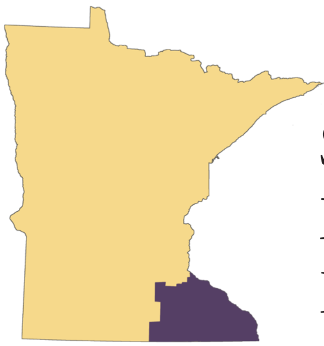

Southeast Minnesota
Economic and Business Conditions Report
Fourth Quarter 2015

This issue is part of a series for the six planning areas of Minnesota –
Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities.
The Southeast Minnesota Planning Area consists of 11 counties:
Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona.

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary
Southeast Minnesota economic performance is expected to remain steady over the next several months according to the most recent prediction of the Southeast Minnesota Index of Leading Economic Indicators (LEI). After a quarter in which the LEI fell by 11.23 points, the Southeast Minnesota leading index increased by 0.8 points in the fourth quarter of 2015. Three of the five index components were negative in the most recent quarter. Weakness in the Minnesota Business Conditions Index (which serves as a general measure of state business conditions), rising quarterly claims for unemployment benefits, and a decline in new business filings for incorporation and LLC served as a drag on the fourth quarter LEI. A larger number of residential building permits in the Rochester area and an improvement in consumer sentiment helped drive the index higher in the fourth quarter.

There were 740 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the fourth quarter of 2015 — representing a 1.9 percent decline from one year ago. There were 61 new regional business incorporations in the fourth quarter, a 31.5 percent fall from prior year levels. Fourth quarter new limited liability company (LLC) filings in Southeast Minnesota rose by 1.4 percent (to a total of 420) compared to the fourth quarter of 2014. New assumed names totaled 221 in the fourth quarter—a 4.7 percent improvement over the same quarter in 2014. There were 38 new filings for Southeast Minnesota non-profits over the three months ending December 2015—two fewer filings than one year earlier.

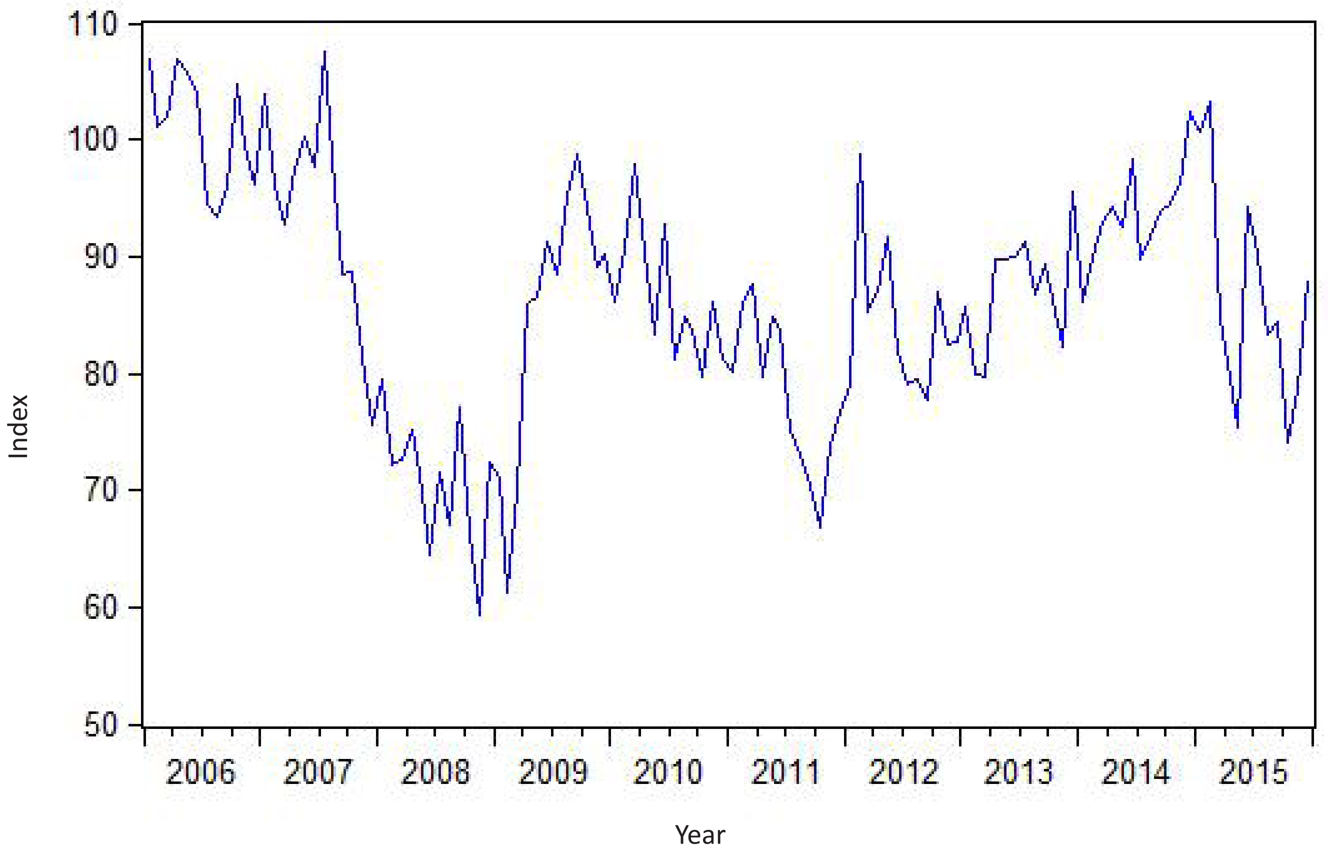
Employment of Southeast Minnesota residents increased by 1.9 percent over the year ending December 2015. Compared to December 2014, 5,105 more residents of Southeast Minnesota now have jobs. The regional unemployment rate was 3.1 percent in December, an improvement from 3.2 percent in the year earlier period. Initial claims for unemployment insurance in December 2015 were 15.2 percent lower than one year earlier. The Southeast Minnesota labor force expanded by 1.8 percent in 2015 and average weekly wages fell $6 to $851 in the second quarter of 2015. Southeast planning area bankruptcies continued to fall throughout 2015.

Data from the Rochester area—the largest market in Southeast Minnesota—were mixed, with a small increase in employment in the key health/education sector, higher average hourly earnings, a lower unemployment rate, a reduction in initial jobless claims, and an expanding labor force having a positive impact on the outlook. On the negative side was a shorter workweek, declining overall employment (and a reduction in manufacturing employment), a lower value of residential building permits, and reduced new business filings.

Southeast Minnesota Leading Economic Indicators Index

The SCSU Southeast 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 finished 0.8 points higher in the fourth quarter, and is now 14 percent below its level of one year earlier. As can be seen in the accompanying figure, the LEI was marked by considerable volatility in 2015. This volatility interrupted a general upward trend in the LEI that had occurred from mid-2012 through the end of 2014.

SCSU Southeast Minnesota Index of Leading Economic Indicators (December 1999 = 100)



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2015	Contribution to LEI, 3rd quarter 2015
Minnesota Business Conditions Index	-3.41	-0.87
Southeast Minnesota initial claims for unemployment insurance	-1.80	-4.76
Southeast Minnesota new filings of incorporation and LLCs	-3.77	4.83
Rochester MSA residential building permits	6.22	-4.68
Consumer Sentiment, University of Michigan	3.56	-5.75
TOTAL CHANGE	**0.80**	**-11.23**

Two of five components of the LEI had a positive reading in the fourth quarter. Southeast Minnesota contains Rochester, a medical destination. Decisions to consume medical services depend in part on consumer choice, so consumer sentiment is used as a national-level indicator of Southeast Minnesota business activity. Consumer sentiment improved in the most recent quarter. Higher residential building permits in the Rochester metropolitan area also contributed favorably to the index in the fourth quarter. Recent weakness in the Minnesota Business Conditions survey (conducted by Creighton University), which serves as a general measure of state business conditions, contributed to a decline in the LEI, as did higher initial jobless claims in the fourth quarter. Lower new filings for business incorporation and LLC in Southeast Minnesota also served as a drag on the leading index.

SCSU Southeast Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index December	48.2	61.4	-21.5%
Southeast Minnesota initial claims for unemployment insurance December	2,717	3,203	-15.2%
Southeast Minnesota new filings of incorporation and LLCs Fourth Quarter	481	503	-4.4%
Rochester MSA single-family building permits December	44	37	18.9%
Consumer Sentiment, University of Michigan December	93.0	93.6	-0.6%
Southeast Minnesota Leading Economic Indicators Index December (December 1999 = 100)	88.1	102.5	-14.0%

Southeast Minnesota Business Filings

Fourth quarter new business filings fell 1.9 percent to a level of 740. As can be seen in the accompanying graph, the 12-month moving total of new business filings in Southeast Minnesota are little changed since mid-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 due to legal and regulatory issues and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

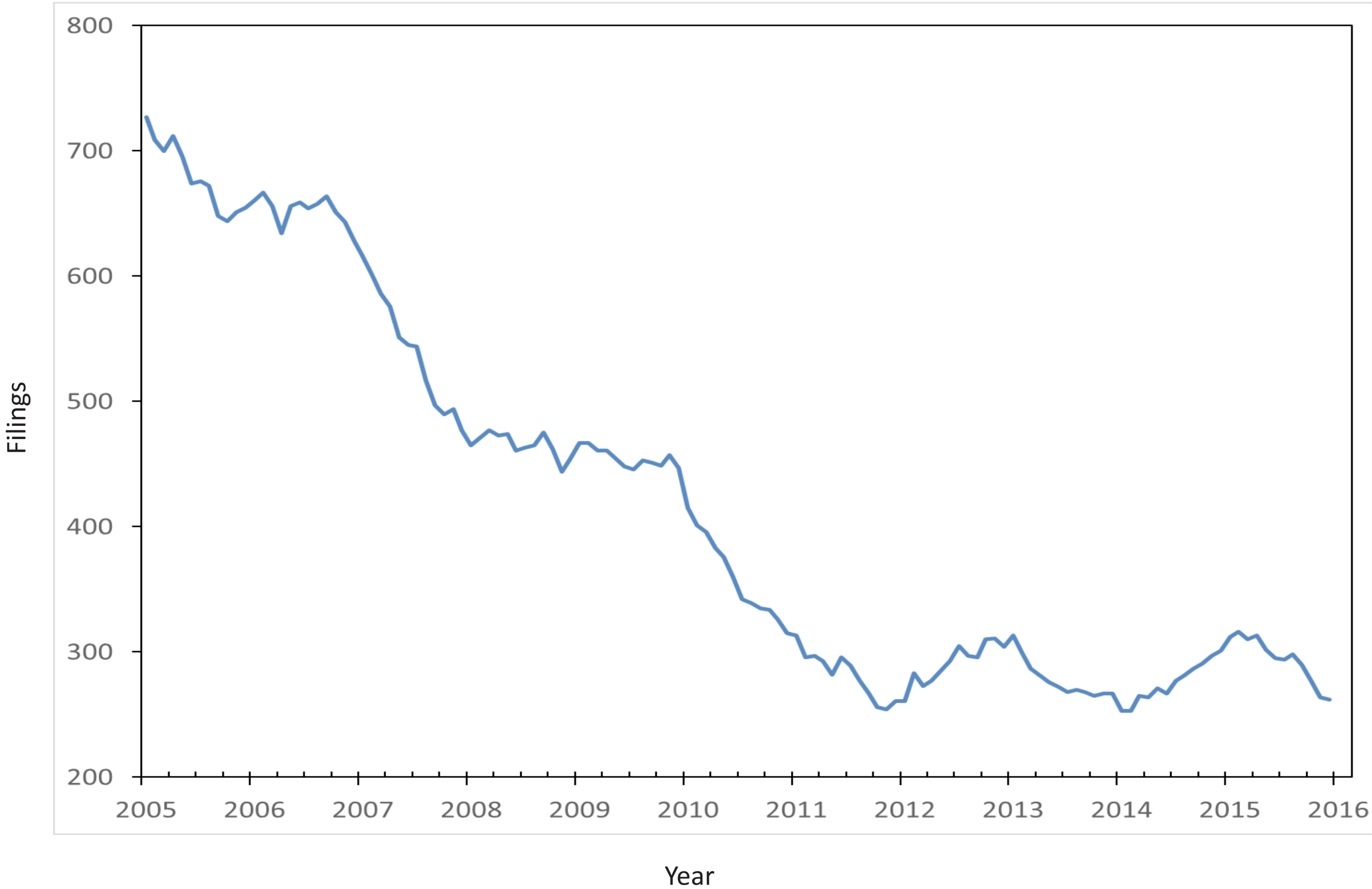
Note: The graphs in this section show the 12-month moving total for the various new business filings in Southeast Minnesota that are registered with the Office of the Minnesota Secretary of State. Doing so removes seasonal patterns in the data.

Total New Business Filings—Southeast 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
Southeast Minnesota Total New Business Filings	754	887	864	804	740	-1.9%

New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but have leveled off in recent years. However, in the fourth quarter of 2015, this series fell by 31.5 percent from its level one year earlier.

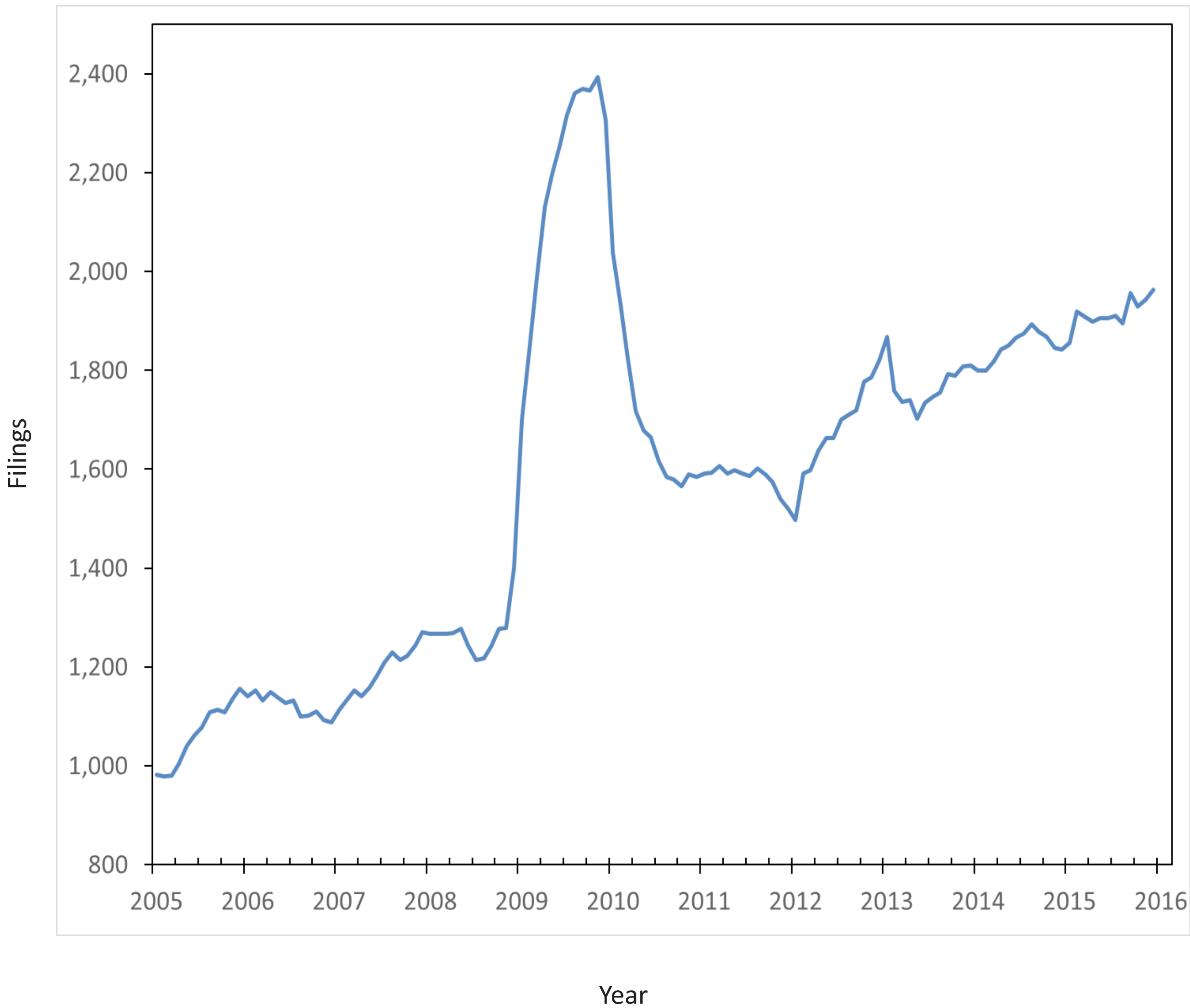
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Southeast Minnesota New Business Incorporations	89	72	60	69	61	-31.5%

There has been a move in Southeast Minnesota, as in all 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 Southeast Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southeast Minnesota. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2005. Fourth quarter LLC filings rose by 1.4 percent over their year earlier level.

New Limited Liability Companies—Southeast 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
Southeast Minnesota New Limited Liability Companies	414	540	509	494	420	1.4%

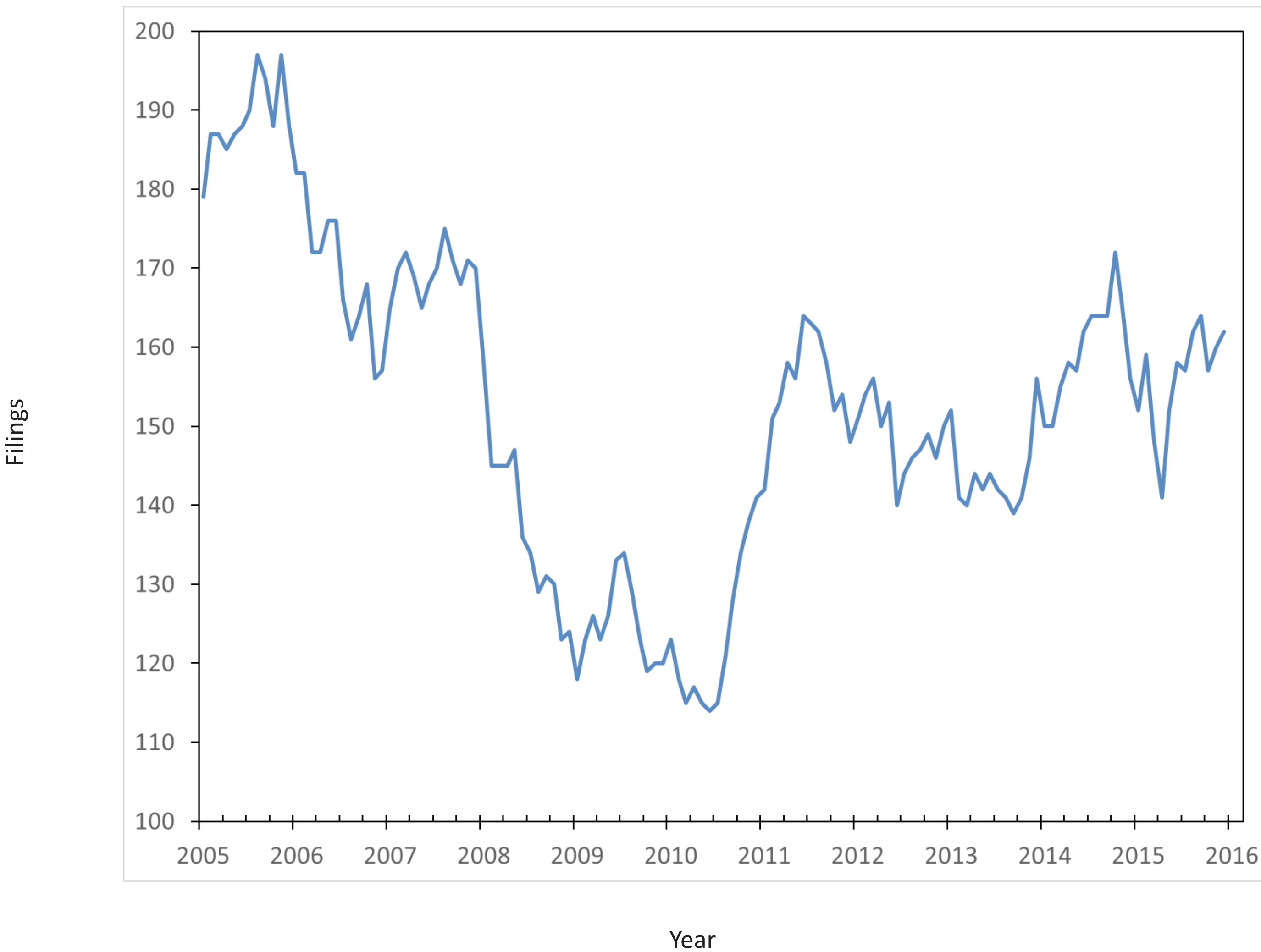
On a year over year basis, assumed names, which include sole proprietors or organizations that do not have limited liability, increased by 4.7 percent in Southeast Minnesota in the fourth quarter. As can be seen in the accompanying graph, after increasing in 2012, this series moved downward until the beginning of 2015.

New Assumed Names—Southeast 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
Southeast Minnesota New Assumed Names	211	245	246	198	221	4.7%

After bottoming out in 2010, the number of new Southeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State increased to levels seen just before the Great Recession. The number of newly formed non-profits totaled 38 in the recent quarter (a 5 percent decrease from the fourth quarter of 2014).

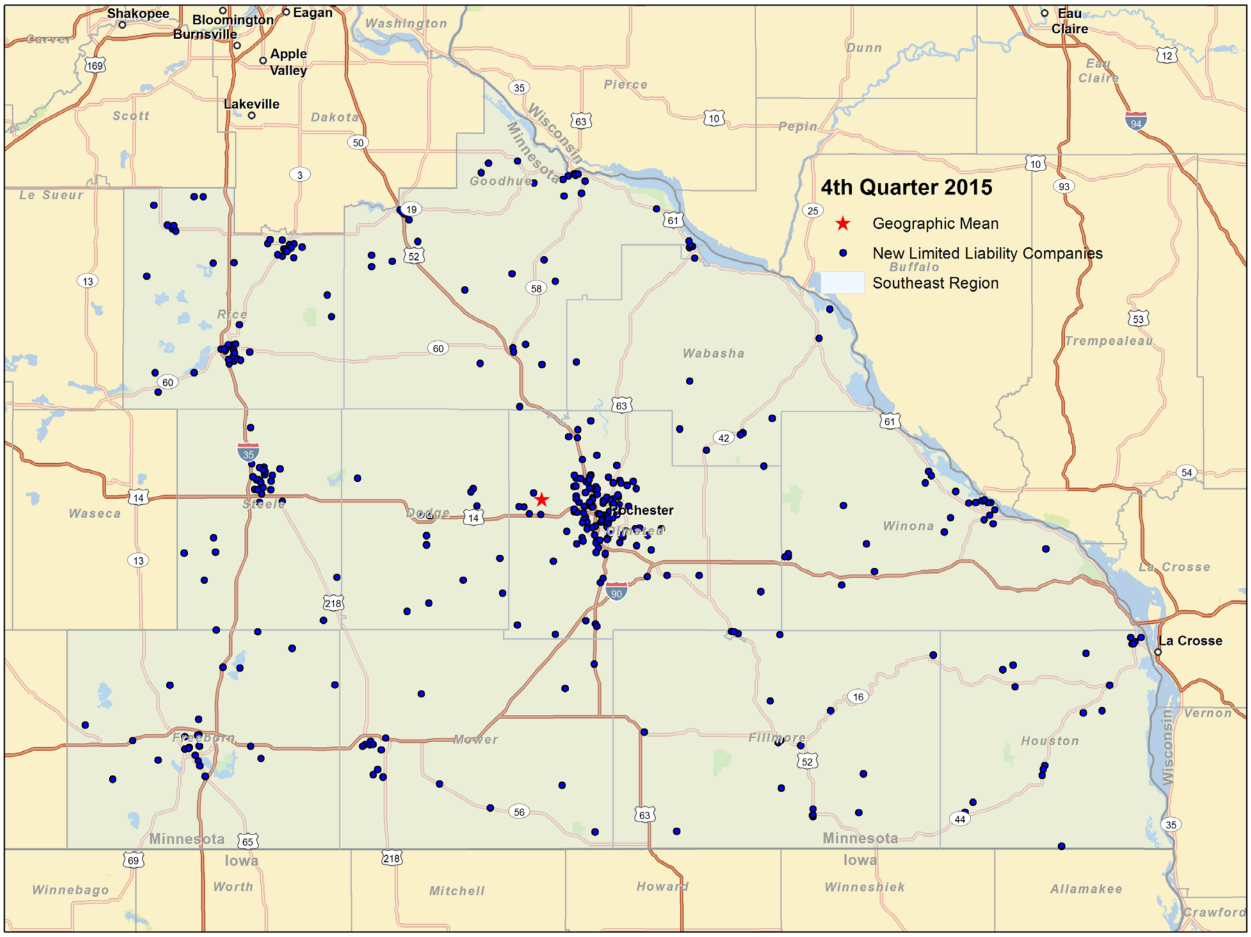
New Non-Profits—Southeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2014	I: 2015	II: 2015	III: 2015	IV: 2015	2015 Quarter IV: Percent change from prior year
Southeast Minnesota New Non-Profits	40	30	51	43	38	-5.0%

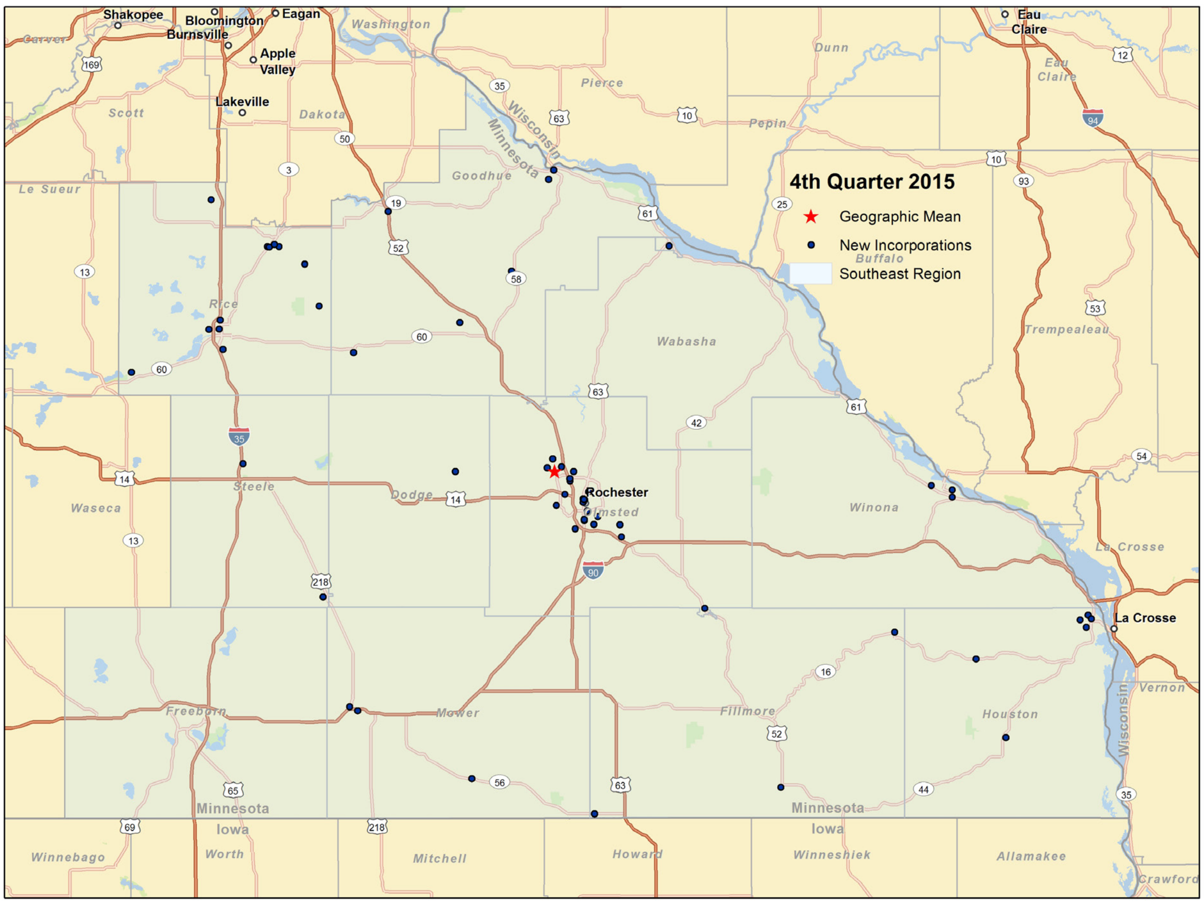
The first map shown below is a visual representation of new limited liability company formation around the Southeast Minnesota planning area in the fourth quarter of 2015. The densest area of new business formation is in the Rochester metro (and the geographic mean of new LLC formation in the planning area is just west of Rochester). Owatonna, Faribault, and Northfield also had clusters of new LLC formation in the fourth quarter. River cities as well as those cities found on major roadways are also a predictor of new LLC formation in Southeast Minnesota.

Southeast Minnesota Planning Area — New Limited Liability Company Formation — Quarter 4: 2015



The second map shows new incorporations in the Southeast Minnesota planning area. There are considerably fewer new incorporations than LLCs and Rochester is the only city in the region with numbers of newly incorporated businesses that reach into the double digits. At a value of 6.9, the ratio of new LLCs to incorporations in Southeast Minnesota is higher than in any of Minnesota's six planning areas. By comparison the region with the second highest ratio of LLCs to incorporations is Northeast Minnesota with a considerably smaller value of 5.7. The corresponding value for the Twin Cities is 4.1. For every one new incorporation in Southeast Minnesota, there are nearly seven new LLCs.

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

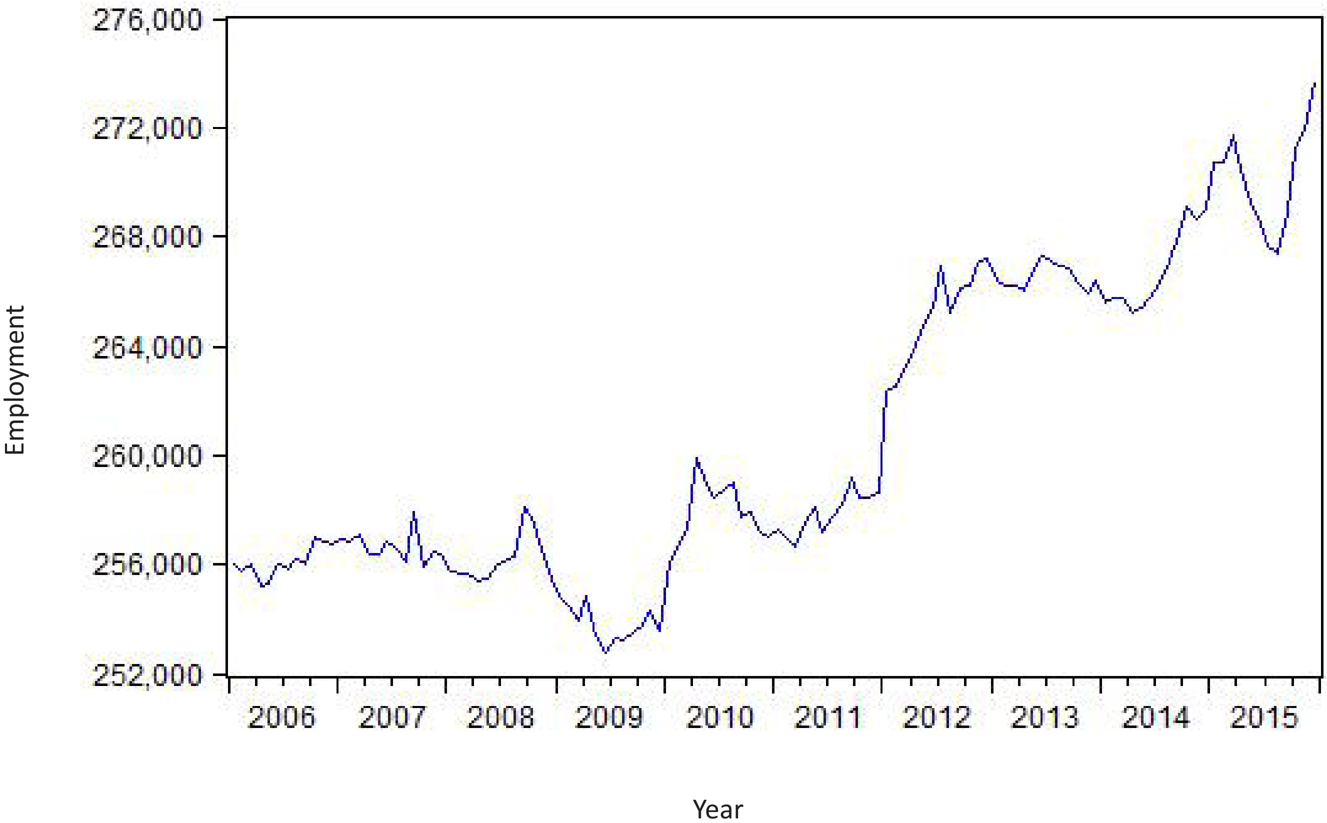


Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area grew 1.9 percent over the past year. As shown in the accompanying graph, the 12-month moving average of total employment has trended upward since the end of the Great Recession (although it declined in the first half of 2015).

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.

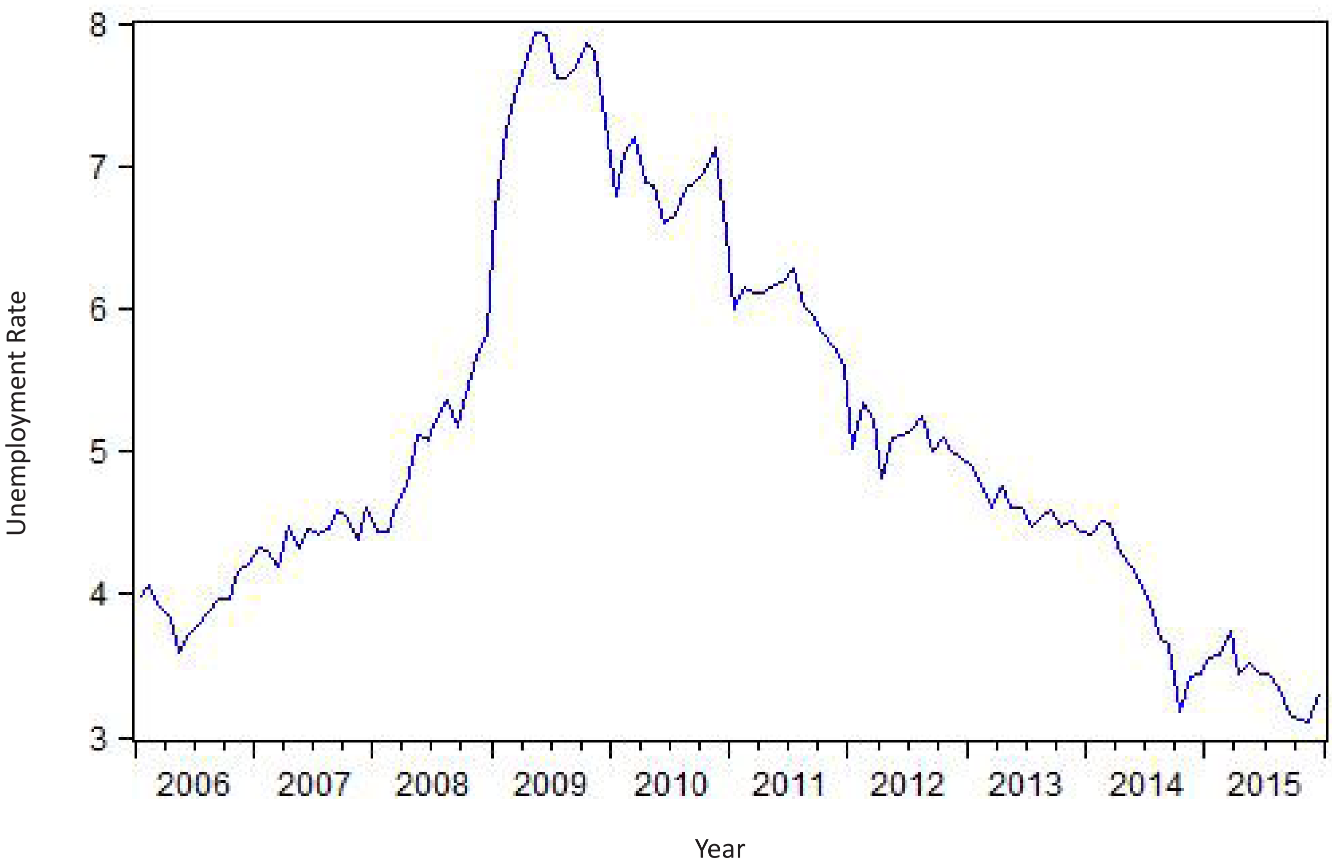
Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Employment (Not seasonally adjusted)	268,072	270,870	270,387	268,813	273,075	273,118	273,177

The seasonally adjusted unemployment rate in Southeast Minnesota had started to rise in the Southeast Minnesota planning area at the end of 2014 but it declined throughout most of 2015. The non-seasonally adjusted unemployment rate now stands at 3.1 percent, lower than the 3.2 percent rate observed one year earlier.

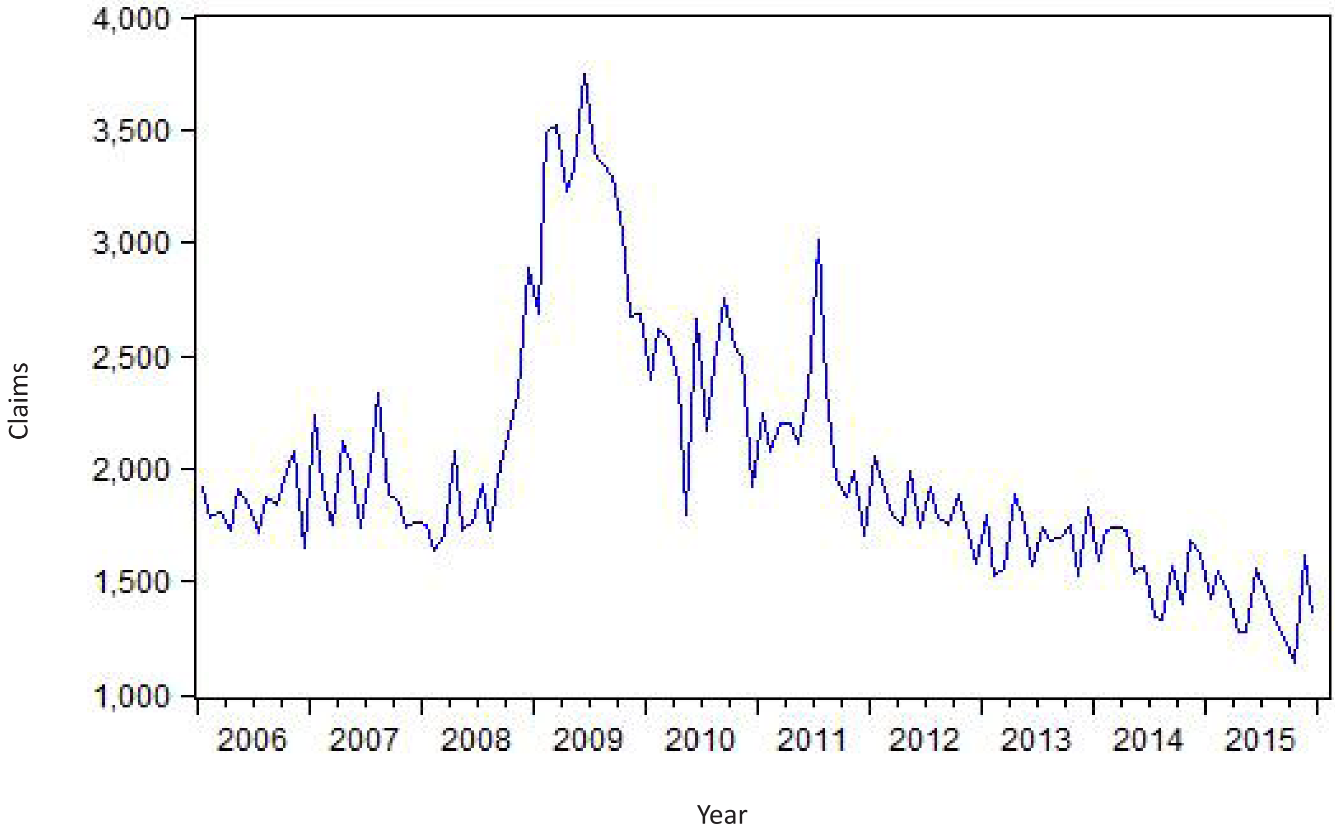
Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Unemployment Rate (Not seasonally adjusted)	3.2%	3.6%	3.2%	2.8%	2.6%	2.5%	3.1%

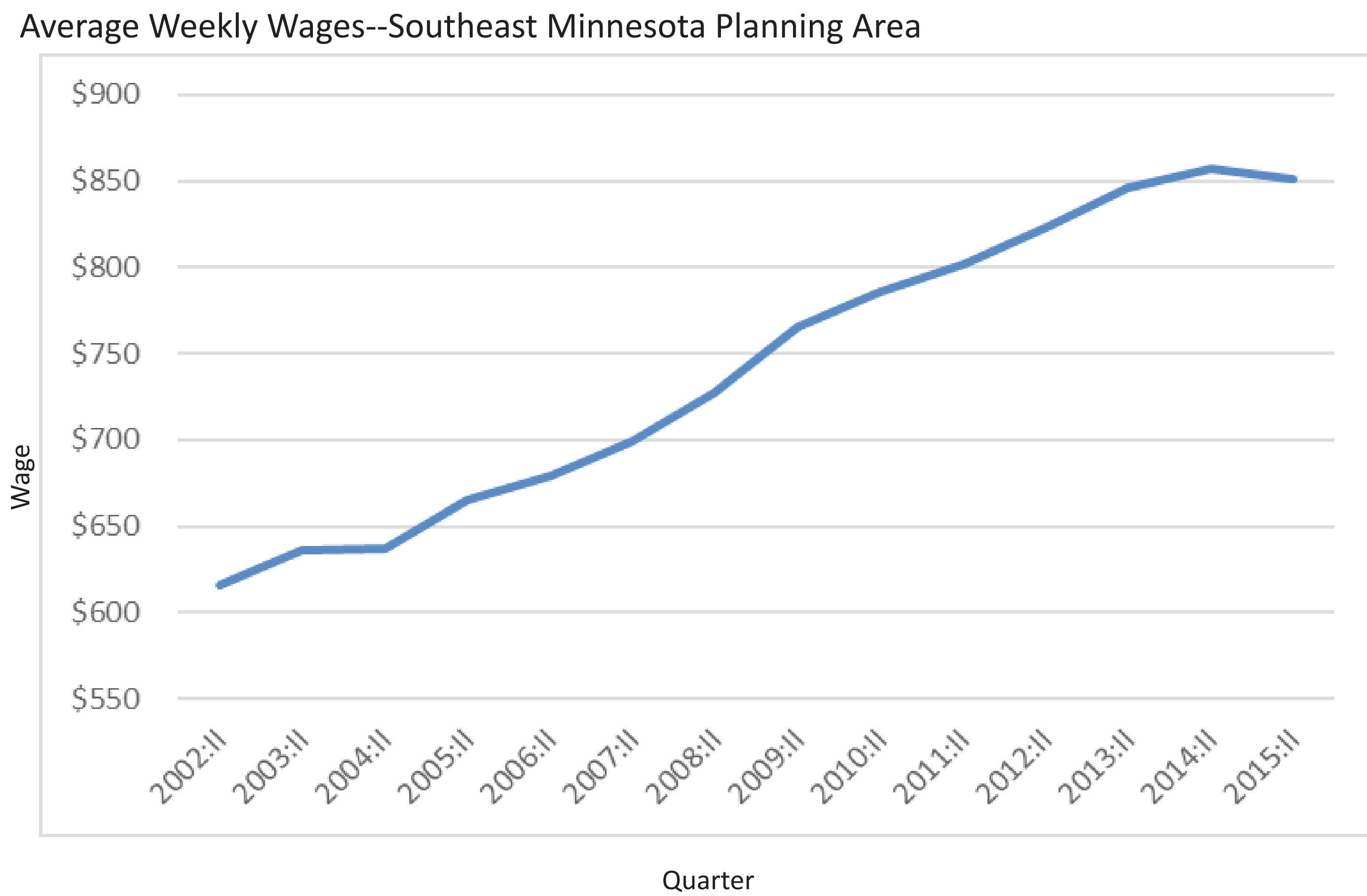
New claims for unemployment insurance in December 2015 were 15.2 percent lower than one year earlier. However, on a seasonally adjusted basis, these claims appear to have bottomed out in the third quarter of 2015.

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



Month	December 2014	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015
Initial claims (Not seasonally adjusted)	3,203	1,161	802	793	958	2,333	2,717

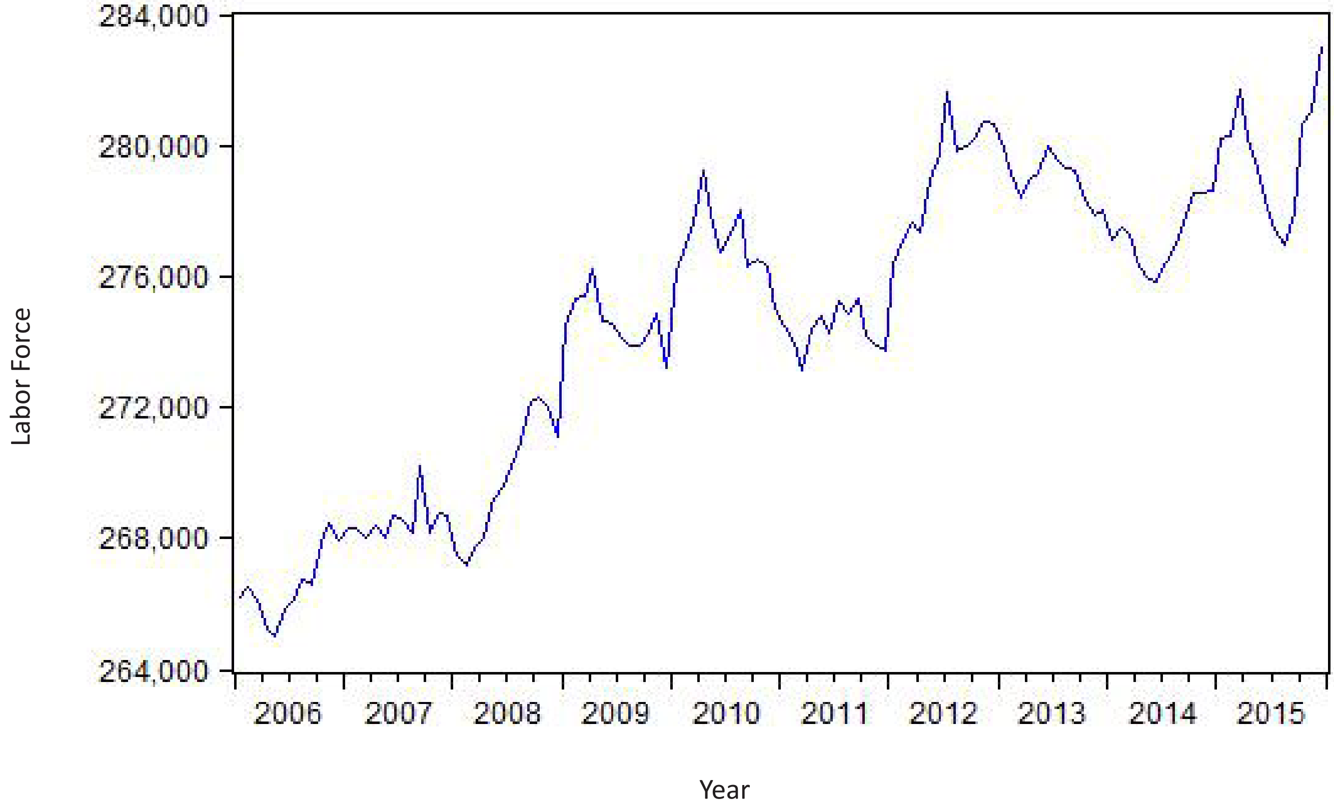
Southeast Minnesota's average weekly wages fell $6 in the second quarter of 2015 (this is the most recently available data) to a level of $851. While Southeast Minnesota still has the state's second highest average weekly wage (the Twin Cities' weekly wage is considerably higher at $1,098), it is worth noting that this region is the only one to experience declining average wages in the second quarter.



Quarter	2010:II	2011:II	2012:II	2013:II	2014:II	2015:II
Average Weekly Wage	$786	$802	$823	$846	$857	$851

The Southeast Minnesota labor force increased by 1.8 percent over the last year. The regional labor force is now 4,860 higher than in December 2014.

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

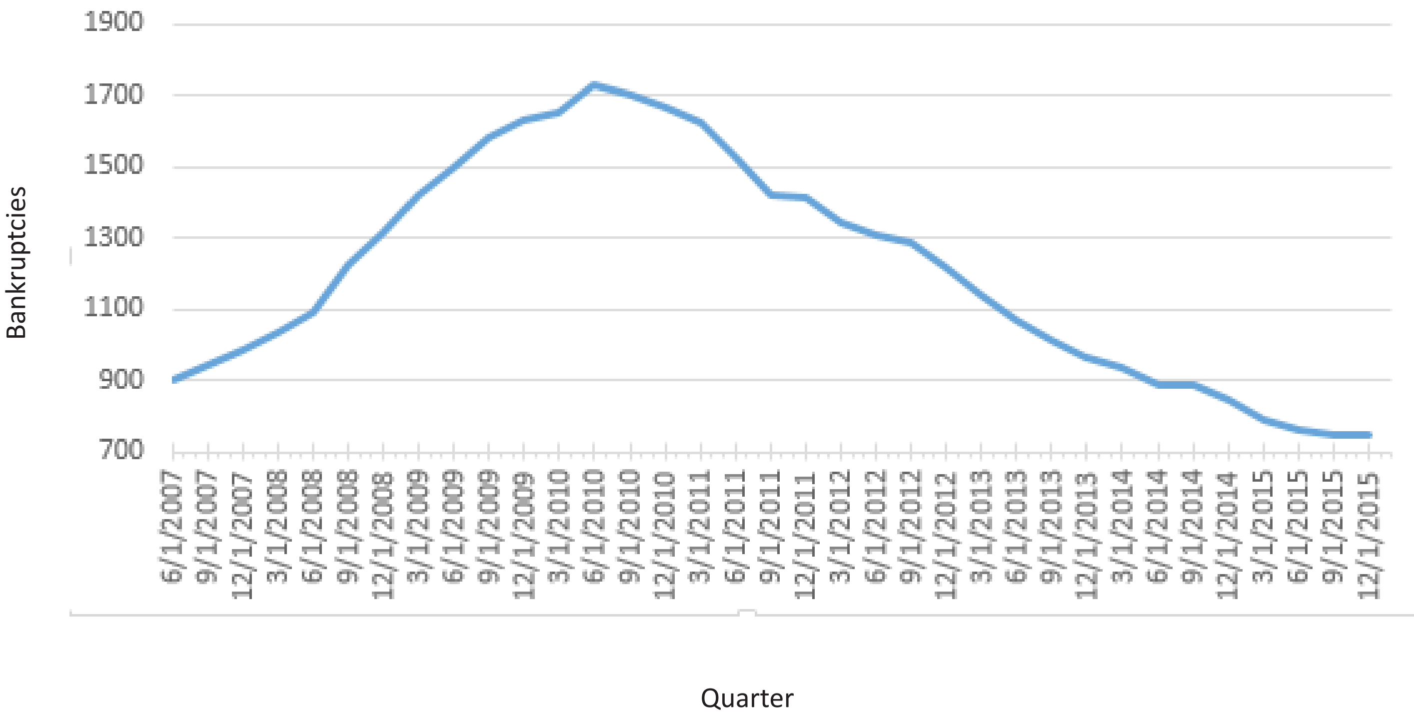


Year (December)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	273,769	274,091	278,871	276,301	277,035	281,895

Southeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southeast 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 has steadily declined since that time). With 746 bankruptcies over the past twelve months, the level of bankruptcies in Southeast Minnesota has now moved to a level that is the lowest recorded over the last eight years.

Southeast Minnesota Bankruptcies (12-month moving total)



Year (Fourth Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1,665	1,411	1,213	963	843	746

Economic Indicators

Rochester MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)
Labor Market						
Employment	December 2015 (m)	115,056	115,374	-0.3%	↓	0.7%
Manufacturing Employment	December 2015 (m)	10,770	10,819	-0.5%	↓	-2.9%
Educational and Health Employment	December 2015 (m)	45,777	45,604	0.4%	↑	2.5%
Average Weekly Work Hours Private Sector	December 2015 (m)	33.4	35.1	-4.8%	↓	33 (since 2006)
Average Earnings Per Hour Private Sector	December 2015 (m)	$35.61	$33.52	6.2%	↑	2.7% (since 2007)
Unemployment Rate	December 2015 (m)	2.9%	3.1%	NA	↓	4.0%
Labor Force	December 2015 (m)	117,401	116,698	0.6%	↑	0.6%
Initial Jobless Claims	December 2015 (m)	1,028	1,297	-20.7%	↓	NA
Business Formation						
Total New Business Filings	Fourth Quarter 2015	377	388	-2.8%	↓	336 (since 2000)
New Business Incorporations	Fourth Quarter 2015	28	44	-36.4%	↓	51 (since 2000)
New Limited Liability Companies	Fourth Quarter 2015	211	232	-9.1%	↓	157 (since 2000)
New Assumed Names	Fourth Quarter 2015	117	91	28.6%	↑	109 (since 2000)
New Non-profits	Fourth Quarter 2015	21	21	0.0%	↔	19 (since 2000)
Rochester Residential Building Permit Valuation, in thousands	December 2015 (m)	11,583	17,598	-34.2%	↓	NA

(m) represents a monthly series

Southeast Minnesota contains the Rochester MSA, an area that derives much of its employment from the educational and health sector. This sector continues to be a pillar of economic vitality for Rochester (and for Southeast Minnesota). Year-over-year overall employment in the Rochester area decreased by 0.3 percent in December 2015. While employment in the key education/health sector rose by 0.4 percent, this is well below the 2.5 percent long-term annualized growth of employment in this sector. Note that the share of employment in Rochester's educational and health sector has increased from 29.4 percent of employment to nearly 40 percent since 1999. Average earnings per hour in the private sector increased over the year ending December 2015 and the unemployment rate fell, the labor force expanded, and initial jobless claims declined. The length of the workweek fell and the value of residential building permits slipped. New business filings also declined in the Rochester area in the fourth quarter.

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 Southeast 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.

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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 Joe Kucan. Professor David Wall of the SCSU Geography Department provided GIS assistance.

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Thomson Reuters and University of Michigan, Index of Consumer Sentiment

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