Southwest Minnesota
Economic and Business Conditions Report
Second Quarter 2019

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Southwest Minnesota Planning Area consists of 23 counties: Big Stone; Blue Earth; Brown; Chippewa; Cottonwood; Faribault; Jackson; Lac qui Parle; Le Sueur; Lincoln; Lyon; Martin; Murray; Nicollet; Nobles; Pipestone; Redwood; Rock; Sibley; Swift; Waseca; Watonwan; and Yellow Medicine.

Office of the Minnesota
Secretary of State

School of Public Affairs
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St. Cloud State University

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The St. Cloud State University Southwest Minnesota Index of Leading Economic Indicators (LEI) suggests a continued slowing of economic growth in the Southwest Minnesota planning area as the LEI fell by 4.59 points in the second quarter. This quarter's negative reading is largely attributed to declining Mankato area residential building permits. In addition, higher initial jobless claims also contributed to this quarter's negative LEI value. An increase in the number of new filings of incorporation and LLC in the Southwest Minnesota planning area as well as an improvement in the Rural Mainstreet Index, a statistic that is used to measure the economic outlook for rural Minnesota, contributed favorably to the leading index.

There were 741 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the second quarter of 2019 — representing 5 percent more new filings than one year ago. There were 31 new regional business incorporation filings in the second quarter, a 32.6 percent decrease from last year's second quarter. New LLC filings in Southwest Minnesota rose 8.7 percent (to a value of 473) from one year earlier and new assumed name filings fell to 184—a 4.7 percent year-over-year decrease. There were 53 new filings for Southwest Minnesota non-profit in the second quarter—twenty-one more filings than one year ago.

Fifty-three percent of new business filers in the Southwest Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's second quarter. Results of this voluntary survey indicate that 2.5 percent of new filers come from communities of color and 4.3 percent are filed by veterans. 2.5 percent of new filers come from the disability community and 3.3 percent of new filings were made by the immigrant community. 38.9 percent of new business filings in Southwest Minnesota in this year's second quarter were initiated by women. MBS results also show that most new business filers in Southwest Minnesota have between 0 and $10,000 in annual gross revenues (although 31 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Southwest Minnesota are retail trade, agriculture/forestry/fishing/hunting, and other services. Employment levels at most new firms are between 0 and 5 workers, and 54.3 percent of those starting a new business consider this a part-time activity.

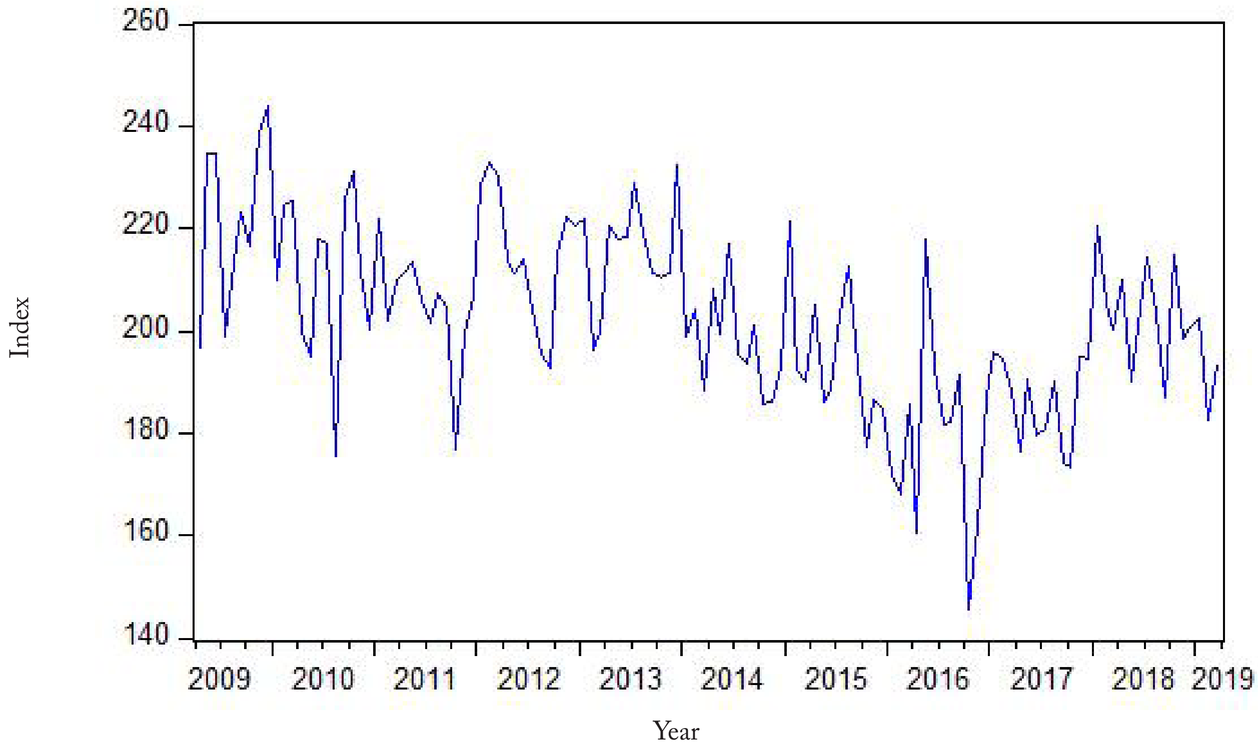
Employment of Southwest Minnesota residents rose by 1.1 percent over the year ending June 2019. The regional unemployment rate was 3.5 percent in June, a considerable increase from a 2.9 percent reading in June 2018. Initial claims for unemployment insurance were 4.8 percent lower than their year-ago levels in June. Average weekly wages in Southwest Minnesota rose 1.9 percent to a level of $811 over the previous year. The regional labor force rose by 1.6 percent over the year ending June 2019. The number of annual bankruptcies in the region increased by 12.8 percent.

Economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota—was mixed in the most recent quarter. Employment rose, average hourly earnings were higher, initial jobless claims were lower, new business filings increased, and the area's relative cost of living fell. However, the labor force contracted, the value of residential building permits plummeted, average weekly work hours fell, and the area's unemployment rate rose

SOUTHWEST MINNESOTA LEADING ECONOMIC INDICATORS INDEX

The SCSU Southwest Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. As seen in the accompanying figure, this series has always shown considerable variability from one quarter to the next, but it had tended to drift upward from the third quarter of 2016 to the beginning of 2018. However, it has bounced around in recent quarters, so it is hard to identify a strong signal to forecast regional economic performance from one quarter to the next. With a current reading of -4.59, the LEI has now decreased for three consecutive quarters in the Southwest Minnesota planning area, suggesting slower future growth in this region.

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



Components of SCSU Southwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2019	Contribution to LEI, 1st quarter 2019
Rural Mainstreet Index	1.12	-0.50
Southwest Minnesota initial claims for unemployment insurance	-1.03	0.31
Southwest Minnesota new filings of incorporation and LLCs	5.03	-0.73
Mankato MSA single-family building permits	-9.70	-1.95
TOTAL CHANGE	**-4.59**	**-2.88**

The Southwest Minnesota LEI has four components, two of which decreased in the second quarter. The component that had the largest negative impact on the LEI was the number of residential building permits in the Mankato/North Mankato area. This measure declined precipitously in the second quarter. The leading index was also adversely affected by an increase in initial jobless claims in the planning area. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns with average population of 1,300 in ten Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. It increased in the second quarter as did the number of new filings for incorporation and LLC.

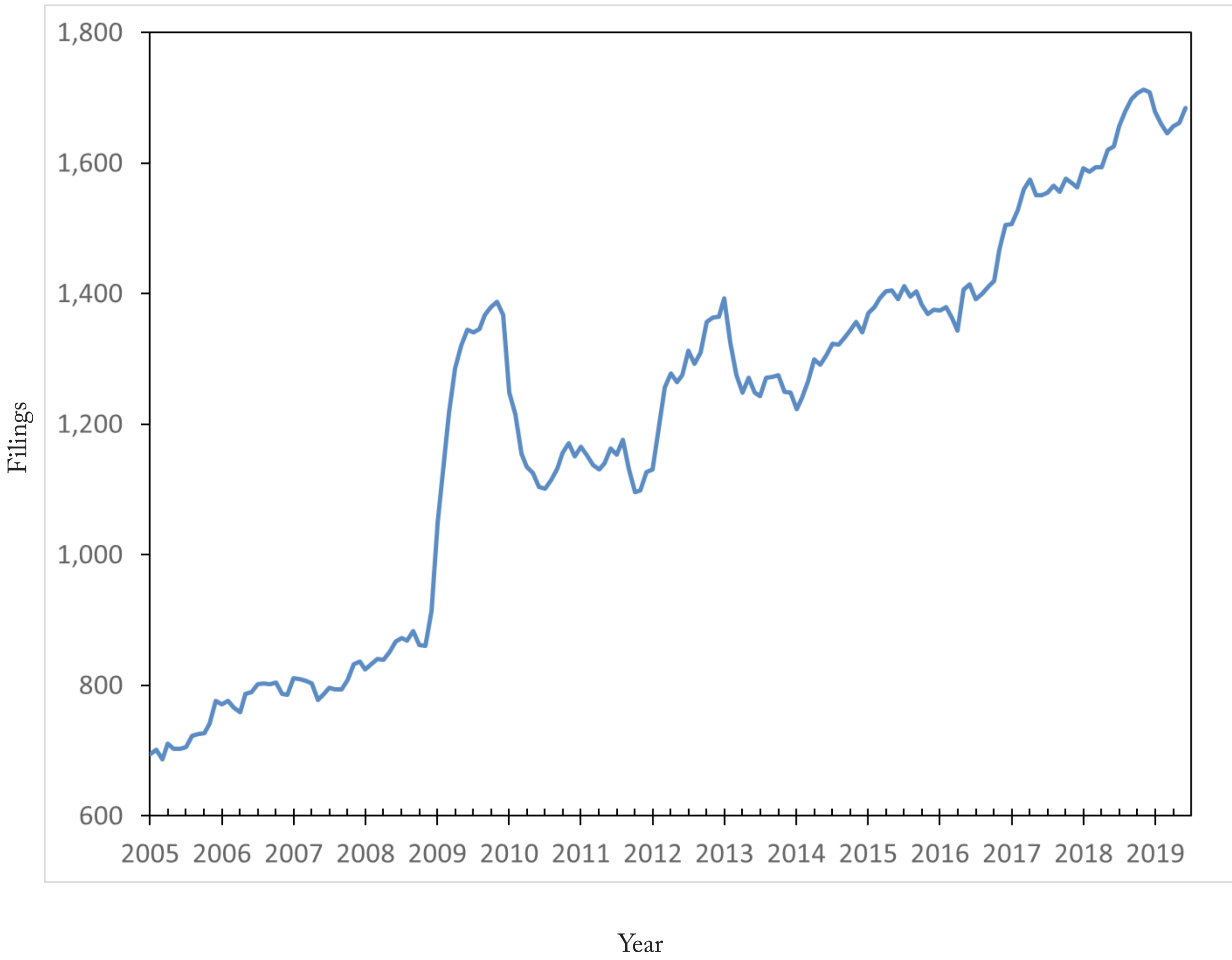
SCSU Southwest Minnesota Leading Economic Indicators Index

	2019	2018	Percentage Change
Rural Mainstreet Index, Creighton University June	53.8	55.3	-2.7%
Southwest Minnesota initial claims for unemployment insurance June	1,036	1,088	-4.8%
Southwest Minnesota new filings of incorporation and LLCs Second Quarter	504	481	4.8%
Mankato MSA single-family building permits June	5	18	-72.2%
Southwest Minnesota Leading Economic Indicators Index June (December 1999 = 100)	184.7	171.0	8.0%

SOUTHWEST MINNESOTA BUSINESS FILINGS

The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings rose by 5 percent from year earlier levels in the second quarter. As seen in the accompanying figure, the 12-month moving total of this series has trended upward since late 2011, but had declined over the two previous quarters. This pattern was reversed in the second quarter. Note that the abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier 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.

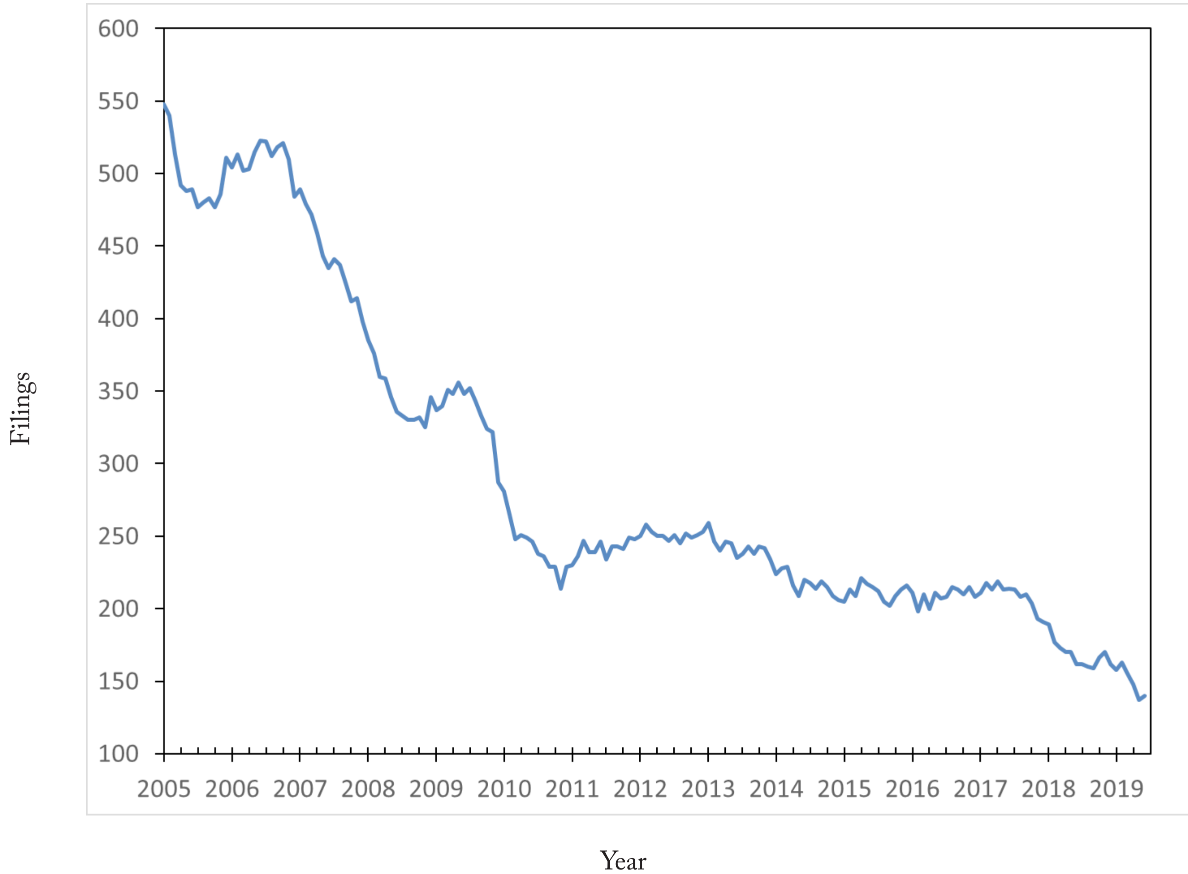
Total New Business Filings—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Southwest Minnesota Total New Business Filings	706	632	645	667	741	5.0%

New business incorporations trended downward sharply in Southwest Minnesota from 2005 to 2011, then leveled off until 2013. Since that time, the downward trend has resumed. With 31 new business incorporations in the second quarter of 2019, filings in this category fell by 32.6% from the same period in 2018.

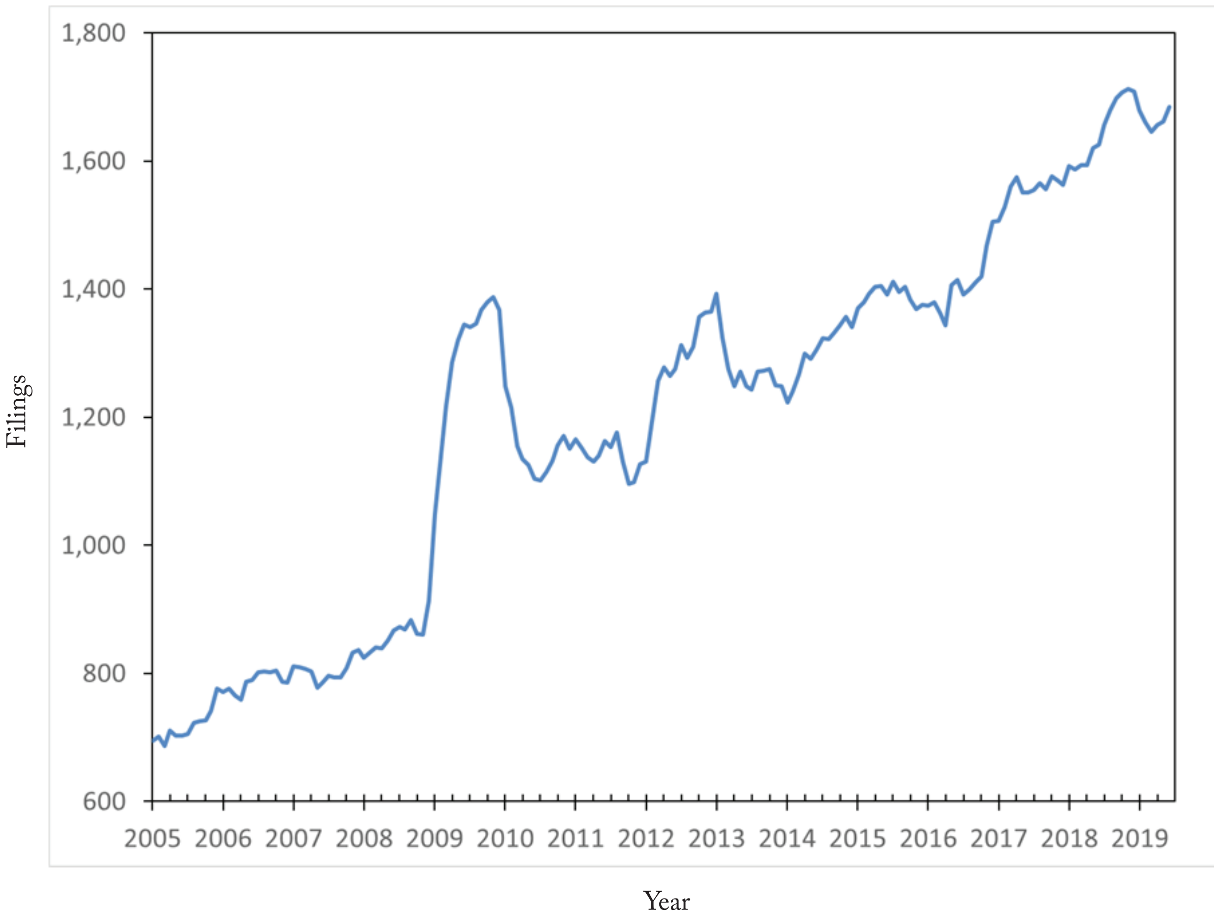
New Incorporations—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Southwest Minnesota New Business Incorporations	46	33	40	36	31	-32.6%

There has been a move in Southwest Minnesota, as in the rest of the state, away from traditional incorporation and towards the limited liability company (LLC). While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southwest Minnesota. This trend continued in the second quarter as new LLC filings rose 8.7 percent compared to one year earlier.

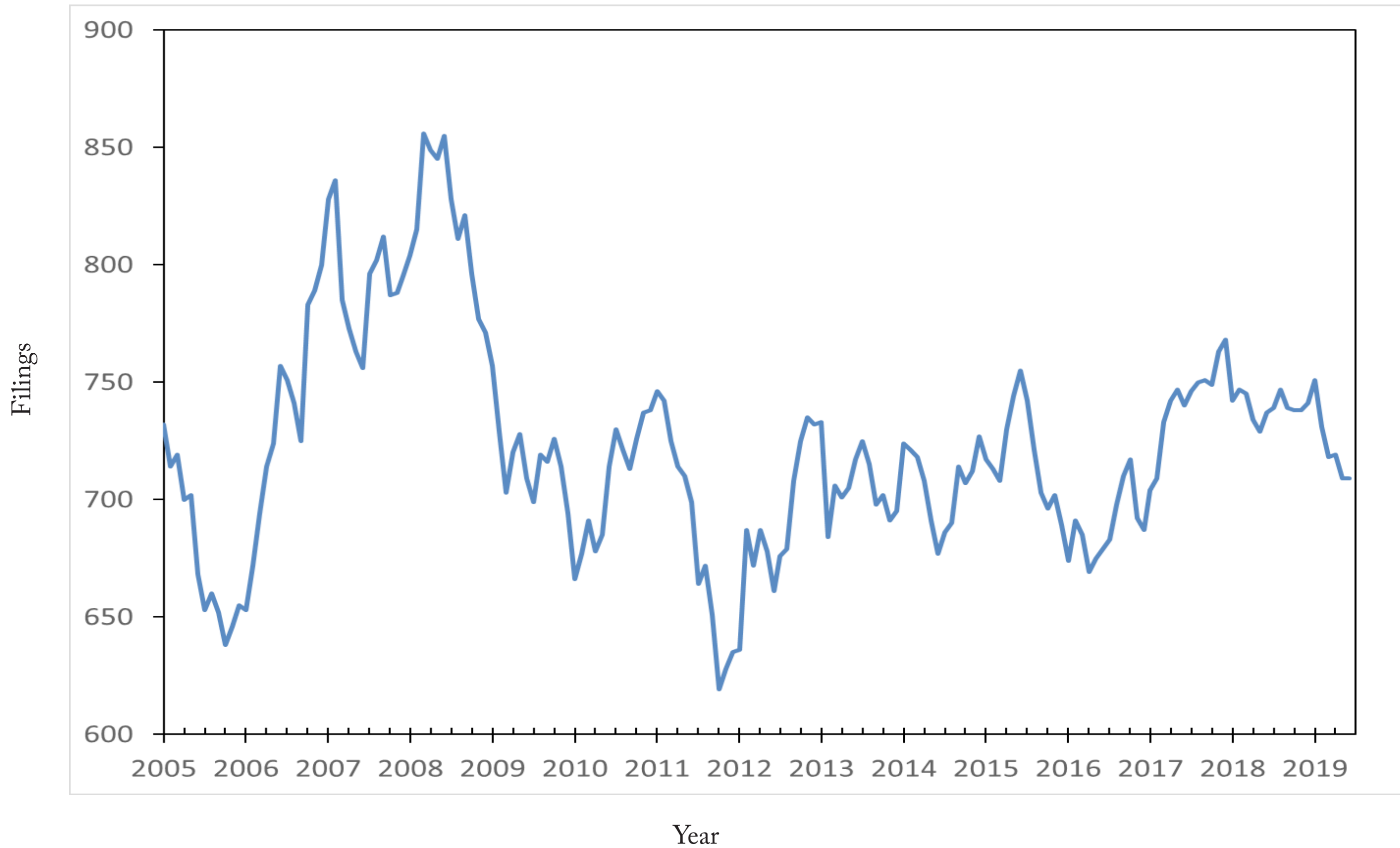
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	435	394	404	413	473	8.7%

Second quarter assumed names fell 4.7% compared to the same period in 2018. As can be seen in the accompanying figure, this series had been trending upward in 2016-2017, but has now started to once again decline.

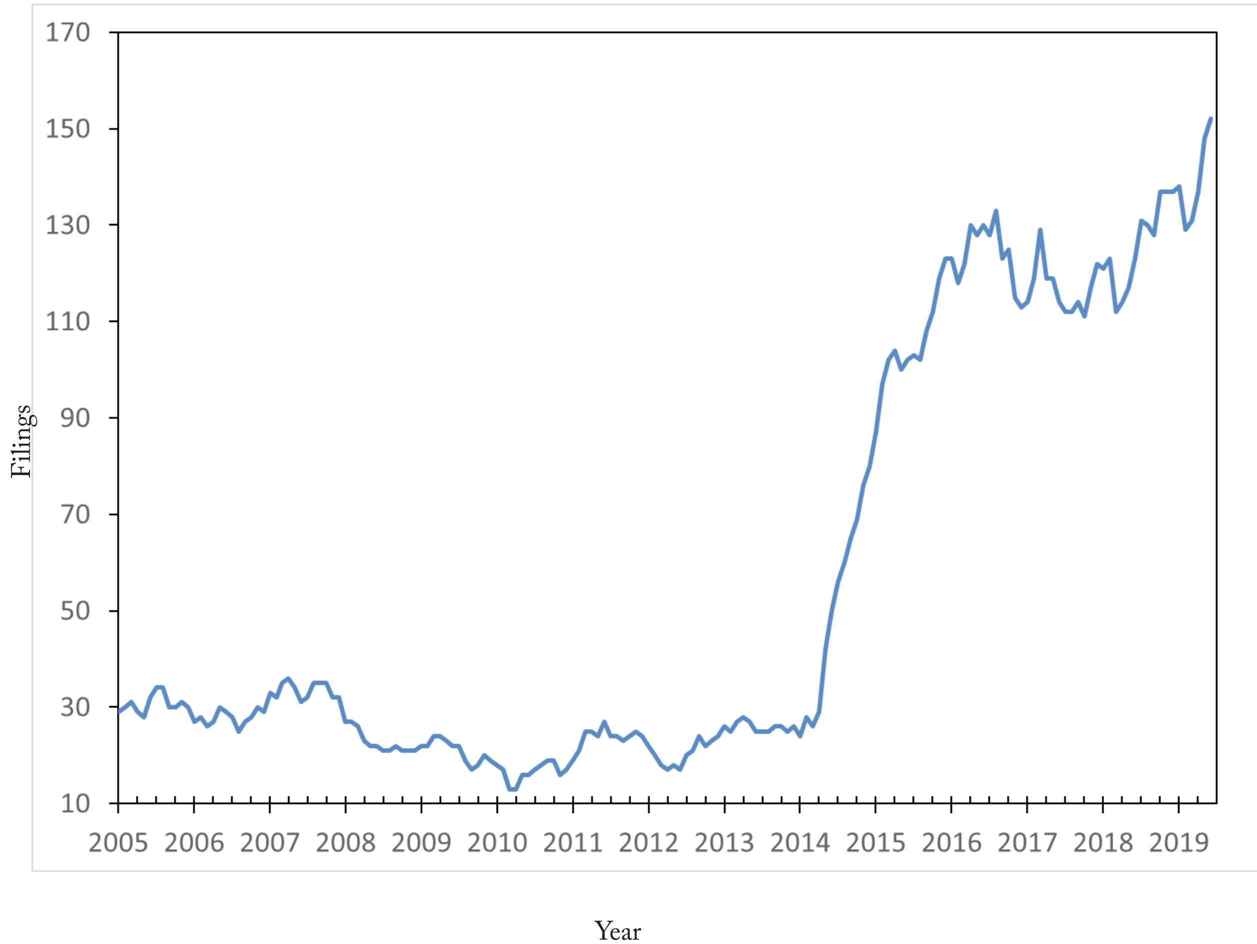
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Southwest Minnesota New Assumed Names	193	176	159	190	184	-4.7%

There were 53 newly registered non-profits in the second quarter. This is twenty-one more (representing a 65.6% increase) than the same period one year ago. As can be seen in the graph below, the non-profits series has been rising since the middle quarters of 2017.

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



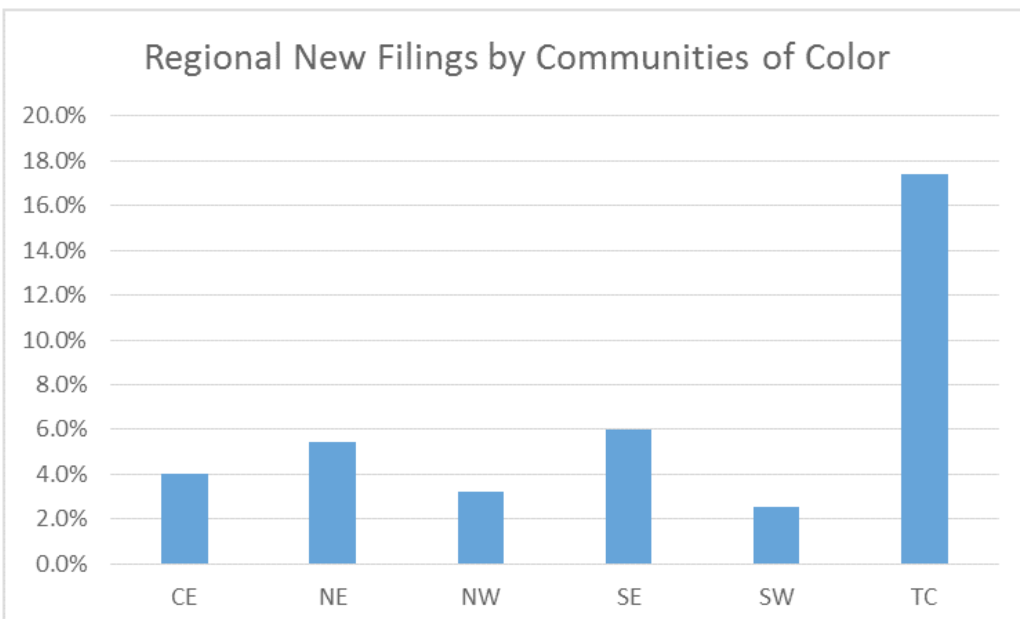
Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Southwest Minnesota New Non-Profits	32	29	42	28	53	65.6%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

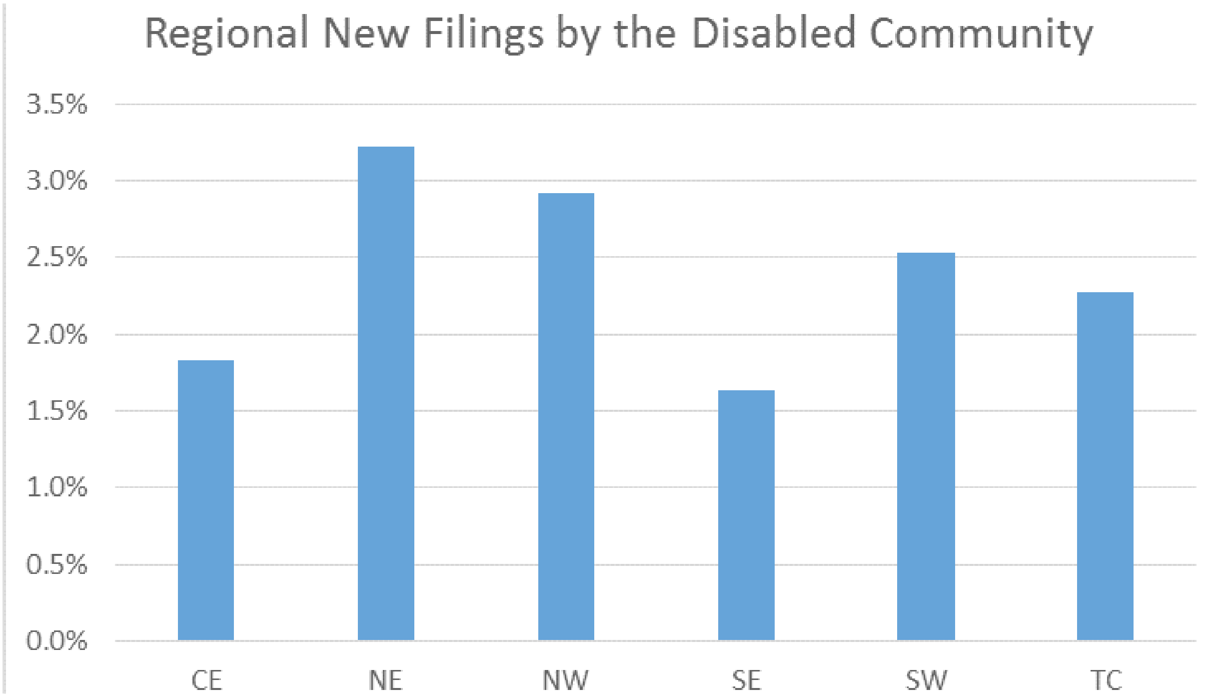
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, employment levels and annual revenue of the filer, and whether the business is a full- or part-time activity for the filing entity. While a comprehensive analysis of this promising new data set is the beyond the scope of this regional economic and business conditions report (an annual report of the Minnesota Business Snapshot is available from the Office of the Minnesota Secretary of State), the survey results do provide useful additional background information to complement the business filing data.

To match up the Minnesota Business Snapshot (MBS) information with the data analyzed in this report, only surveys accompanying new filings in the second quarter of 2019 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 55 percent. This yields thousands of self-reported records in this emerging data set. For Southwest Minnesota, 53.4 percent of new business filers completed at least some portion of the MBS survey. This is the lowest survey response rate of Minnesota's six planning areas. The survey results are reported in this section.

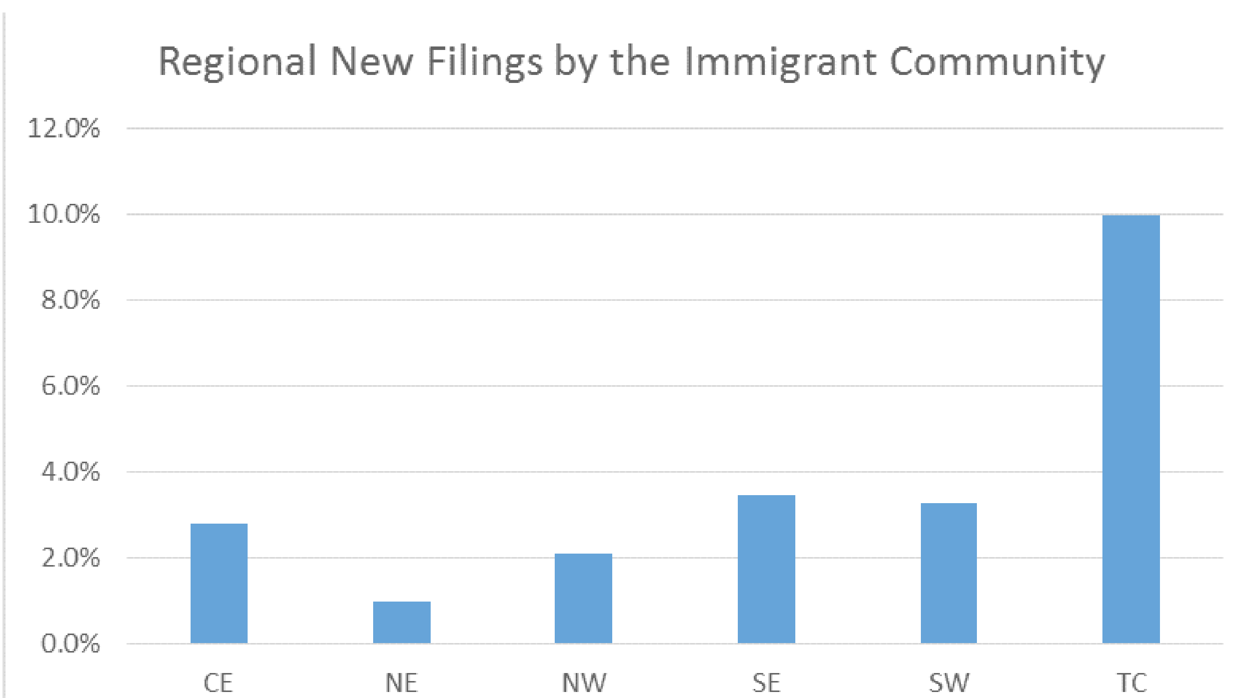
2.5 percent of those new filers completing the MBS from the Southwest Minnesota planning area report being from a community of color. This is the lowest percentage in this category across Minnesota's six planning areas.



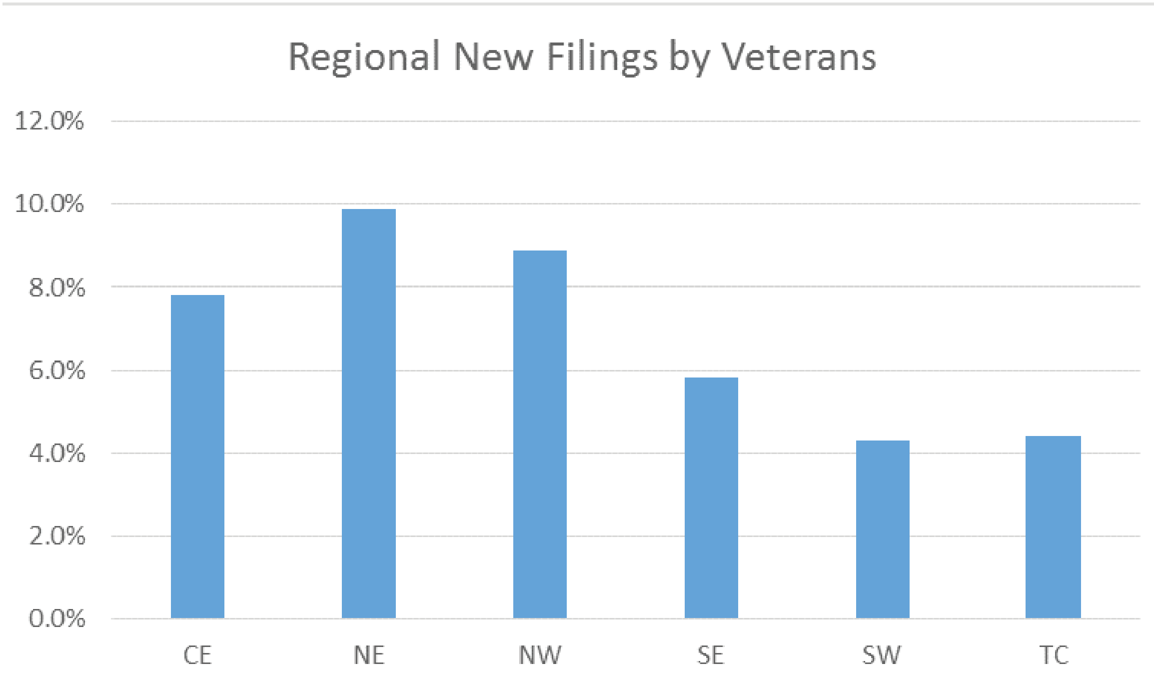
2.5 percent of Southwest Minnesota's new filers are from the disability community.



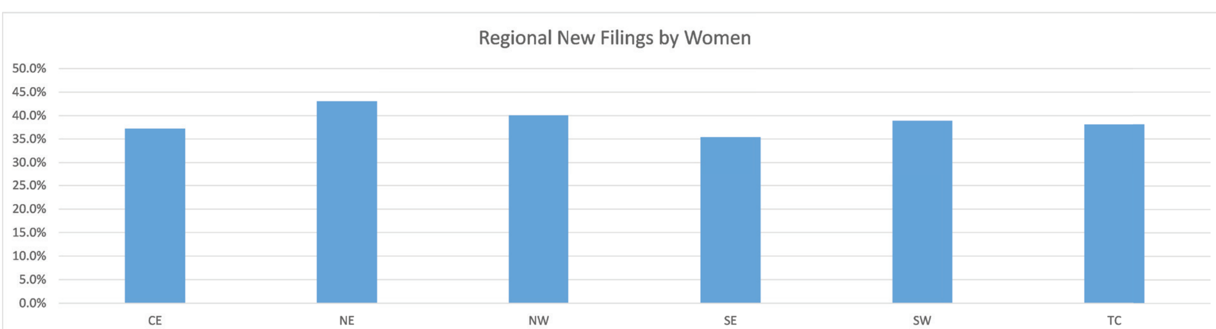
3.3 percent of new business filings in Southwest Minnesota come from the immigrant community.



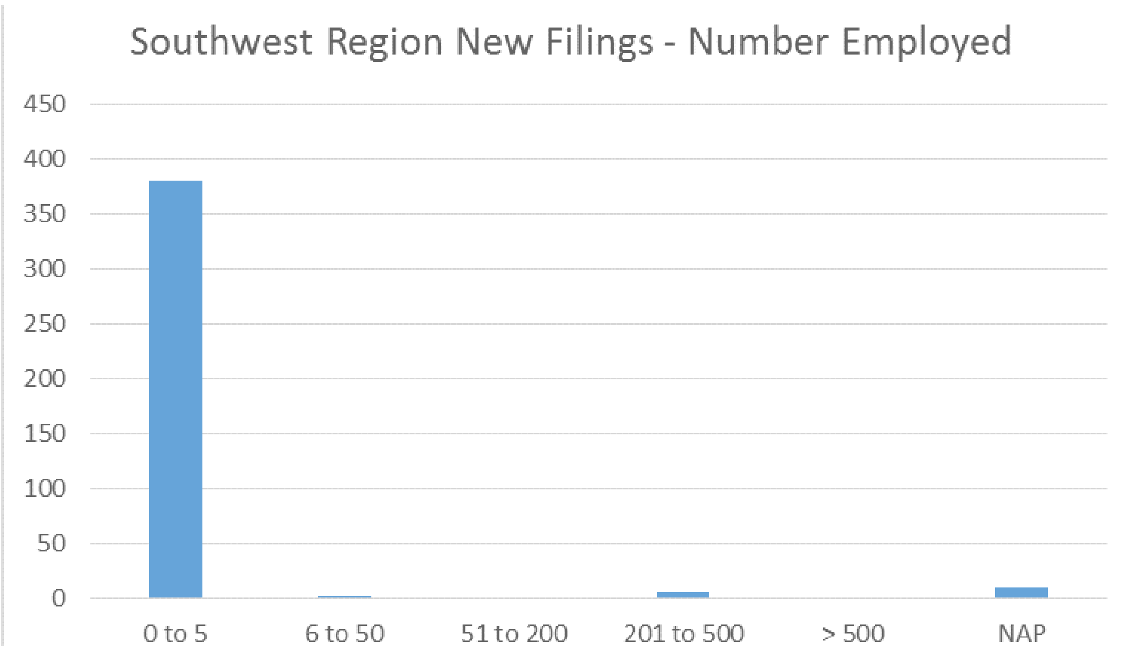
Only 4.3 percent of new filings in Southwest Minnesota come from military veterans. This is the lowest percentage in Minnesota's six planning areas.



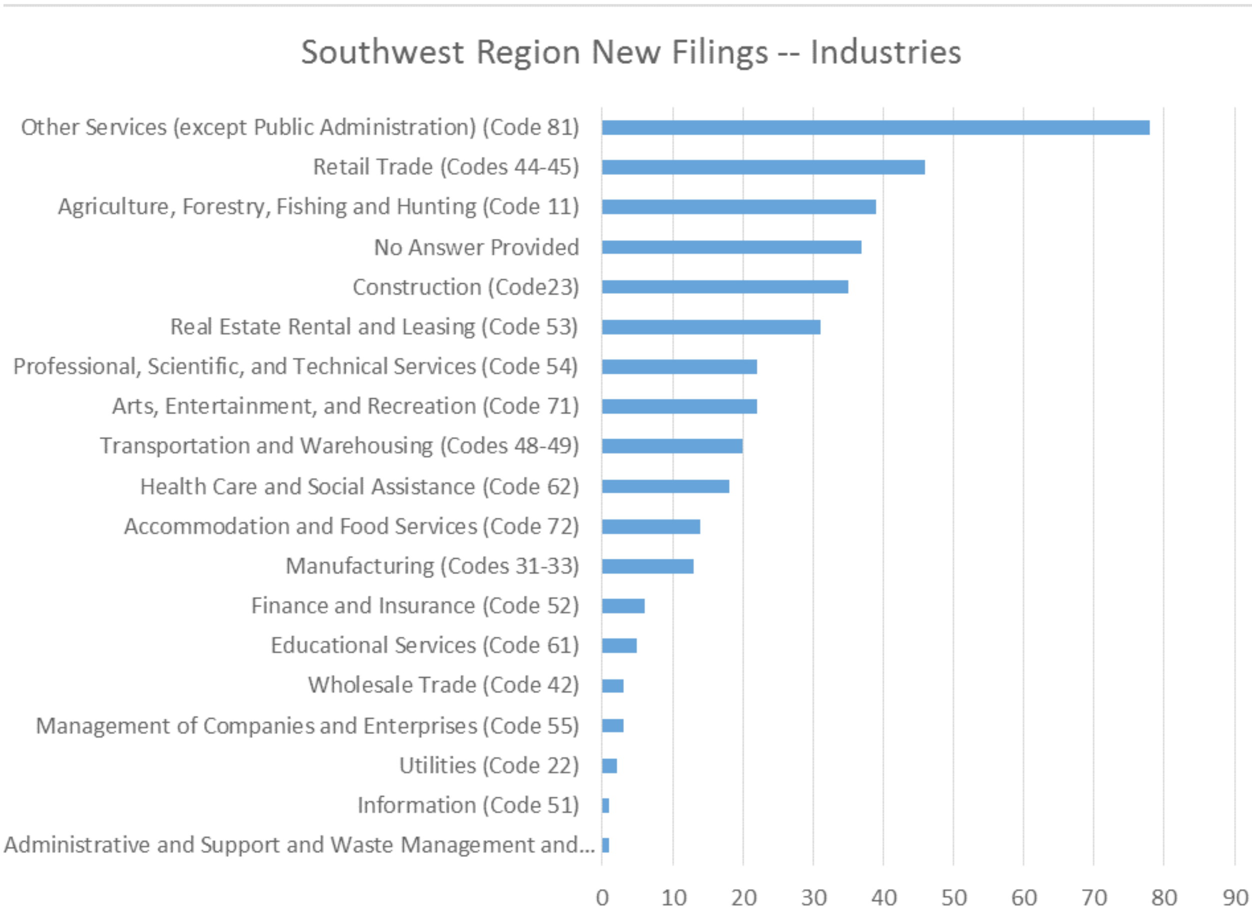
Woman owners represented 38.9 percent of new business filings in Southwest Minnesota in the second quarter of 2019.



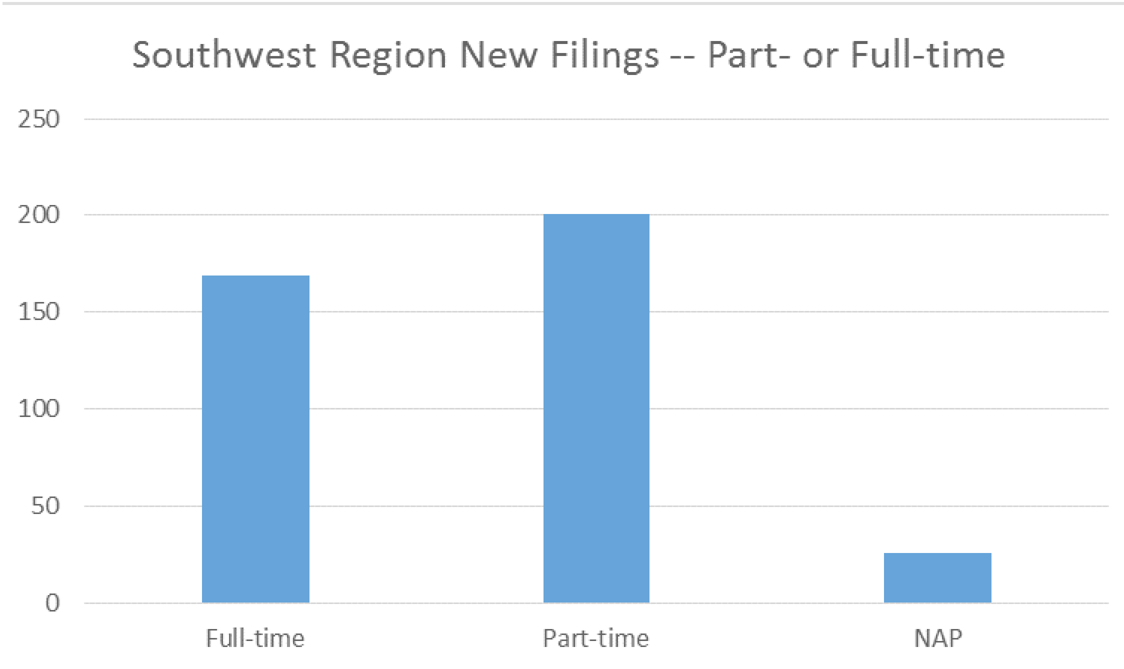
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by "NAP"—no answer provided), 387 responses were tallied to a question asking the new business filer to indicate the range of employment at the business. As expected, most new businesses start small—employment at most companies submitting a new filing ranges from 0-5 employees.



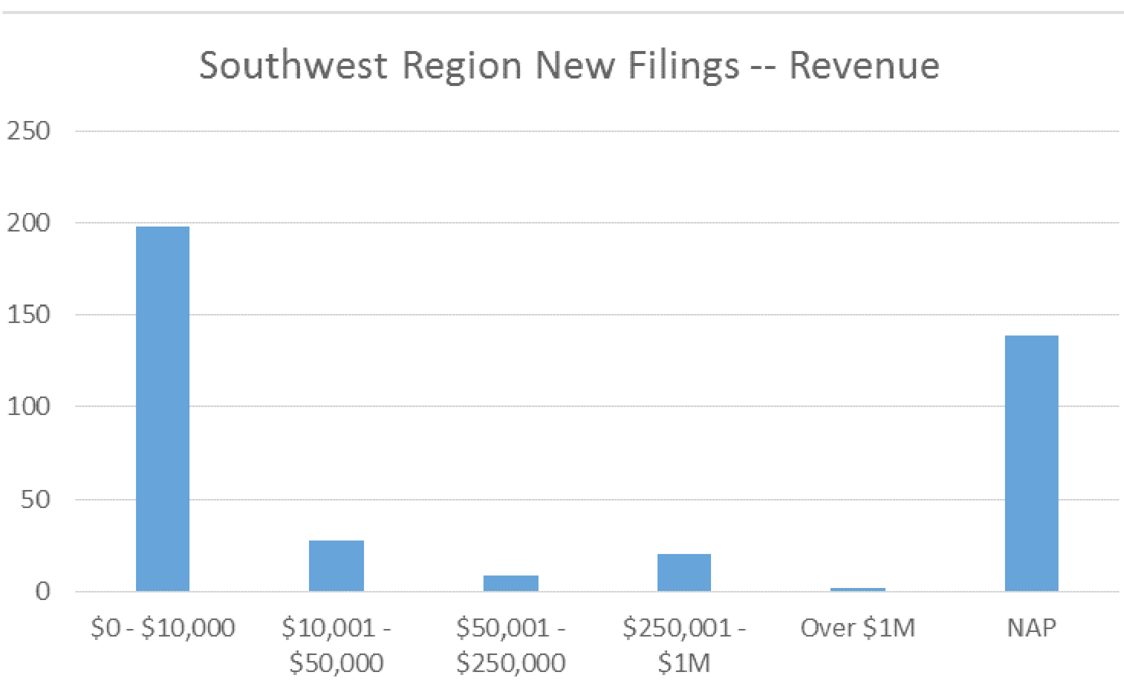
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, retail trade, agricultiure/forestry/fishing/hunting, and "other services" lead the way. Since businesses are often unsure of their industrial classification, the "other services" category is likely to represent a "catch-all" category for service-related businesses who were unable to specify their industry. Thirty-seven new firms did not provide an answer to this survey item (see "NAP"). This is the first quarter in which construction appeared so low on the list of industries. This will be worth watching in future quarters.



54.3 percent of those submitting a new business filing in Southwest Minnesota in the second quarter of 2019 are part-time ventures.



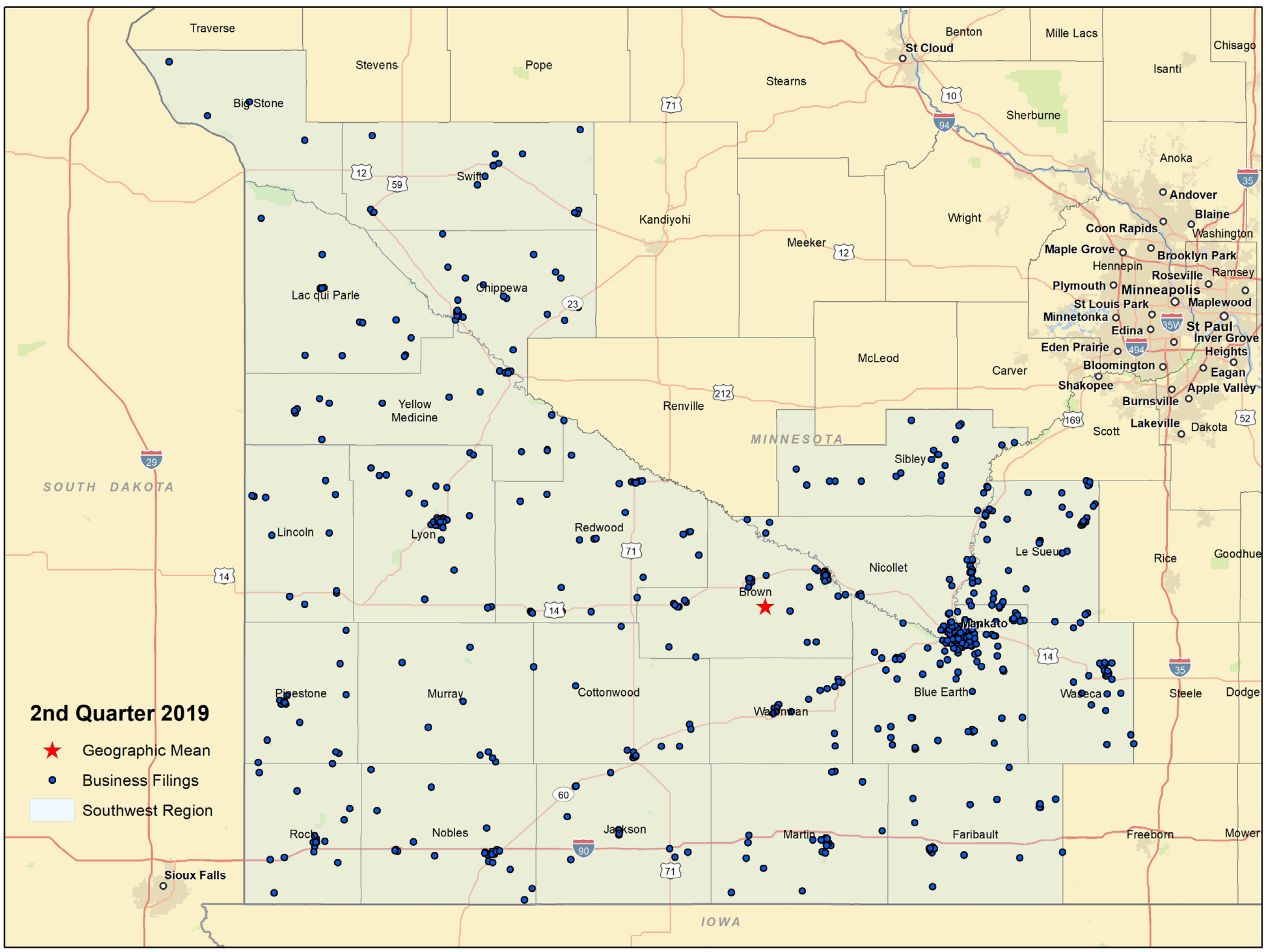
139 new filers in Southwest Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues less than $10,000. Thirty-one firms report annual revenues in excess of $50,000.



MAPS

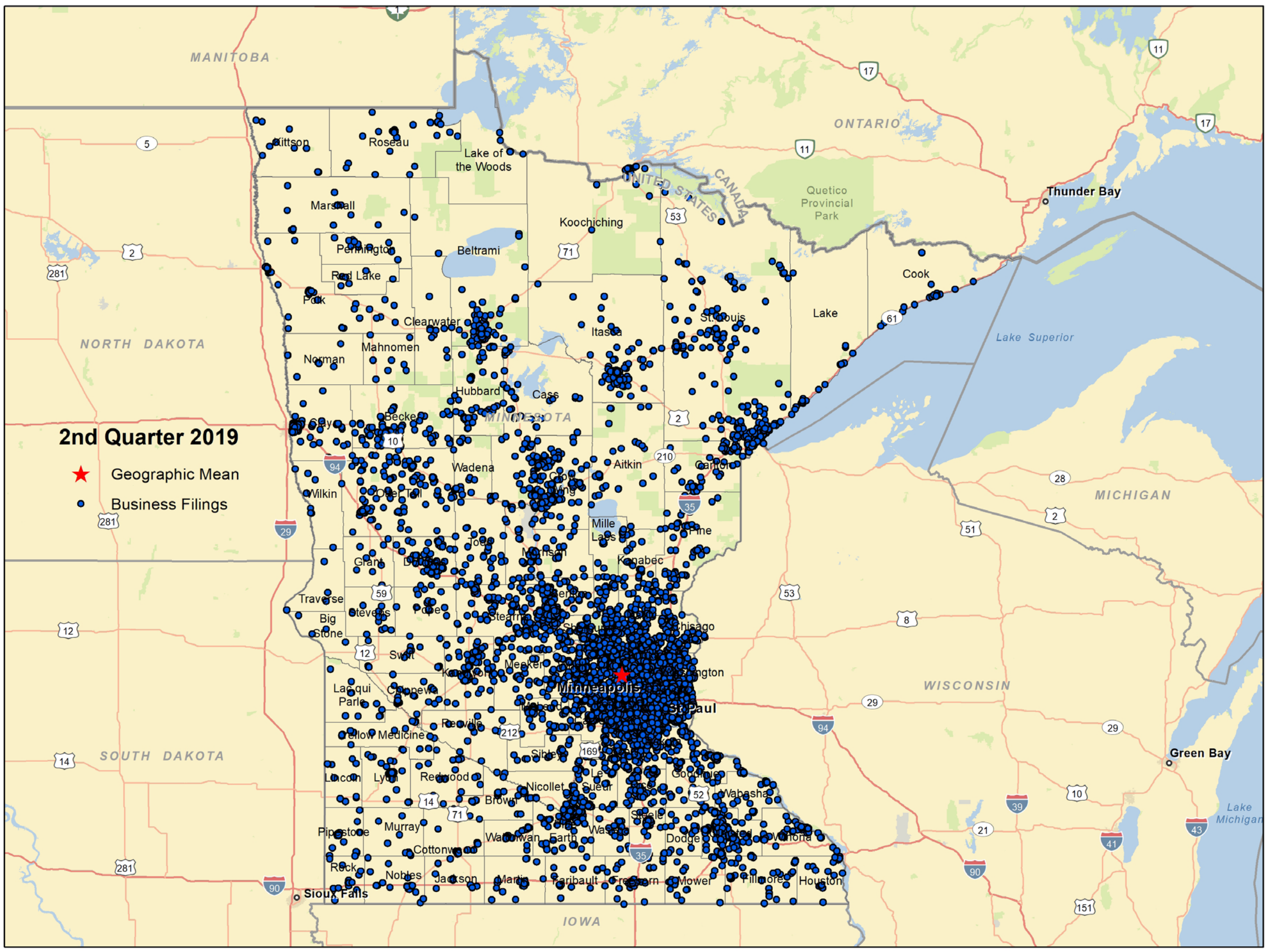
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the second quarter of 2019. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, New Ulm, St Peter, and several cities along I-90. As has been noted in previous editions of this report, well-traveled roadways are a predictor of new business formation in Southwest Minnesota.

Southwest Minnesota Planning Area--New Business Formation--Quarter 2: 2019



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. There is also considerable new business formation in the southern part of the state, particularly in Rochester and between the Twin Cities and Mankato. The importance of Interstates 90, 94, and 35 as well as US-10 and MN 61 (along the North Shore) in new business filings is also easily seen in this map.

Minnesota--New Business Formation--Quarter 2: 2019

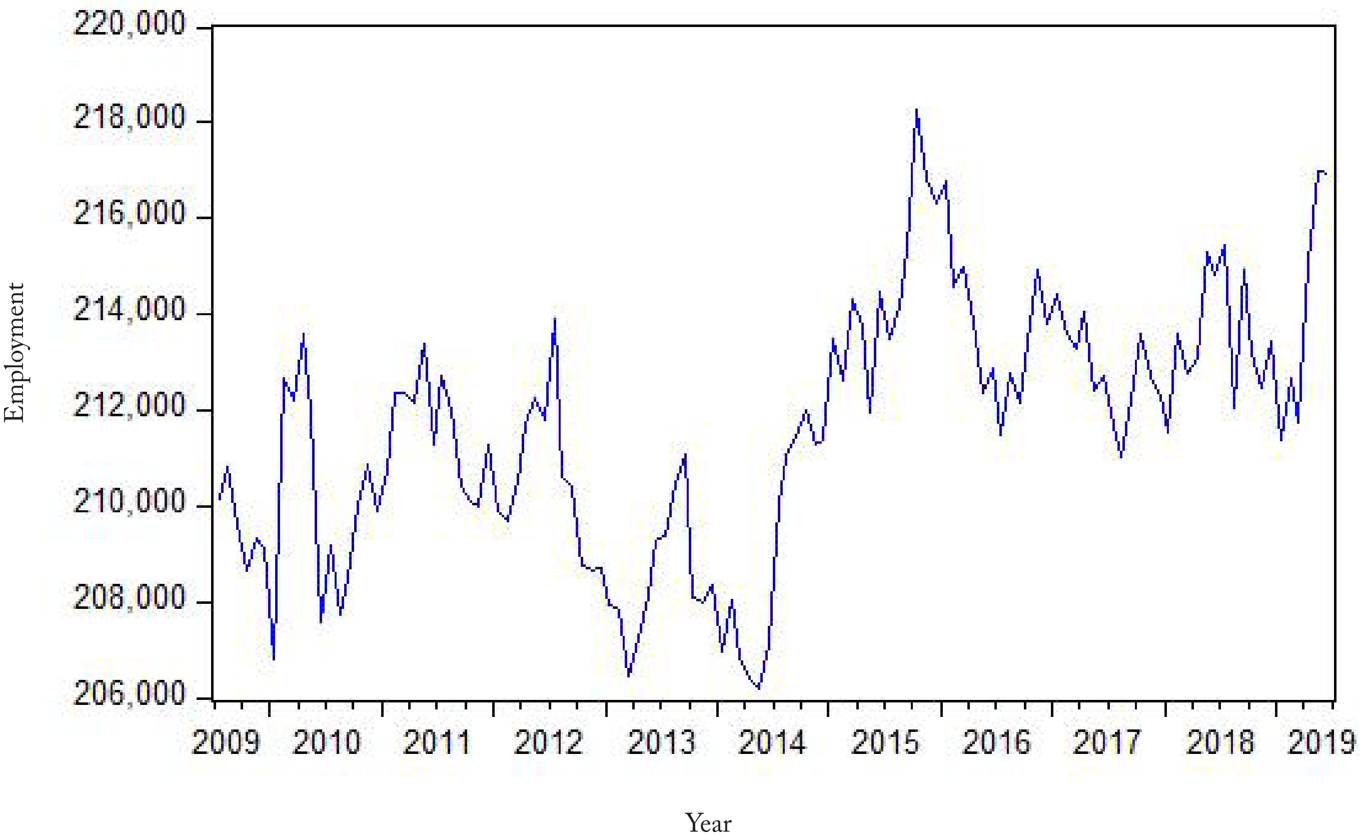


SOUTHWEST MINNESOTA LABOR MARKET CONDITIONS

Employment of residents of the Southwest Minnesota planning area rose by 1.1 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average trended upward from the middle of 2014 until the end of 2015, but then declined precipitously. This series had been fairly flat before rising sharply in this year's second quarter.

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—Southwest Minnesota Planning Area (12-month moving average)



Month	June 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
Employment (Not seasonally adjusted)	216,207	208,455	209,207	210,129	215,085	218,625	218,491

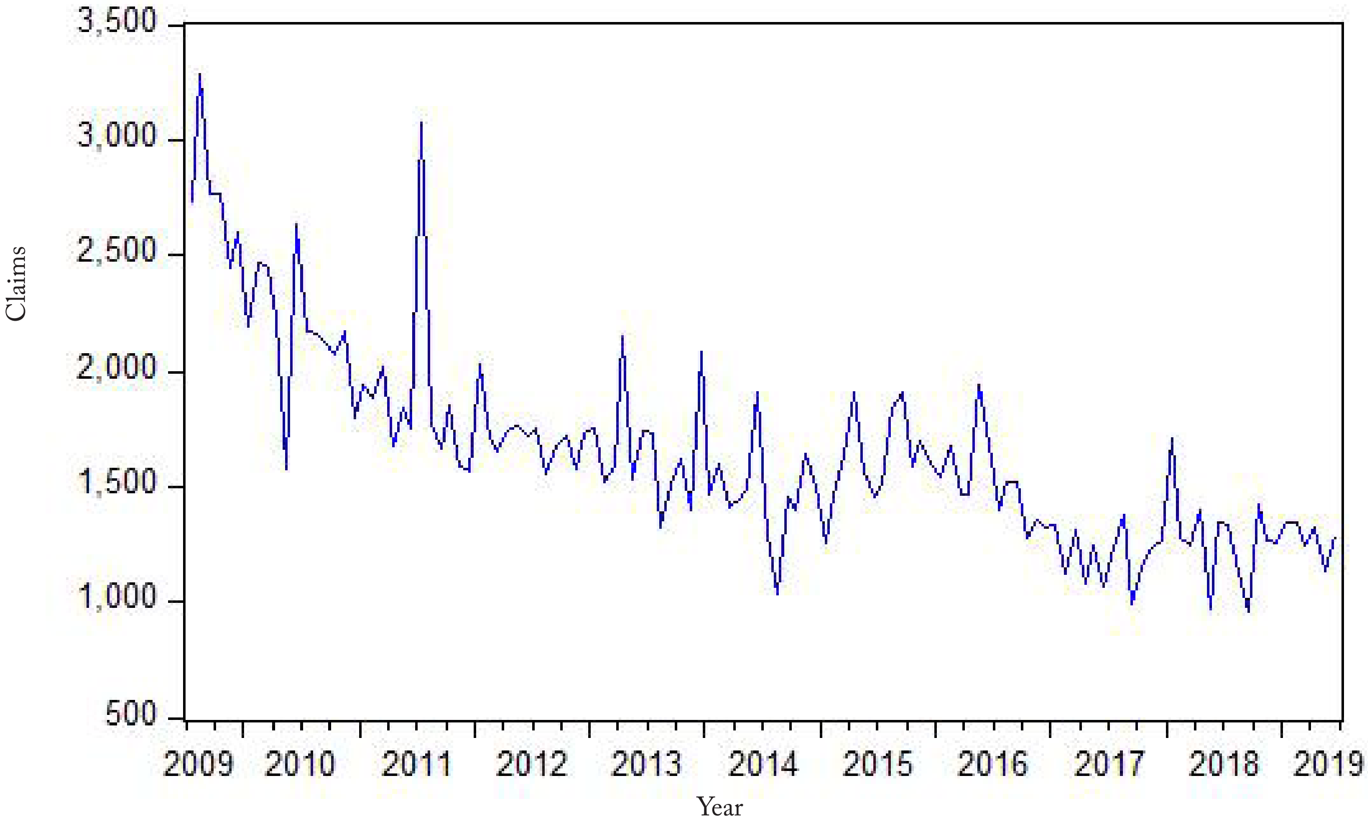
The seasonally adjusted unemployment rate in Southwest Minnesota had generally declined since the end of the Great Recession, but began to rise in the fourth quarter of 2018. The non-seasonally adjusted measure now stands at 3.5 percent — up significantly from its level of 2.9 percent recorded in June 2018.

Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area

Month	June 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
Unemployment rate (not seasonally adjusted)	2.9%	5.0%	4.5%	4.7%	3.6%	2.8%	3.5%

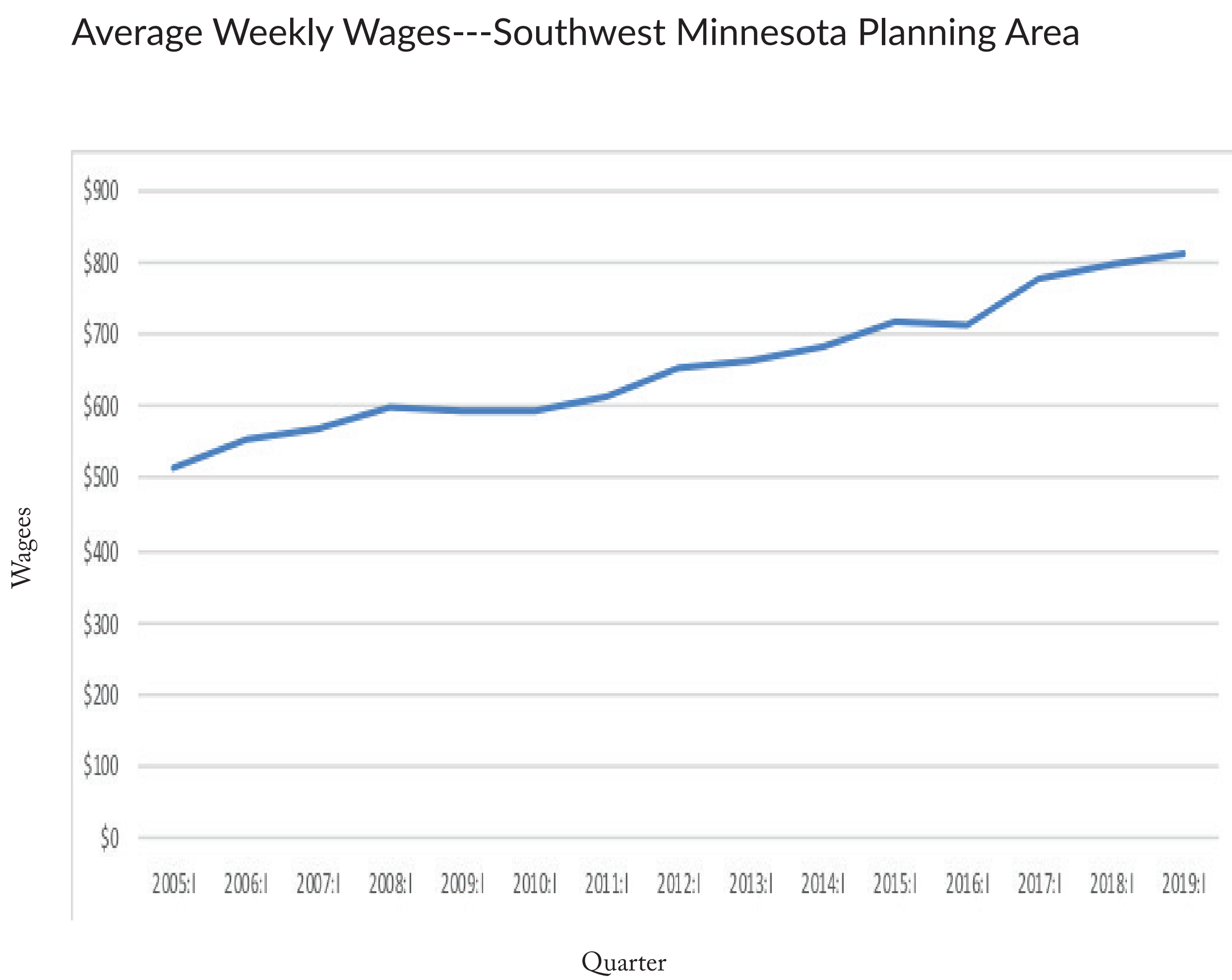
The region's initial jobless claims were 4.8 percent lower than one year ago in the second quarter. The accompanying graph shows a volatile seasonally adjusted series of initial jobless claims that has flattened out since 2018.

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



Period	June 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
Initial claims (Not seasonally adjusted)	1,088	1,898	1,024	964	861	913	1,036

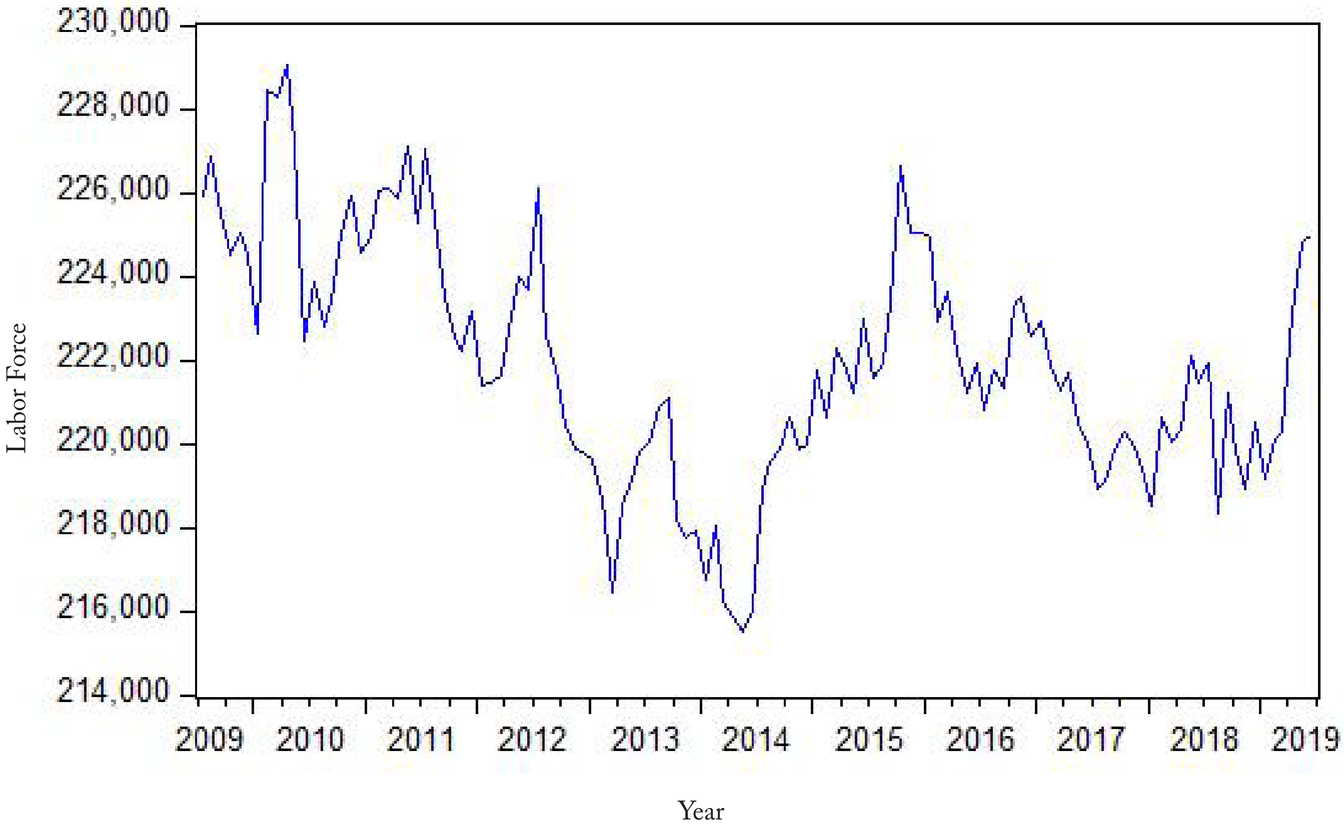
Average weekly wages in the first quarter (this is the most recently available data) rose 1.9 percent to $811. Only the northwest planning area has lower average wages than are found in the southwest region.



Quarter	2014:I	2015:I	2016:I	2017:I	2018:I	2019:I
Average Weekly Wages	$683	$718	$711	$778	$796	$811

The Southwest Minnesota labor force rose by 1.6 percent over the year ending June 2019. As can be seen in the accompanying figure, the 12-month moving average of the planning area's labor force had trended upward since 2014, and had recently leveled out prior to experiencing a sharp rise in the second quarter.

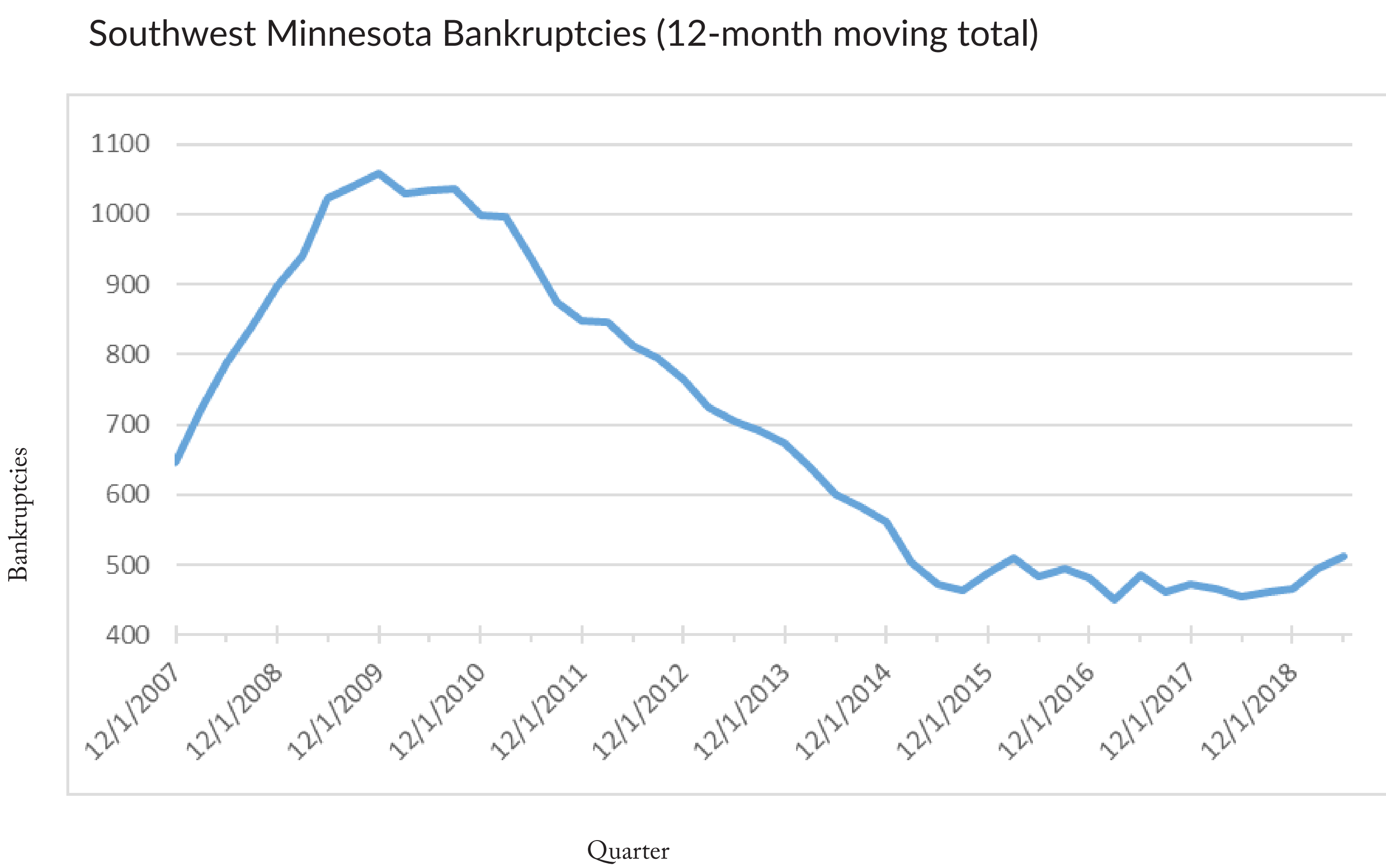
Labor Force—Southwest Minnesota Planning Area (12-month moving average)



Year (June)	2014	2015	2016	2017	2018	2019
Labor Force (not seasonally adjusted)	218,081	224,756	223,404	221,328	222,657	226,302

SOUTHWEST MINNESOTA BANKRUPTCIES

The figure below shows the 12-month moving total for Southwest 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 end of 2009, and steadily declined until flattening out toward the end of 2015. With 512 bankruptcies over the past twelve months, Southwest Minnesota bankruptcies were 12.8 percent higher than one year ago.



Year (Second Quarter)	2014	2015	2016	2017	2018	2019
Annual Bankruptcies (Not seasonally adjusted)	600	472	484	486	454	512

ECONOMIC INDICATORS

Mankato-North Mankato MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	June 2019 (m)	58,606	57,898	1.2% ↑	0.9%
Goods-Producing Employment	June 2019 (m)	10,846	10,613	2.2% ↑	-0.2%
Average Weekly Work Hours--Private Sector	June 2019 (m)	29.4	31.3	-6.1% ↓	32.5 (since 2008)
Average Earnings Per Hour--Private Sector	June 2019 (m)	$26.40	$26.20	0.8% ↑	1.7% (since 2008)
Unemployment Rate	June 2019 (m)	3.1%	2.6%	NA ↑	3.9%
Labor Force	June 2019 (m)	61,874	62,288	-0.7% ↓	0.7%
Initial Jobless Claims	June 2019 (m)	163	181	-9.9% ↓	NA
Business Formation					
Total New Business Filings	Second Quarter 2019 (q)	234	217	7.8% ↑	165 (since 2000)
New Business Incorporations	Second Quarter 2019 (q)	6	17	-64.7% ↓	24 (since 2000)
New Limited Liability Companies	Second Quarter 2019 (q)	158	137	15.3% ↑	82 (since 2000)
New Assumed Names	Second Quarter 2019 (q)	56	51	9.8% ↑	51 (since 2000)
New Non-Profits	Second Quarter 2019 (q)	14	12	16.7% ↑	9 (since 2000)
Mankato-North Mankato Residential Building Permit Valuation	June 2019 (m)	1,240	4,503	-72.5% ↓	NA
Mankato-North Mankato Cost of Living Index	Second Quarter 2019 (q)	90.3	93.5	3.4% ↓	

(m) represents a monthly series

(q) represents a quarterly series

Southwest Minnesota contains the Mankato/North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. As the accompanying table shows, Mankato employment increased, but the labor force fell over the year ending June 2019. The MSA enjoyed higher average hourly earnings and lower initial jobless claims, but the area experienced a sharp decline in the value of residential building permits in the second quarter. New business filings rose and the area's relative cost of living fell. However, the unemployment rate was higher and average weekly work hours fell.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Jun 2019	Mar 2019	Jun 2018	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,963,700	2,958,200	2,954,300	0.2%	0.3%
Average weekly hours worked, private sector	34.5	33.4	34.1	3.3%	1.2%
Unemployment rate, seasonally adjusted	3.3%	3.2%	2.8%	NA	NA
Earnings per hour, private sector	$29.92	$29.85	$28.77	0.2%	4.0%
Philadelphia Fed Coincident Indicator, MN	138.54	138.12	137.15	0.3%	1.0%
Philadelphia Fed Leading Indicator, MN	1.00	-0.11	2.59	NA	-61.4%
Minnesota Business Conditions Index	53.4	53.0	58.8	0.8%	-9.2%
Price of milk received by farmers (cwt)	$18.20	$17.80	$16.30	2.2%	11.7%
Enplanements, MSP airport, thousands	1,827.5	1,778.3	1,753.0	2.8%	4.2%
NATIONAL Indicators	Jun 2019	Mar 2019	Jun 2018	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	151,267	150,796	149,007	0.3%	1.5%
Industrial production, index, SA	109.6	109.7	108.2	-0.1%	1.3%
Real retail sales, SA, millions ($)	203,633	202,090	200,167	0.8%	1.7%
Real personal income less transfers, billions	14,144.0	14,042.7	13,704.4	0.7%	3.2%
Real personal consumption expenditures, bill.	13,270.2	13,162.2	12,946.2	0.8%	2.5%
Unemployment rate, SA	3.7%	3.8%	4.0%	NA	NA
New building permits, thousands of units	111.0	105.7	123.3	5.0%	-10.0%
Standard and Poor's 500 stock price index	2,890.2	2,804.0	2,754.4	3.1%	4.9%
Oil, price per barrel in Cushing, OK	$54.66	$58.15	$67.87	-6.0%	-19.5%

Economic performance found in the State and National Indicators table is mostly favorable. For the state as a whole, there was growth in employment and improved earnings over the past year. Hours worked rose, while enplanements at the Minneapolis-St. Paul airport were higher. Milk prices rose. The Federal Reserve Bank of Philadelphia's Coincident Indicators series was higher, but its leading economic indicators fell. The state's seasonally adjusted unemployment rate rose and the Minnesota Business Conditions index was lower than one year ago.

The national economic indicators found in the table are largely favorable. Employment, income, industrial production, retail sales and consumer spending are all improved over the past twelve months (although one of these measures experienced a quarterly decline), and the unemployment rate is lower. Stock prices have rebounded from their low point at the end of 2018. However, new building permits are lower than they were in last year's second quarter. Oil prices fell in the second quarter, and are considerably lower than one year ago.

The Southwest 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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