Southwest Minnesota
Economic and Business Conditions Report
Third Quarter 2015

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Southwest Minnesota business conditions are expected to soften over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI). A reduction in Mankato area single family residential building permits and considerably higher initial jobless claims in the region helped drive this quarter's leading index lower. A weakening in the rural outlook also made a negative contribution to the LEI this quarter. Increased new filings for incorporation and limited liability company (LLC) earlier in the year was the only component making a positive contribution to the index in the third quarter. The leading index has shown considerable volatility from one quarter to the next, so the third quarter's negative reading (the LEI fell by 15.24 points) could easily be reversed in coming quarters.

There were 518 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the third quarter of 2015 — representing 8.3 percent fewer new filings than one year ago. There were 34 new regional business incorporations in the third quarter, a 27.7 percent decrease from one year ago. New LLC filings in Southwest Minnesota rose by 3.9 percent—increasing to 321 in the third quarter of 2015. New assumed names totaled 132 in this year's third quarter—28.3 percent fewer filings than last year. There were thirty-one new filings for Southwest Minnesota non-profits in the third quarter—six more than one year ago.

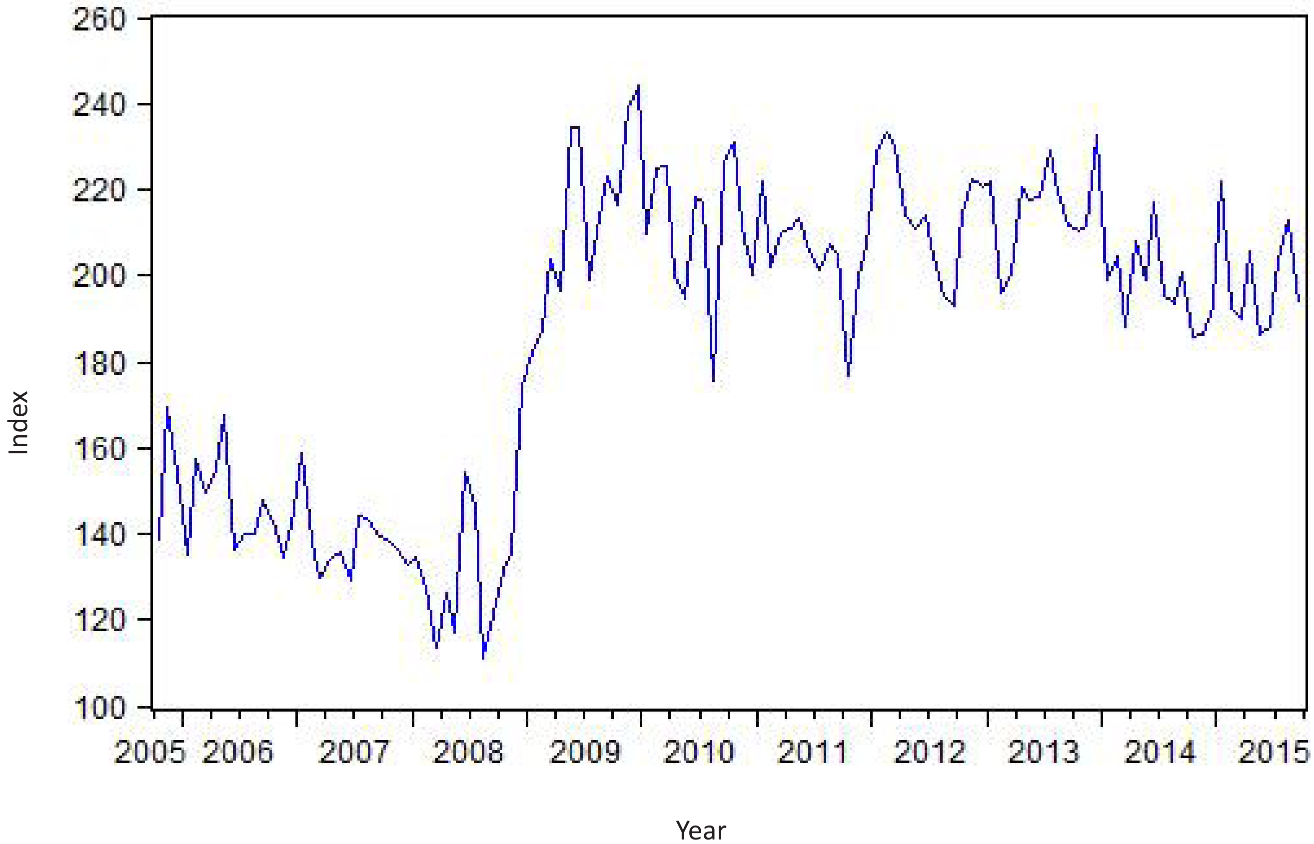
Employment of Southwest Minnesota residents expanded by 1.4 percent over the year ending September 2015. 3,046 more Southwest Minnesota residents have jobs than did one year ago. The regional unemployment rate was 3.0 percent in September, an improvement on its 3.2 percent reading in September 2014. Initial claims for unemployment insurance rose by 339 from year-ago levels—a 31.6 percent increase. The Southwest Minnesota labor force rose by 2,738 (a 1.3 percent increase) over the year ending September 2015. The job vacancy rate fell in the second quarter of 2015, but remains elevated at 85.59 vacancies per 100 unemployed.

There was mixed economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota. On the positive side, the workweek expanded, the unemployment rate fell, the value of residential building permits (these were primarily multi-unit permits) jumped, and the relative cost of living went down. However, this was offset by flat overall employment, a decline in average hourly earnings, a reduced labor force, higher initial jobless claims, and lower new business filings.

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. The LEI contracted by 15.24 points in the third quarter and is now 3.8 percent lower than one year ago. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has been highly variable for several years (for example, the index rose 8.41 points last quarter), so the current weakness in the leading index could easily be reversed in coming quarters.

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, 3rd quarter 2015	Contribution to LEI, 2nd quarter 2015
Rural Mainstreet Index	-2.19	-0.95
Southwest Minnesota initial claims for unemployment insurance	-8.97	3.32
Southwest Minnesota new filings of incorporation and LLCs	3.48	2.66
Mankato MSA single-family building permits	-7.56	3.38
TOTAL CHANGE	**-15.24**	**8.41**

The Southwest Minnesota LEI has four components, three of which declined in the third quarter. An increase in new business filings for incorporation and LLC earlier in the year was the one favorable component of this quarter's LEI. Lower Mankato/North Mankato Metropolitan Statistical Area (MSA) single family residential building permits had a negative effect on the LEI in the third quarter as did a substantial increase in the number of initial jobless claims. 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. This index also had an unfavorable impact on the LEI in the most recent quarter.

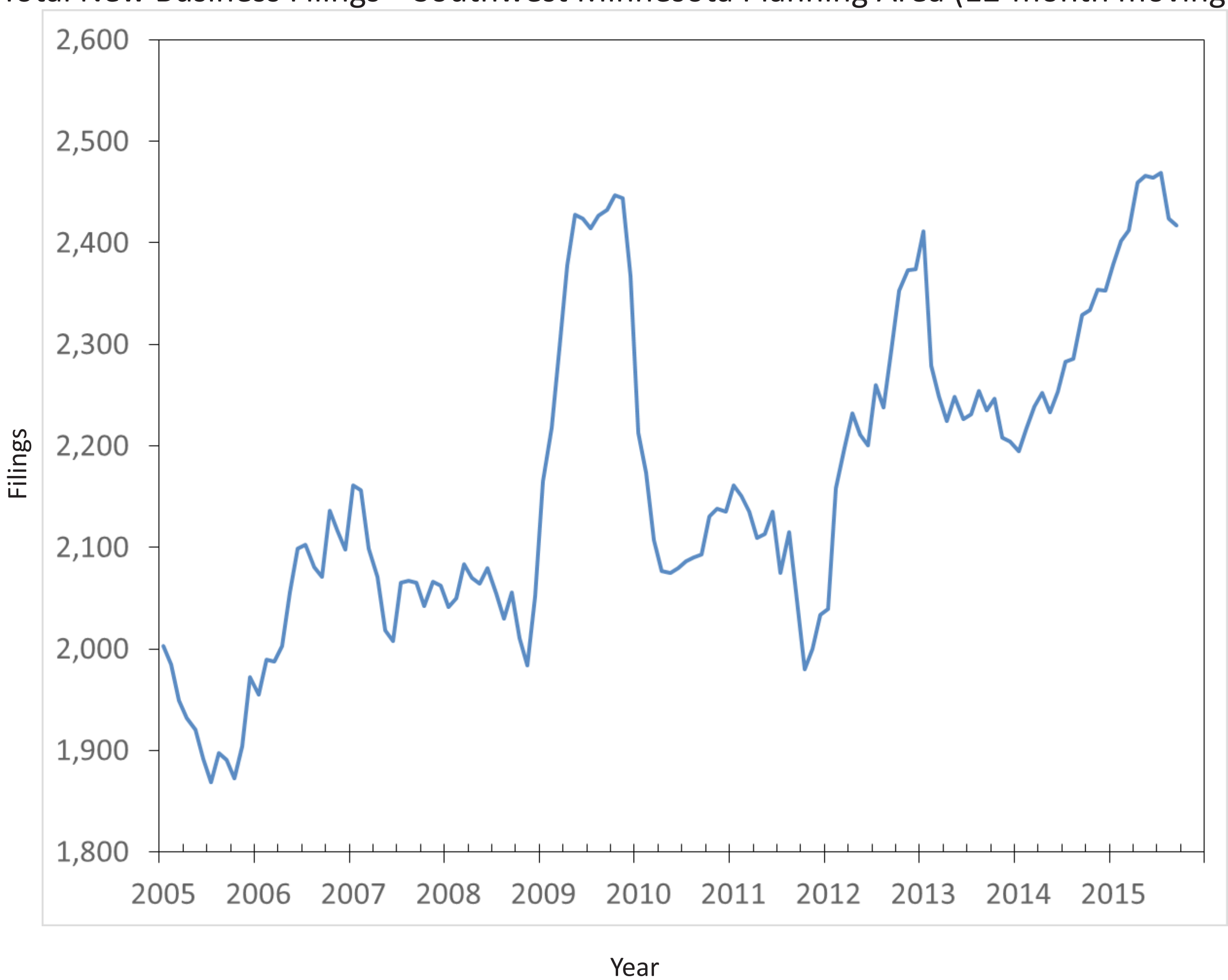
SCSU Southwest Minnesota Leading Economic Indicators Index

	2015	2014	Percentage change
Rural Mainstreet Index, Creighton University September	49.2	50.9	-3.3%
Southwest Minnesota initial claims for unemployment insurance September	1,413	1,074	31.6%
Southwest Minnesota new filings of incorporation and LLCs Third Quarter	355	356	-0.3%
Mankato MSA single-family building permits September	3	12	-75.0%
Southwest Minnesota Leading Economic Indicators Index September (December 1999 = 100)	193.3	201.0	-3.8%

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 fell by 8.8 percent from year earlier levels in the third quarter of this year. 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 (although less so in the southwest region). With the exception of a dip in 2013, the 12-month moving total of new business filings in Southwest Minnesota has steadily increased since the middle of 2011.

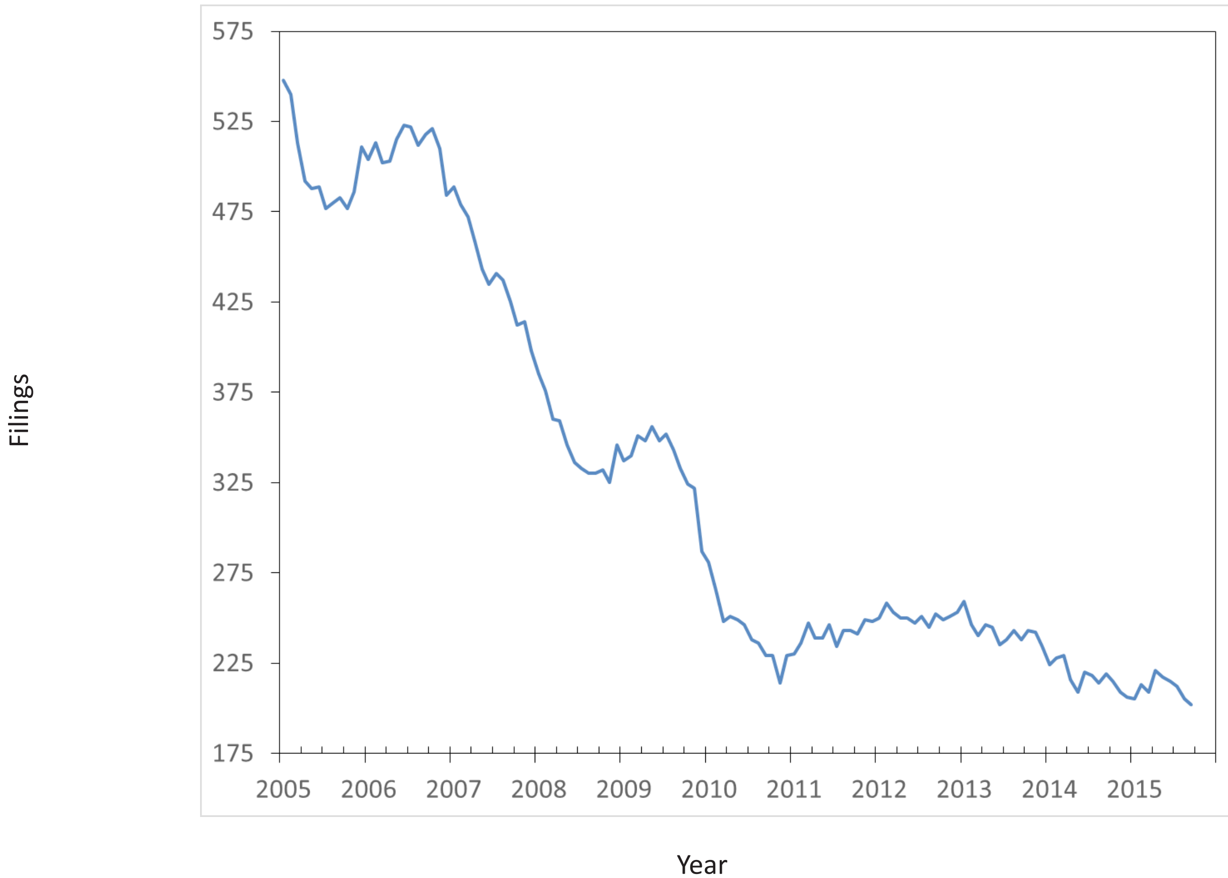
Total New Business Filings—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southwest Minnesota Total New Business Filings	565	563	690	646	518	-8.8%

New business incorporations trended downward in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend has resumed. New regional incorporations totaled 34 in the third quarter of this year—a 27.7 percent reduction from last year.

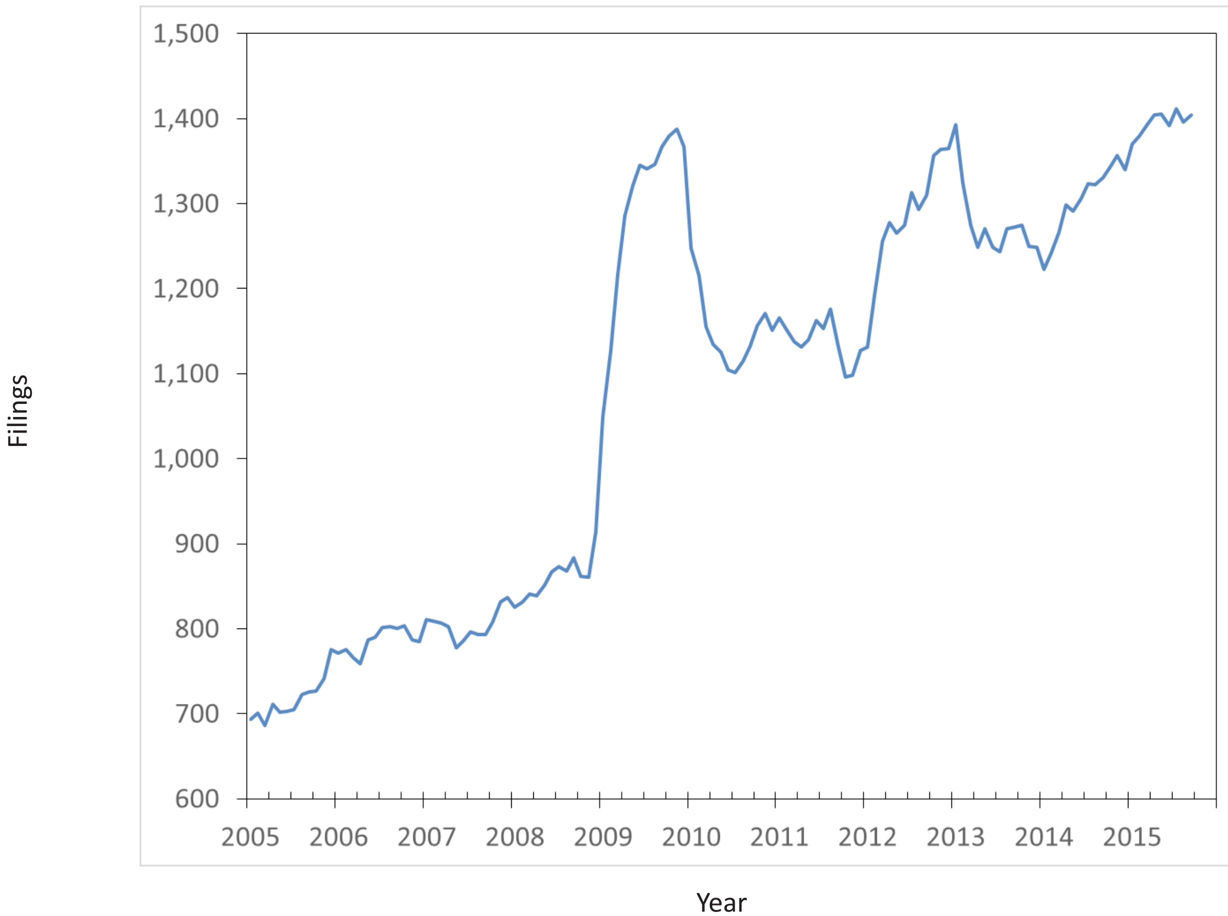
New Incorporations—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southwest Minnesota New Business Incorporations	47	47	62	59	34	-27.7%

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 considerable upward trend in LLCs in Southwest Minnesota since 2005. New LLC filings rose by 3.9 percent compared to one year earlier in the most recent quarter.

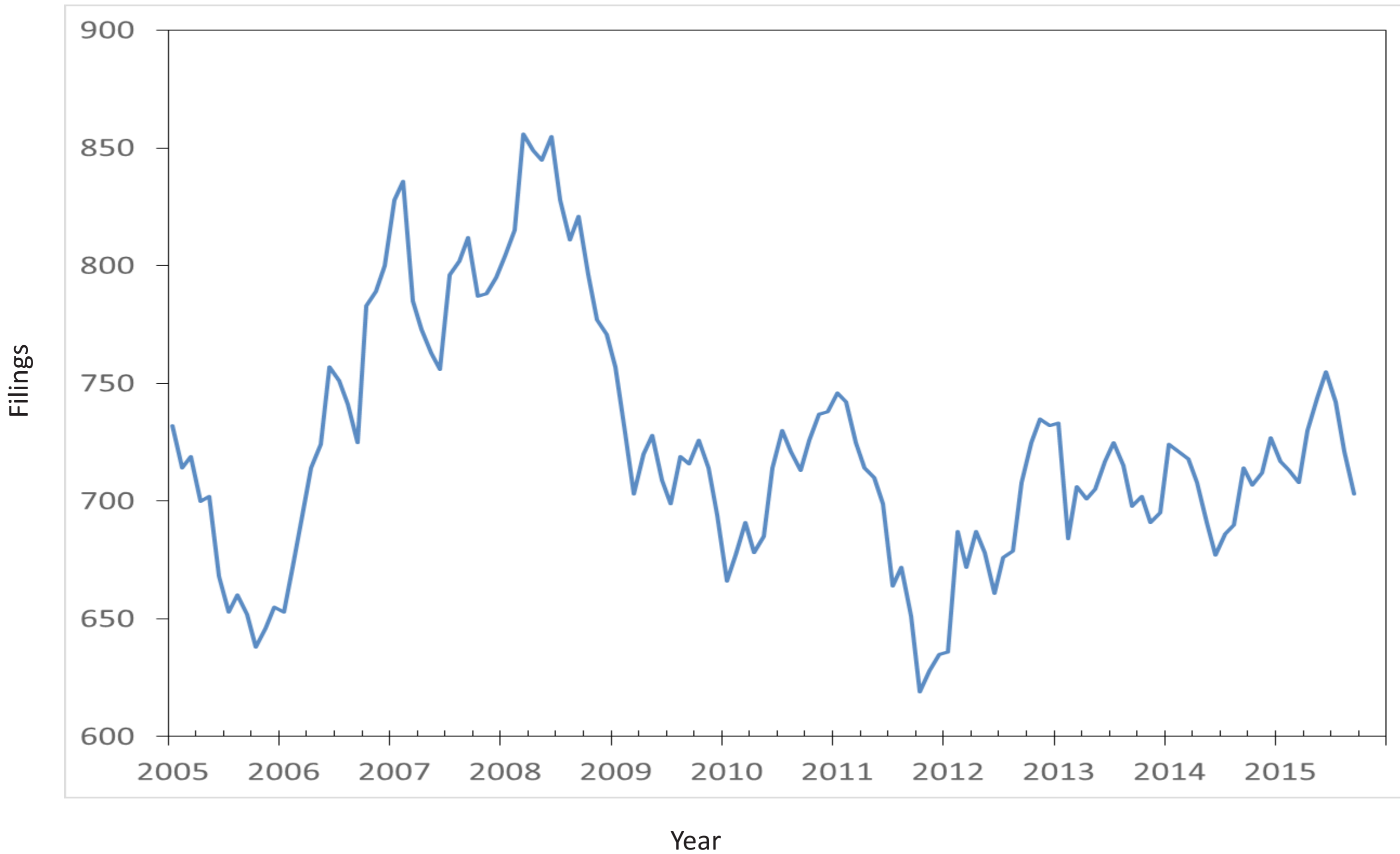
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	309	319	405	359	321	3.9%

Third quarter assumed names fell by 28.3 percent compared to the same period in 2014. As can be seen in the accompanying figure, while this series has been very volatile in recent years, new assumed names are little changed since the beginning of 2013.

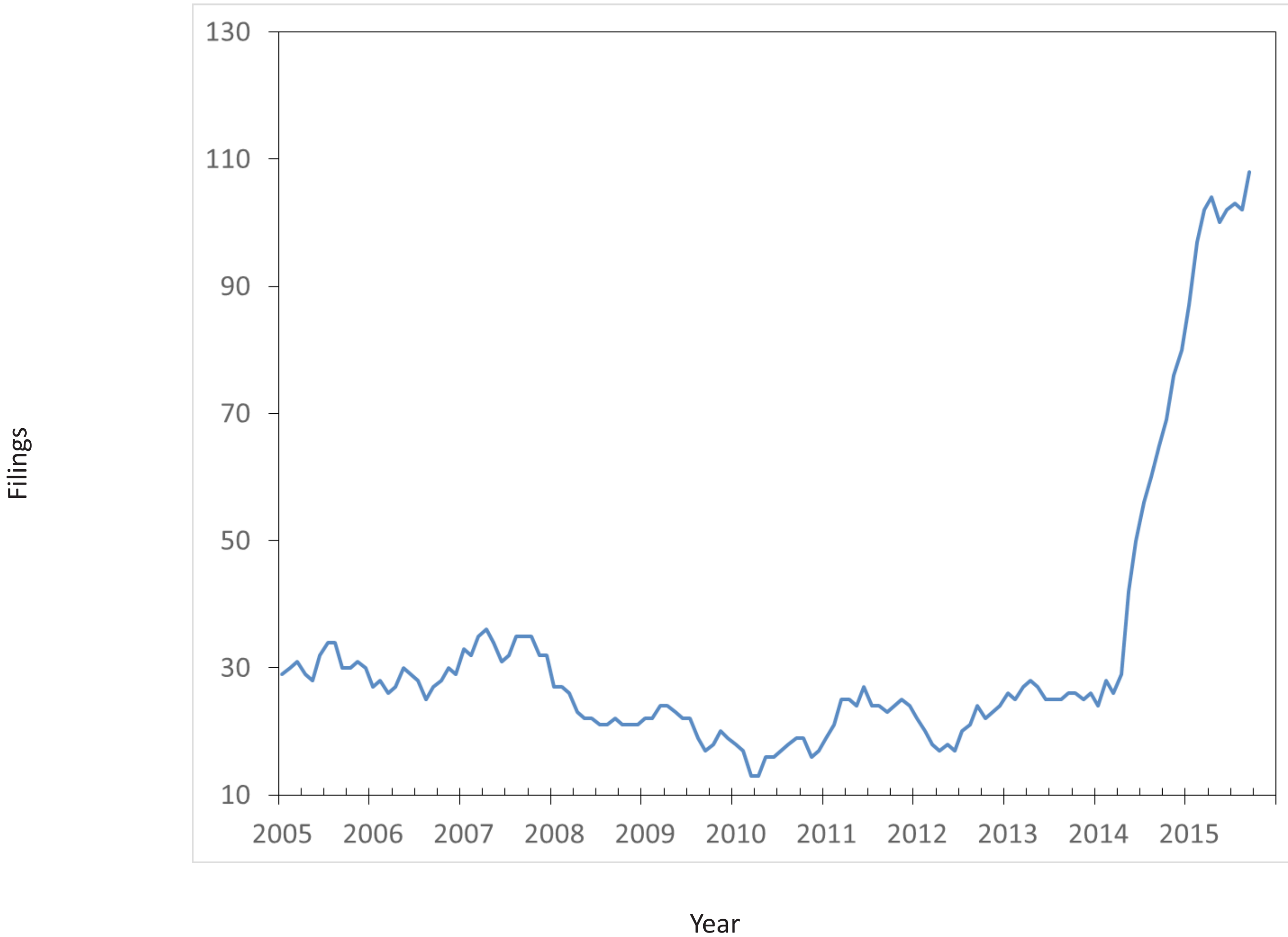
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southwest Minnesota New Assumed Names	184	177	194	200	132	-28.3%

There were 31 newly registered non-profits in the third quarter. This is six more than one year ago. As can be seen in the graph below, the non-profits series has increased considerably since the beginning of 2014.

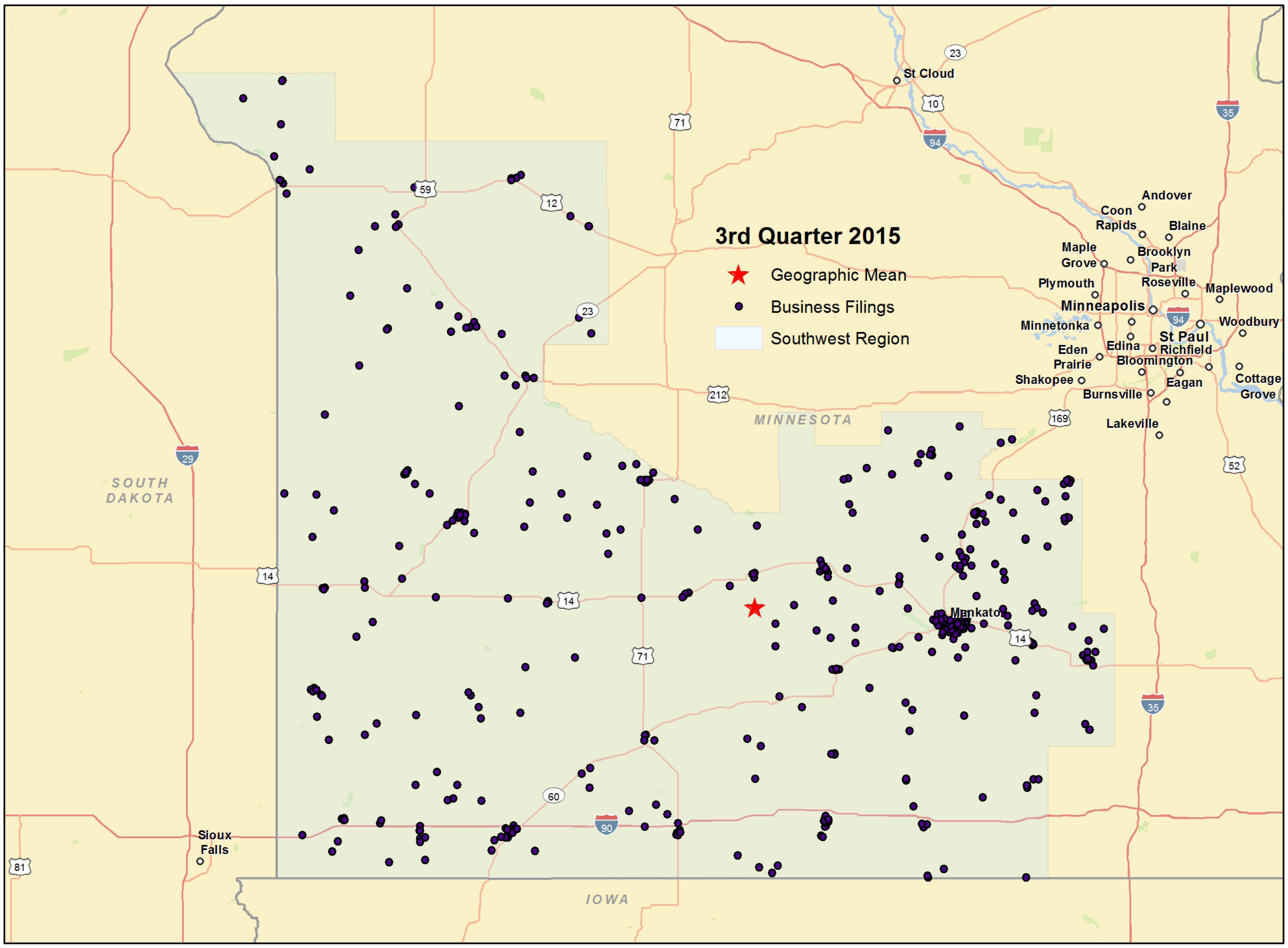
New Non-Profits—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Southwest Minnesota New Non-Profits	25	20	29	28	31	24%

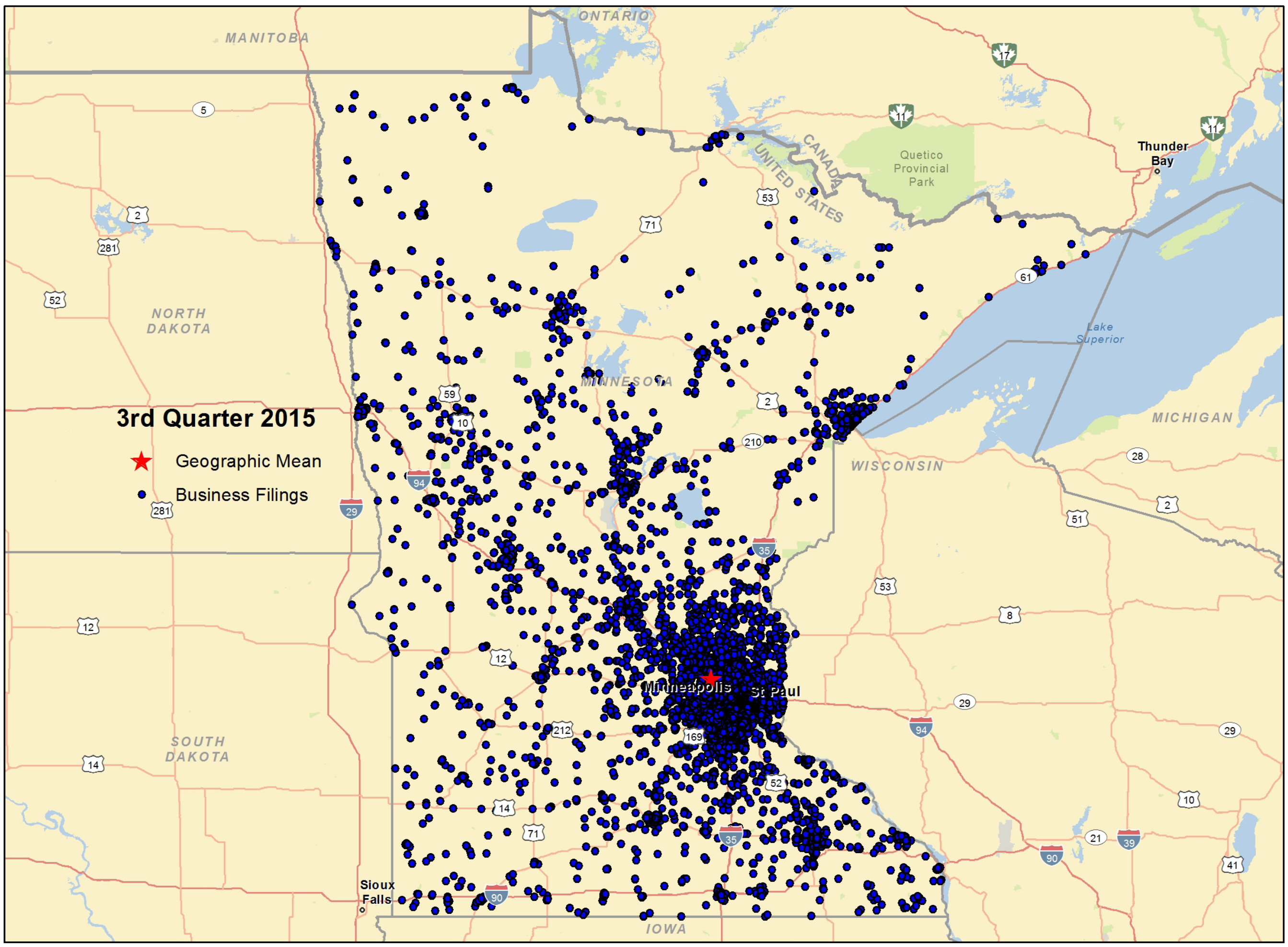
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in this year's third quarter. The densest areas of new business formation are in the Mankato metro, and the geometric mean of new filings is not far west of Mankato (near Sleepy Eye). Well-traveled roadways are also a predictor of new business formation in Southwest Minnesota.

Southwest Minnesota Planning Area -- New Business Formation -- Quarter 3: 2015



The second map shows new business formation around the entire State of Minnesota in the most recent quarter. Note the dominance of the Twin Cities metropolitan area in statewide new business formation. This also reinforces the importance of roadways (and the Mississippi River) in new business filing locations. Also noteworthy is the extent to which the spread of new businesses extends both Northwest (towards St. Cloud) and South (towards Rochester and Mankato).

State of Minnesota -- New Business Formation -- Quarter 3: 2015

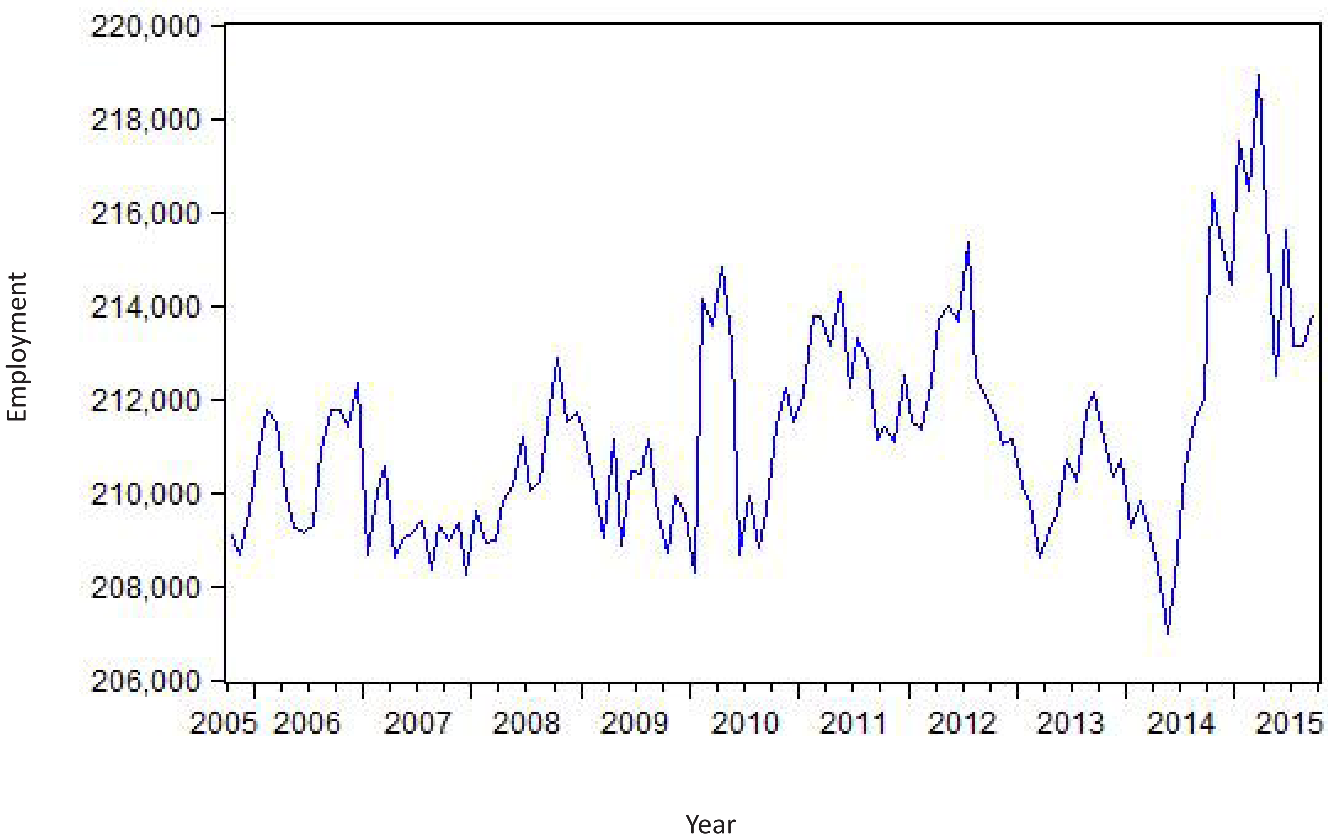


Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 1.4 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average had increased substantially in 2014, but 2015 has been a different story. The moving average has experienced a net decline over the first three quarters of the year. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in September 2015 (see accompanying table) was 213,635, a 1.4 percent increase over September 2014.

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. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, soparesearch@stcloudstate.edu.

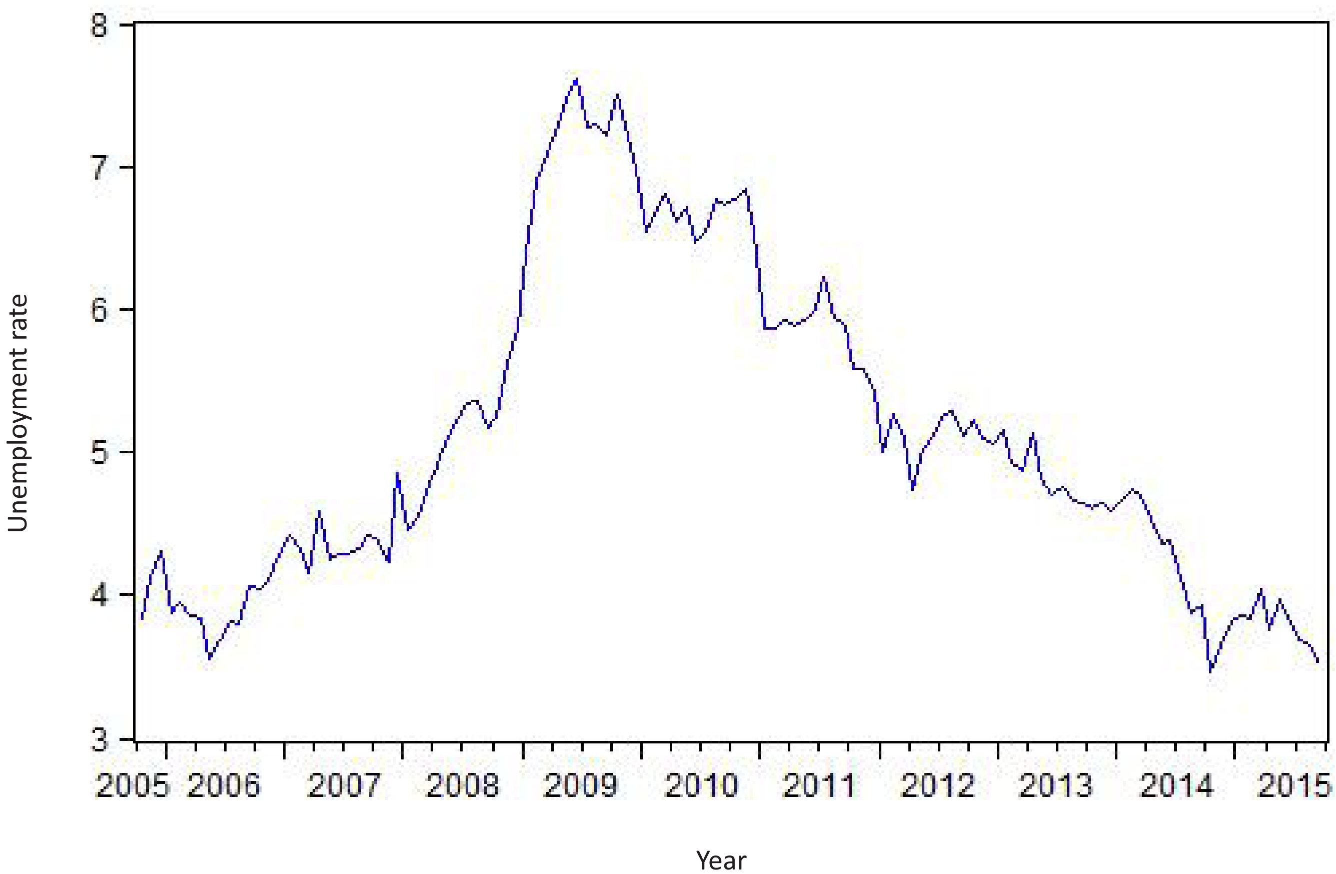
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Employment (Not seasonally adjusted)	210,589	215,594	214,854	218,462	214,922	213,697	213,635

The seasonally adjusted unemployment rate in Southwest Minnesota had started to inch up over the last three quarters, but that trend was reversed in the current quarter. The non-seasonally adjusted unemployment rate now stands at 3.0 percent — an improvement on the 3.2 percent rate recorded in September 2014.

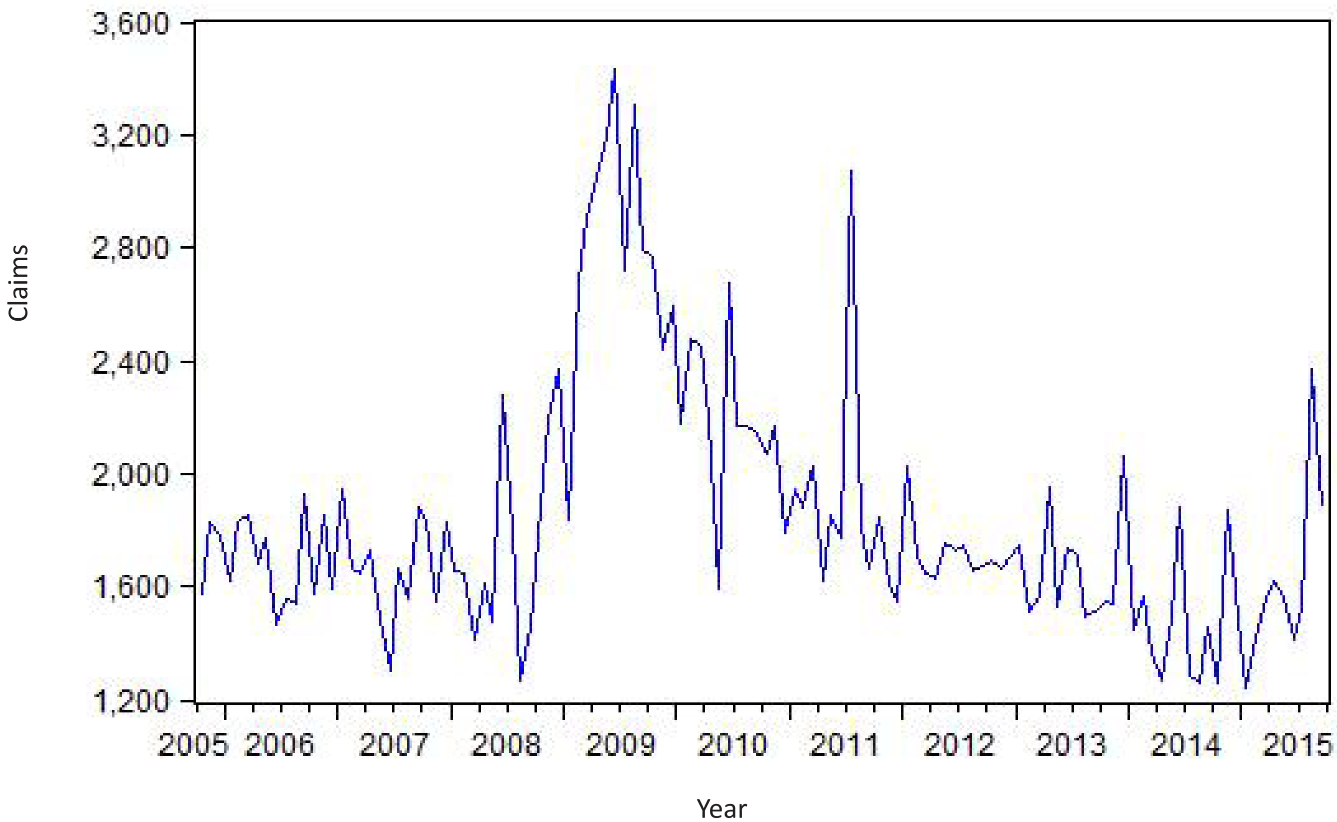
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Job Vacancies per 100 Unemployed	3.2%	3.7%	3.6%	3.9%	3.7%	3.3%	3.0%

New claims for unemployment insurance in September 2015 were sharply higher than one year earlier. There were 1,413 initial claims for unemployment benefits in this most recent month, 339 more than one year ago — a 31.6 percent increase. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series had drifted downward since the end of the Great Recession, but 2015 has seen a reversal of this trend.

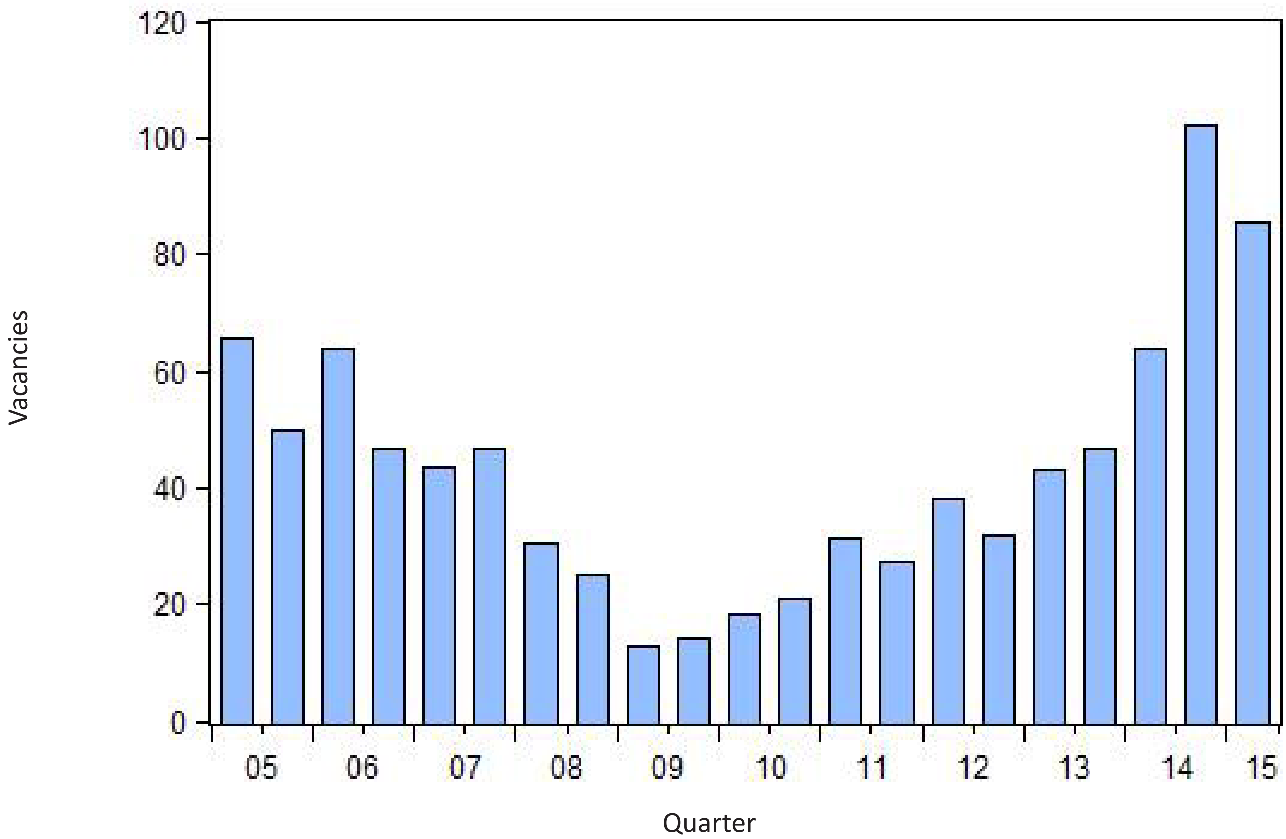
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Initial claims (Not seasonally adjusted)	1,074	1,298	1,332	1,224	1,100	1,253	1,413

Southwest Minnesota job vacancies declined in this year's second quarter (this is the most recently available data). Despite this, the rate of regional job vacancies per 100 unemployed is still higher than most other planning areas in Minnesota (only the Southeast and Twin Cities planning areas report higher job vacancy rates). For every 100 unemployed workers in Southwest Minnesota, there are more than 85 available jobs.

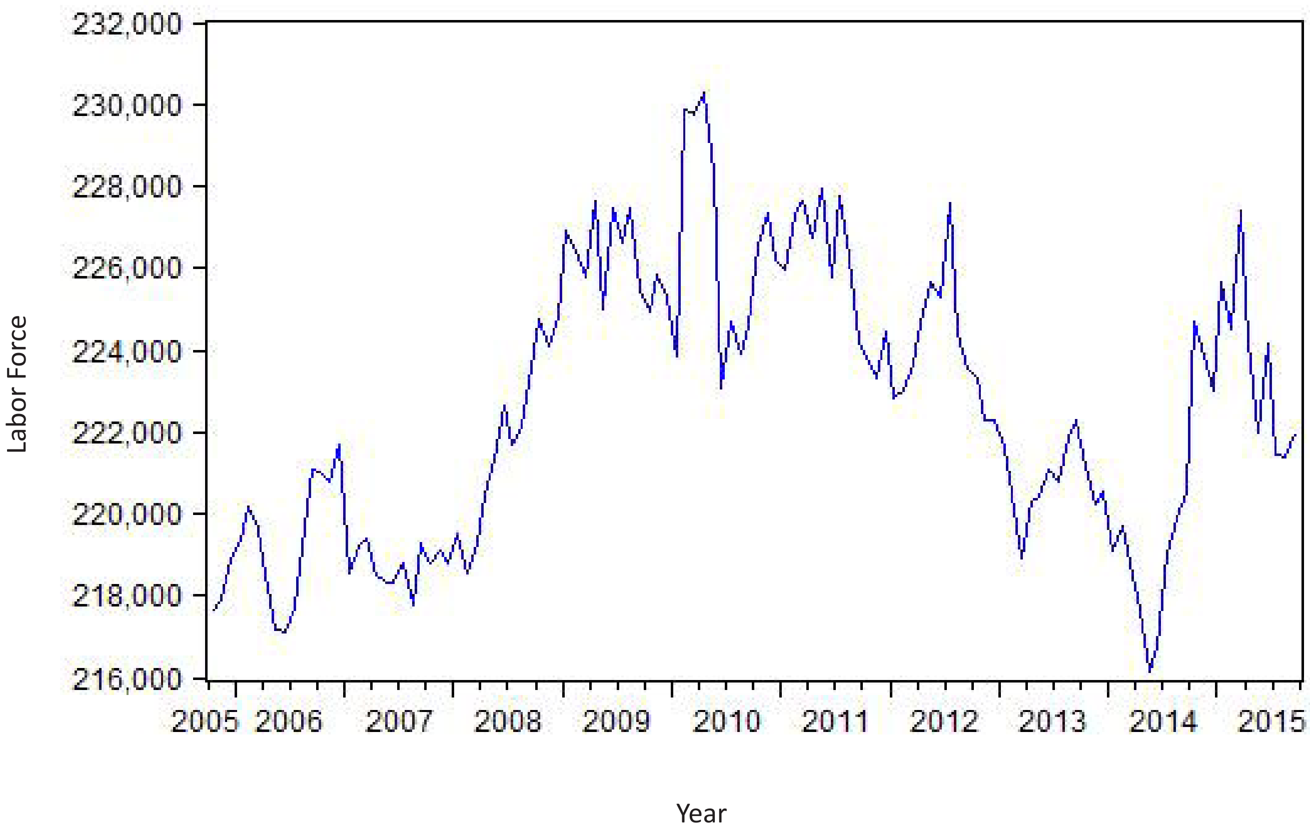
Job Vacancies per 100 Unemployed -- Southwest Minnesota Planning Area



Quarter	2012:IV	2013:II	2013:IV	2014:II	2014:IV	2015:II
Average Weekly Wage	36.33	44.92	53.66	68.24	101.99	85.59

The Southwest Minnesota labor force increased by 2,738–a 1.3 percent annual increase—over the year ending September 2015. As can be seen in the accompanying figure, recent increases in this planning area's labor force appeared to have reversed a five year slide that had begun in 2009. However, the series has now been trending downward over the last three quarters.

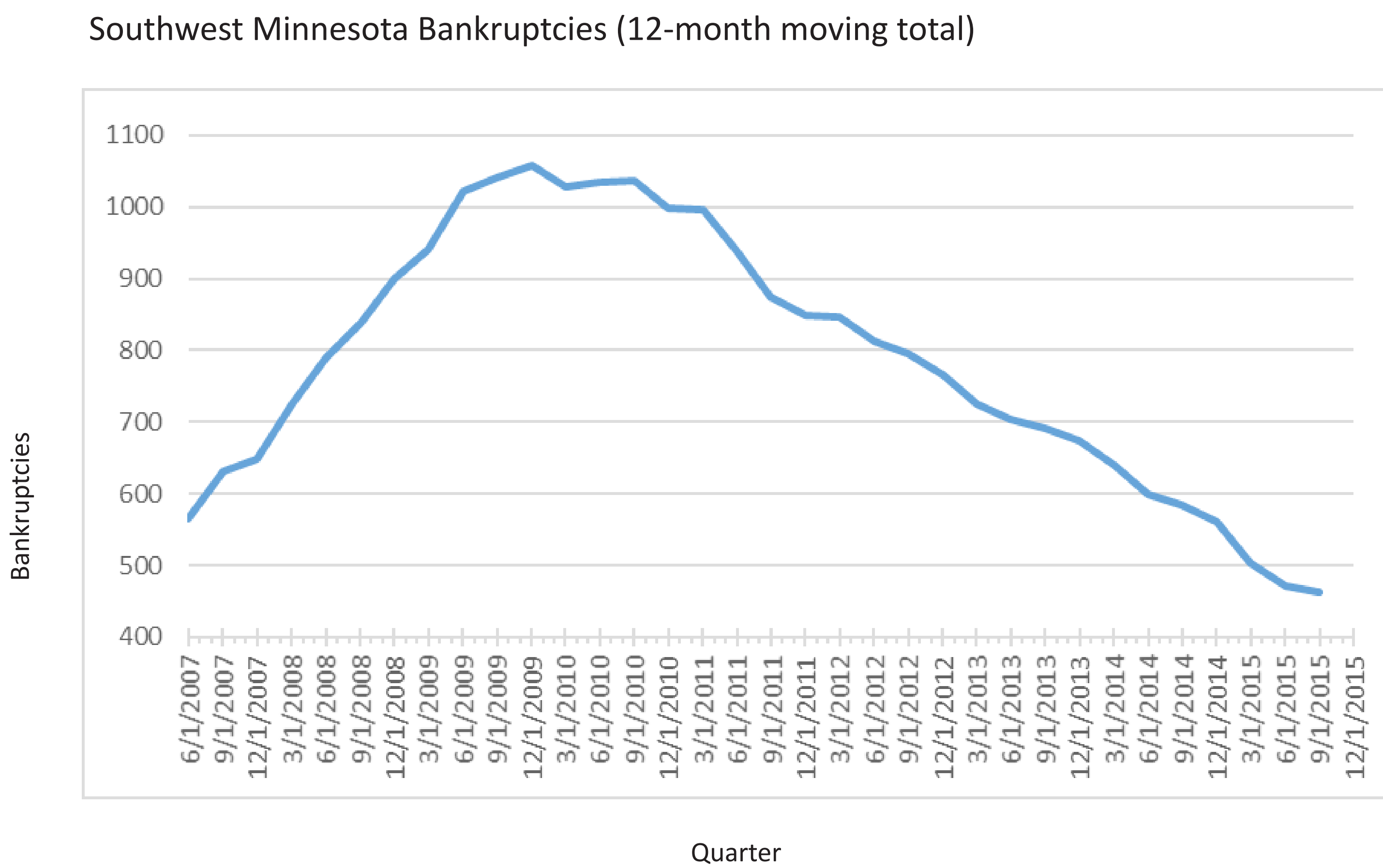
Labor Force—Southwest Minnesota Planning Area (12-month moving average)



Year (September)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	220,380	220,046	219,469	218,696	217,535	220,273

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 has steadily declined since that time. With 463 bankruptcies over the past twelve months, the level of bankruptcies in Southwest Minnesota are now the lowest observed over the past eight years.



Year (Third Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1,037	875	796	691	584	463

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	September 2015 (m)	55,388	55,405	0.0% ↔	0.8%
Goods-Producing Employment	September 2015 (m)	10,439	10,239	2.0% ↑	-0.5%
Average Weekly Work Hours - Private Sector	September 2015 (m)	32.3	30.1	7.3% ↑	32.9 (since 2008)
Average Earnings Per Hour - Private Sector	September 2015 (m)	$21.95	$22.28	-1.5% ↓	-0.5% (since 2008)
Unemployment Rate	September 2015 (m)	2.6%	2.8%	NA ↓	3.8%
Labor Force	September 2015 (m)	57,849	58,188	-0.6% ↓	0.8%
Initial Jobless Claims	September 2015 (m)	269	144	86.8% ↑	NA
Business Formation					
Total New Business Filings	Third Quarter 2015	150	164	-8.5% ↓	132 (since 2000)
New Business Incorporations	Third Quarter 2015	9	13	-30.8% ↓	19 (since 2000)
New Limited Liability Companies	Third Quarter 2015	97	95	2.1% ↑	59 (since 2000)
New Assumed Names	Third Quarter 2015	39	48	-18.8% ↓	47 (since 2000)
New Non-profits	Third Quarter 2015	5	8	-37.5% ↓	7 (since 2000)
Mankato / North Mankato Residential Building Permit Valuation, in thousands	September 2015 (m)	16,004	4,534	253.0% ↑	NA
Mankato / North Mankato Cost of Living Index	Second Quarter 2015	94.5	95.6	-1.2% ↓	NA

(m) represents a monthly 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 was flat over the year ending September 2015—although the goods-producing sector created jobs at a 2 percent rate. The unemployment rate fell, the length of the workweek rose, but the labor force contracted. All categories of new business filings declined with the exception of new LLCs, which rose 2.1 percent for the year. Initial jobless claims jumped 86.8 percent from September 2014 and average hourly earnings fell. The relative cost of living in Mankato declined in the second quarter and the value of residential building permits (these are primarily multi-unit permits) increased 253 percent over the same period last year.

State and National Indicators

MINNESOTA Indicators	Sep 2015	Jun 2015	Sep 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,855,200	2,857,200	2,819,200	-0.1%	1.3%
Average weekly hours worked, private sector	33.9	34.1	34.1	-0.6%	-0.6%
Unemployment rate, seasonally adjusted	3.8%	3.9%	3.7%	NA	NA
Earnings per hour, private sector	$26.00	$25.70	$25.75	1.2%	1.0%
Philadelphia Fed Coincident Indicator, MN	176.38	175.11	171.14	0.7%	3.1%
Philadelphia Fed Leading Indicator, MN	2.17	1.28	1.21	69.5%	79.3%
Minnesota Business Conditions Index	53.0	54.3	66.3	-2.4%	-20.1%
Price of milk received by farmers (cwt)	$17.80	$17.90	$27.10	-0.6%	-34.3%
Enplanements, MSP airport, thousands	1,506.7	1,680.9	1,411.3	-10.4%	6.8%

NATIONAL Indicators	Sep-15	Jun-15	Sep-14	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	142,383	141,870	139,619	0.4%	2.0%
Industrial production, index, SA	107.4	106.7	106.7	0.7%	0.7%
Real retail sales, SA	188,171	186,611	184,083	0.8%	2.2%
Real personal Income less transfers	11,618.2	11,512.5	11,190.5	0.9%	3.8%
Real personal consumption expenditures	11,298.0	11,205.1	10,948.6	0.8%	3.2%
Unemployment rate, SA	5.1%	5.3%	5.9%	NA	NA
New building permits, SA, thousands	1,848	2,419	1,638	-23.6%	12.8%
Standard & Poor's 500 stock price index	1,944.4	2099.28	1993.23	-7.4%	-2.4%
Oil, price per barrel in Cushing, OK	$45.48	$59.82	$93.21	-24.0%	-51.2%

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate was slightly higher and average weekly hours worked in the private sector were lower. Two of three broader indicators suggest improvement in the state economy in the third quarter. Milk prices were 34.3 percent lower than one year ago in September. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 6.8 percent over the last twelve months.

The national economic indicators reported in the table suggest strong economic performance at the national level. Compared to year earlier levels, industrial production, retail sales, real income, real consumption expenditures, payroll employment, building permits and the unemployment rate are all improved. Oil prices have declined significantly over the past year. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. Stock prices were the only indicator that declined on a year-over-year basis in September 2015. These prices have since rebounded from these temporarily low readings.

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.

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.

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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.