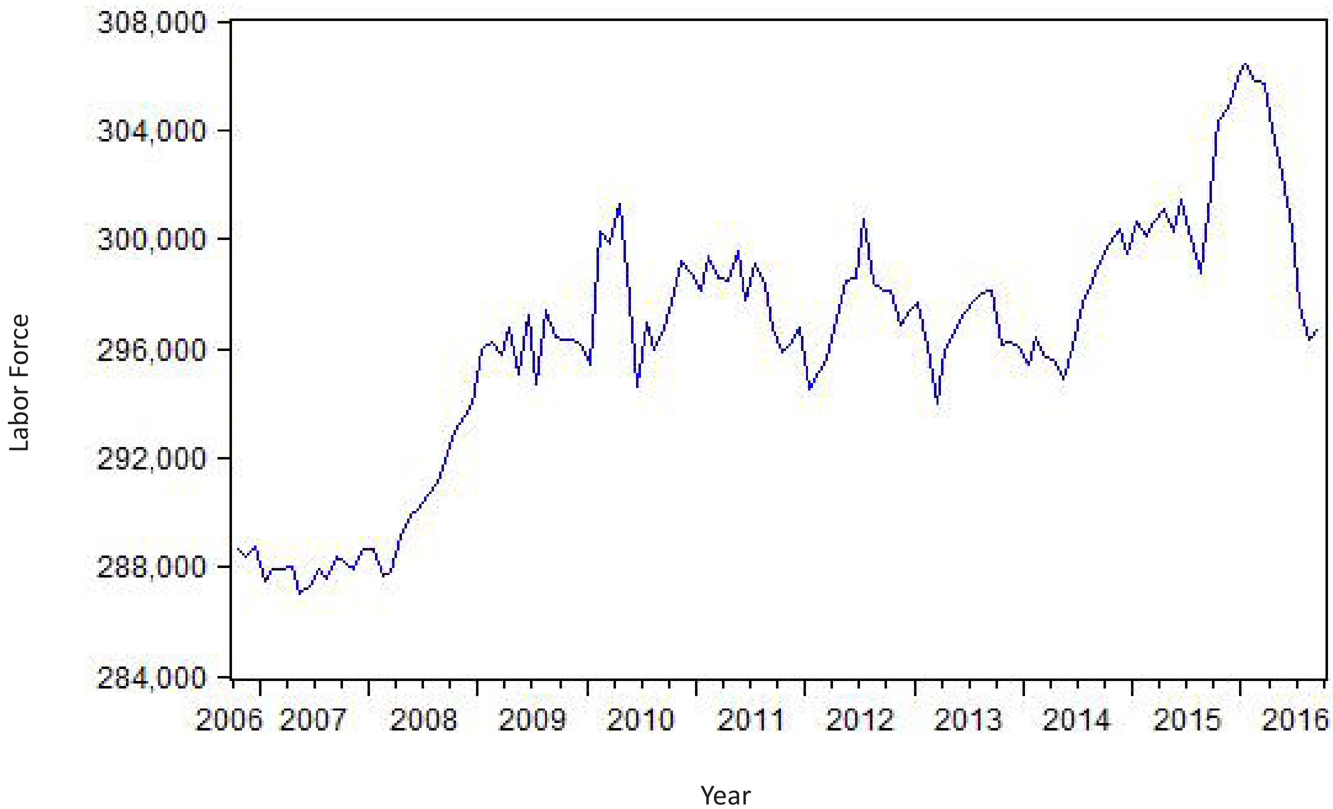
Job Vacancies per 100 Unemployed---Northwest Minnesota Planning Area



Quarter	2013:IV	2014:II	2014:IV	2015:II	2015:IV	2016:II
Job Vacancies per 100 Unemployed	45.97	75.79	69.84	79.97	65.03	71.93

The Northwest Minnesota labor force contracted over the year ending September 2016. At 294,530 the regional labor force is now 4,899 smaller (representing a 1.6 percent decrease) than one year earlier.

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



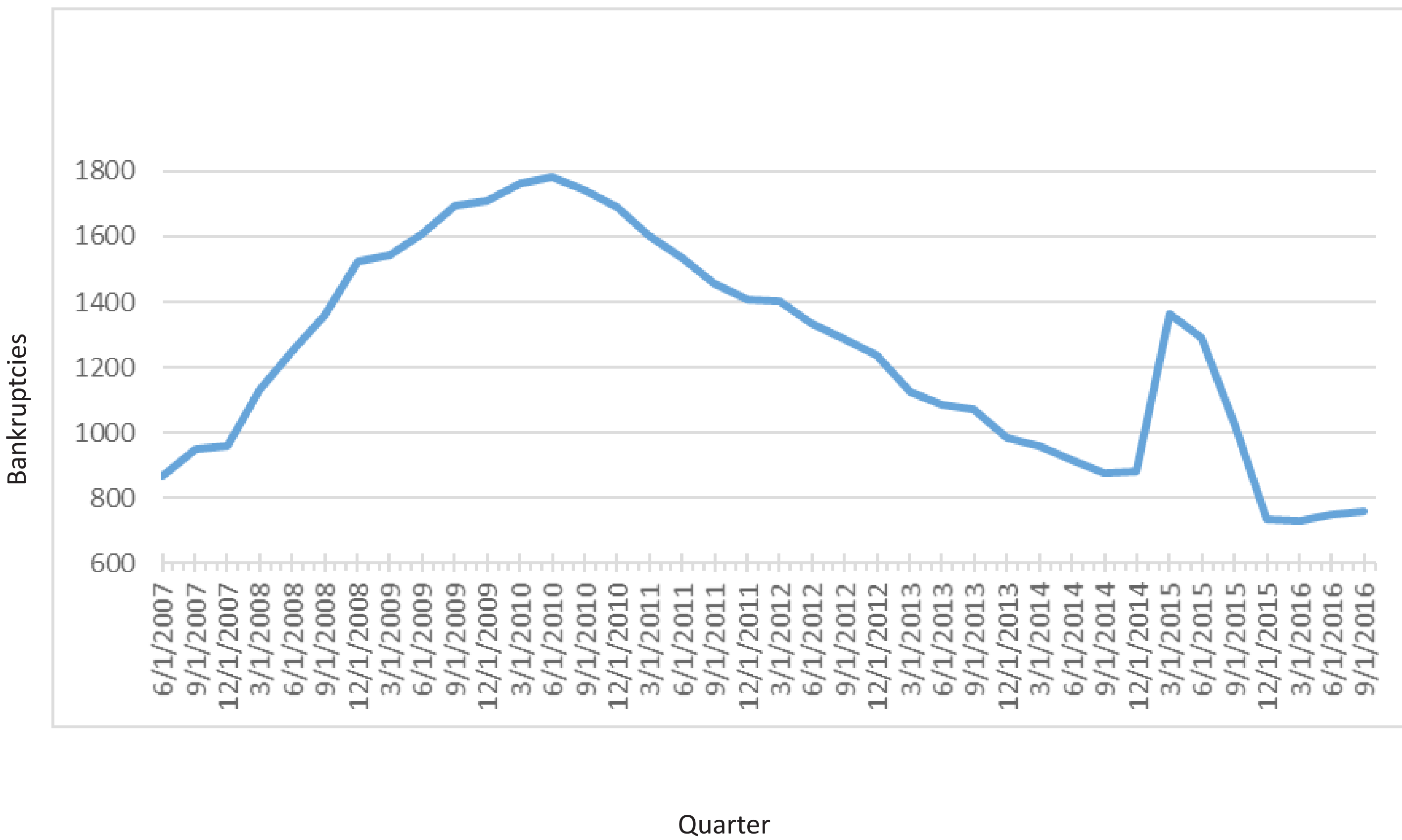
Year (September)	2011	2012	2013	2014	2015	2016
Labor Force (not seasonally adjusted)	294,870	296,156	296,059	297,114	299,429	294,530

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 recent data readings. The series has now returned to its trend value last observed at the end of 2014. Northwest Minnesota bankruptcies now appear to be levelling out at an historically low value. This is a trend that is seen in bankruptcy data for other planning areas also.

Northwest Minnesota Bankruptcies (12-month moving total)



Year (Third Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (not seasonally adjusted)	1,456	1,287	1,071	875	1,022	762

Economic Indicators

Fargo-Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)
Employment	September 2016 (m)	142,400	140,500	1.4%	↑	1.9%
Manufacturing Employment	September 2016 (m)	9,700	9,900	-2.0%	↓	1.4%
Mining, Logging, Construction Employment	September 2016 (m)	10,800	10,200	5.9%	↑	2.8%
Average Weekly Work Hours, Private Sector	September 2016 (m)	34.6	34.4	0.6%	↑	NA
Average Earnings Per Hour, Private Sector	September 2016 (m)	$24.24	$23.98	1.1%	↑	3.1% (since 2007)
Unemployment Rate	September 2016 (m)	2.2%	2.0%	NA	↑	NA
Labor Force	September 2016 (m)	137,643	131,535	4.6%	↑	1.7%
Initial Jobless Claims	September 2016 (m)	290	484	-40.1%	↓	NA
Fargo-Moorhead Residential Building Permit Valuation, in thousands	September 2016 (m)	58,620	52,608	11.4%	↑	NA
Fargo-Moorhead Cost of Living Index	September 2016 (m)	100.0	99.9	0.1%	↑	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	September 2016 (m)	57,700	57,500	0.3%	↑	0.9%
Maufacturing Employment	September 2016 (m)	4,200	3,700	13.5%	↑	0.7%
Mining, Logging, Construction Employment	September 2016 (m)	4,000	4,000	0.0%	↔	1.1%
Average Weekly Work Hours, Private Sector	September 2016 (m)	32.3	32.5	-0.6%	↓	NA
Average Earnings Per Hour, Private Sector	September 2016 (m)	$23.57	$21.74	8.4%	↑	2.0% (since 2007)
Unemployment Rate	September 2016 (m)	2.5%	2.2%	NA	↑	NA
Labor Force	September 2016 (m)	56,699	54,933	3.2%	↑	0.4%
Initial Jobless Claims	September 2016 (m)	104	74	40.5%	↑	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation, in thousands	September 2016 (m)	2,776	3,845	-27.8%	↓	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), increased average weekly hours worked, higher average hourly earnings, increased valuation of Fargo/Moorhead residential building permits, lower initial jobless claims, a rising labor force, and a steady relative cost of living in the region. An increased unemployment rate (which is probably a result of the expanded regional work force) was one of the few weaker indicators in Fargo/Moorhead in the third quarter.

Grand Forks/East Grand Forks MSA economic activity was mixed in the third quarter. MSA overall employment rose (as did employment in the manufacturing sector), average hourly earnings increased, and the labor force expanded in the region. However, the length of the average work week was shorter, the value of residential building permits in the Grand Forks/East Grand Forks area declined, initial jobless claims rose and unemployment rate increased.

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 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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Institute for Supply Management: Manufacturing Business Survey, purchasing managers index.

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.

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