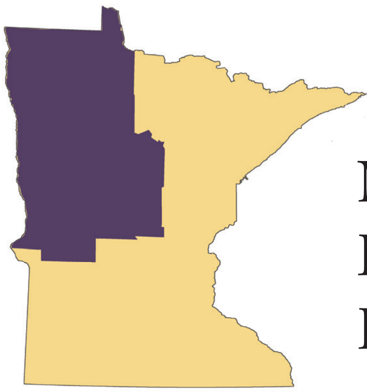


Northwest Minnesota
Economic and Business Conditions Report
Fourth Quarter 2015

This issue is part of a series for the six planning areas of Minnesota –
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.

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

TABLE OF CONTENTS

Executive Summary

A steady pace of economic activity is expected in Northwest Minnesota over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI). Two of the five components of the leading index were lower in the fourth quarter and the LEI was essentially unchanged at -0.24 points. A fall in the Rural Mainstreet Index (which signals a more challenging macroeconomic environment for rural America) and a rise in initial jobless claims were the two components that helped drag down the LEI. Increased new filings for incorporation and limited liability companies (LLCs) and a rise in the number of residential building permits in the Fargo/Moorhead and Grand Forks/East Grand Forks areas contributed favorably to the regional outlook. Improvement in consumer sentiment was also a positive indicator in the fourth quarter.

There were 923 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the fourth quarter of 2015 — representing a 7 percent increase from one year ago. 112 new regional business incorporations were recorded in the most recent quarter, a 7 percent increase from the same quarter in 2014. In the fourth quarter, new LLC filings in Northwest Minnesota were up 6.1 percent from one year earlier—increasing to 504. New assumed names totaled 259 in the fourth quarter—1.5 percent fewer filings than the same period in 2014. There were 48 new filings for Northwest Minnesota non-profits in the fourth quarter—41.2 percent more filings than one year ago.

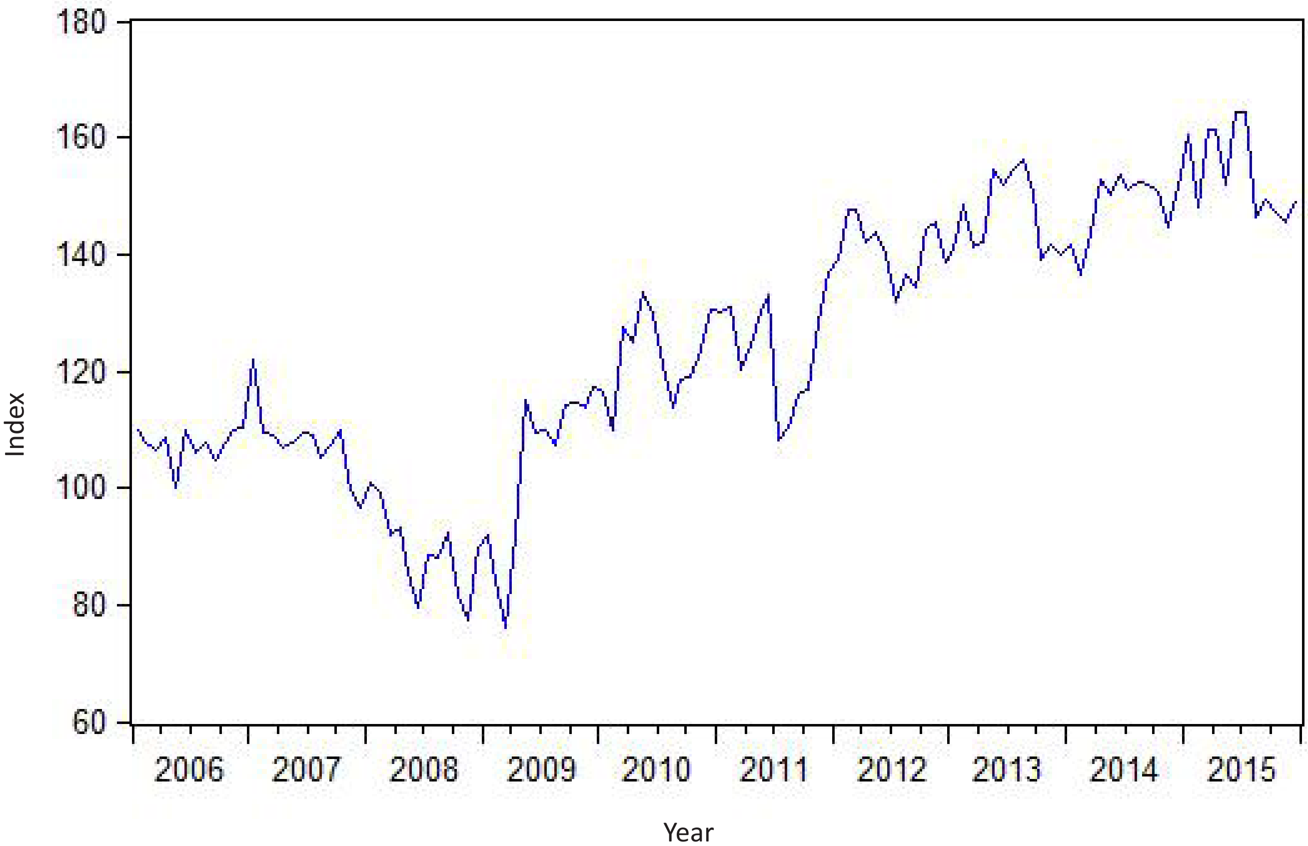
Employment of Northwest Minnesota residents increased by 3.6 percent over the year ending December 2015. The regional unemployment rate was 5.2 percent in December, significantly lower than one year ago. Initial claims for unemployment insurance in December were 789 higher (an increase of 16.7 percent) than in December 2014. The average weekly wage rate in Northwest Minnesota was $680 in the second quarter of 2015, an annual increase of 2.6 percent. The regional labor force expanded by 11,517 (a 3.9 percent increase) from one year earlier and the region's total bankruptcies fell to their lowest level in several years.

The Fargo/Moorhead Metropolitan Statistical Area (MSA) experienced a mixed economic performance over the past quarter. This MSA tallied gains in overall employment (but decreased employment in two key sectors), a rise in average hours worked, an increased work force, and a lower unemployment rate. This was offset by reduced valuation of residential building permits, lower average hourly earnings, 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 fourth quarter. Higher overall employment, a lower unemployment rate, a rising labor force, and higher average hourly earnings were offset by declining weekly work hours, a reduction in the value of residential building permits, increased initial jobless claims, and flat manufacturing employment.

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 was essentially unchanged at -0.24 in the fourth quarter after falling by 9.37 points in the third quarter of 2015. The index now stands 1.5 percent below its level of the fourth quarter of 2014. As shown in the accompanying graph, the LEI has trended upward since the end of the Great Recession, although the value of the index is largely unchanged from its level at the beginning of 2014.

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, 4th quarter 2015	Contribution to LEI, 3rd quarter 2015
Rural Mainstreet Index	-7.30	-1.71
Northwest Minnesota initial claims for unemployment insurance	-1.18	-1.70
Northwest Minnesota new filings of incorporation and LLCs	1.92	-0.55
Fargo-Moorhead + Grand Forks-EGF MSA residential building permits	3.77	-1.28
Consumer Sentiment, University of Michigan	2.55	-4.13
TOTAL CHANGE	-0.24	-9.37

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 an unfavorable 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 had a positive impact on the regional outlook in the most recent quarter. Higher residential building permits in Fargo/Moorhead and Grand Forks/East Grand Forks in the recent quarter also helped lift the leading index as did an increase in new filings for incorporation and LLC. Rising claims for unemployment insurance had an unfavorable impact on the LEI.

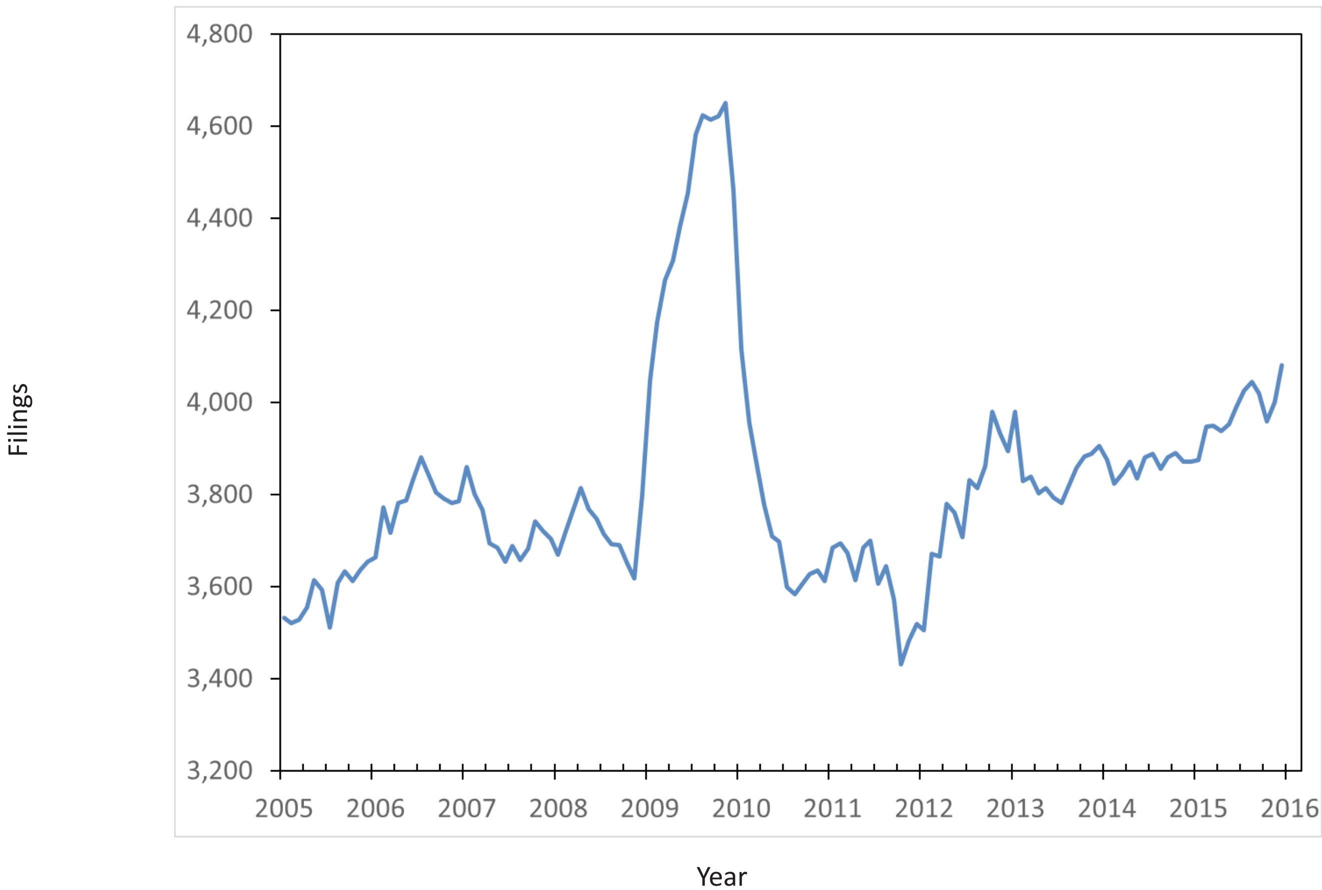
SCSU Northwest Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Rural Mainstreet Index, Creighton University, December	37.0	51.0	-27.5%
Northwest Minnesota initial claims for unemployment insurance, December	5,523	4,764	15.9%
Northwest Minnesota new filings of incorporation and LLCs, Fourth Quarter	616	566	8.8%
Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, December	38	12	216.7%
Consumer Sentiment, University of Michigan, December	93.0	93.6	-0.6%
Northwest Minnesota Leading Economic Indicators Index December (December 1999 = 100)	149.2	151.5	-1.5%

Northwest Minnnesota Business Filings

The 12-month moving total of new business filings in this region has trended upward since the end of 2011. This trend continued throughout 2015. 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, fourth quarter total new business filings increased by 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	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Northwest Minnesota Total New Business Filings	863	1102	1129	926	923	7.0%

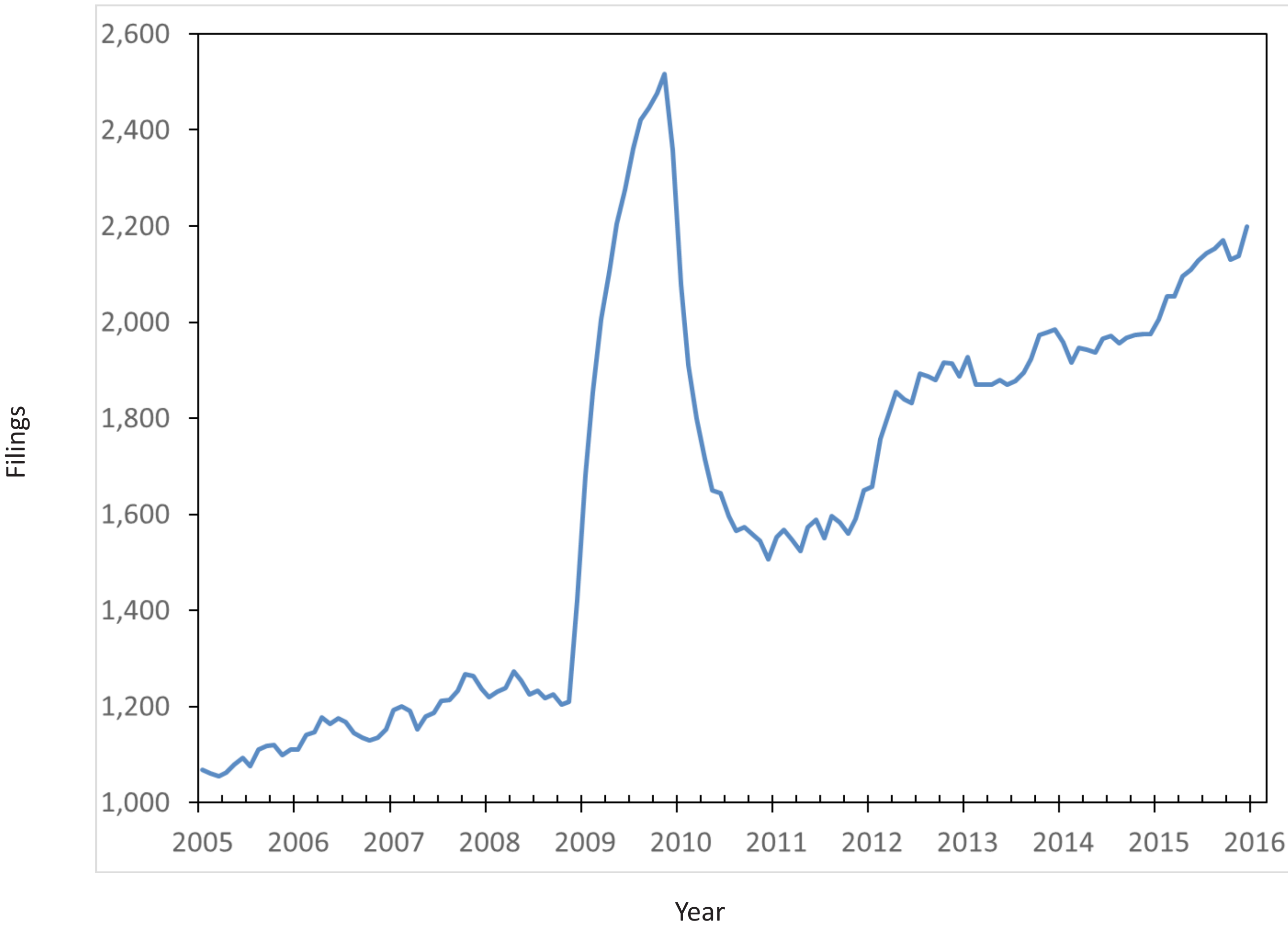
New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, but have since leveled out. New business incorporations totaled 112 (an increase of 23.1 percent over the prior year) in the fourth quarter of 2015.

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

Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Northwest Minnesota New Business Incorporations	91	117	118	84	112	23.1%

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. Fourth quarter 2015 LLC filings increased by 6.1 percent compared to the same period in 2014.

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



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	475	593	614	488	504	6.1%

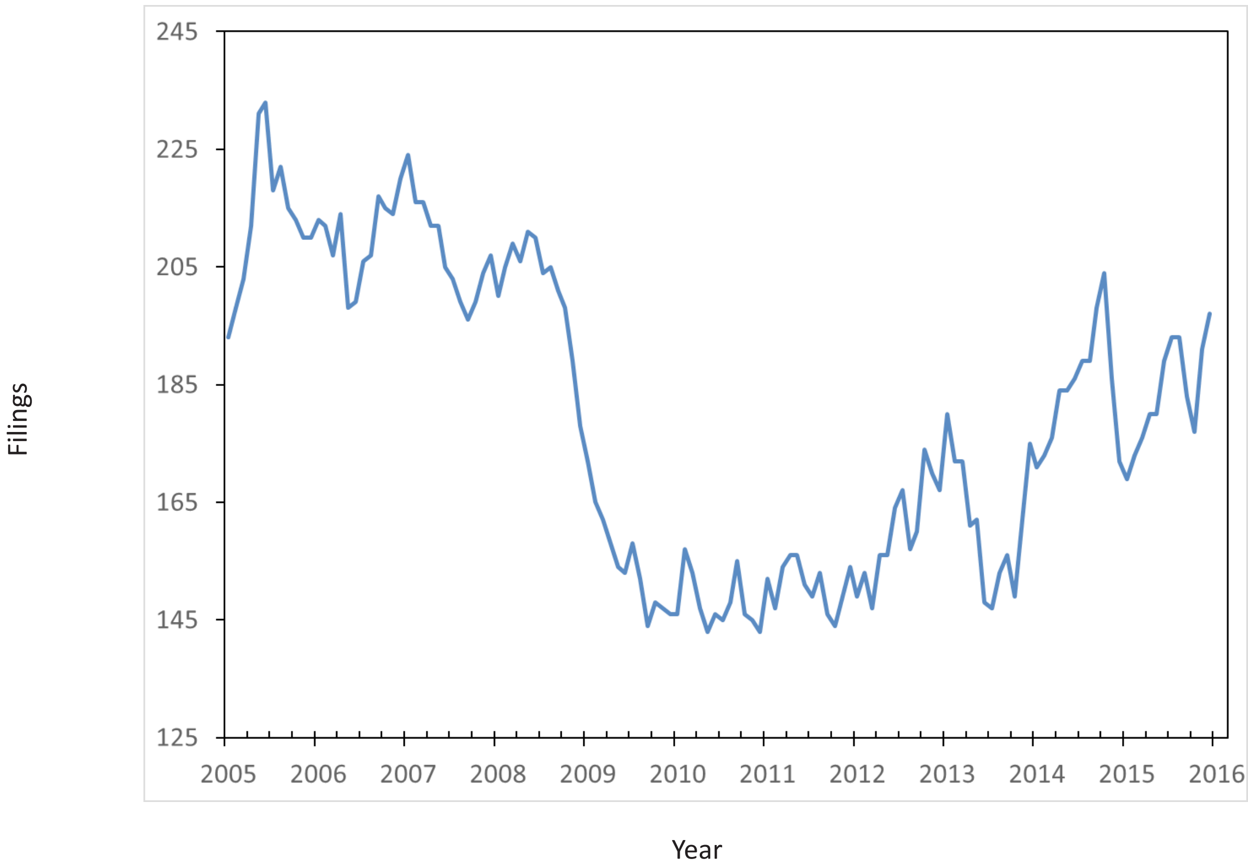
Assumed names, which include sole proprietors or organizations that do not have limited liability, increased by 1.5 percent from the same period last year. This series has not yet recovered from its peak levels of 2006–2007.

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

Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Northwest Minnesota New Assumed Names	263	343	343	308	259	-1.5%

The number of new non-profits in the Northwest Minnesota planning area was 48 in the fourth quarter. This was 41.2 percent more filings than one year earlier.

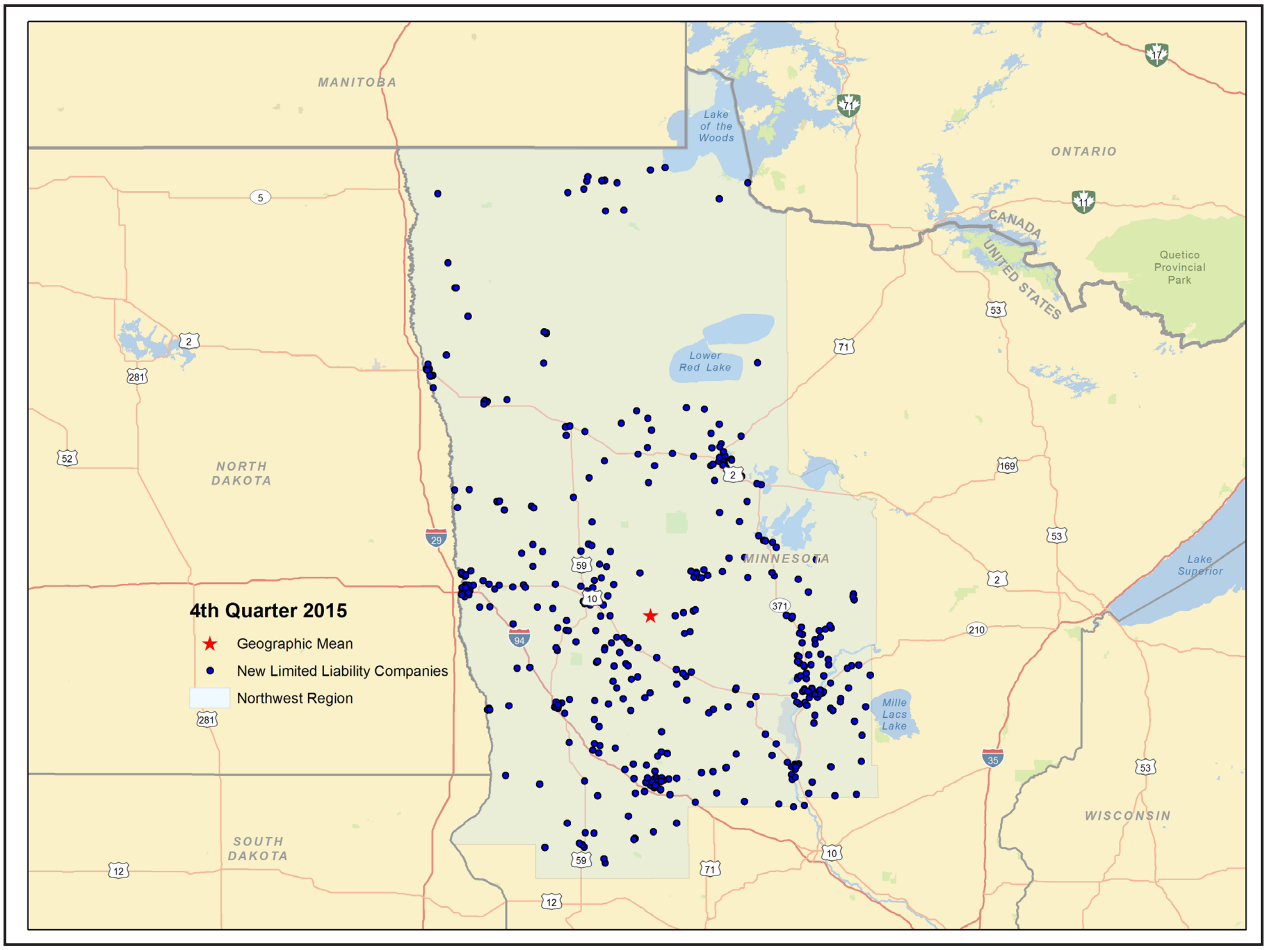
New Non-Profits—Northwest Minnesota Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Northwest Minnesota New Non-Profits	34	49	54	46	48	41.2%

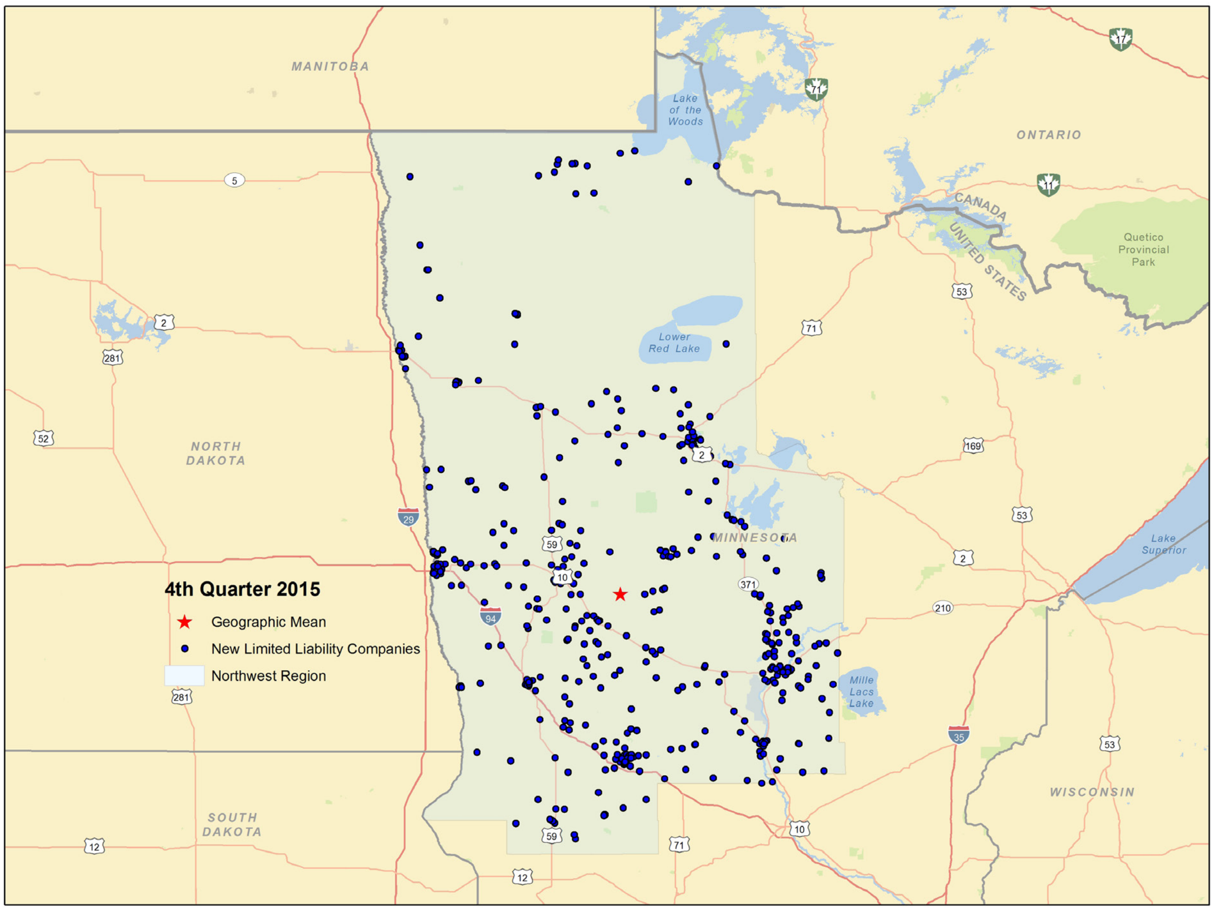
The first map shown below is a visual representation of new limited liability company formation around the Northwest Minnesota planning area in the fourth quarter of 2015. The densest areas of new business formation are in the Bemidji, Brainerd, and Alexandria areas. East Grand Forks, Moorhead, Little Falls, and Detroit Lakes also had clusters of new LLC formation in the fourth quarter. The geographic center of new LLC filings is in the southern half of the planning area, west of Menahga.

Northwest Minnesota Planning Area--New Limited Liability Company Formation--Quarter 4: 2015



The second map shows new incorporations in the Northwest Minnesota planning area. While there are considerably fewer new incorporations than LLCs, the distribution of newly incorporated businesses is somewhat similar to new LLCs. However, there is no apparent pattern of new incorporations in East Grand Forks, Brainerd, Little Falls, and Detroit Lakes. The ratio of new LLCs to incorporations was 4.5 in Northwest Minnesota in the fourth quarter. By comparison, the ratio of new LLCs to corporations was 4.1 in the Twin Cities planning area and 6.9 in Southeast Minnesota.

Northwest Minnesota Planning Area--New Incorporations--
Quarter 4: 2015

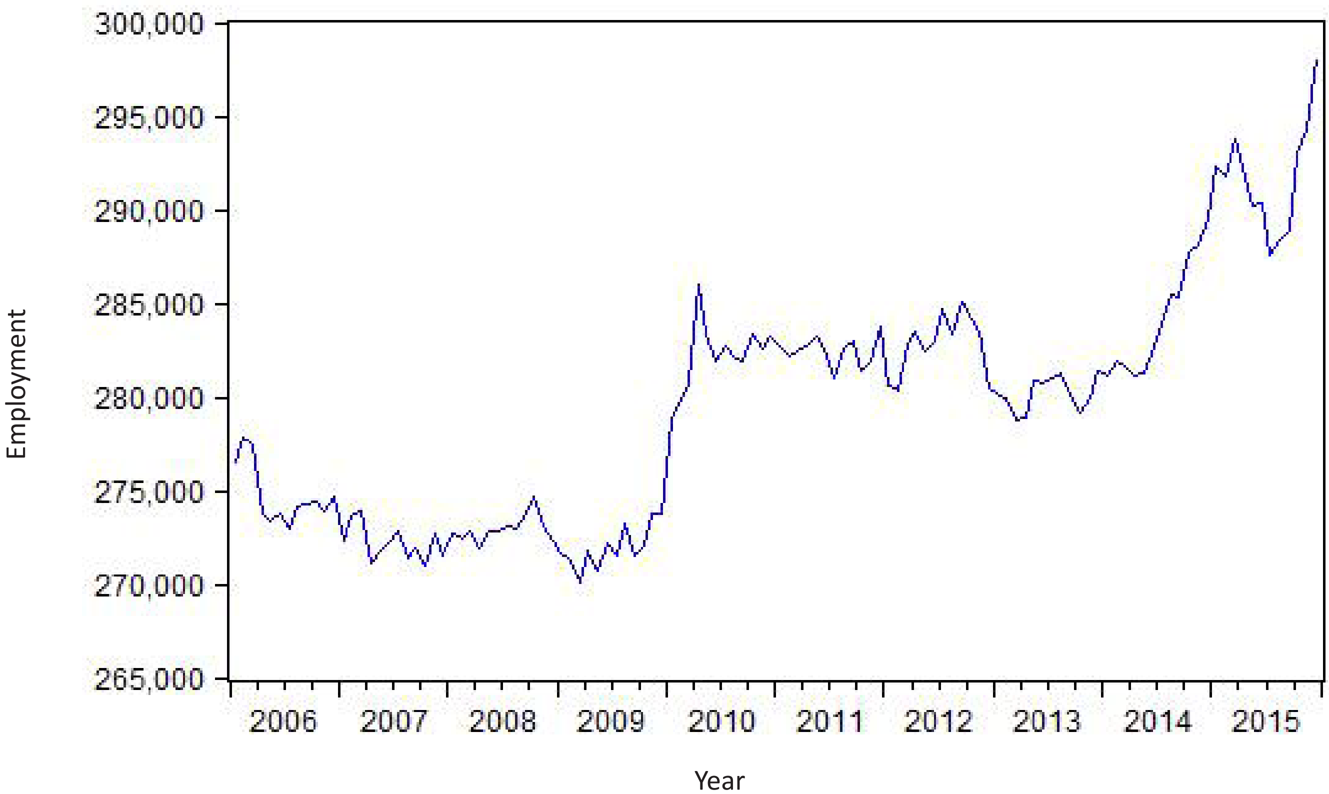


Labor Market Conditions

Employment in the Northwest Minnesota planning area grew 3.6 percent over the year ending December 2015. As can be seen in the accompanying graph, after a decline in the moving average of regional employment earlier in 2015, the area has now returned to the trend employment increases it has enjoyed since the beginning of 2013.

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, sopareseach@stcloudstate.edu.

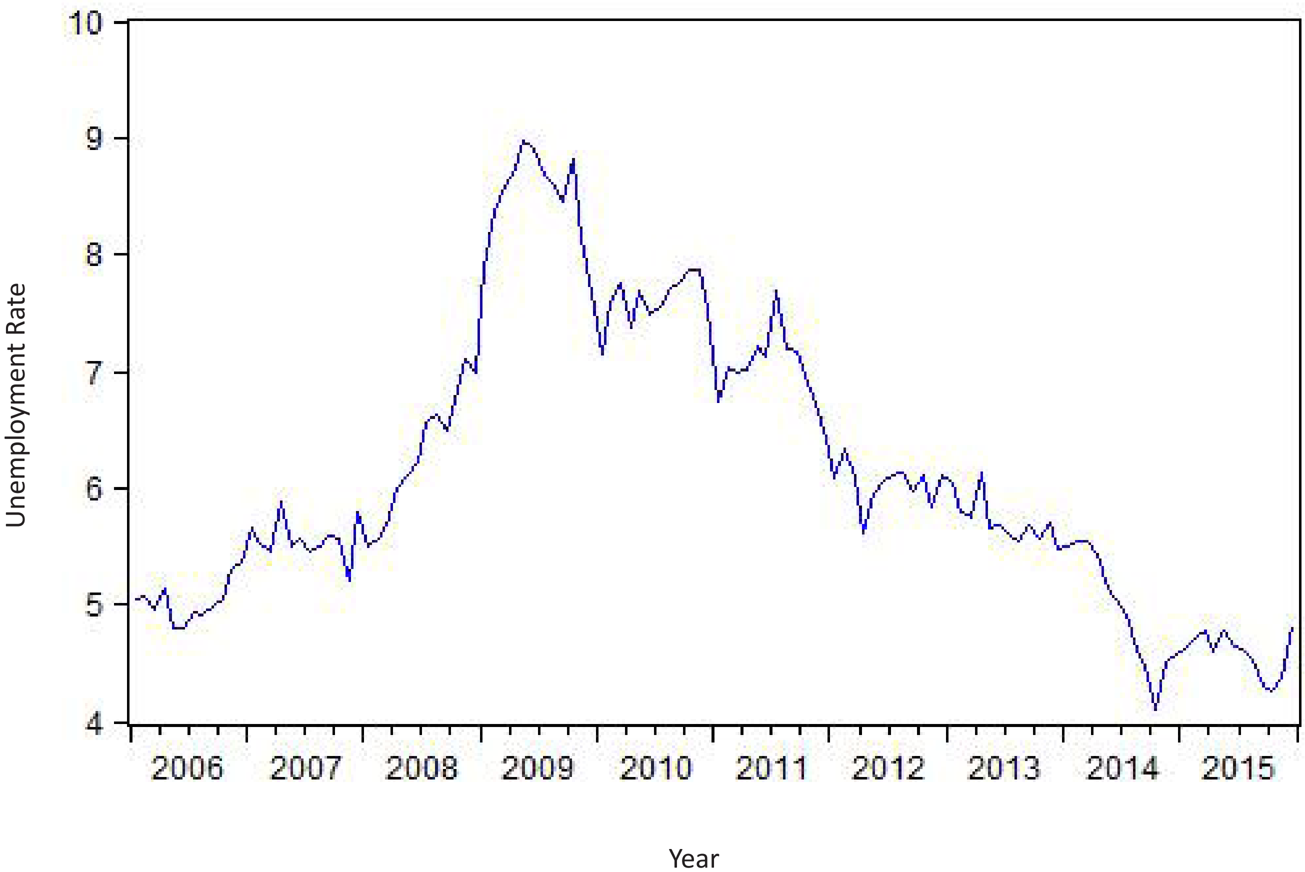
Employment—Northwest Minnesota Planning Area (12-month moving average)



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Employment (Not seasonally adjusted)	283,962	294,750	294,507	292,071	297,000	294,813	294,161

After bottoming out in the third quarter of 2014, the seasonally adjusted unemployment rate has started to rise in recent quarters. However, the non-seasonally adjusted unemployment rate was considerably lower at the end of 2015 than it was one year earlier.

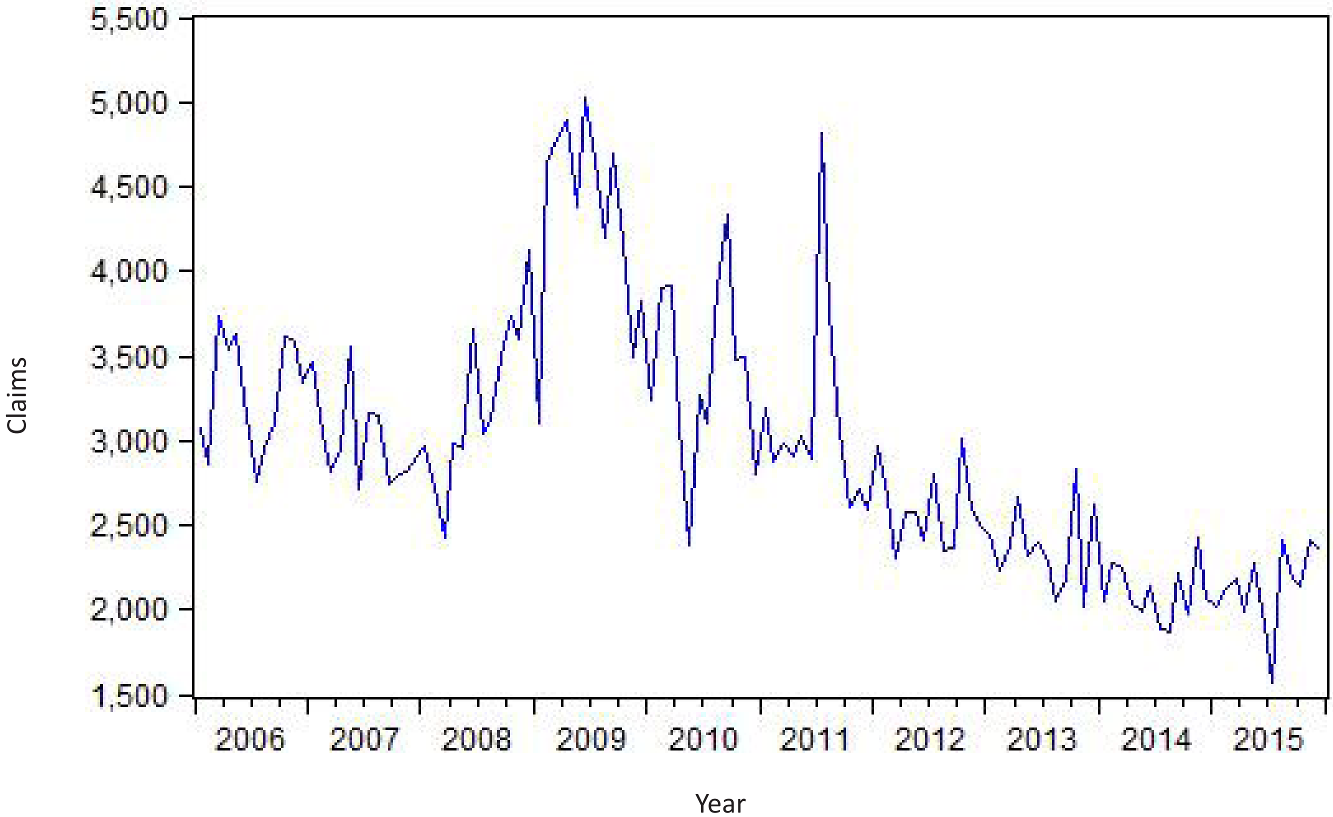
Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Unemployment Rate (Not seasonally adjusted)	6.3%	4.2%	3.7%	3.4%	3.2%	3.8%	5.2%

New claims for December 2015 unemployment insurance increased from year-ago levels. They are now greater than one year earlier by 789 (a 16.7 percent increase). Seasonally adjusted jobless claims appear to have bottomed out in the middle months of 2015.

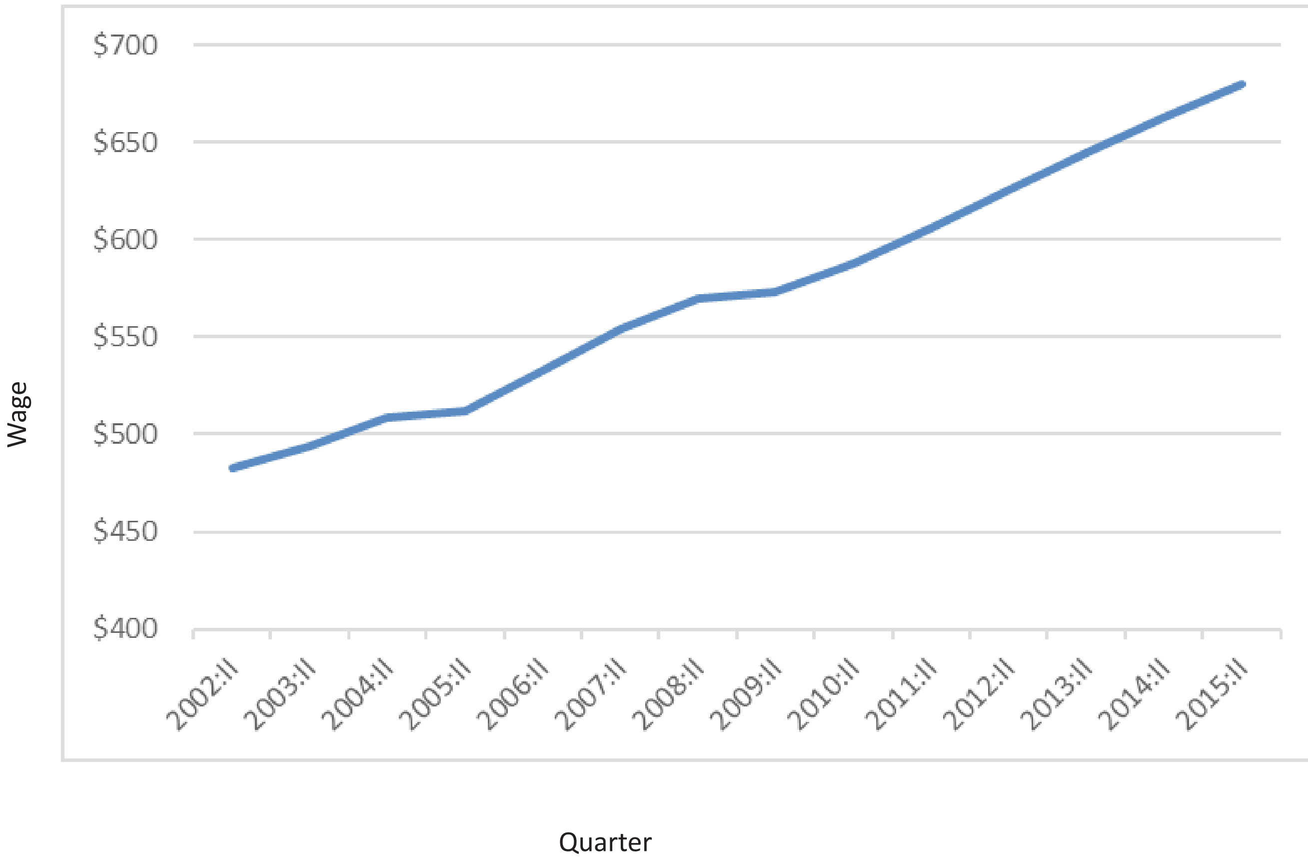
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Initial claims (Not seasonally adjusted)	4,734	1,178	1,114	1,057	1,744	5,001	5,523

Northwest Minnesota average weekly wages rose in the second quarter of 2015 (this is the most recently available data). The $680 weekly wage rate (an increase of 2.6 percent from one year earlier) is the lowest of Minnesota's six planning areas. At $1,098, Twin Cities' average weekly wages lead the state (and are considerably higher than all other planning areas).

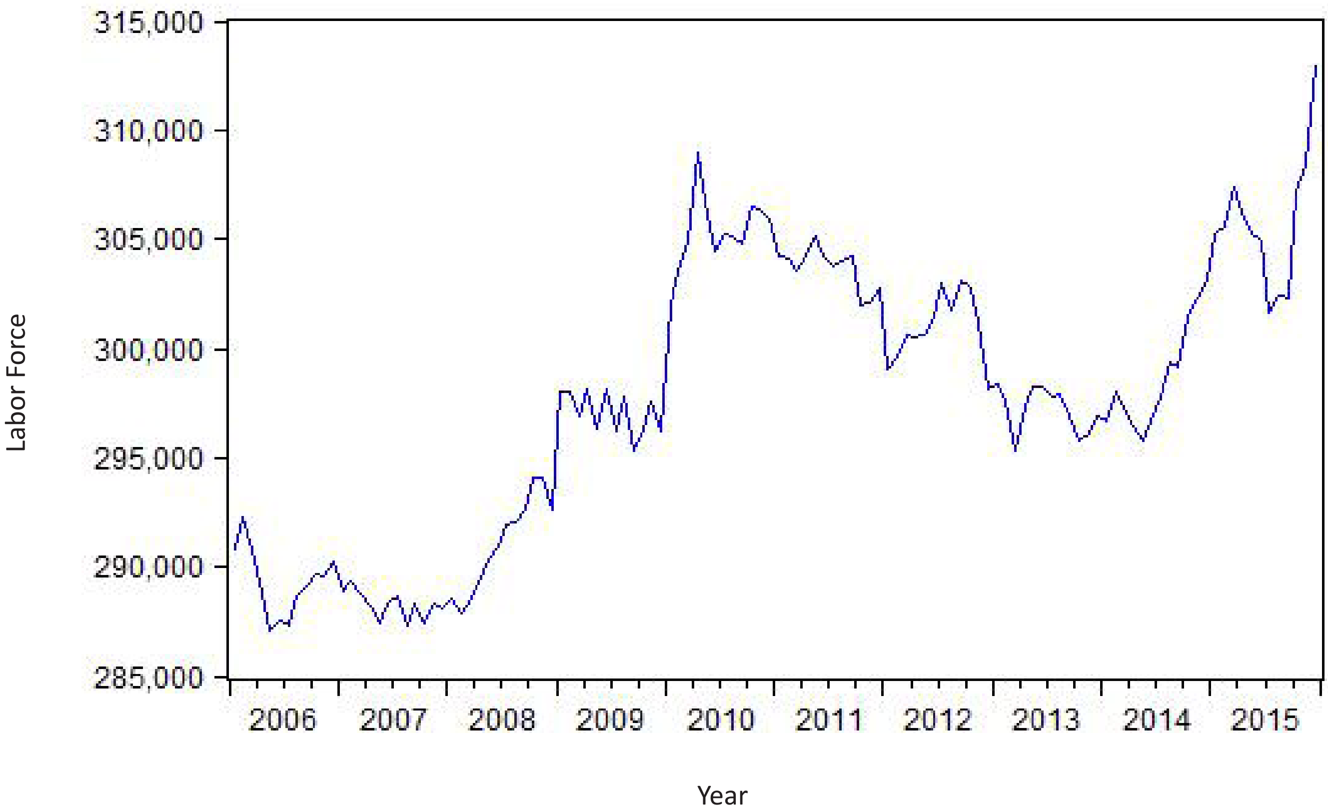
Average Weekly Wages—Northwest Minnesota Planning Area



Quarter	2010:II	2011:II	2012:II	2013:II	2014:II	2015:II
Average Weekly Wage	$588	$606	$626	$645	$663	$680

The size of the Northwest Minnesota labor force grew over the year ending December 2015. At 310,143, the regional labor force is 11,517 larger (representing a 3.9 percent increase) than one year earlier.

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

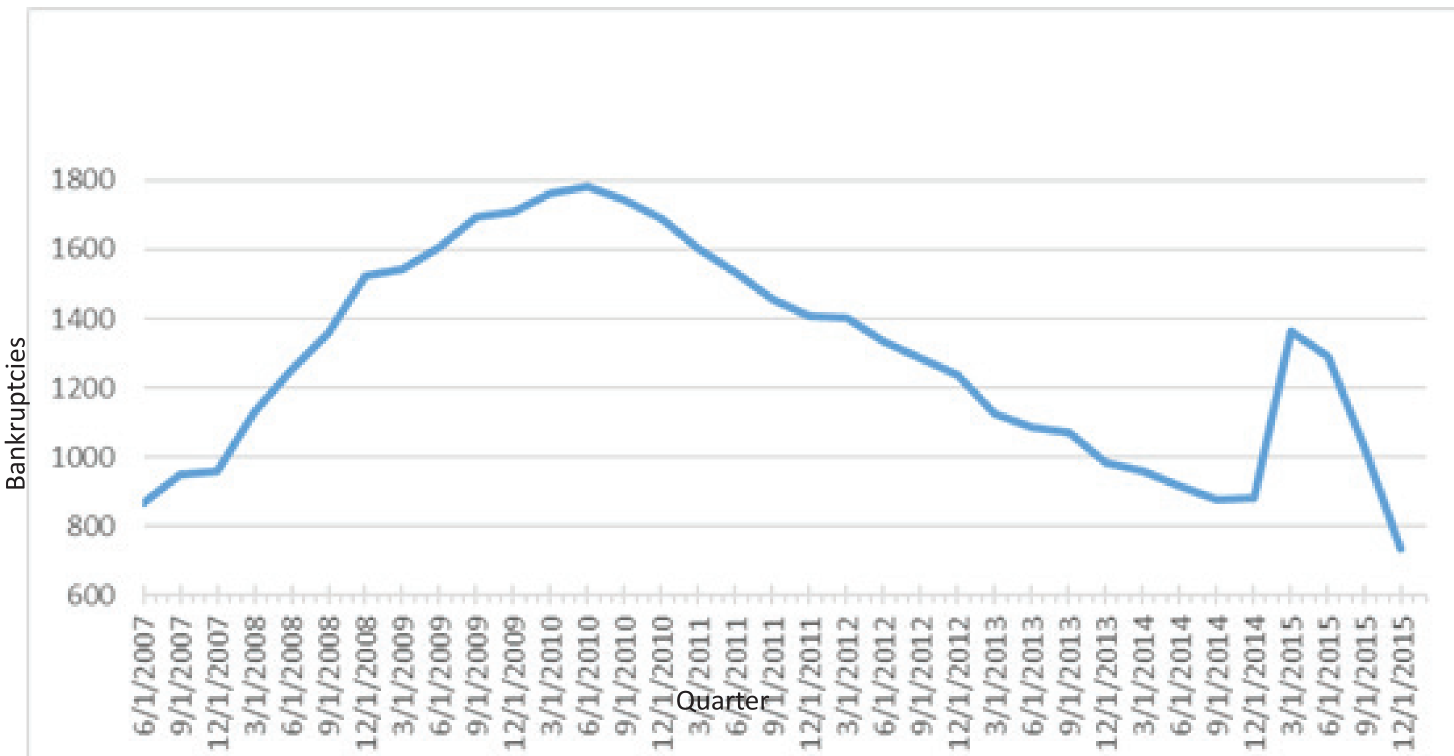


Year (December)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	295,937	293,862	294,625	293,079	298,626	310,143

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 the first quarter of 2015. A closer inspection of the Northwest Minnesota bankuptcy data suggests a disproportionately large number of recent bankruptcies came from Polk, Becker, and Clay counties at the beginning of 2015. This is the only one of Minnesota's six planning areas to see a recent rise in this series, so we took a closer look at the bankruptcy data set received from the US Bankruptcy Courts. The jump in bankruptcies in these three counties is in non-business bankruptcy filings (for example, personal bankruptcies). Since these three counties are close to the North Dakota border, one might imagine that an abrupt increase in non-business bankruptcies in the first quarter of 2015 would be seen in North Dakota's Clay and Grand Forks counties, but bankruptcy filings in these counties did not jump like they did in the three Minnesota counties. These data points may simply have been an aberration. This interpretation seems to be confirmed by this quarter's data reading. The series has now returned to its trend value last observed at the end of 2014. Northwest Minnesota bankruptcies are now lower than at any time in recent years.

Northwest Minnesota Bankruptcies (12-month moving total)



Year (Fourth Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1,688	1,406	1,239	982	880	734

Economic Indicators

Fargo-Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	December 2015 (m)	142,800	141,400	1.0% ↑	2.1%
Manufacturing Employment	December 2015 (m)	10,200	10,400	-1.9% ↓	1.7%
Mining, Logging, Construction Employment	December 2015 (m)	8,200	8,300	-1.2% ↓	2.4%
Average Weekly Work Hours, Private Sector	December 2015 (m)	34.3	33.9	1.2% ↑	NA
Average Earnings Per Hour, Private Sector	December 2015 (m)	$23.38	$23.48	-0.4% ↓	2.7% (since 2007)
Unemployment Rate	December 2015 (m)	2.4%	2.7%	NA ↓	NA
Labor Force	December 2015 (m)	131,990	131,007	0.8% ↑	1.5%
Initial Jobless Claims	October 2015 (m)	1,284	1,101	16.6% ↑	NA
Fargo-Moorhead Residential Building Permit Valuation, in thousands	December 2015 (m)	7,955	21,786	-63.5% ↓	NA
Fargo-Moorhead Cost of Living Index	Annual Average 2015	99.2	93.8	5.8% ↑	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	December 2015 (m)	58,800	58,300	0.9% ↑	1.0%
Maufacturing Employment	December 2015 (m)	4,000	4,000	0.0% ↔	0.5%
Mining, Logging, Construction Employment	December 2015 (m)	3,300	3,000	10.0% ↑	1.0%
Average Weekly Work Hours, Private Sector	December 2015 (m)	30.7	32.8	-6.4% ↓	NA
Average Earnings Per Hour, Private Sector	December 2015 (m)	$21.90	$20.41	7.3% ↑	2.3% (since 2007)
Unemployment Rate	December 2015 (m)	2.7%	3.1%	NA ↓	NA
Labor Force	December 2015 (m)	55,751	55,132	1.1% ↑	0.3%
Initial Jobless Claims	October 2015 (m)	497	482	3.1% ↑	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation, in thousands	December 2015 (m)	267	313	-14.7% ↓	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 employment gains in the Fargo/Moorhead area (but declining employment in mining/logging/construction and manufacturing sectors), a reduction in the unemployment rate, an increase in average weekly hours worked, and a rise in the regional labor force. The value of Fargo/Moorhead residential building permits fell, average hourly earnings fell, initial jobless claims rose, and the relative cost of living increased.

Grand Forks/East Grand Forks MSA economic activity was also mixed in the fourth quarter of 2015. MSA employment rose at a 0.9 percent annual pace and the key mining/logging/construction sector also experienced significant job growth (although manufacturing employment was flat). The area unemployment rate fell, average hourly earnings rose, and the labor force expanded. However, the length of the workweek declined, initial jobless claims rose, and the value of residential building permits dropped.

State and National Indicators

MINNESOTA Indicators	Dec 2015	Sep 2015	Dec 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,873,700	2,855,200	2,831,400	0.6%	1.5%
Average weekly hours worked, private sector	33.7	33.9	33.9	-0.6%	-0.6%
Unemployment rate, seasonally adjusted	3.5%	3.8%	3.7%	NA	NA
Earnings per hour, private sector	$26.49	$26.00	$25.82	1.9%	2.6%
Philadelphia Fed Coincident Indicator, MN	176.47	175.40	172.34	0.6%	2.4%
Philadelphia Fed Leading Indicator, MN	1.53	1.30	1.84	17.7%	-16.8%
Minnesota Business Conditions Index	39.4	53.0	61.4	-25.7%	-35.8%
Price of milk received by farmers (cwt)	$17.00	$17.80	$20.50	-4.5%	-17.1%
Enplanements, MSP airport, thousands	1,429.0	1,506.7	1,387.6	-5.2%	3.0%

NATIONAL Indicators	Dec 2015	Sep 2015	Dec 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	143,242	142,391	140,592	0.6%	1.9%
Industrial production, index, SA	106.0	107.6	107.9	-1.5%	-1.8%
Real retail sales, SA	188,393	188,097	185,548	0.2%	1.5%
Real personal Income less transfers	11,782.3	11,690.1	11,396.9	0.8%	3.4%
Real personal consumption expenditures	11,344.7	11,292.7	11,061.0	0.5%	2.6%
Unemployment rate, SA	5.0%	5.1%	5.6%	NA	NA
New building permits, SA, thousands	17,620	18,482	15,098	-4.7%	16.7%
Standard & Poor's 500 stock price index	2,054.1	1944.4	2,054.3	5.6%	0%
Oil, price per barrel in Cushing, OK	$37.19	$45.48	$59.29	-18.2%	-37.3%

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 lower, but average weekly hours worked in the private sector declined. Two indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy. Milk prices were 35.8 percent lower than one year ago in December. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 3 percent over the last twelve months.

On balance, the national economic indicators reported in the table suggest improved economic activity in recent months. While industrial production was lower and stock prices flat, most of the indicators showed strength. Employment, retail sales, consumer expenditures, and income all experienced growth over the recent quarter and the national unemployment rate fell. Oil prices continued to decline. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. New building permits were much stronger than one year ago as residential construction continues to recover from historically low levels during the Great Recession.

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.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Paul Ryan and Joseph Kucan. Professor David Wall of the SCSU Geography Department provided GIS assistance.

Sources

Council for Community and Economic Research: Cost of Living Index.

Creighton University Heider College of Business: Minnesota Business Conditions Index, Rural MainStreet Index.

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

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.