Northwest Minnesota
Economic and Business Conditions Report
Second Quarter 2015

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Northwest Minnesota business conditions are expected to improve over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI). A stronger macroeconomic environment for rural America and rising consumer sentiment have contributed to a 2.06 point increase in the LEI. After two consecutive quarters of decline in the LEI, the Northwest Minnesota economy seems likely to grow more rapidly over the next several months. However, this part of the state is particularly vulnerable to weakness in the agriculture and energy sectors of the economy, so outside factors could still adversely affect economic performance in this planning area. Lower initial jobless claims earlier in the year and a rise in new incorporations and limited liability companies (LLCs) also helped drive this quarter's LEI into positive territory. The one area of weakness in the index was a fall in residential building permits in the two key metropolitan areas of Northwest Minnesota.

There were 1,129 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the second quarter of 2015 — representing a 3.7 percent increase from one year ago. 118 new regional business incorporations were recorded in the most recent quarter, a 4.8 percent reduction from the same quarter last year. In the second quarter, new LLC filings in Northwest Minnesota were up 13.9 percent—increasing to 614. New assumed names totaled 343 in this year's second quarter—a reduction of 10.9 percent from the same period in 2014. There were 54 new filings for Northwest Minnesota non-profits in the second quarter—31.7 percent more filings than one year ago.

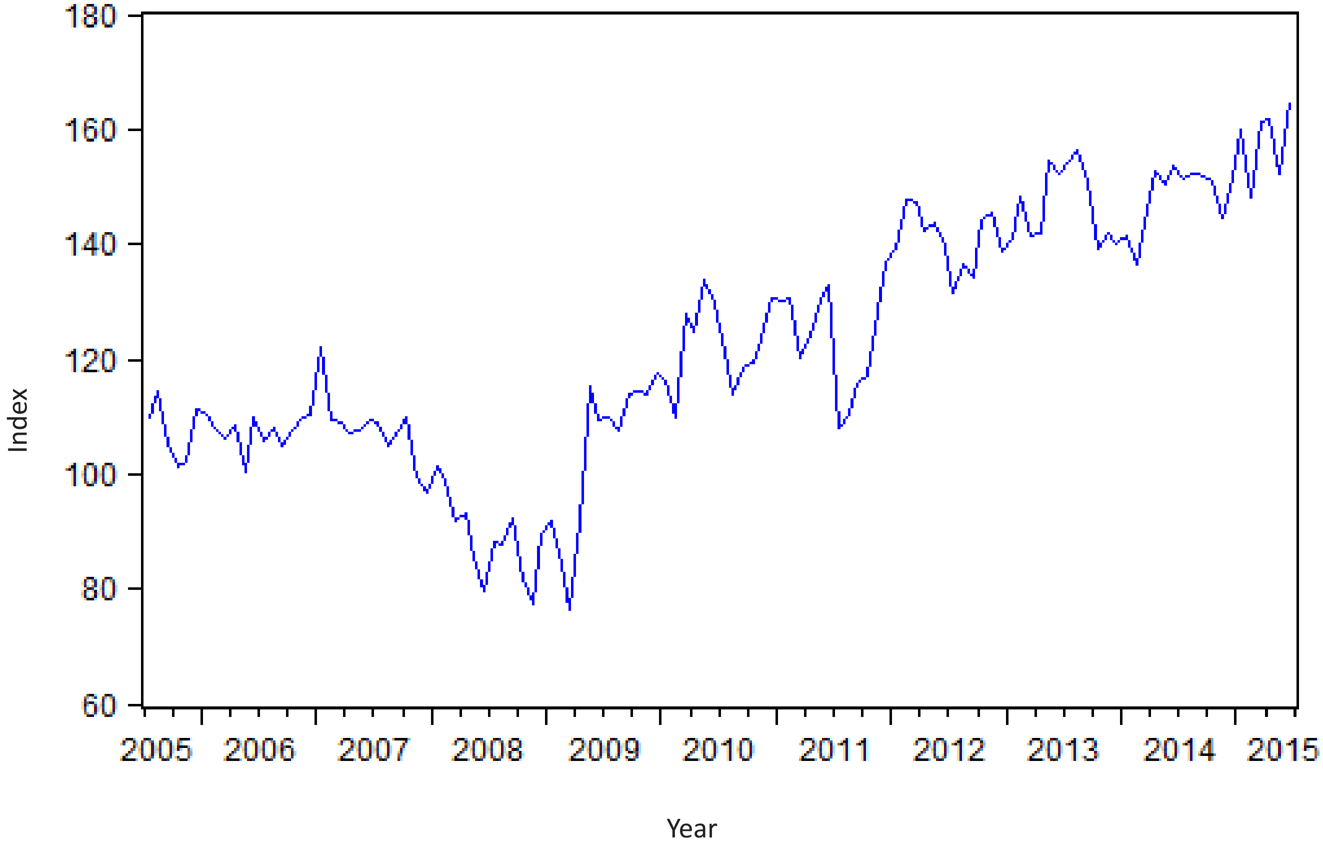
Employment of Northwest Minnesota residents increased by 3.2 percent over the year ending June 2015. The regional unemployment rate was 4.4 percent in June, unchanged from one year ago. Initial claims for unemployment insurance in June were 176 lower (a decrease of 11.6 percent) than in June 2014 and average weekly wages rose 5.2 percent to $734 in the most recent reporting period. The regional labor force expanded by 9,450 (a 3.1 percent increase) from one year earlier.

The Fargo/Moorhead Metropolitan Statistical Area (MSA) experienced a mixed economic performance over the past quarter. This MSA tallied strong gains in overall employment (but decreased employment in mining/logging/construction and manufacturing sectors), a rise in average hourly earnings, and a lower unemployment rate. This was offset by fewer residential building permits, a reduced work force, weaker average hours worked, higher initial jobless claims, and a higher cost of living. Economic activity in the Grand Forks/East Grand Forks MSA was similarly mixed in the second quarter. Higher employment, a lower area unemployment rate, a rising labor force, and lower initial jobless claims were offset by declining weekly work hours, lower average hourly earnings, and a reduction in residential building permits.

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 increased by 2.06 points in the second quarter of 2015 after falling for the prior two quarters. The index now stands 7.3 percent above its level of the second quarter of 2014. As shown in the accompanying graph, the LEI has trended upward since the end of the Great Recession, so there is reason to be optimistic about future economic conditions in this planning area.

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, 2nd quarter 2015	Contribution to LEI, 1st quarter 2015
Rural Mainstreet Index	1.3	-0.51
Northwest Minnesota initial claims for unemployment insurance	1.93	-0.64
Northwest Minnesota new filings of incorporation and LLCs	1.25	1.14
Fargo-Moorhead + Grand Forks-EGF MSA residential building permits	-3.81	6.57
Consumer Sentiment, University of Michigan	1.39	-0.27
TOTAL CHANGE	2.06	6.29

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 a favorable 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 also exhibited strength in the most recent quarter. Lower residential building permits in the Fargo/Moorhead and Grand Forks/East Grand Forks were the one index component that exhibited weakness this quarter. Improved new business filings for incorporation and LLC contributed favorably to this quarter's regional outlook. Lower initial jobless claims also bolstered the second quarter LEI.

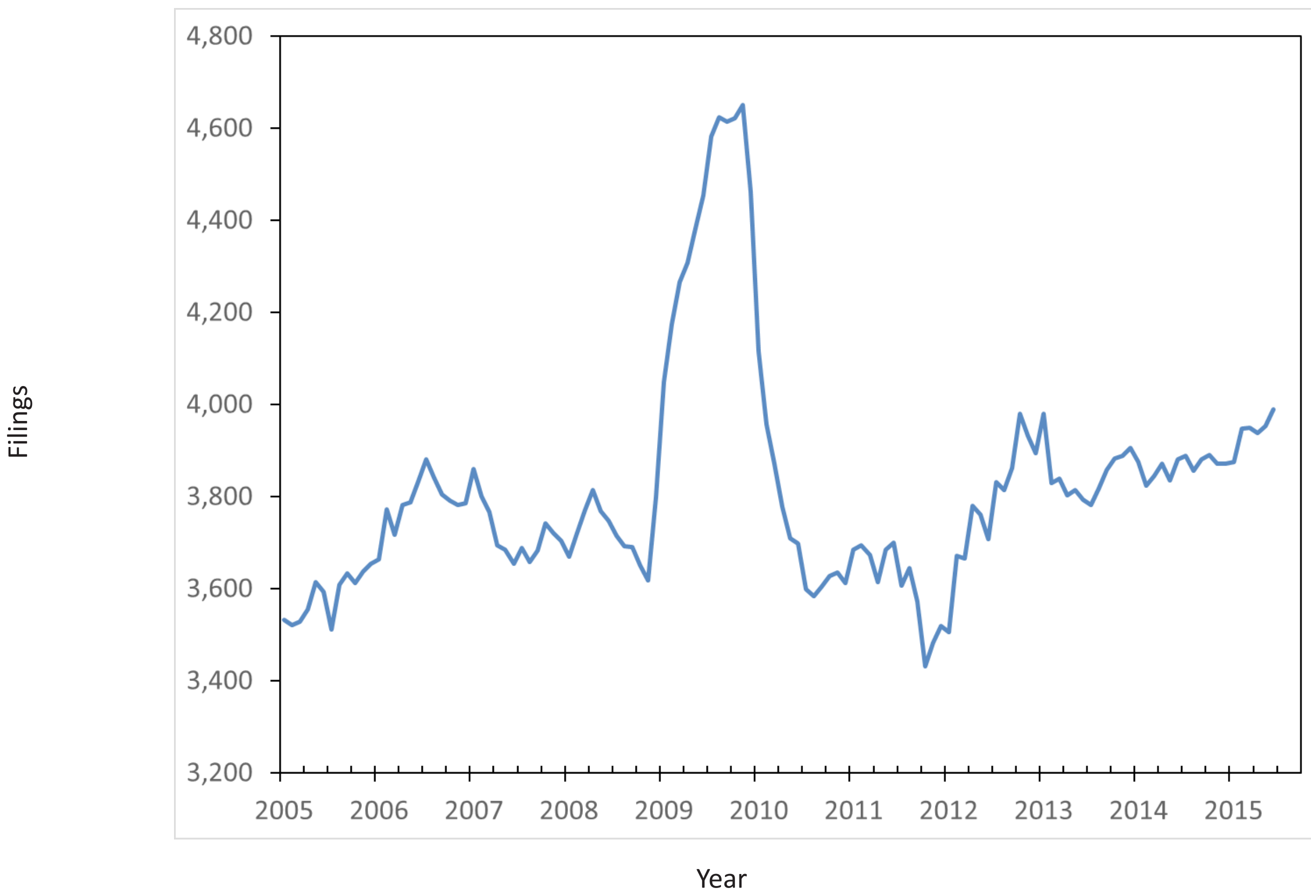
SCSU Northwest Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Rural Mainstreet Index, Creighton University, June	52.6	54.3	-3.1%
Northwest Minnesota initial claims for unemployment insurance, June	1,336	1,512	-11.6%
Northwest Minnesota new filings of incorporation and LLCs, Second Quarter	732	663	10.4%
Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, June	188	174	8.0%
Consumer Sentiment, University of Michigan, June	96.1	82.5	16.5%
Northwest Minnesota Leading Economic Indicators Index June (December 1999 = 100)	164.7	153.5	7.3%

Northwest Minnnesota Business Filings

With the exception of a large increase in 2008, total new business filings in this region have largely leveled off over the past decade, although there is a slight upward trend since 2012. 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. As shown in the accompanying table, second quarter total new business filings increased by 3.7 percent from the prior year in Northwest 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	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northwest Minnesota Total New Business Filings	1089	894	863	1102	1129	3.7%

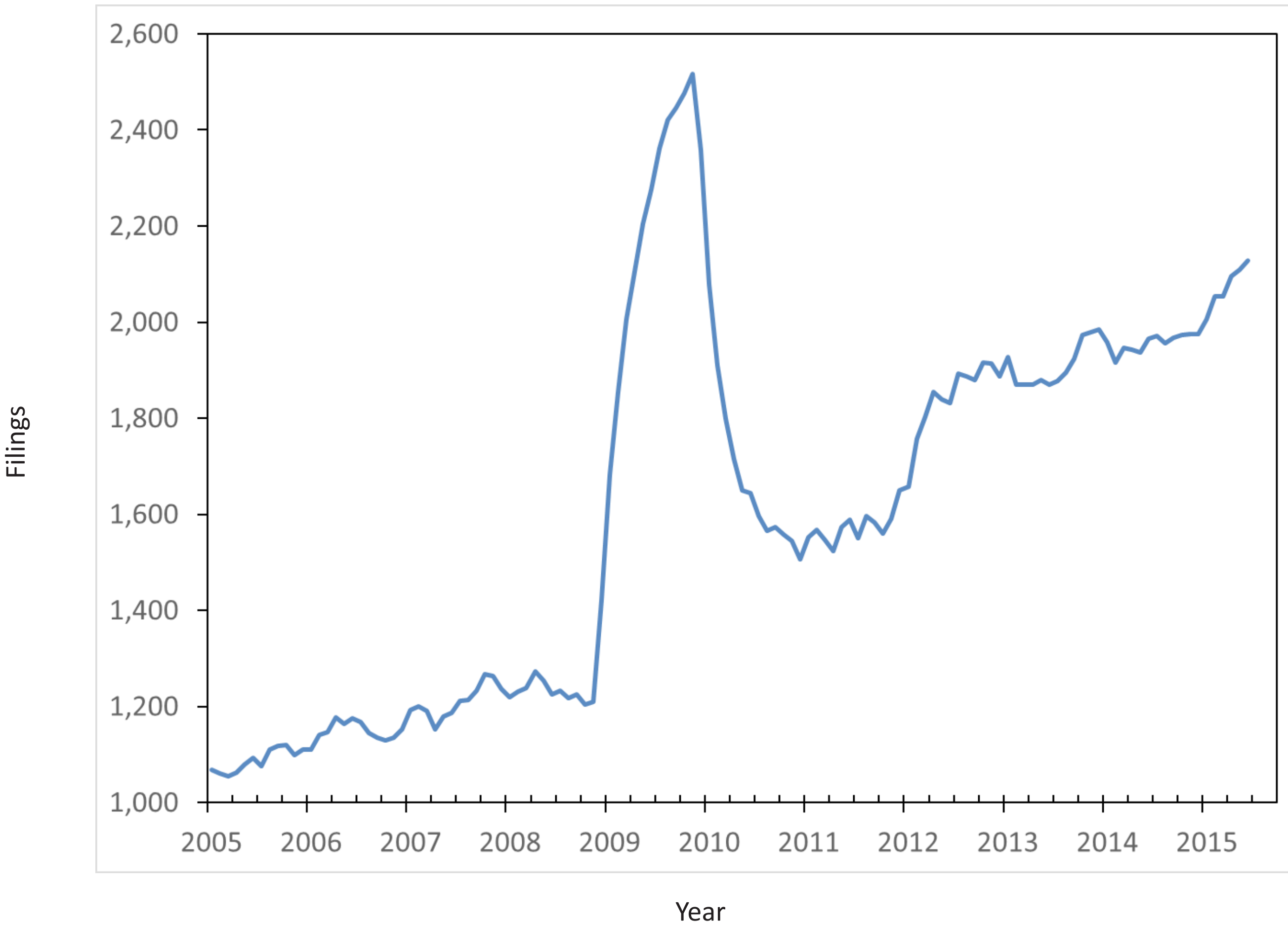
New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, but have since leveled out. New business incorporations totaled 118 (a decrease of 4.8 percent) in the second quarter of 2015.

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

Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northwest Minnesota New Business Incorporations	124	100	91	117	118	-4.8%

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 is 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 ten years. Second quarter 2015 LLC filings increased by 13.9 percent compared to the same period in 2014.

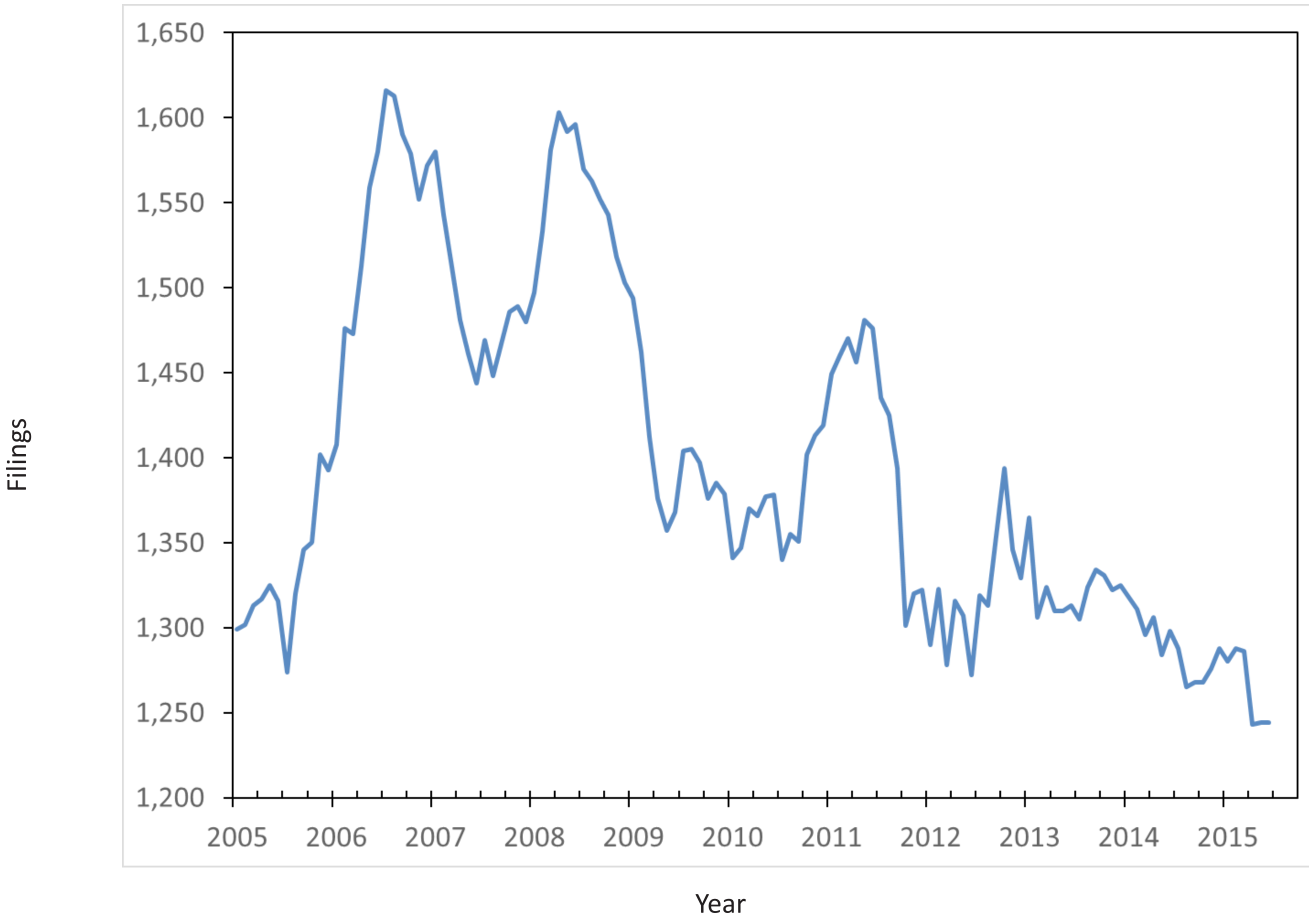
New Limited Liability Companies—Northwest Minnesota Planning Area
(12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	539	447	475	593	614	13.9%

Assumed names, which include sole proprietors or organizations that do not have limited liability, decreased by 10.9 percent from the same period last year. This series has not yet recovered from its peak levels of 2006–2007.

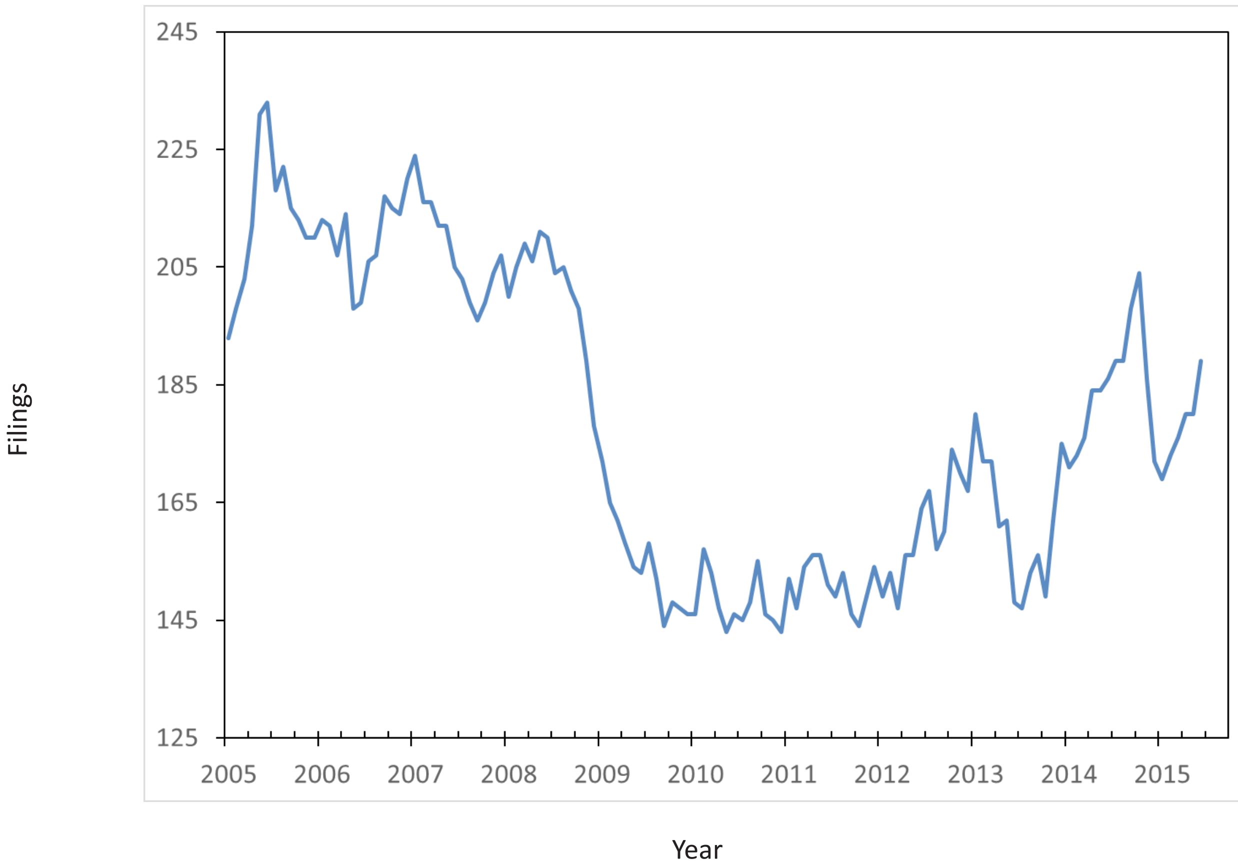
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northwest Minnesota New Assumed Names	385	295	263	343	343	-10.9%

For the second straight quarter, there was a nice gain in newly formed non-profits in the Northwest Minnesota planning area. The number of new non-profits increased by 31.7 percent over last year's second quarter.

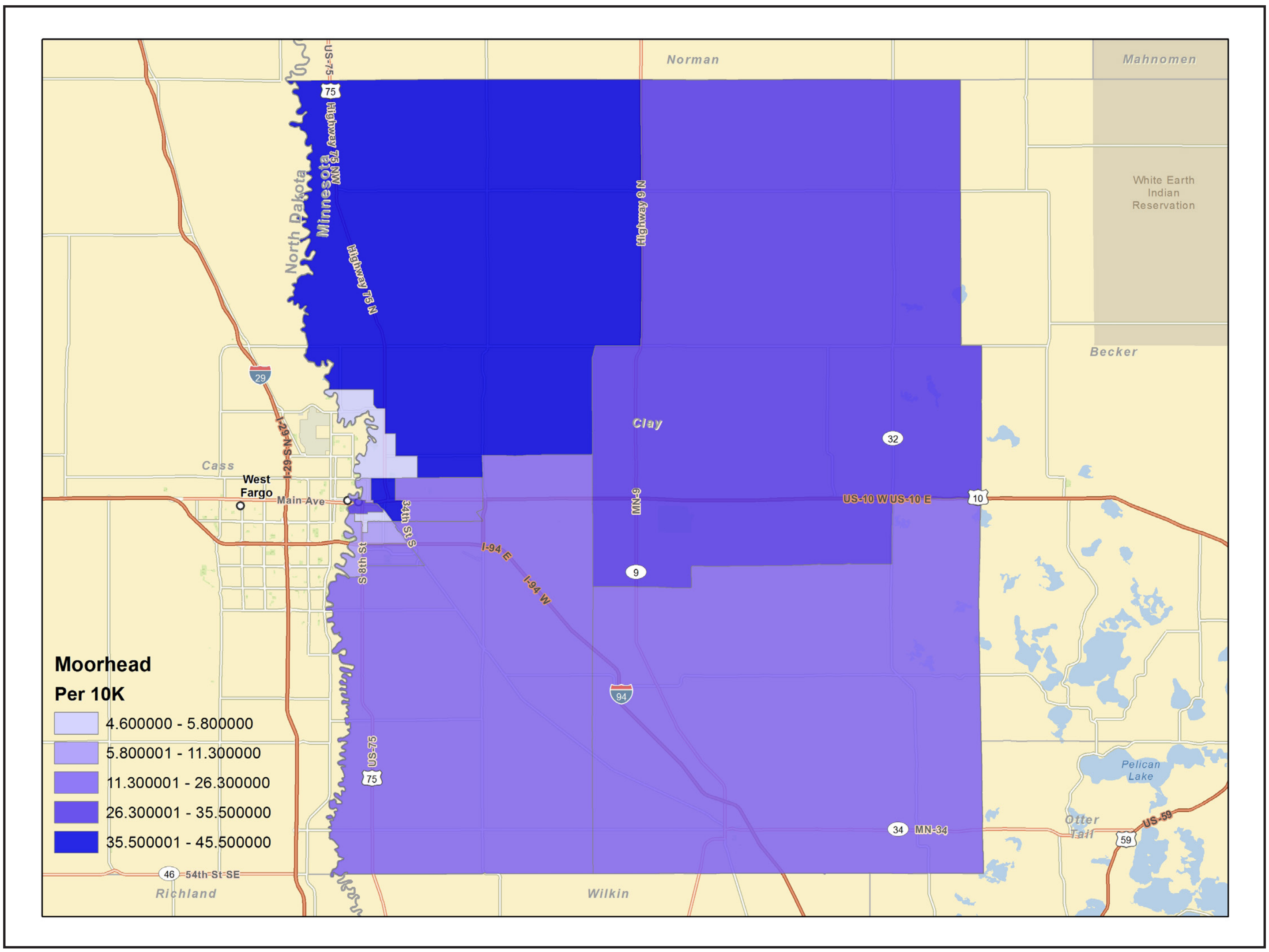
New Non-Profits—Northwest Minnesota Planning Area (12-month moving total)



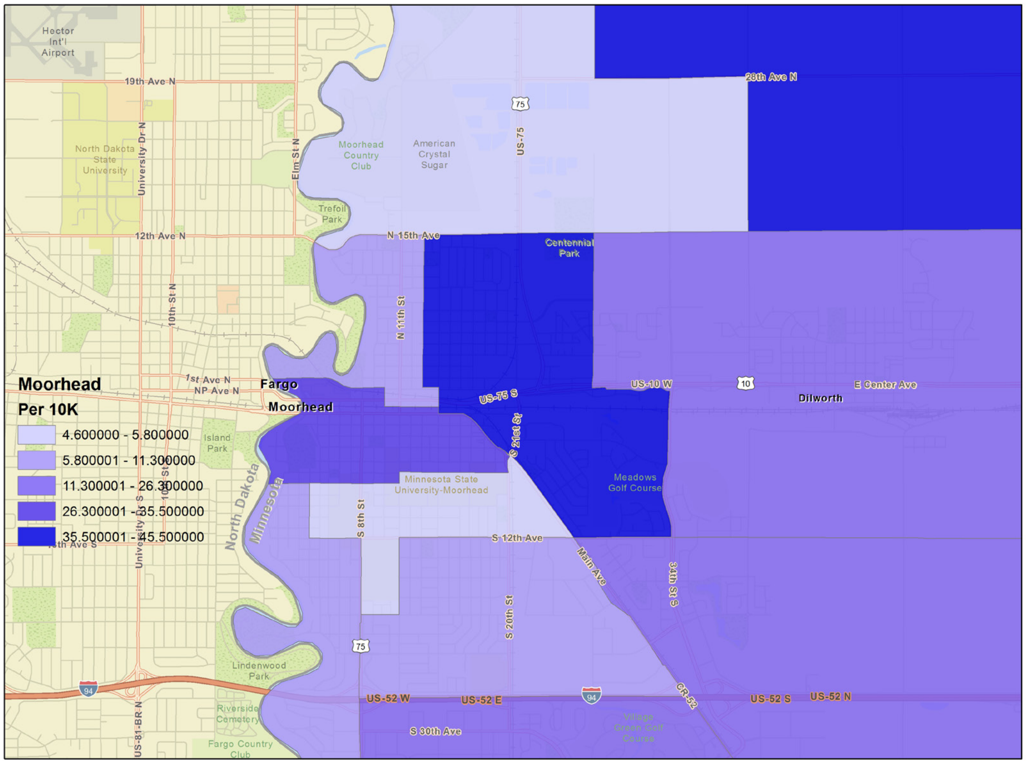
Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northwest Minnesota New Non-Profits	41	52	34	49	54	31.7%

The map below highlights per capita new business formation by census tract in this year's second quarter in Clay County. This is the only Minnesota county in the Fargo/Moorhead Metropolitan Statistical Area (MSA). Data for North Dakota business filings are unavailable. While there were many new business filings in this area in this year's second quarter, the distribution of new filings is clearly uneven over the metro area. Using census tract population numbers from the 2010 census, the map shows some portions (represented by the lighter colored blocks) of Clay County experienced relatively little new per capita business formation in this period, while others (the darker colored blocks) enjoyed fairly strong gains. Some areas naturally experience a disproportionately large number of per capita new business filings. For example, relatively few people live in downtown areas (where there tends to be a lot of office space), while business filings tend to be strong. This map is a reminder that after controlling for population, some areas of the MSA are more likely than others to experience new economic development.

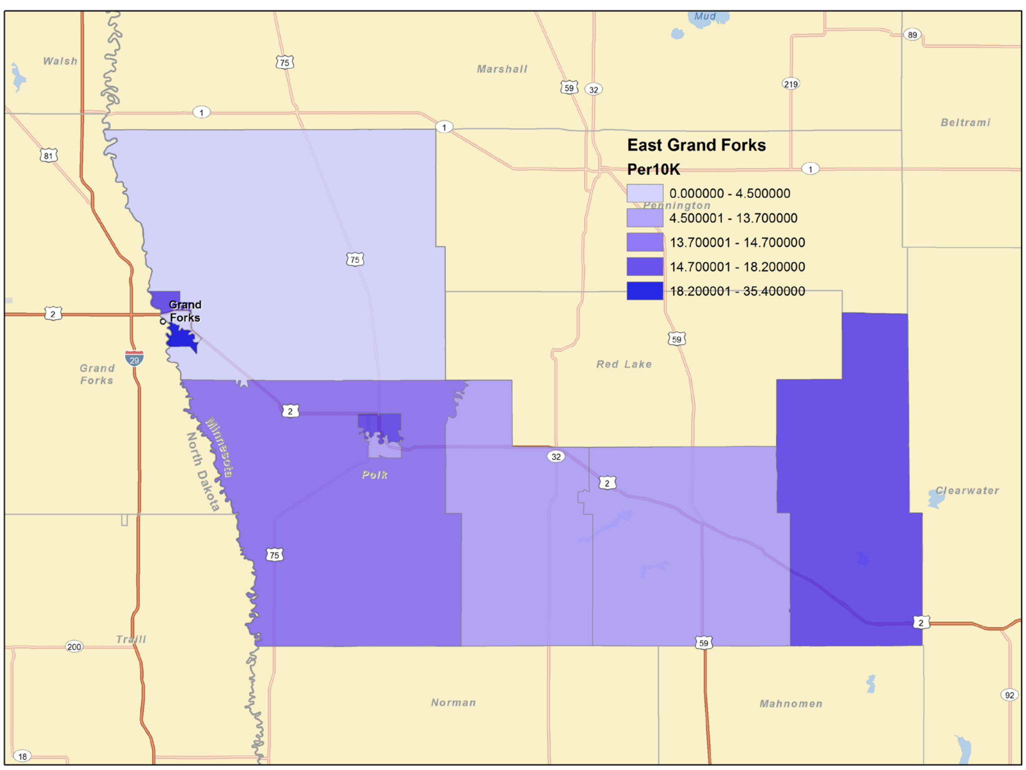
Clay County New Business Formation per 10,000 People--By Census Tract--Quarter 2:2015



The map below zooms in on the Fargo/Moorhead downtown areas to show how localized per capita new business formation can be. Some areas experienced rapid per capita new business formation, other areas grew at a much slower pace.



Similar to the first map above, the map below shows the sole Minnesota county (Polk County) that is part of the Grand Forks/East Grand Forks MSA. As with the Moorhead area, per capita new business formation was uneven in Polk County in the second quarter.

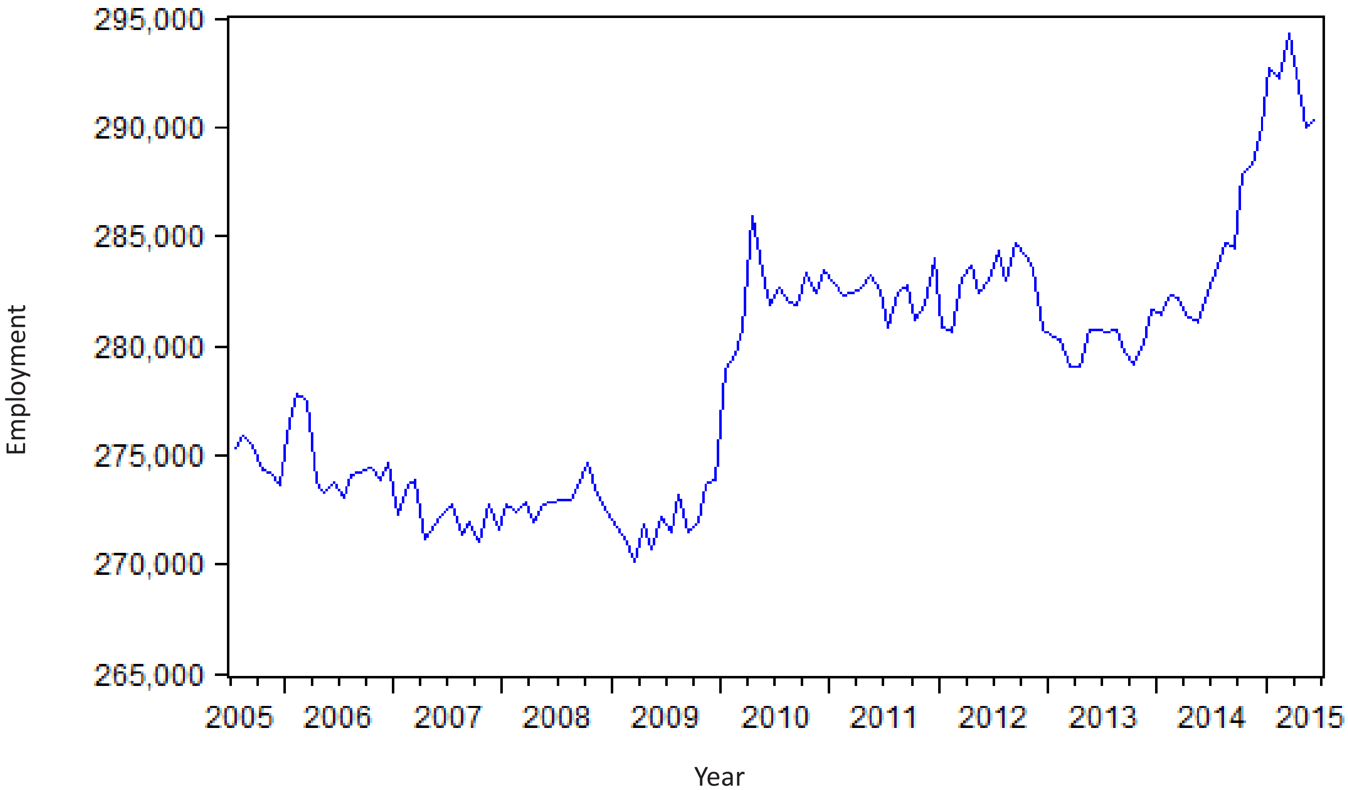


Business Filings

Employment in the Northwest Minnesota planning area grew 3.2 percent over the year ending June 2015. As can be seen in the accompanying graph, the area experienced rapid job growth over the two years ending January 2015, but its moving average has declined over the past two quarters.

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.

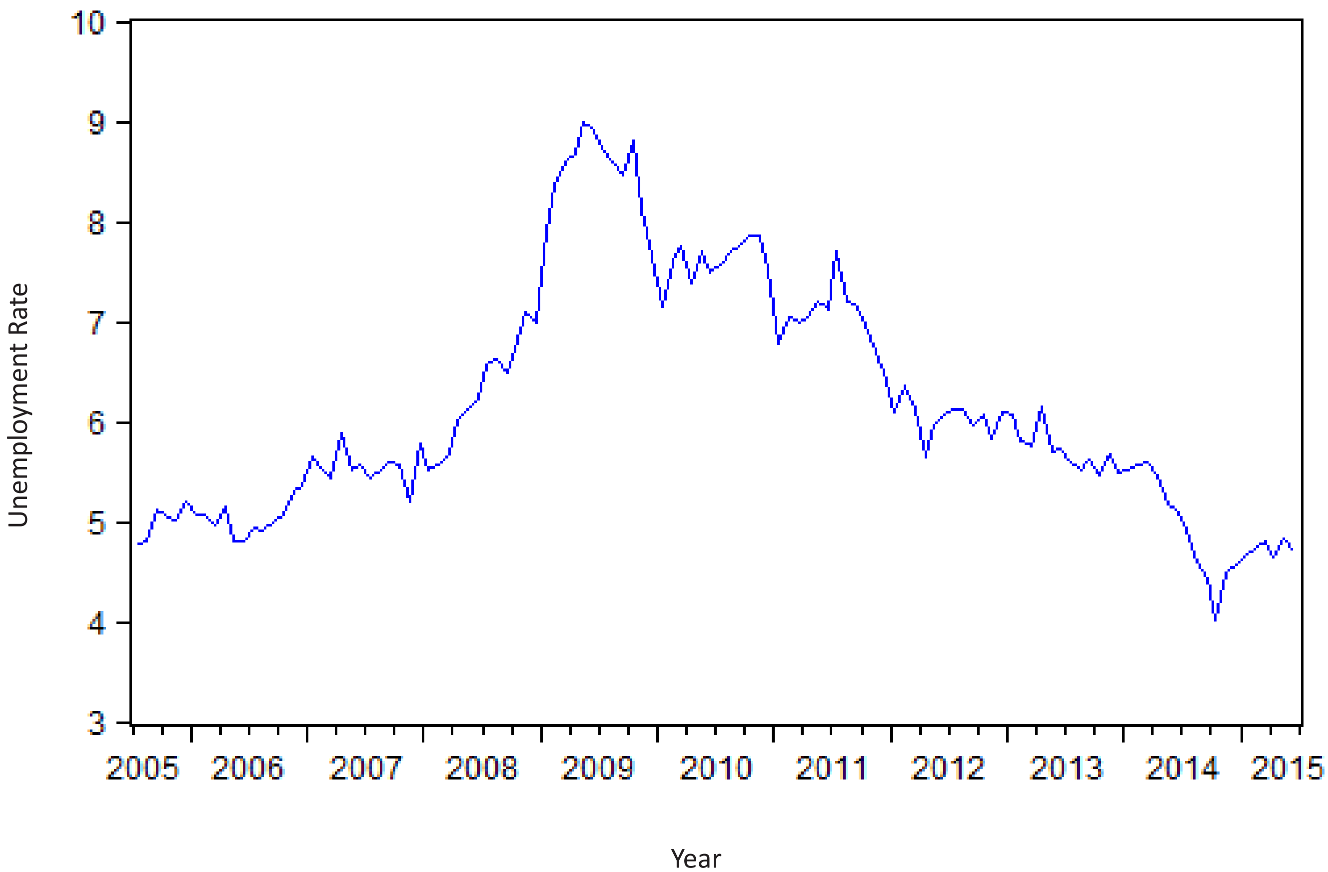
Employment—Northwest Minnesota Planning Area (12-month moving average)



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Employment (Not seasonally adjusted)	287,830	283,263	282,826	287,362	289,104	293,395	296,970

Seasonally adjusted unemployment rates have begun to inch up over the last year in the Northwest Minnesota planning area. This series had declined since peaking at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 4.4 percent, unchanged from one year ago.

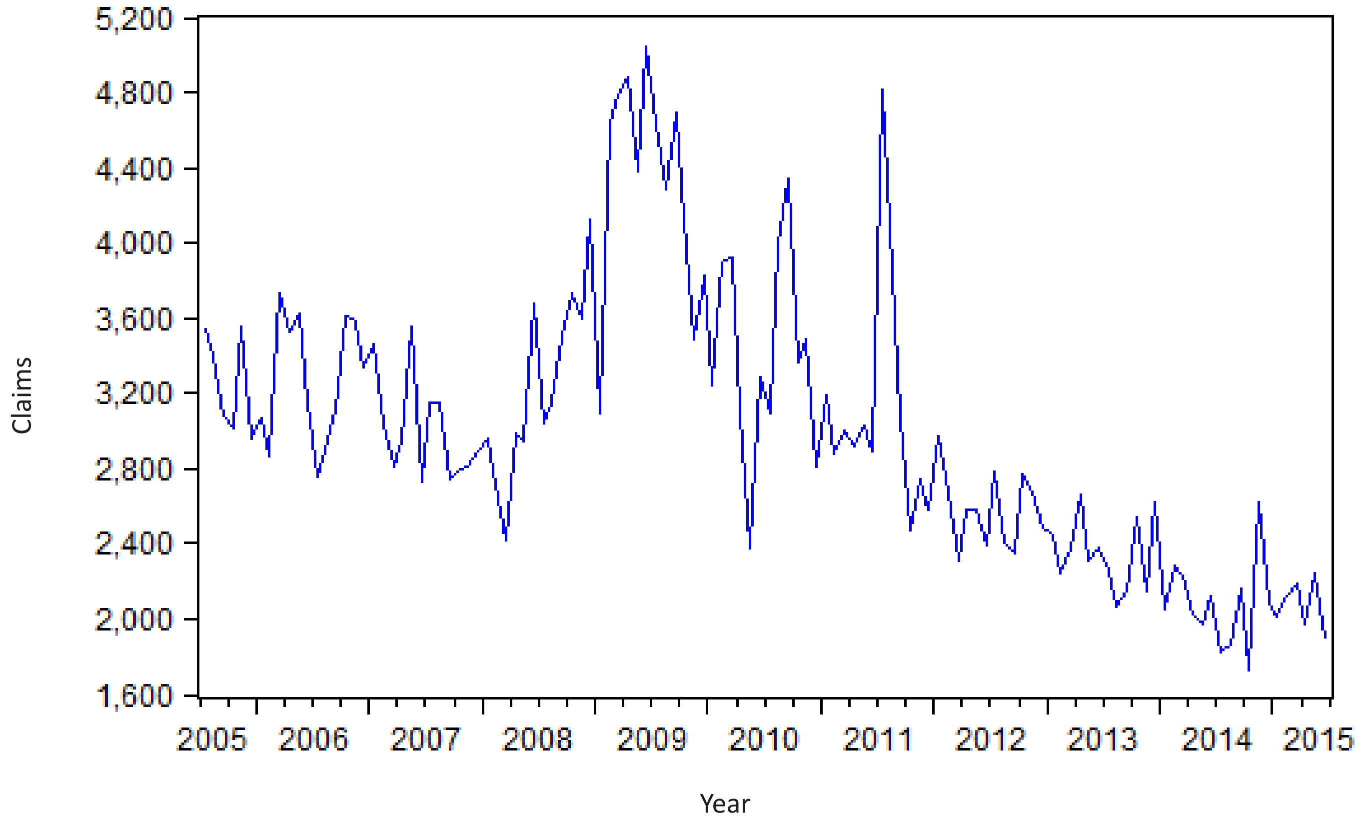
Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Unemployment Rate (Not seasonally adjusted)	4.4%	6.3%	6.1%	6.1%	4.9%	4.2%	4.4%

New claims for June 2015 unemployment insurance decreased from year-ago levels. They are now lower than one year ago by 176 (an 11.6 percent reduction). Seasonally adjusted jobless claims have leveled off over the past few quarters, after slowly declining from the peak of the Great Recession.

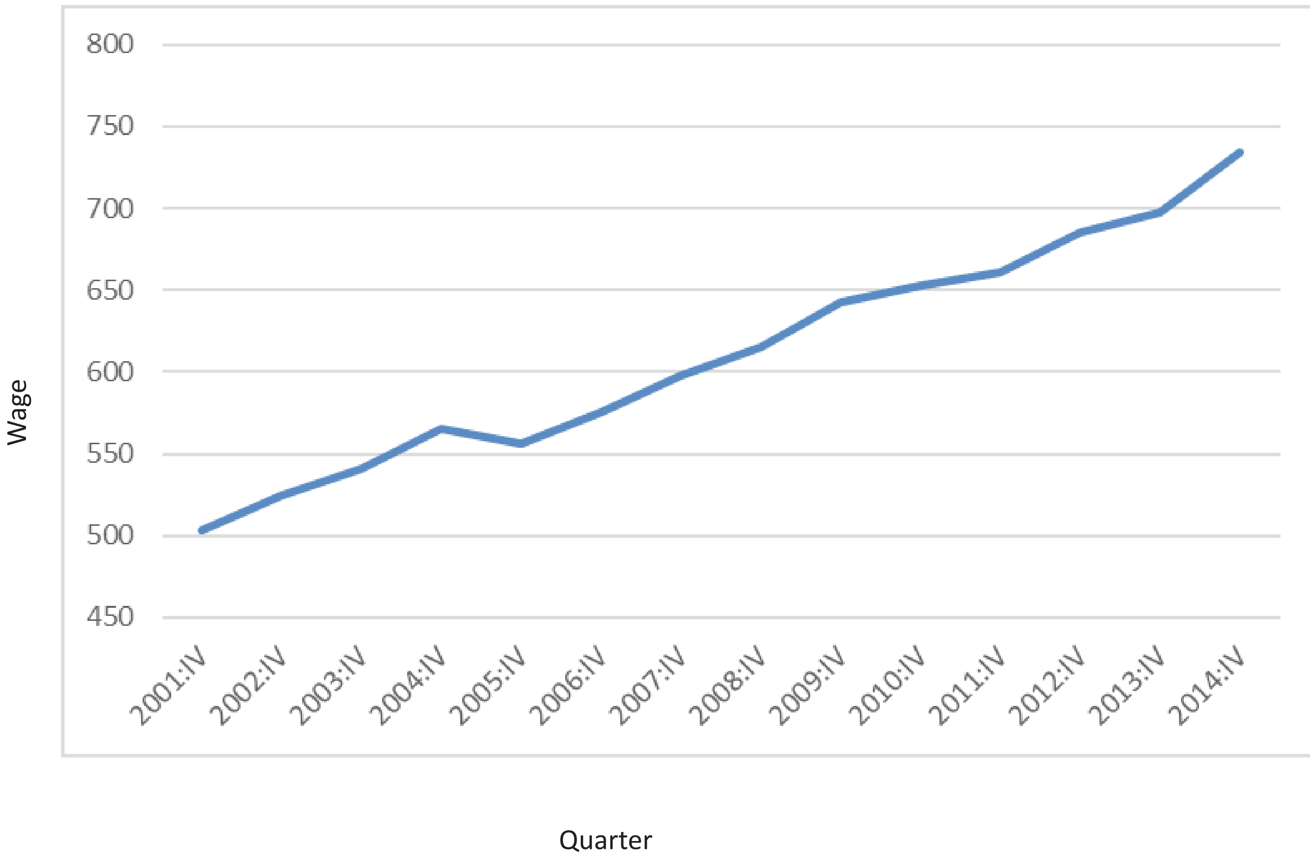
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Initial claims (Not seasonally adjusted)	1,512	2,482	1,685	1,933	1,501	1,653	1,336

Average weekly wages in the Northwest Minnesota planning area increased by 5.2 percent to $734 over the year ending in the fourth quarter of 2014 (this is the most recently available data). Northwest Minnesota average wages are the lowest of Minnesota's six planning areas.

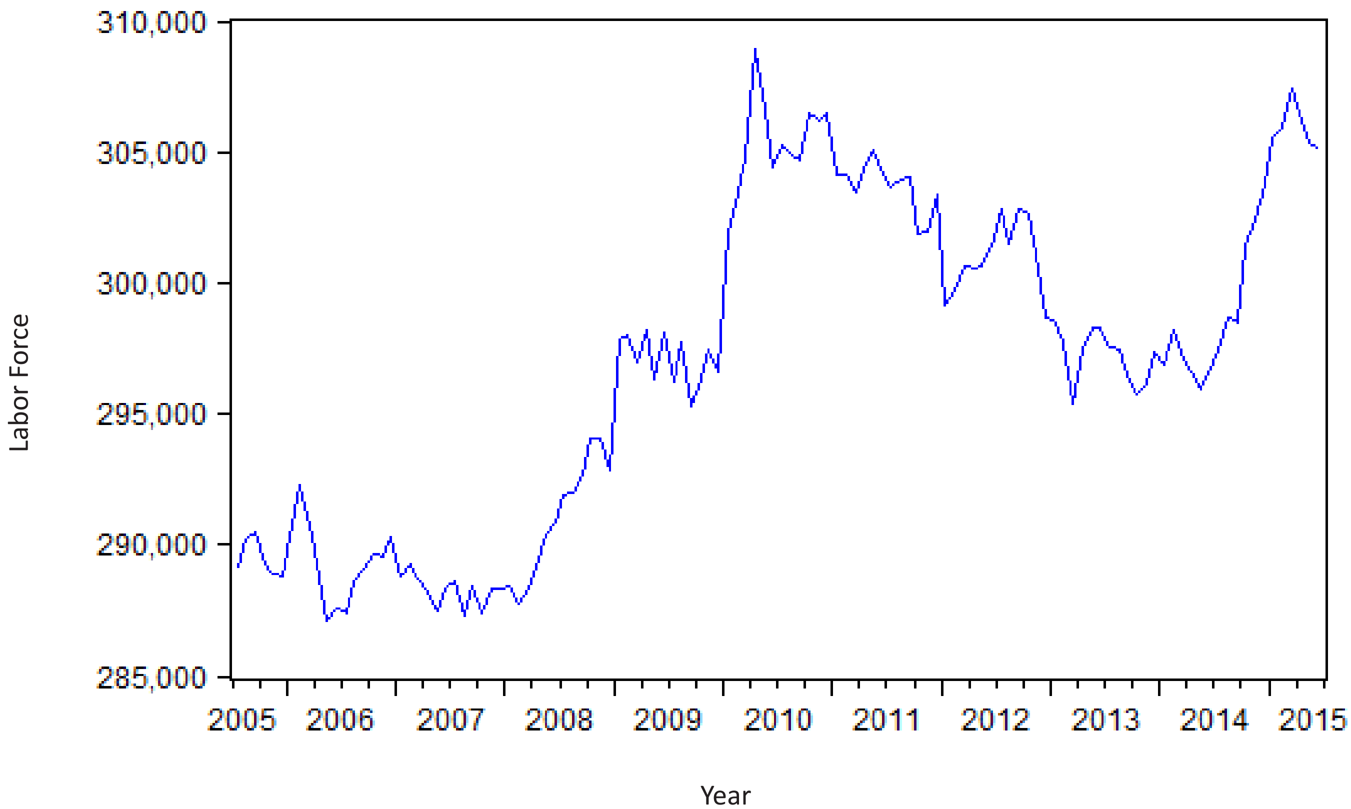
Average Weekly Wages -- Northwest Minnesota Planning Area



Quarter	2009:IV	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV
Average Weekly Wage	$643	$653	$661	$685	$698	$734

The size of the Northwest Minnesota labor force grew over the year ending June 2015. At 310,588, the regional labor force is 9,450 larger (representing a 3.1 percent increase) than one year ago.

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

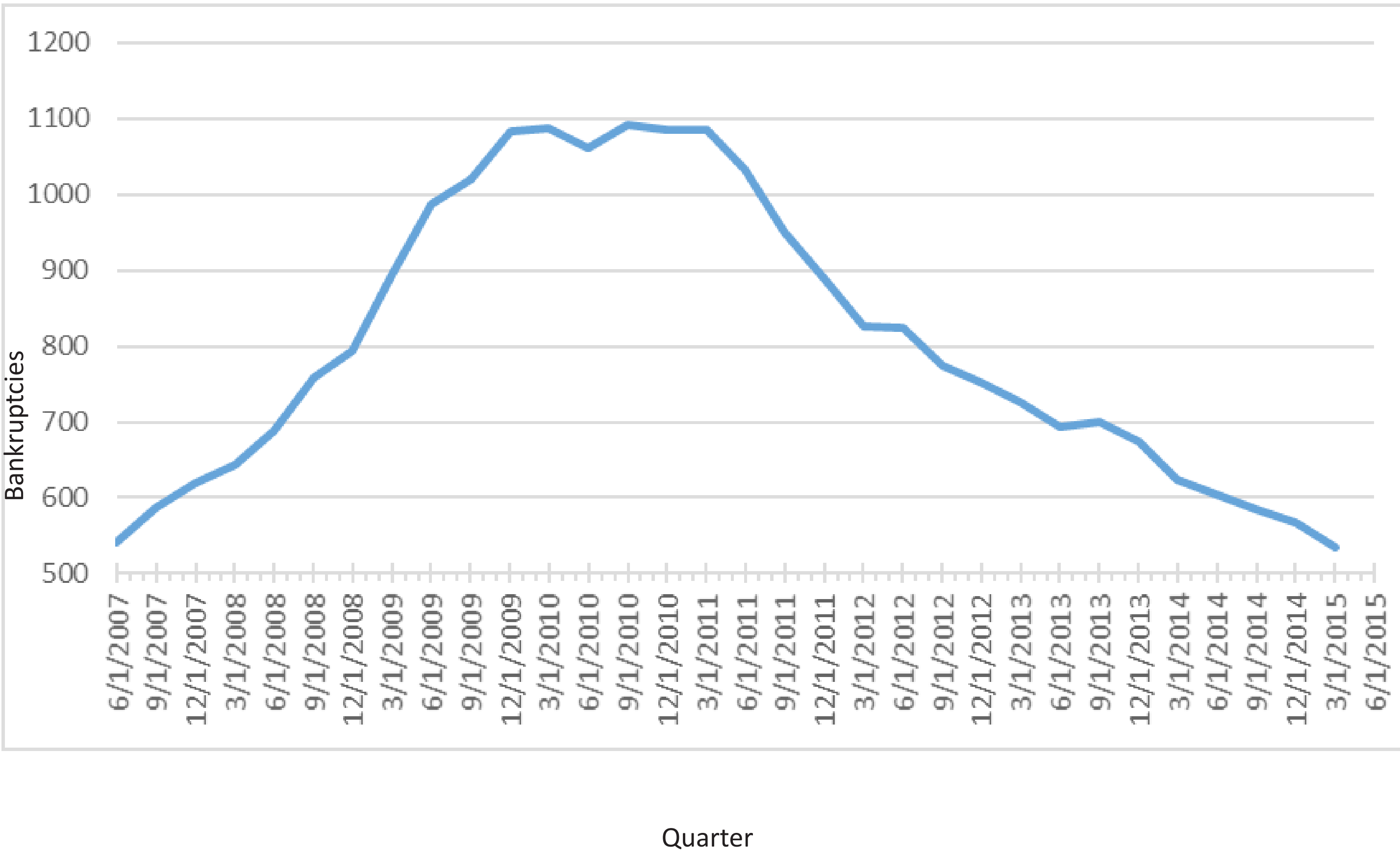


Year (June)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	300,907	303,913	304,435	302,569	301,138	310,588

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 this year's first quarter. A closer inspection of the Northwest Minnesota bankuptcy data suggests a disproportionately large number of recent bankruptcies have come from Polk, Becker, and Clay counties. This is the only one of Minnesota's six planning areas to see a recent rise in this series, so this bears further consideration in future reports.

Northwest Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1,764	1,600	1,403	1,127	959	1,363

Economic Indicators

Fargo-Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2015 (m)	140,100	137,400	2.0% ↑	2.1%
Manufacturing Employment	June 2015 (m)	10,100	10,300	-1.9% ↓	1.5%
Mining, Logging, Construction Employment	June 2015 (m)	9,500	9,800	-3.1% ↓	2.1%
Average Weekly Work Hours, Private Sector	June 2015 (m)	34.3	35.9	-4.5% ↓	33.6 (since 2007)
Average Earnings Per Hour, Private Sector	June 2015 (m)	$23.80	$23.57	1.0% ↑	3.5% (since 2007)
Unemployment Rate	June 2015 (m)	2.8%	2.9%	NA ↓	3.3%
Labor Force	June 2015 (m)	129,329	129,980	-0.5% ↓	1.3%
Initial Jobless Claims	June 2015 (m)	561	359	56.3% ↑	NA
Fargo-Moorhead Residential Building Permit Valuation	June 2015 (m)	53,183	69,798	-23.8% ↓	NA
Fargo-Moorhead Cost of Living Index	Quarter 1: 2015	96.0	94.2	1.9% ↑	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	June 2015 (m)	58,100	56,800	2.3% ↑	1.2%
Maufacturing Employment	June 2015 (m)	3,800	3,900	-2.6% ↓	0.3%
Mining, Logging, Construction Employment	June 2015 (m)	3,800	3,500	8.6% ↑	0.9%
Average Weekly Work Hours, Private Sector	June 2015 (m)	33.5	34.3	-2.3% ↓	33.7 (since 2007)
Average Earnings Per Hour, Private Sector	June 2015 (m)	$21.14	$21.68	-2.5% ↓	0.9% (since 2007)
Unemployment Rate	June 2015 (m)	3.6%	3.8%	NA ↓	4.2%
Labor Force	June 2015 (m)	55,142	54,820	0.6% ↑	0.3%
Initial Jobless Claims	June 2015 (m)	150	206	-27.2% ↓	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation	June 2015 (m)	3,744	32,374	-88.4% ↓	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 strong employment gains in the Fargo/Moorhead area (but declining employment in mining/logging/construction and manufacturing sectors), a reduction in the unemployment rate and a 1 percent increase in average hourly earnings. The labor force fell by 0.5 percent and the value of Fargo/Moorhead residential building permits experienced a substantial decline. Also on the negative side, average hours worked declined, initial jobless claims rose, and the relative cost of living increased.

Grand Forks/East Grand Forks MSA economic activity was also mixed in the second quarter of 2015. MSA employment rose at a 2.3 percent annual pace and the key mining/logging/construction sector also experienced job growth. The area unemployment rate fell, the labor force increased, and there were fewer initial jobless claims. However, average hourly earnings and the length of the workweek both declined. This area also suffered from declining employment in its manufacturing sector and a large decline in the value of residential building permits.

State and National Indicators

MINNESOTA Indicators	Jun 2015	Mar 2015	Jun 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,854,500	2,844,600	2,817,700	0.3%	1.3%
Average weekly hours worked, private sector	34.0	33.9	34.5	0.3%	-1.4%
Unemployment rate, seasonally adjusted	3.8%	3.7%	4.4%	NA	NA
Earnings per hour, private sector	$25.75	$26.32	$25.73	-2.2%	0.1%
Philadelphia Fed Coincident Indicator, MN	174.58	173.50	169.66	0.6%	2.9%
Philadelphia Fed Leading Indicator, MN	1.21	1.43	1.78	-15.4%	-32.0%
Minnesota Business Conditions Index	54.3	50.0	70.1	8.6%	-22.5%
Price of milk received by farmers (cwt)	$17.60	$17.10	$23.40	2.9%	-24.8%
Enplanements, MSP airport, thousands	1,673.7	1,629.6	1,609.6	2.7%	4.0%

NATIONAL Indicators	Jun 2015	Mar 2015	Jun 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	141,842	141,178	138,907	0.5%	2.1%
Industrial production, index, SA	107.1	107.4	105.7	-0.3%	1.3%
Real retail sales, SA	185,895	186,041	183,689	-0.1%	1.2%
Real personal Income less transfers	11,511.0	11,416.2	11,116.6	0.8%	3.5%
Real personal consumption expenditures	11,176.3	11,104.4	10,860.8	0.6%	2.9%
Unemployment rate	5.3%	5.5%	6.1%	NA	NA
New building permits, SA, thousands	1,337	1,038	1,033	28.8%	29.4%
Standard & Poor’s 500 stock price index	2,099.28	2,079.99	1,947.09	0.9%	7.8%
Oil, price per barrel in Cushing, OK	$59.82	$47.82	$105.79	25.1%	-43.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Average weekly hours worked fell and earnings per hour in the private sector were essentially unchanged over the past year. Two of three broader indicators suggest softening in the state economy in the second quarter. Milk prices were 24.8 percent lower than one year ago in June. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 4 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, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment, 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. The national economy appears to have rebounded from a soft patch in the year’s first quarter and now appears poised to grow at a moderate rate through the remainder of 2015.

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.

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. 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.

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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

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