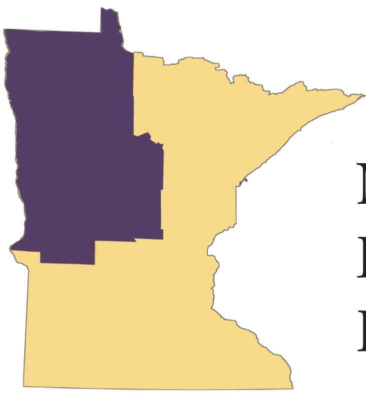

Northwest Minnesota
Economic and Business Conditions Report
First Quarter 2014

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 slow over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators. The macroeconomic environment for rural America has softened and consumer sentiment has slowed slightly. Poor weather did not interfere much with building permits in the region's two metro areas. The Northwest Minnesota index in contrast rose 2.2 percent in the previous year, so we foresee no recession, just a slower period than 2012 or 2013.

There were 1,024 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the first quarter of 2014 — representing a 5.5 percent decline from one year ago. There were 120 new regional business incorporations in the first quarter, a 6.2 percent increase over year ago levels. Over the past 12 months, new limited liability company (LLC) filings in Northwest Minnesota decreased by 7.1 percent — declining to 514 in the first quarter of 2014. New assumed names totaled 345 in this year's first quarter — a reduction of 7.8 percent from the first quarter of 2013. There were 45 new filings for Northwest Minnesota non-profits in the first quarter — 2.3 percent more filings than one year ago.

Employment of Northwest Minnesota residents increased by 1.9 percent over the year ending March 2014. More than 5,000 more residents of Northwest Minnesota were employed compared to one year ago. The regional unemployment rate was 6.9 percent in March, an improvement on its 7.2 percent reading one year ago. Initial claims for unemployment insurance decreased from year-ago levels and are the second-lowest recorded total over the past six months. Job vacancies have increased over the last three years in Northwest Minnesota. There is now nearly one vacancy for every two people unemployed in this region of Minnesota.

The two Metropolitan Statistical Areas (MSAs) in Northwest Minnesota—Fargo/Moorhead and Grand Forks/East Grand Forks — appeared to have strong economic performance over the past quarter. Each MSA experienced an annualized increase in employment and earnings, and a decrease in initial jobless claims and the unemployment rate. In addition, Grand Forks/East Grand Forks saw a big jump in the valuation of residential building permits, and Fargo/Moorhead saw a decline in its relative cost of living.

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 area rebounded strongly from the recession in 2008–2009, and steadily climbed higher in 2013. The LEI rose 3 percent in 2013, based on strong gains for its area manufacturers such as Digi-Key, Marvin Windows and Polaris Industries. However, recent readings indicate a slowing down period in the second half of 2014. The LEI fell 1.4 percent in the first quarter of 2014.

The SCSU Northwest Minnesota Leading Economic Indicators Index

Components of SCSU Northwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2014	Contribution to LEI, annual 2013
Rural Mainstreet Index	-2.91	-1.98
Northwest Minnesota initial claims for unemployment insurance	-2.46	1.03
Northwest Minnesota new filings of incorporation and LLCs	1.65	0.18
Fargo/Moorhead + Grand Forks/EGF MSA residential building permits	2.94	-1.45
Consumer Sentiment, Univ. of Michigan	-1.29	5.2
TOTAL CHANGE	-2.07	2.98

Because Northwest Minnesota exports many recreational vehicles, consumer sentiment is included as a proxy for demand for that industry. This series fell moderately in the first quarter but rose over the last 12 months. Residential building permits in the Fargo/Moorhead and Grand Forks/East Grand Forks area were up substantially in the first quarter. 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. After a strong rural economy in 2011 and 2012, the rural communities of the Midwest have plateaued and moved back towards normal economic growth. New filings for business incorporation in Northwestern Minnesota picked up more quickly in the first quarter of 2014 after a sluggish 2013. As can be seen in the accompanying tables, with three indicators down and two others up, the LEI fell 2.07 points this quarter, versus a gain of 2.98 points in 2013. (LEI is an index equal to 100 in December 1999.)

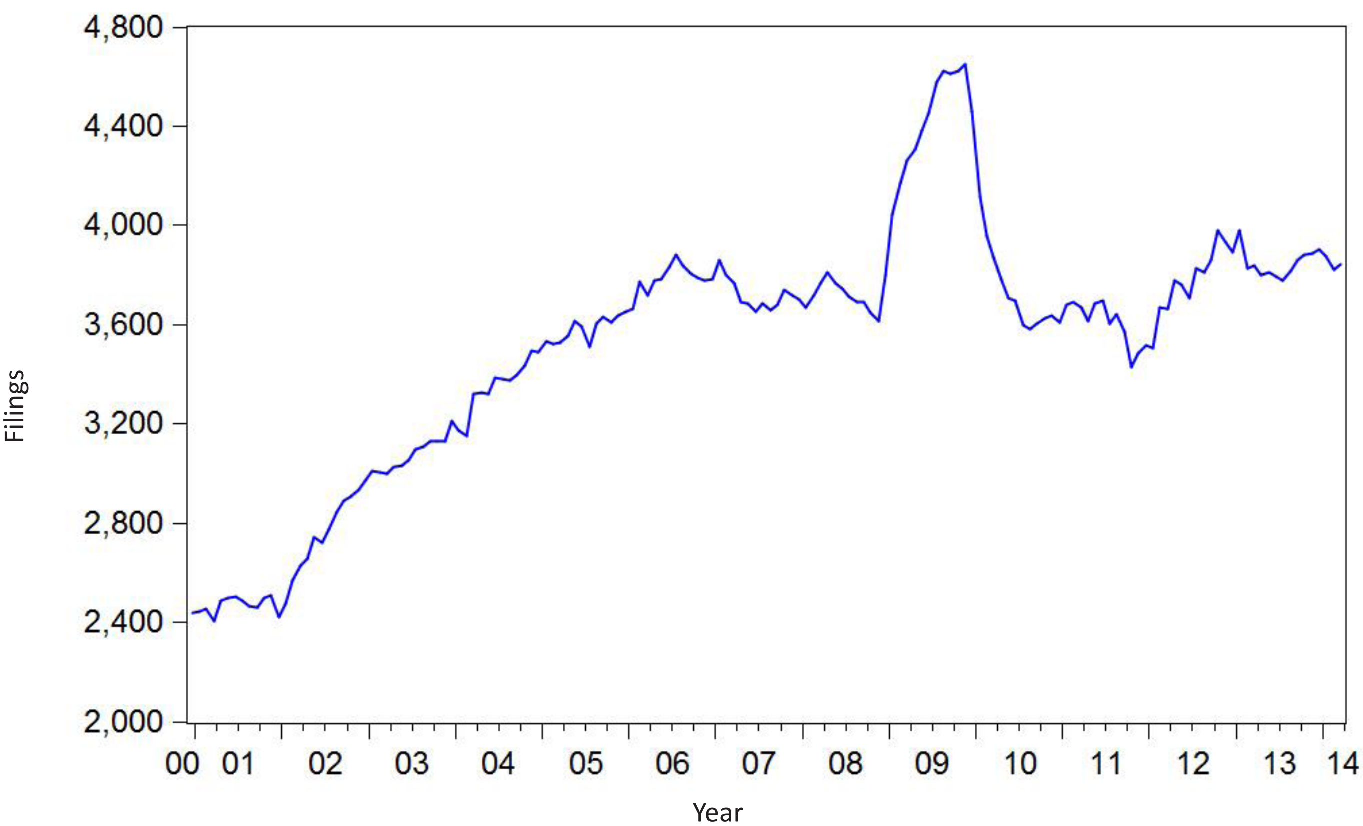
SCSU Northwest Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Rural Mainstreet Index, Creighton University March	50.1	56.9	-12.0%
Northwest Minnesota initial claims for unemployment insurance March	1,975	2,107	-6.3%
Northwest Minnesota new filings of incorporation and LLCs First Quarter	634	666	-4.8%
Fargo/Moorhead and Grand Forks/EGF MSA single family building permits, March	44	32	37.5%
Consumer Sentiment, University of Michigan, March	80	78.60	1.8%
Northwest Minnesota Leading Economic Indicators Index March (December 1999 = 100)	144.1	141.6	1.8%

Northwest Business Filings

Total new business filings grew rapidly from 2000 to 2006, at which point they began to level off. 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 in the graph below) 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.

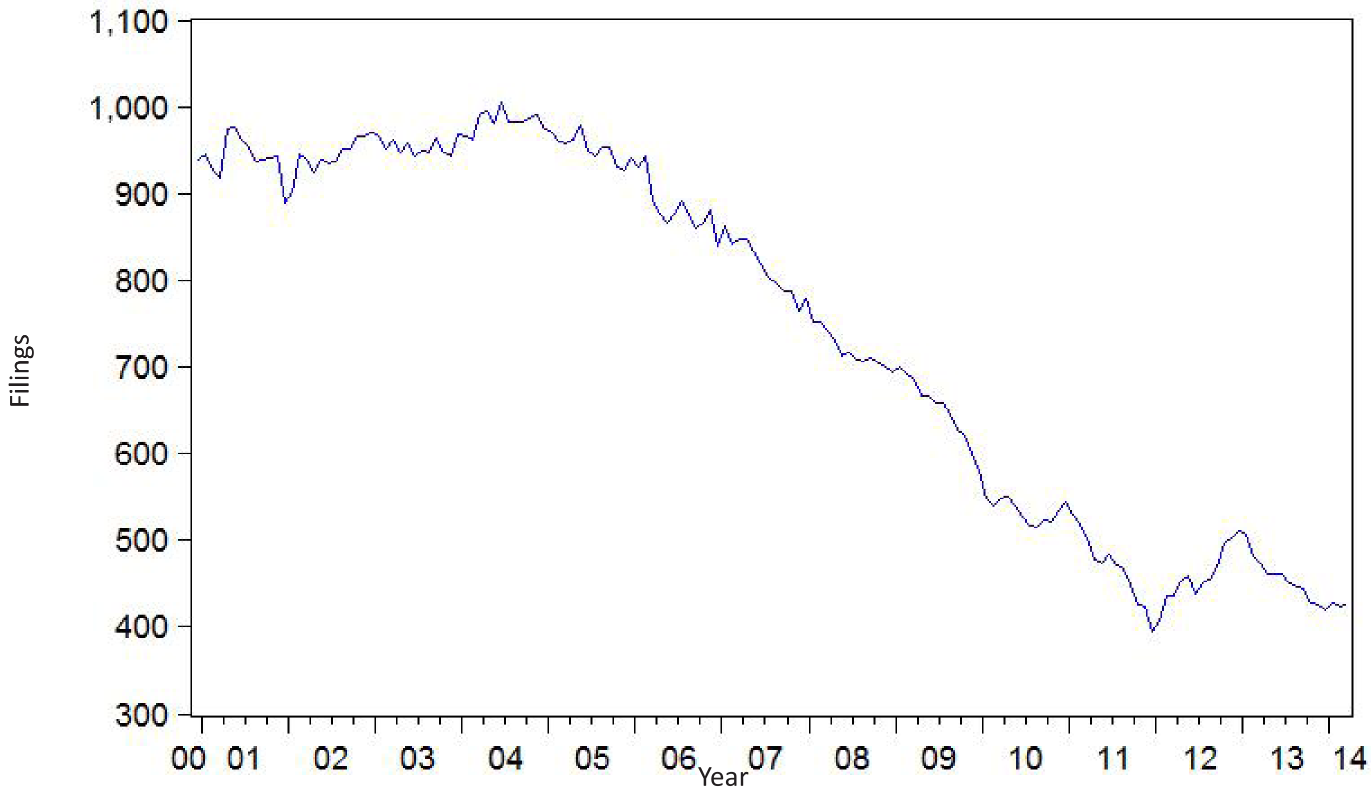
Total New Business Filings—Northwest Minnesota Planning Area
(12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northwest MN Total New Business Filings	1,084	1,053	894	873	1,024	-5.5%

New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, then rose in 2012, but declined again last year. New business incorporations in the first quarter of 2014 represented a 6.2 percent increase from the previous year.

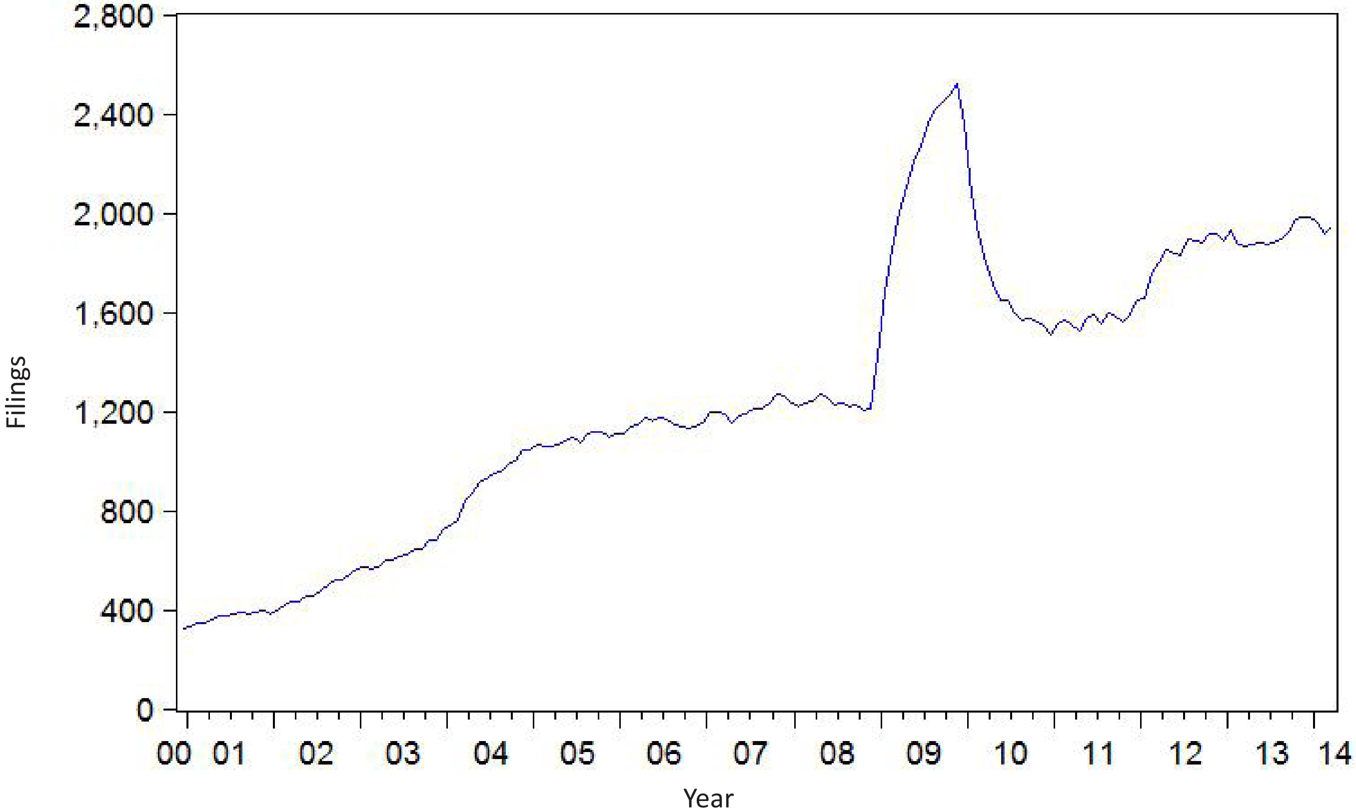
New Incorporations—Northwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northwest Minnesota New Business Incorporations	113	119	84	103	120	6.2%

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 since 2000.

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



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	553	520	445	467	514	-7.1%

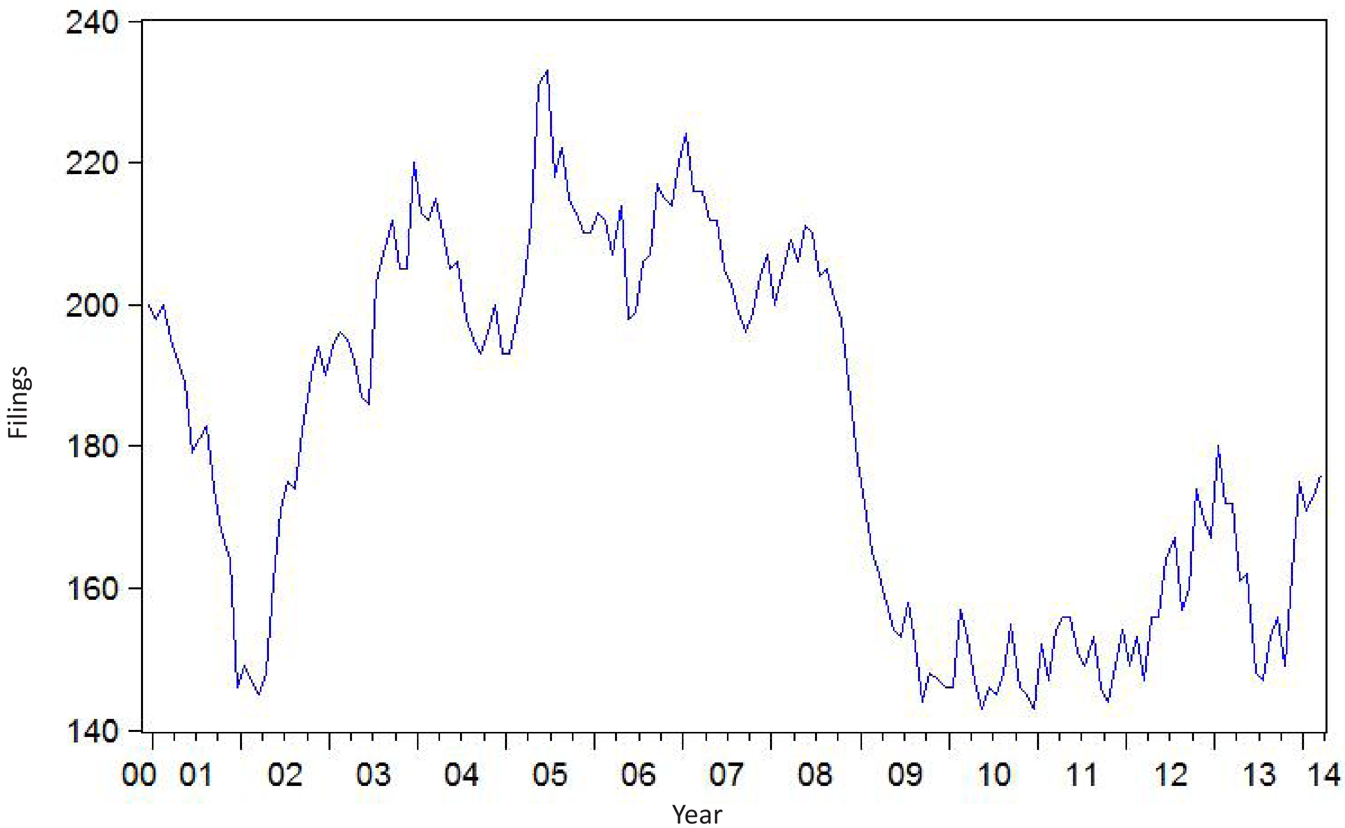
Assumed names, which include sole proprietors or organizations that do not have limited liability, declined by 7.8 percent compared to the same period last year. This series has not recovered from its peak levels of 2006–2007.

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

Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northwest Minnesota New Assumed Names	374	383	325	243	345	-7.8%

After bottoming out during 2009 to 2012, the number of new Northwest Minnesota non-profits registered with the Office of the Minnesota Secretary of State increased, though still below the levels seen before the Great Recession. The number of newly formed non-profits increased from 44 one year ago to 45 in the 2014 first quarter.

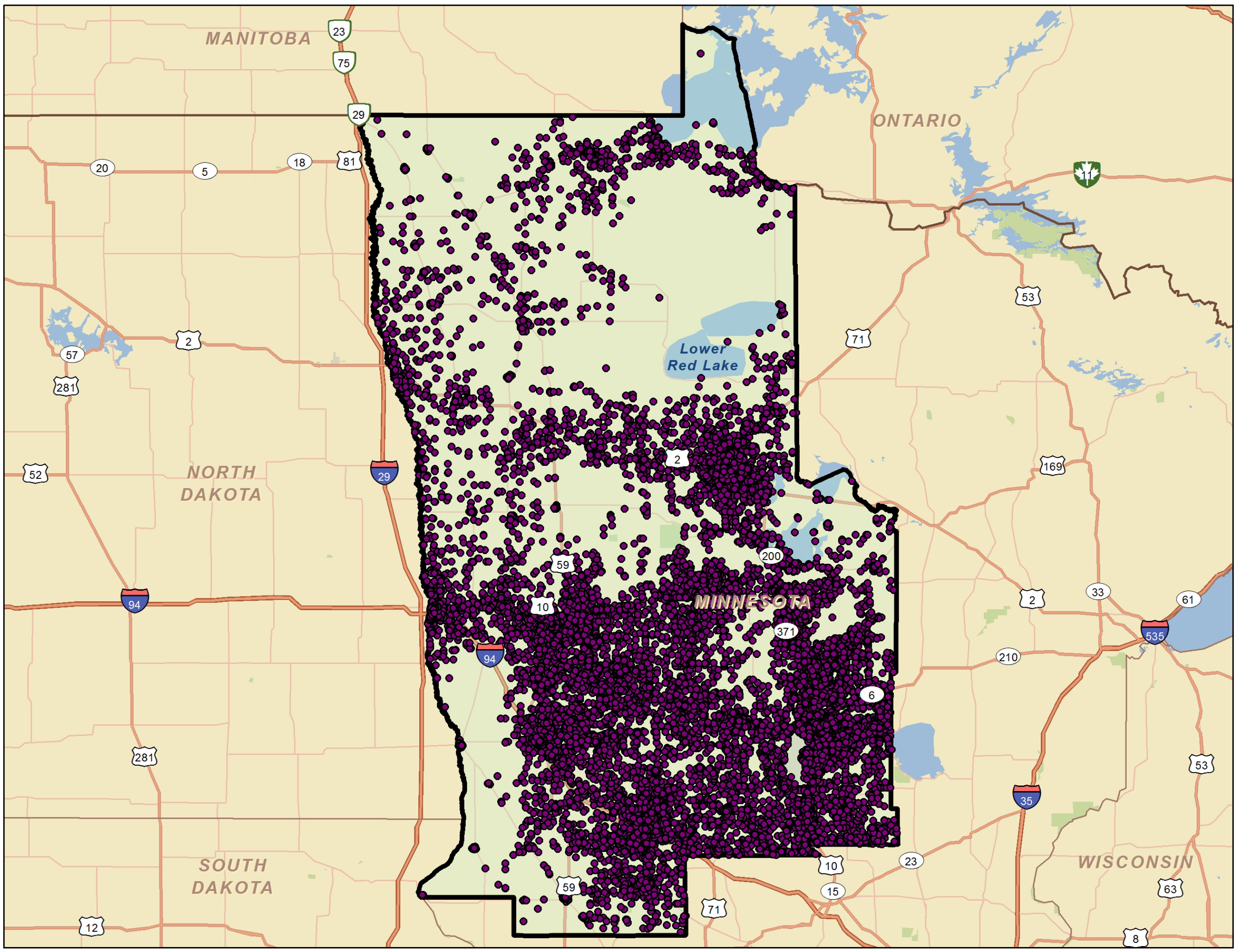
New Non-Profits—Northwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Northwest Minnesota New Non-Profits	44	31	40	60	45	2.3%

The highlighted area in the map below is the 26-county Northwest Minnesota planning area, consisting of the following 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. Each dot within the area is a new business filing registered between January 2000 and March 2014. Within this area there were: 10,521 new business incorporations; 18,753 assumed names; 17,627 LLCs; and 2,579 non-profits. Some of these entities may no longer exist due to bankruptcies, mergers and other forms of business closings.

Geographic Distribution of All New Northwest Minnesota Business Filings since 2000

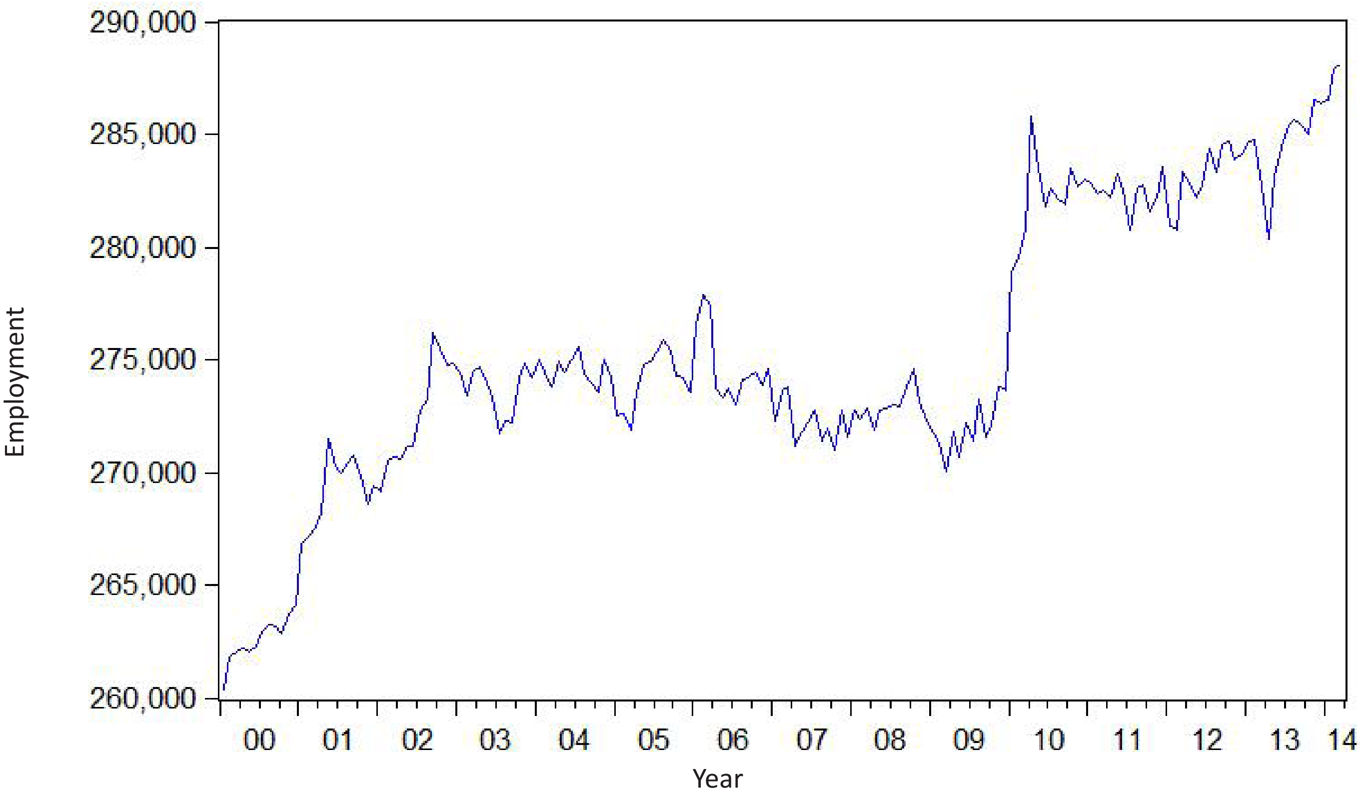


While the two MSAs — Grand Forks/East Grand Forks and Fargo/Moorhead — in this planning area are on its western border, most of the businesses are clustered closer to the center of the state. Activity is prevalent along the major highways of the area — Interstate 94, U.S. highways 2 and 10, and state highways 200 and 371. There is much less business formation in the upper third of the area, which includes several Indian reservations (White Earth, Red Lake and Leech Lake.) Many businesses inhabit lakeshores in the area, likely indicating tourist activity. There is much less activity in the southern half of west-central Minnesota, though both agriculture and manufacturing in those areas have grown, according to data from the Minnesota Department of Employment and Economic Development.

Northwest Minnesota Labor Market Conditions

Employment in the Northwest Minnesota planning area grew 1.9 percent over the past year. The area has settled into a steady growth rate after the decline of 2008 and upsurge in 2010. Note that Northwest (and Southwest) Minnesota employment did not decline during the Great Recession as much as was observed in other Minnesota planning areas. Given the predictions of the LEI, employment growth may slow slightly in Northwest Minnesota in the second half of 2014.

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

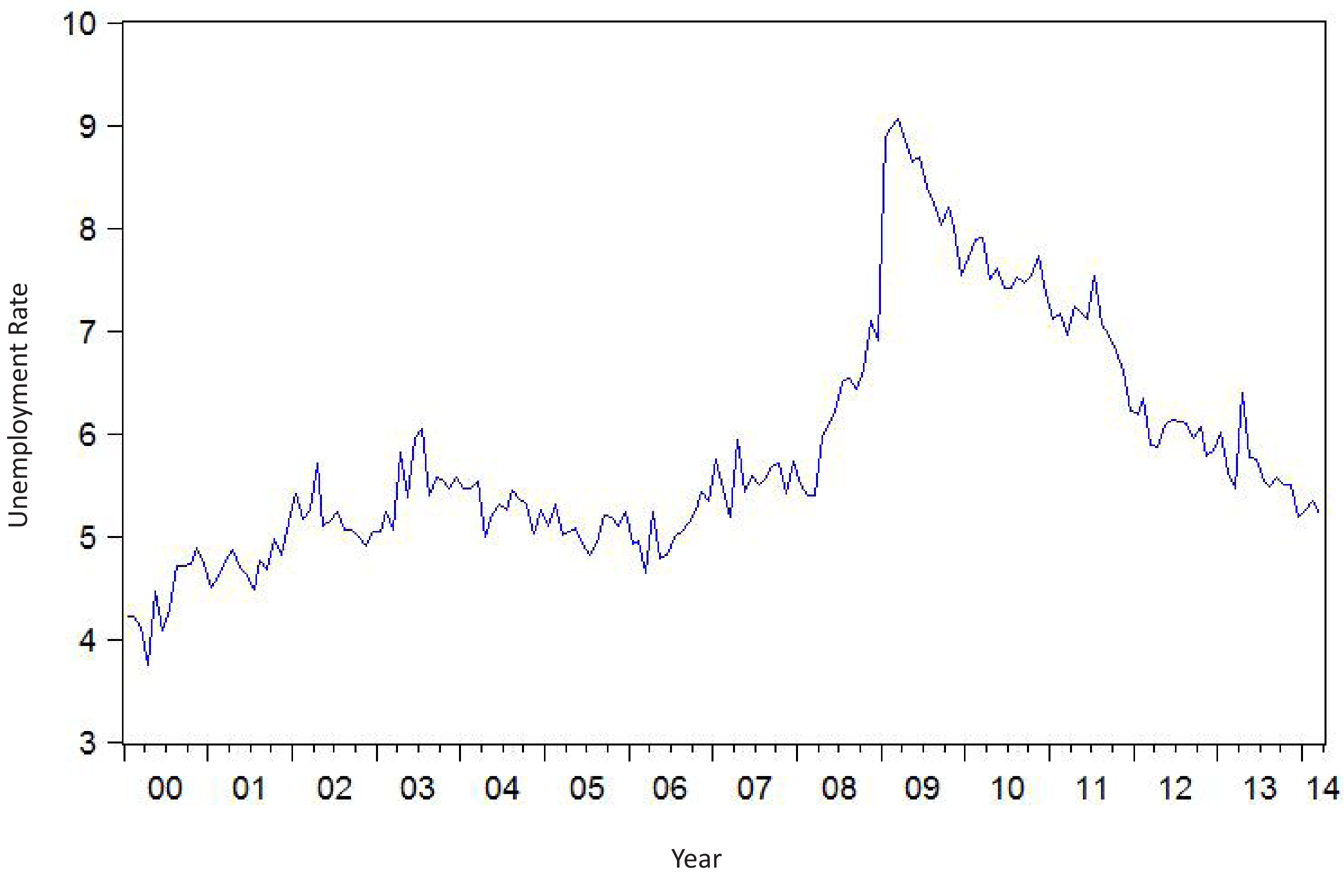


Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Employment (Not seasonally adjusted)	275,502	287,970	286,229	282,727	276,655	278,175	280,771

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.

Seasonally adjusted unemployment in Northwest Minnesota is 0.3 percent below 2013 levels. The unemployment rate in this part of Minnesota has declined since peaking at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 6.9 percent.

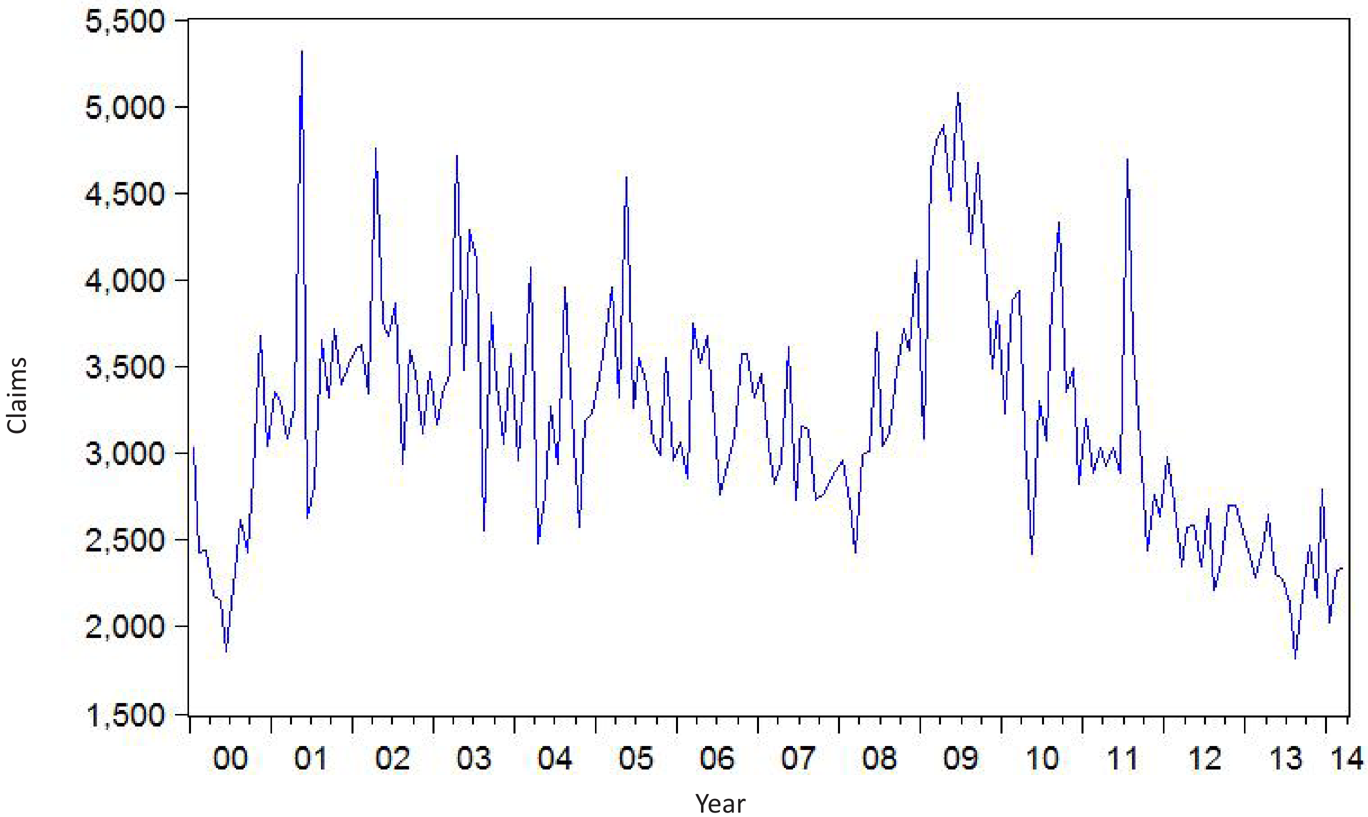
Unemployment Rate, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Unemployment Rate (Not seasonally adjusted)	7.2%	4.1%	4.8%	5.7%	7.3%	7.0%	6.9%

New claims for March 2014 unemployment insurance decreased from year-ago levels. They are now lower than one year ago by 132 (a 6.3 percent decline). Initial jobless claims are well below their heightened levels during the Great Recession.

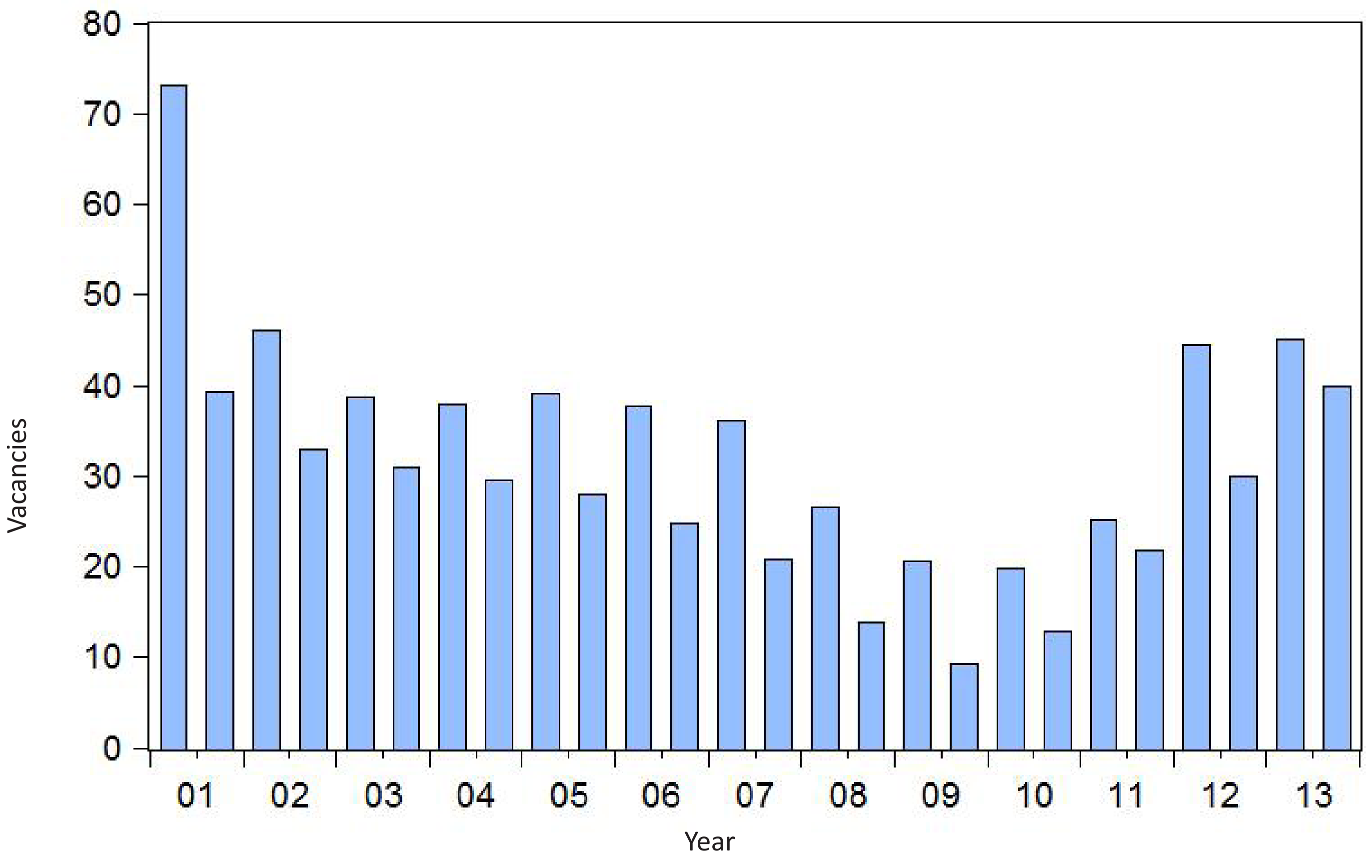
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Period	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Initial claims (Not seasonally adjusted)	2,107	2,367	4,084	5,875	2,569	1,812	1,975

Job vacancies in the fourth quarter of 2013 in the Northwest Minnesota planning area were substantially higher as a share of the unemployed compared to 2011 and 2012. There are now more than two job vacancies for every five unemployed workers. While it is not known whether the jobs that are vacant align with the skills of available workers in the area, increased vacancies are an indicator of improved regional economic performance.

Job Vacancies per 100 unemployed—Northwest Minnesota Planning Area



Quarter	2011: 2nd	2011: 4th	2012: 2nd	2012: 4th	2013: 2nd	2013: 4th
Vacancies /100 unemployed	26.24	24.95	47.86	33.29	47.22	44.72

The size of the Northwest Minnesota labor force has remained largely unchanged over the last few years. Since 2000, however, the labor force has experienced considerable growth in this part of the state. With more than 300,000 workers in the regional labor force, the Northwest Minnesota labor force has increased by 11.1 percent from its level in 2000.

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

Year (March)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	295,209	302,947	301,691	298,958	296,832	301,684

Northwest Minnesota Economic Indicators

Fargo / Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2014 (m)	133,800	130,300	2.7% ↑	2.1%
Manufacturing Employment	March 2014 (m)	10,000	9,900	1.0% ↑	1.8%
Mining, Logging, Construction Employment	March 2014 (m)	7,700	7,300	5.5% ↑	3.4%
Average Weekly Work Hours--Private Sector	March 2014 (m)	34.1	33.4	2.1% ↑	32 (since 2007)
Average Earnings Per Hour--Private Sector	March 2014 (m)	$23.24	$22.02	1.8% ↑	3.5% (since 2007)
Unemployment Rate	March 2014 (m)	3.3%	3.9%	NA ↓	3.8%
Labor Force	March 2014 (m)	122476	120565	1.6% ↑	1.1%
Initial Jobless Claims	March 2014 (m)	278	632	-56.0% ↓	NA
Fargo-Moorhead Residential Building Permit Valuation	March 2014(m)	9126	9445	-3.4% ↓	7991
Fargo-Moorhead Cost of Living Index	Fourth Quarter 2013	93.9	94.8	-0.9% ↓	93.3 (since 2003)

Grand Forks / East Grand Forks MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2014 (m)	56,400	55,800	1.1% ↑	1.1%
Maufacturing Employment	March 2014 (m)	3,500	3,400	2.9% ↑	0.0%
Mining, Logging, Construction Employment	March 2014 (m)	2,700	2,500	8.0% ↑	1.4%
Average Weekly Work Hours--Private Sector	March 2014 (m)	32.5	33.9	-4.1% ↓	31.9 (since 2007)
Average Earnings Per Hour--Private Sector	March 2014 (m)	$20.81	$20.23	1.8% ↑	0.3% (since 2007)
Unemployment Rate	March 2014 (m)	4.2%	4.5%	NA ↓	4.6%
Labor Force	March 2014 (m)	54260	54177	0.2% ↑	0.1%
Initial Jobless Claims	March 2014 (m)	151	252	-40.1% ↓	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation	March 2014(m)	32016	8527	275.5% ↑	3233

(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 in this report, a variety of economic measures can be analyzed. The data in the table show employment gains (with strong gains in the mining/logging/construction sector) in each of the MSAs over the past year. Each MSA also saw higher private sector hourly earnings, a lower unemployment rate, and lower initial jobless claims. Grand Forks/East Grand Forks saw a big jump in the valuation of residential building permits and Fargo/Moorhead saw a decline in its cost of living. These areas appeared to have a year of strong economic performance.

State and National Indicators

MINNESOTA Indicators	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,813,900	2,811,700	2,770,000	0.1%	1.6%
Average weekly hours worked, private sector	34.0	34.0	33.4	0.0%	1.8%
Unemployment rate, seasonally adjusted	4.8%	4.7%	5.2%	NA	NA
Earnings per hour, private sector	$25.86	$25.94	$25.55	-0.3%	1.2%
Philadelphia Fed Coincident Indicator, MN	160.98	159.85	156.40	0.7%	2.9%
Philadelphia Fed Leading Indicator, MN	1.21	1.9	1.27	-36.3%	-4.7%
Minnesota Business Conditions Index	64.1	58.9	55.2	8.8%	6.7%
Price of milk received by farmers (cwt)	$26.40	$22.10	$19.50	19.5%	35.4%
Enplanements, MSP airport, thousands	1,568.8	1,392.1	1,510.1	12.7%	3.9%

NATIONAL Indicators	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	137928	137395	135682	0.4%	1.7%
Industrial production, index, SA	103.2	101.5	99.5	1.7%	3.7%
Real retail sales, SA	184140	182779	180159	0.7%	2.2%
Real personal Income less transfers	11,063	10,987	10,830	0.7%	2.2%
Real personal consumption expenditures	10979	10844	10674	1.2%	2.9%
Unemployment rate	6.7%	6.7%	7.5%	NA	NA
New building permits, thousands	990	991	890	-0.1%	11.2%
Standard and Poor's 500 stock price index	1872.34	1848.36	1569.19	1.3%	19.3%
Oil, price per barrel in Cushing,OK	$100.80	$97.63	$92.94	3.2%	8.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Earnings per hour in the private sector rose 1.2 percent over the past year. Broader indicators suggest strength in the state economy. Farmers are receiving higher prices for milk, an important indicator in many areas of Minnesota.

Despite a recent report of tepid output growth in the first quarter, the national economy continues its expansion. Despite a de facto tax hike that resulted from the elimination of the partial payroll tax holiday at the beginning of 2013, consumption rose 2.9 percent over the last 12 months, and building permits rose. The stock market surged in 2013, which may have helped consumer sentiment. Oil prices, on the other hand, rose over the past year, taking some discretionary income out of consumers' hands.

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.

Reports on second quarter 2014 business and economic conditions in each of the six planning areas will be available in August 2014.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Joseph Kucan and Jie Zu. Our thanks to Professor David Wall and Ian Wolfe of the SCSU Geography Department for GIS assistance.

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Standard & Poor's: Standard & Poor's 500 Stock Price Index.

Thomson Reuters and University of Michigan: Index of Consumer Sentiment

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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.