Northeast Minnesota
Economic and Business Conditions Report
Second 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

Northeast Minnesota business conditions are expected to improve over the next several months according to the predictions of the St. Cloud State University (SCSU) Northeast Minnesota Index of Leading Economic Indicators. The leading economic indicator index (LEI) improved in the second quarter as increases in Duluth/Superior Area (MSA) residential building permits, additional filings for new business incorporations, improvements in a general measure of state business conditions, gains in a supply managers' survey index and lower initial jobless claims all drove the LEI higher.

There were 548 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the second quarter of 2014 — representing a 1.7 percent improvement from one year ago. There were 52 new regional business incorporations in the second quarter, a 10.6 percent increase from 2013. Over the past 12 months, new limited liability company (LLC) filings in Northeast Minnesota declined slightly, with 255 new filings in the second quarter of 2014. New assumed names totaled 210 in this year's second quarter — a 3.4 percent increase from the second quarter of 2013. There were 31 new filings for Northeast Minnesota nonprofits in the 2014 second quarter — one more than one year earlier.

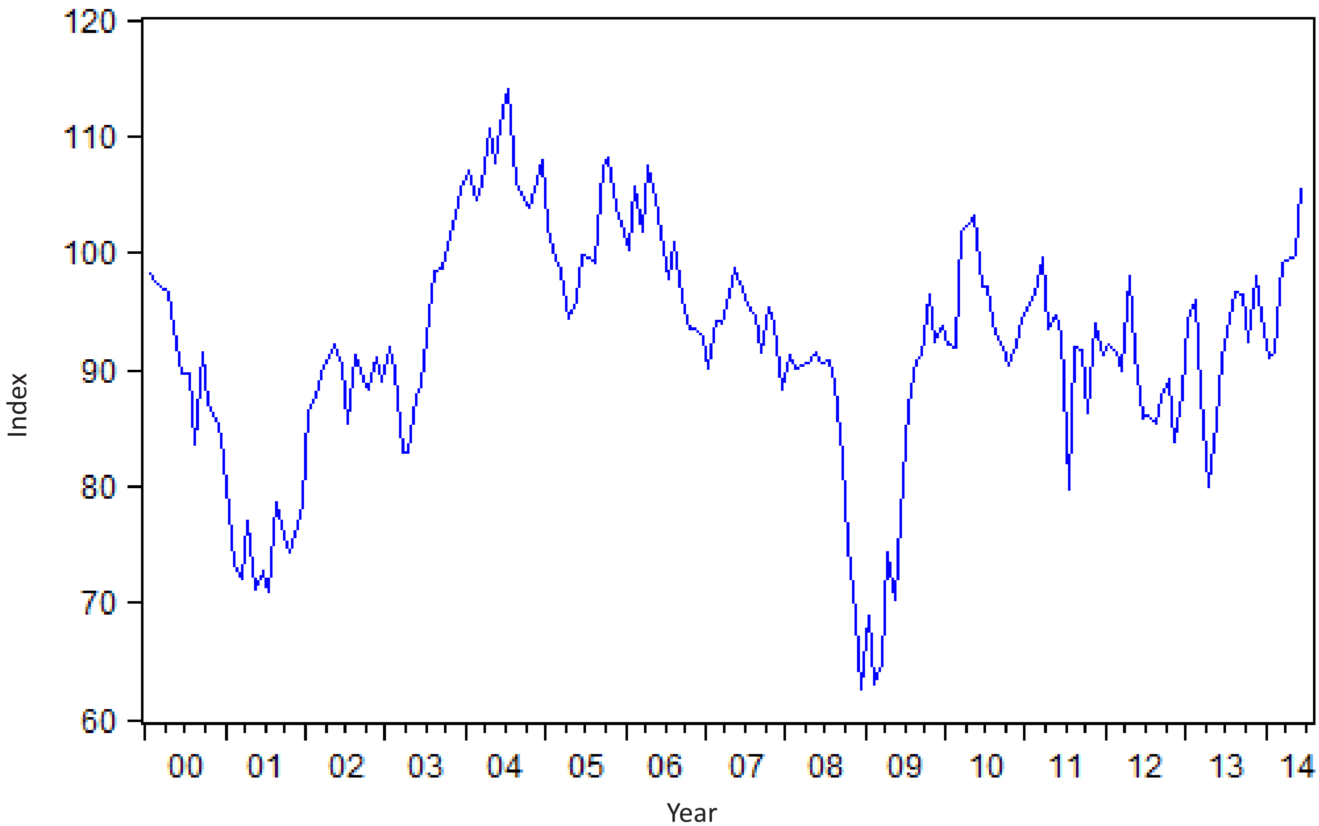
Northeast Minnesota employment was basically unchanged from year earlier levels in June. The Northeast Minnesota unemployment rate has decreased along with the regional labor force. The regional unemployment rate in June 2014 was 5.9 percent, considerably lower than its 6.6 percent reading one year earlier. Some of this can be explained by a declining Northeast labor force. The regional labor force has shrunk by more than 3,500 people since June 2009. June 2014 initial claims for unemployment insurance were slightly lower than in June 2013 and the average weekly wage in the last quarter of 2013 was 3.2 percent higher than the similar period one year earlier.

Data from the Duluth/Superior Metropolitan Statistical Area (MSA) show strong economic conditions in Northeast Minnesota's largest market. Compared to June 2013, employment is higher, the unemployment rate is lower, the average weekly work week and average hourly earnings are higher, and the value of residential building permits has expanded, all favorable signs for the Duluth/Superior MSA.

Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast 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 6.48 points in this year's second quarter, and is now 16.5 percent above its level one year ago. Since 2000, the LEI has shown two distinct dips, each of which was associated with recession. The LEI dipped from 2000 to 2002 (the national economy was in recession in 2001) and again from 2008 to mid-2009 (at which time the national economy was in the midst of a Great Recession). Since mid-2013, the LEI has enjoyed a fairly steady increase. It has now attained a level last seen in the mid-2000s.

The SCSU Northeast Minnesota Leading Economic Indicators Index



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2014	Contribution to LEI, 1st quarter 2014
Minnesota Business Conditions Index	1.23	2.40
Northeast Minnesota initial claims for unemployment insurance	1.22	2.22
Northeast Minnesota new filings of incorporation	0.04	0.16
Duluth Superior MSA residential building permits	2.24	-0.79
Institute of Supply Management Purchasing Managers Index for manufacturing	1.75	-2.55
TOTAL CHANGE	**6.48**	**1.44**

All five components of the LEI (see accompanying table) increased in the second quarter of 2014. Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This indicator rebounded from weakness in the first quarter. Last quarter's report noted weakness in Duluth Superior MSA residential building permits in the first two months of the year. By March, this series was beginning to recover. This recovery continued in the second quarter. Improvement in the Minnesota Conditions Index (an indicator of general business conditions) and a reduction in initial claims for unemployment insurance also contributed to the second quarter rise in the LEI. New business incorporations were up slightly.

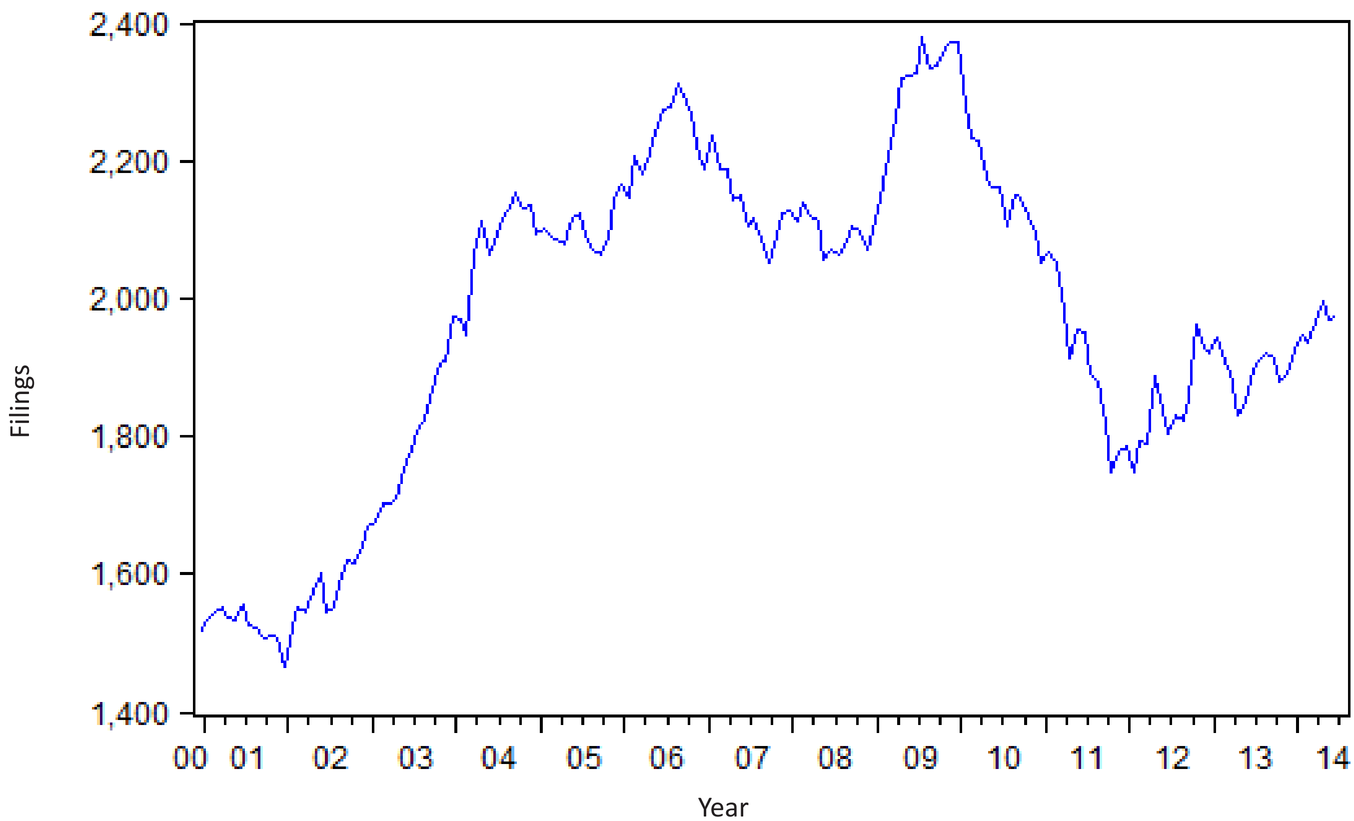
SCSU Northeast Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index June	70.1	56.2	24.7%
Northeast Minnesota initial claims for unemployment insurance June	1,230	1,261	-2.5%
Northeast Minnesota new filings of incorporation Second Quarter	52	47	10.6%
Duluth Superior MSA residential building permits June	54	25	116.0%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, June	55.6	50.9	9.2%
Northeast Minnesota Leading Economic Indicators Index June (December 1999 = 100)	105.8	90.8	16.5%

Northeast Minnesota Business Filings

Total new business filings increased by 1.7 percent over the past year. This series has slowly trended upward since 2011. After a precipitous drop in the pace of new business formation during the Great Recession, new business filings in Northeast Minnesota are starting to return to the pace observed 10 years ago.

Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data.

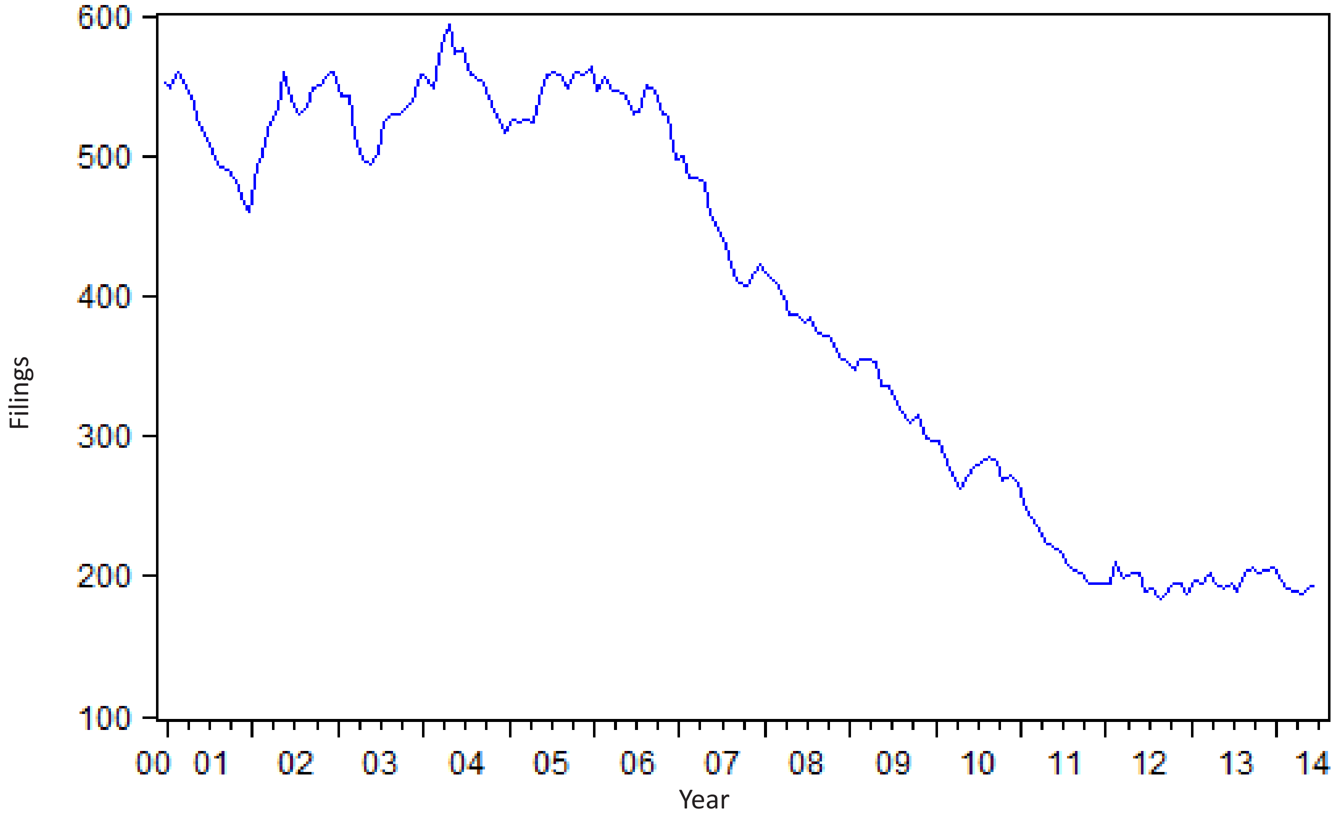
Total New Business Filings—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northeast Minnesota Total New Business Filings	539	420	467	539	548	1.7%

New business incorporations trended downward in Northeast Minnesota from 2007 to 2012. They have been relatively flat since that time. As seen in the table below, this series increased in the second quarter by 10.6 percent compared to last year's second quarter.

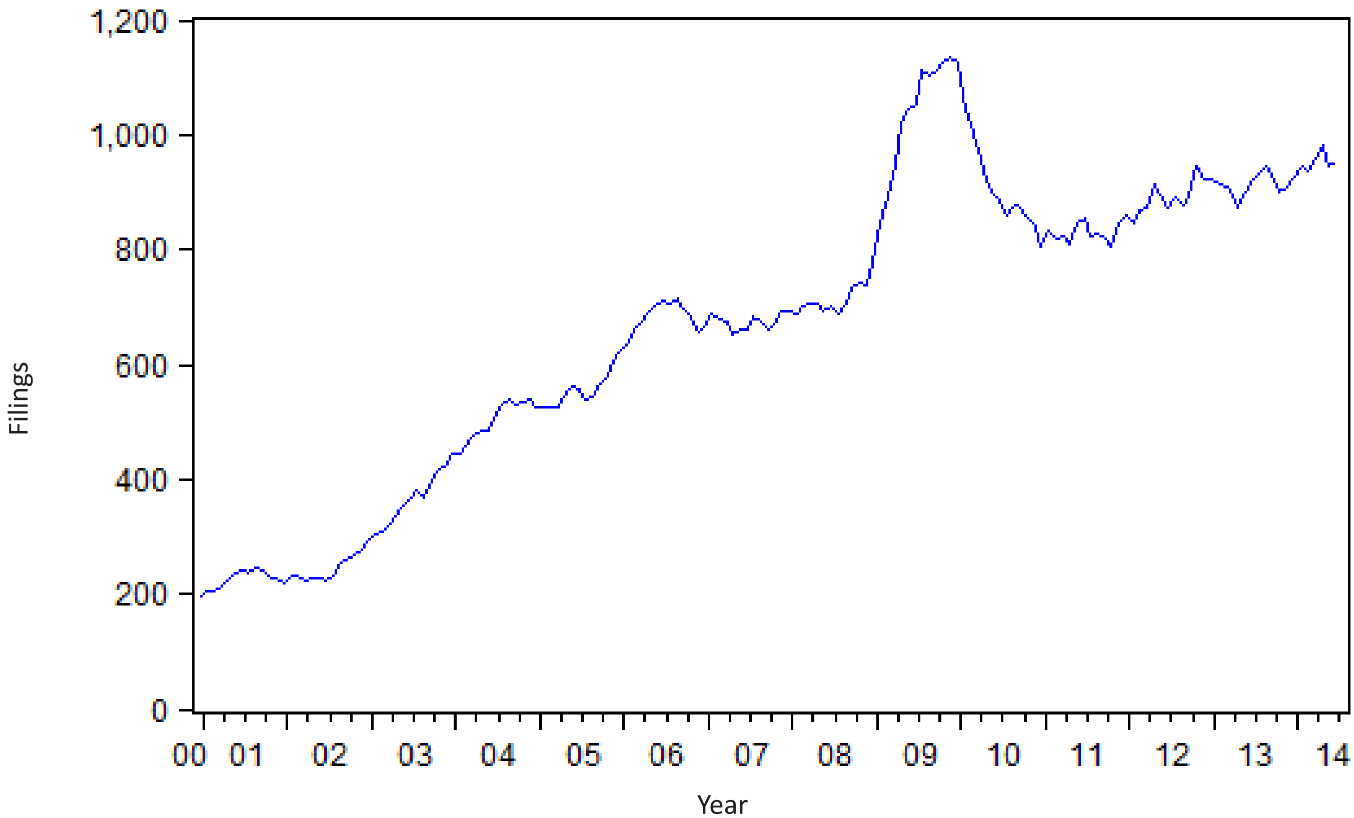
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northeast Minnesota New Business Incorporations	47	47	42	54	52	10.6%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota (although second quarter new LLCs were slightly lower than their level one year ago). Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was 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.

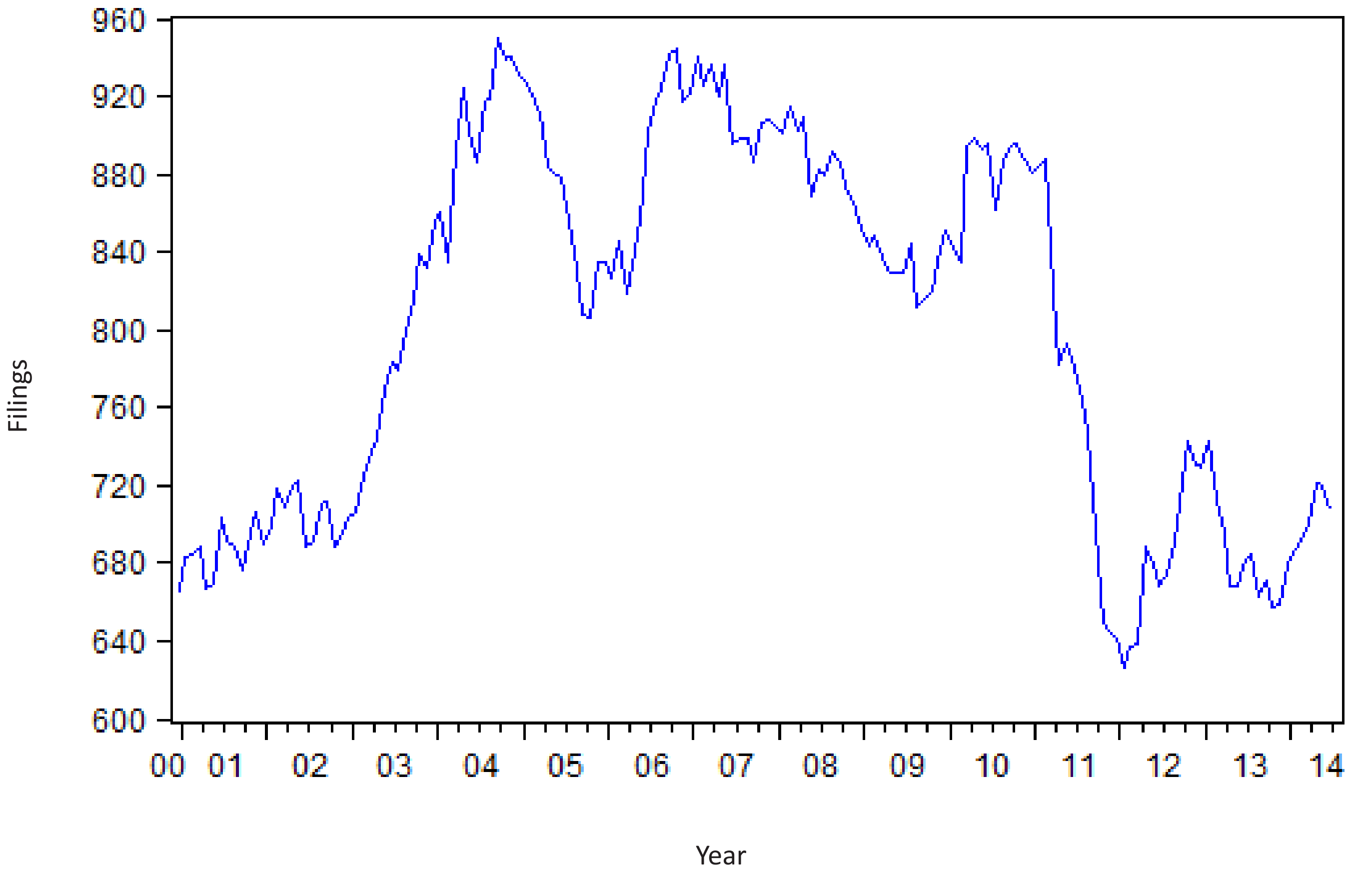
New Limited Liability Companies—Northeast Minnesota Planning Area
(12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	259	195	240	266	255	-1.5%

Assumed names grew 3.4 percent over the past year in Northeast Minnesota. It appears that no other planning area in Minnesota is experiencing this kind of growth in assumed names. With the exception of a slight increase in new assumed names in Northwest Minnesota, all of the other four planning areas experienced a decline in this series over the past 12 months. Note that the recent increase in new assumed names in Northeast Minnesota is only a partial catch-up for the major decline in this series in 2011.

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



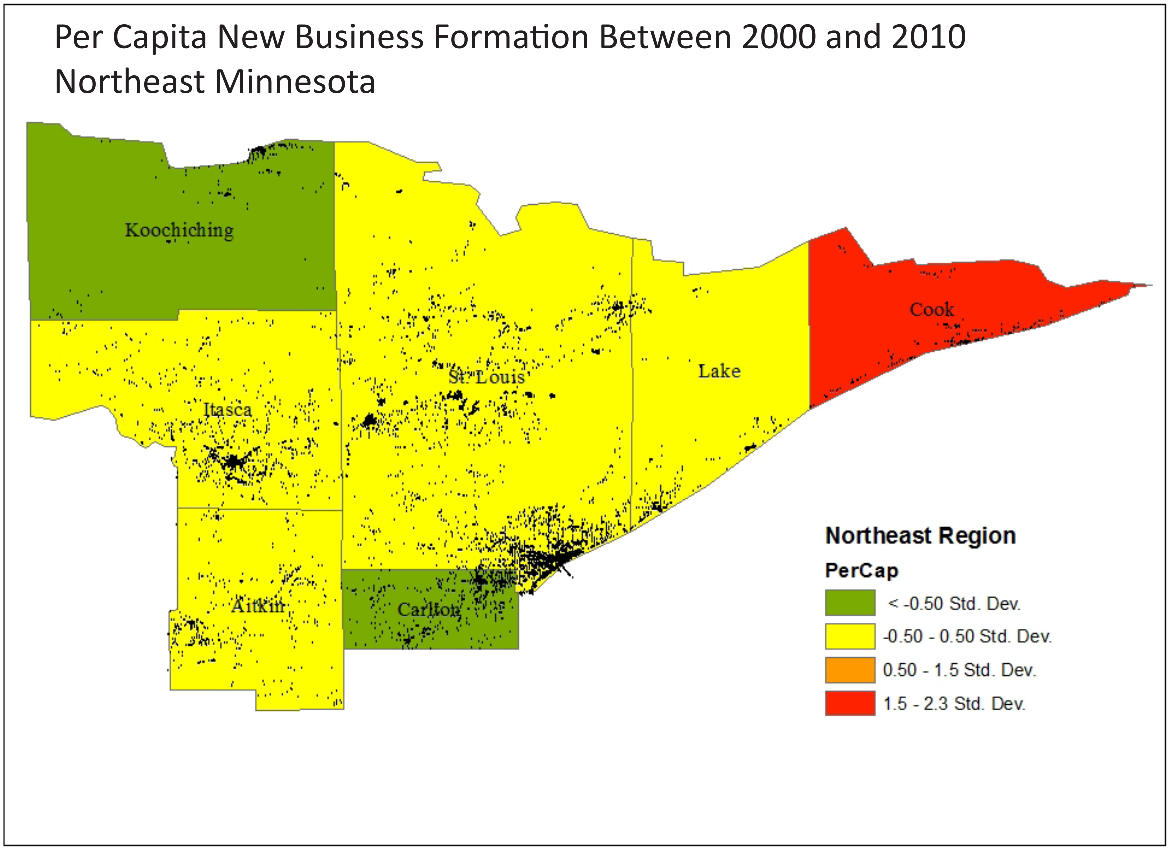
Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northeast Minnesota New Assumed Names	203	149	157	192	210	3.4%

There were 31 new Northeast Minnesota nonprofits registered with the Office of the Minnesota Secretary of State in the second quarter of 2014, one more than was recorded one year ago.

New Nonprofits—Northeast Minnesota Planning Area (12-month moving total)

Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northeast Minnesota New Nonprofits	30	29	28	27	31	3.3%

The highlighted area in the map below is the seven-county Northeast Minnesota planning area, consisting of the following counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis. Each dot within the area is a new business filing that was registered with the Office of the Minnesota Secretary of State between April 2000 and April 2010. These dates were chosen to represent when data collection began for the decennial census in each of these years. Over this period, the population of the State of Minnesota increased by 7.8 percent. Only one county in the Northeast Minnesota planning area experienced population growth that was more rapid than Outstate Minnesota: Carlton County, whose population grew 11.7 percent from 2000 to 2010. All other counties saw their populations either grow less rapidly (Aitkin, Cook, Itasca) than the state or actually experienced population decline (Koochiching, Lake, St. Louis).



The coloration of the map reflects deviations in new business formation per capita from the planning area average over the 10-year period ending in 2010. For example, while Carlton County (colored green) enjoyed substantial numbers of newly formed businesses over the decade of the 2000s, it also experienced significant population growth. Compared to the average for the planning area, Carlton County actually experienced a relative decline in new business formation per capita over this period. This also occurred in Koochiching County (also colored green) where the population declined by 7.3 percent from 2000 to 2010. The counties colored yellow can be thought of as having new business formation per capita that is in the average range for the planning area. Note that only Cook County (whose population increased only 0.2 percent) experienced a disproportionately high increase in new business formation per capita over this period.

For Greater Minnesota, there appears to be a correlation between population growth and new business formation per capita. Those counties outside the seven-country Twin Cities planning area that experienced the most rapid population growth from 2000 to 2010 also appear to have experienced the greatest gains in per capita new business formation. Of course, what really matters is "net" business formation — a measure that would not only include business openings, but also business closings. Perhaps those counties that enjoy the greatest gains in newly formed businesses also experience the most closings. Data limitations currently constrain efforts to estimate net new business formation.

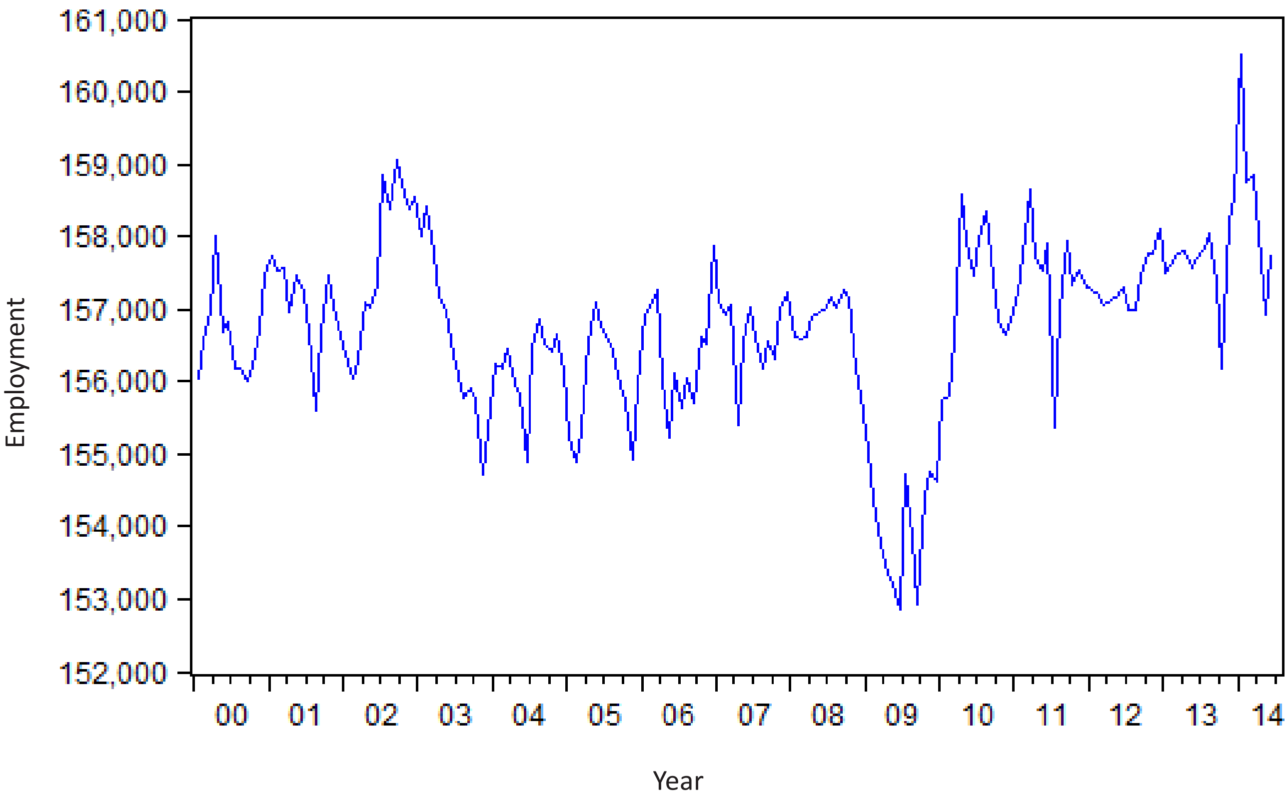
As noted in last quarter's report, one striking pattern of new business formation that emerges from this GIS mapping tool is the importance of roadways. In areas throughout the State of Minnesota, business formation tends to cluster around major roadways. This is evident in observing the pattern of dots in Northeast Minnesota that are clustered around State Highways 61 and U.S. Highways 53, and 169.

Northeast Minnesota Labor Market Conditions

June 2014 employment in the Northeast Minnesota planning area was slightly higher than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment is approximately the same as it was at the beginning of 2010, but is considerably improved from the levels of the Great Recession.

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.

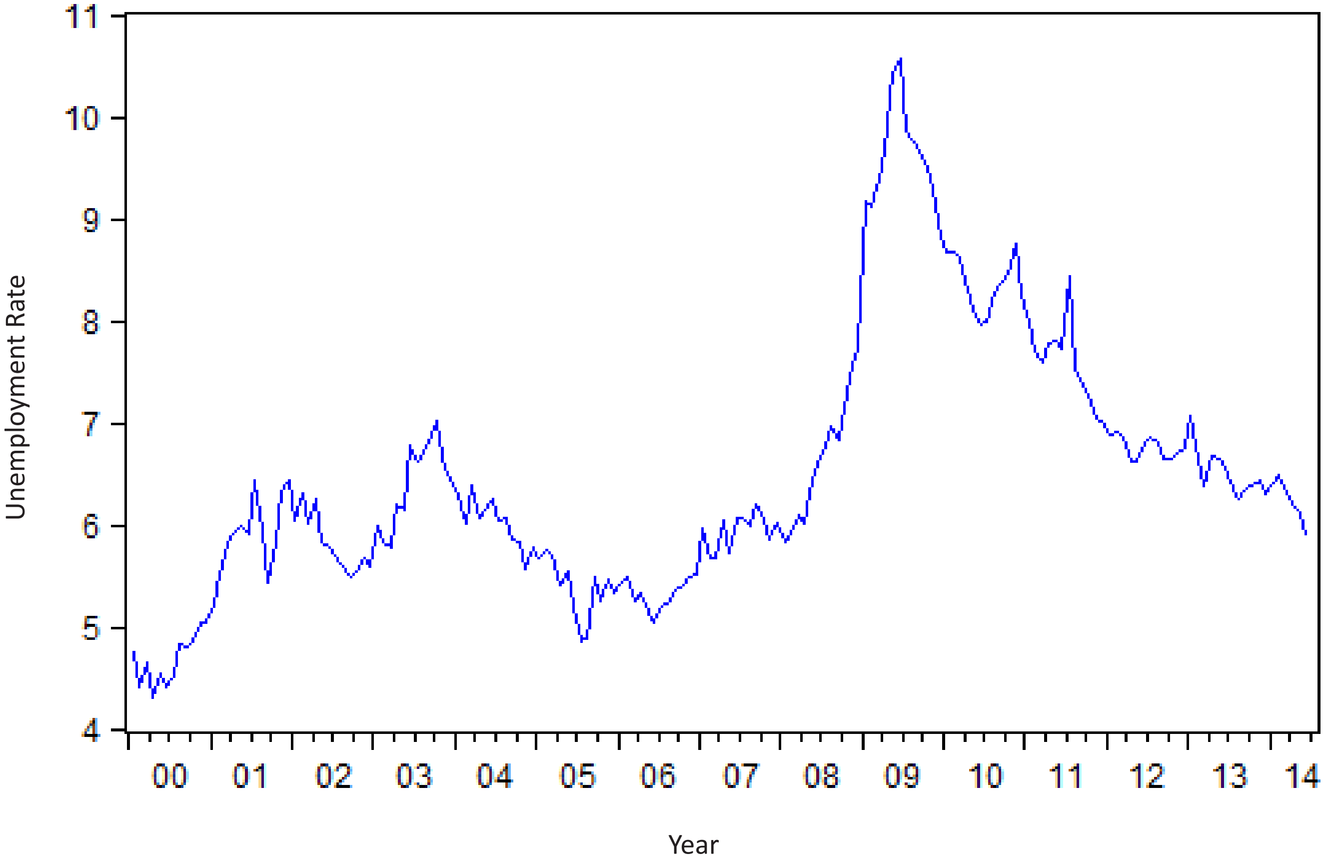
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Employment (Not seasonally adjusted)	159,928	155,760	156,111	156,629	157,038	158,157	159,969

Seasonally adjusted unemployment in Northeast Minnesota continued to decline gradually in the second quarter of 2014. At 5.9 percent, the non-seasonally adjusted rate is considerably lower than its level from one year ago.

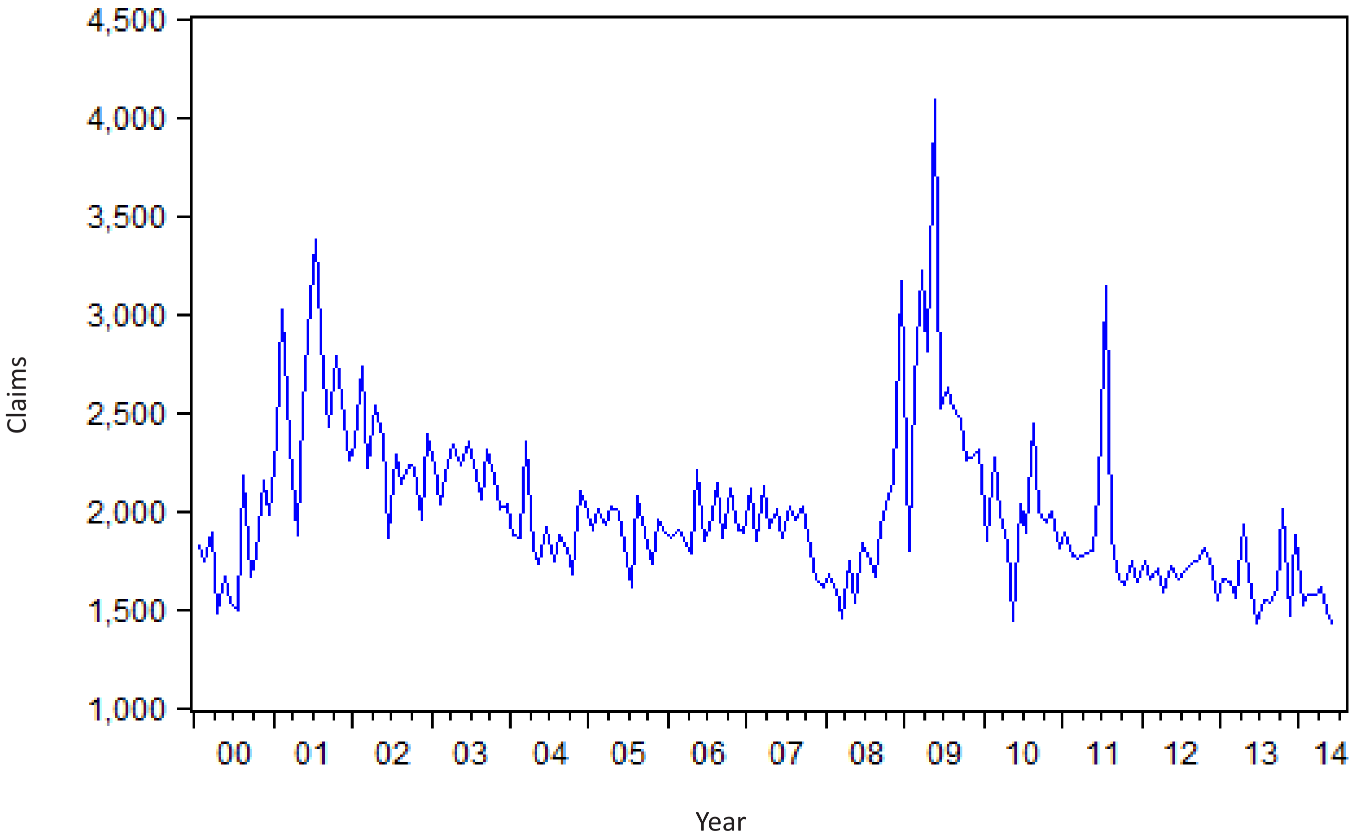
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Unemployment Rate (Not seasonally adjusted)	6.6%	7.4%	7.4%	7.2%	6.3%	5.9%	5.9%

On a seasonally adjusted basis, initial jobless claims in Northeast region are near a 15-year low. As indicated in the table below, June non-seasonally adjusted claims were lower than in June 2013.

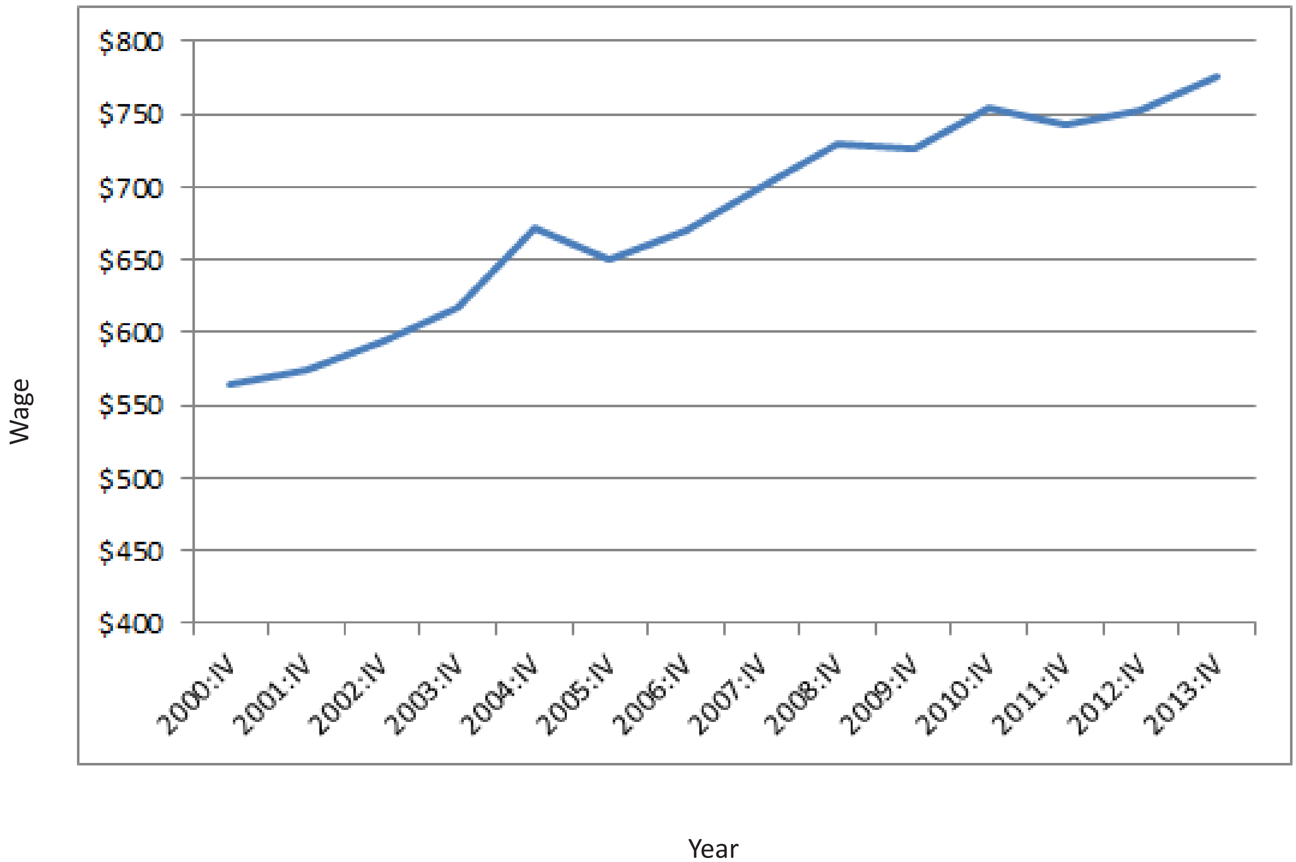
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Period	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Initial claims (Not seasonally adjusted)	1,261	1,935	1,332	1,554	1,437	1,275	1,230

The average weekly wage in Northeast Minnesota in the fourth quarter of 2013 (the most recently available data) was 3.2 percent higher than it was one year earlier. At $776, the average weekly wage in Northeast Minnesota is the third highest of Minnesota's six planning areas (trailing both the Twin Cities and Southeast Minnesota planning areas).

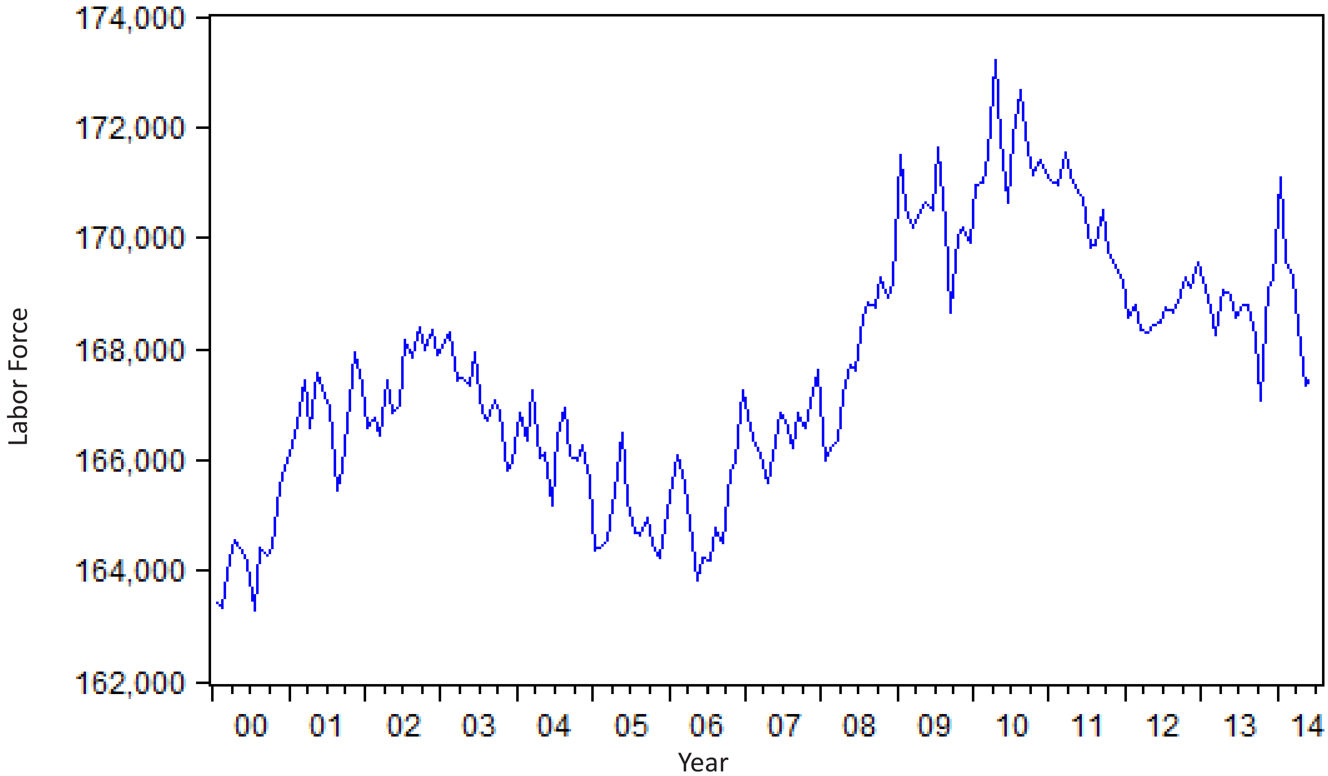
Average Weekly Wage—Northeast Minnesota Planning Area



Quarter	2008: 4th	2009: 4th	2010: 4th	2011: 4th	2012: 4th	2013: 4th
Average Weekly Wage	$730	$727	$754	$742	$752	$776

The Northeast labor force is declining. The labor force has fallen by 3,563 since June 2009.

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



Year (June)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	173,605	173,701	173,624	171,230	171,214	170,042

Northeast Minnesota Economic Indicators

Duluth Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2014 (m)	134,432	133,987	0.3% ↑	0.1%
Manufacturing Employment	June 2014 (m)	7,510	7,566	-0.7% ↓	-1.9%
Educational and Health Sector Employment	June 2014 (m)	30,947	30,877	0.2% ↑	3.1%
Average Weekly Work Hours--Private Sector	June 2014 (m)	33.3	32.9	1.2% ↑	32.2 (since 2008)
Average Earnings Per Hour--Private Sector	June 2014 (m)	$24.28	$22.84	6.3% ↑	3.9% (since 2008)
Unemployment Rate	June 2014 (m)	5.8%	6.5%	NA	6.2%
Labor Force	June 2014 (m)	145,715	146,725	-0.7% ↓	0.0%
Duluth Superior Residential Building Permit Valuation	June 2014 (m)	13,539	8,224	64.6% ↑	9,396

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where a variety of economic indicators suggest the economy improved from one year earlier. Overall employment and employment in its educational and health sector (where more than 30,000 people are employed) increased over the last 12 months. In addition, the length of the average work week and average hourly earnings expanded in the private sector. The MSA's unemployment rate fell (although the labor force decreased) and the value of residential building permits rose by 64.6 percent — further evidence of economic expansion in Northeast Minnesota's largest market.

State and National Indicators

MINNESOTA Indicators	June 2014	March 2014	June 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,822,400	2,812,000	2,776,000	0.4%	1.7%
Average weekly hours worked, private sector	34.5	34.0	34.3	1.5%	0.6%
Unemployment rate, seasonally adjusted	4.5%	4.8%	5.1%	NA	NA
Earnings per hour, private sector	$25.71	$25.83	$25.55	-0.5%	0.6%
Philadelphia Fed Coincident Indicator, MN	163.54	162.45	159.10	0.7%	2.8%
Philadelphia Fed Leading Indicator, MN	1.43	1.27	1.30	12.6%	10.0%
Minnesota Business Conditions Index	70.1	66.1	56.2	6.1%	24.7%
Price of milk received by farmers (cwt)	$23.40	$25.90	$19.90	-9.7%	17.6%
Enplanements, MSP Airport, thousands	1,609.6	1,615.7	1,561.1	-0.4%	3.1%

NATIONAL Indicators	June 2014	March 2014	June 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	138,795	137,964	136,285	0.6%	1.8%
Industrial production, index, SA	103.9	103.2	99.6	0.7%	4.3%
Real retail sales, SA	185,067	184,187	181,193	0.5%	2.1%
Real personal Income less transfers	11,227	11,176	10,975	0.5%	2.3%
Real personal consumption expenditures	10,929	10,903	10,682	0.2%	2.3%
Unemployment rate	6.1%	6.7%	7.5%	NA	NA
New building permits, thousands	973	1,000	938	-2.7%	3.7%
Standard & Poor's 500 stock price index	1,947.09	1,863.52	1,618.77	4.5%	20.3%
Oil, price per barrel in Cushing, OK	$105.79	$100.8	$95.77	5.0%	10.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Average weekly hours worked and earnings per hour in the private sector each rose 0.6 percent over the past year. Broader indicators suggest strength in the state economy. Milk prices are lower than last quarter but remain 17.6 percent higher than one year ago — an important favorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul Airport increased by 3.1 percent over the last 12 months.

National output growth in the second quarter was strong, suggesting the national economy has overcome the weather-induced weakness of the first quarter. Compared to year earlier levels, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment and the unemployment rate all look strong. Oil prices have increased over the past year, taking some discretionary income out of consumers' hands. While geopolitical uncertainties have the potential to derail continued economic progress, it looks like the end of 2014 will look considerably better than its beginning.

The Northeast 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 Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

Reports on third quarter 2014 business and economic conditions in each of the six planning areas will be available in December 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. Our thanks to Professor David Wall of the SCSU Geography Department for GIS assistance.

Sources

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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 Wage, Average Weekly Work Hours, Educational and Health Sector Employment, Employment, Initial Claims for Unemployment Insurance, Labor Force, Manufacturing Employment, Unemployment Rate.

Office of the Minnesota Secretary of State: Assumed Names, Business Incorporations, Limited Liability Companies, Nonprofits.

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

U.S. Bureau of Census: 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.

U.S. Energy Information Administration: Oil Prices.