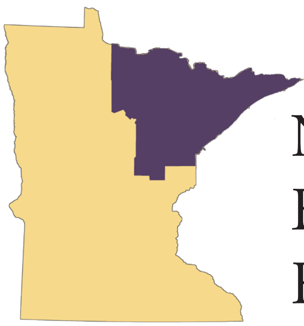

Northeast Minnesota
Economic and Business Conditions Report
First Quarter 2016

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.

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 economic performance is expected to improve over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). Four of the five components of the LEI increased in the first quarter as the overall index followed up a negative reading in the fourth quarter with a positive move in the first three months of 2016. A decline in initial jobless claims in the region and a recent increase in filings for new business incorporation contributed favorably to the first quarter LEI. In addition, an improvement in a general measure of state business conditions and a rise in a supply managers' survey index also had a positive impact on the leading index. A recent decline in Duluth-Superior MSA residential building permits was the only negative element of the LEI.

There were 639 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the first quarter of 2016 — representing a 16.8 percent increase from one year earlier. Fifty-one new regional business incorporations were filed in the first quarter—a 7.3 percent reduction from 2015. New limited liability company (LLC) filings in Northeast Minnesota rose 29.6 percent to a level of 337. New assumed names totaled 215 in the first quarter—a 4.4 percent increase from the first quarter of 2015. There were 36 new filings for Northeast Minnesota non-profit in the 2016 first quarter—ten more than one year earlier.

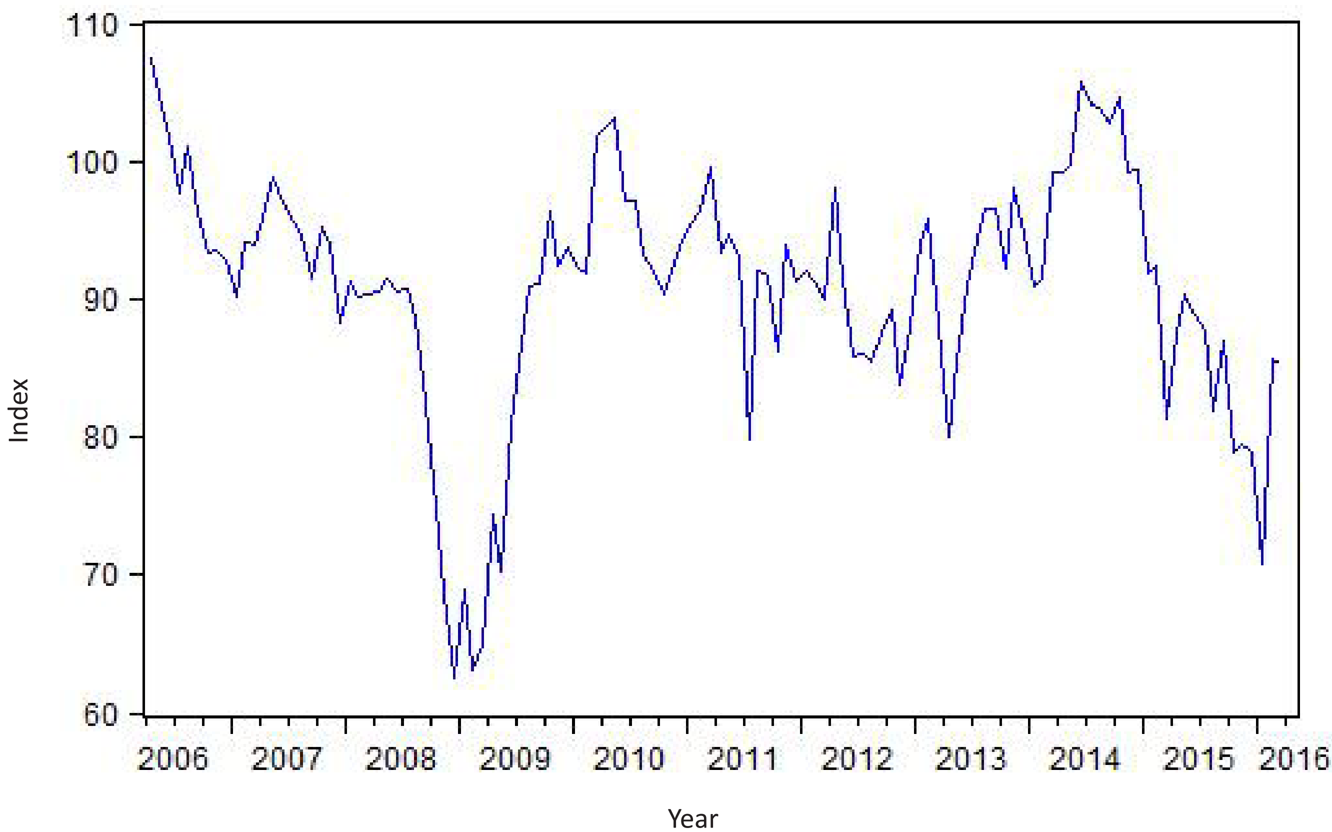
Northeast Minnesota employment was 0.2 percent lower than year ago levels in March. The regional unemployment rate swelled to 7.8 percent (it was 5.9 percent in March 2015) as the labor force rose by 1.8 percent. The regional labor force is now 2,960 higher than it was in March 2015. March 2016 initial claims for unemployment insurance were 123 lower than the year earlier (an 8 percent decrease). Job vacancies per 100 unemployed were 68.03, a sharp decline from one year ago (when they were 116.23). After leveling out for the past year, Northeast Minnesota bankruptcies began to fall in this year's first quarter.

Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was mixed. Northeast Minnesota's largest market experienced a 1.9 percent decline in overall employment over the year ending March 2016, but the key education/health sector added jobs. The length of the workweek and average hourly earnings also fell. The area unemployment rate rose to 7.1 percent as the labor force increased. The value of residential building permits increased in March compared to the same period in 2015.

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. After a 9.44 point decline in the fourth quarter, the LEI rose by 7.74 points in the first quarter of 2016. The LEI is now 4.8 percent above its March 2015 level. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility since the end of the Great Recession, but had trended downward since mid-2014.

The SCSU Northeast Minnesota Leading Economic Indicators Index



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2016	Contribution to LEI, 4th quarter 2015
Minnesota Business Conditions Index	1.06	-1.97
Northeast Minnesota initial claims for unemployment insurance	2.90	-4.39
Northeast Minnesota new filings of incorporation	0.25	-1.83
Duluth Superior MSA residential building permits	-0.30	0.80
Institute of Supply Management Purchasing Managers Index for manufacturing	3.83	-2.05
TOTAL CHANGE	**7.74**	**-9.44**

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 increased in the first quarter. A small increase in new filings for business incorporation and a reduction in initial unemployment claims also drove the LEI higher. Improved performance of the Minnesota Business Conditions Index (which is used an indicator of general statewide business conditions) also made a positive contribution to the Northeast Minnesota leading index.

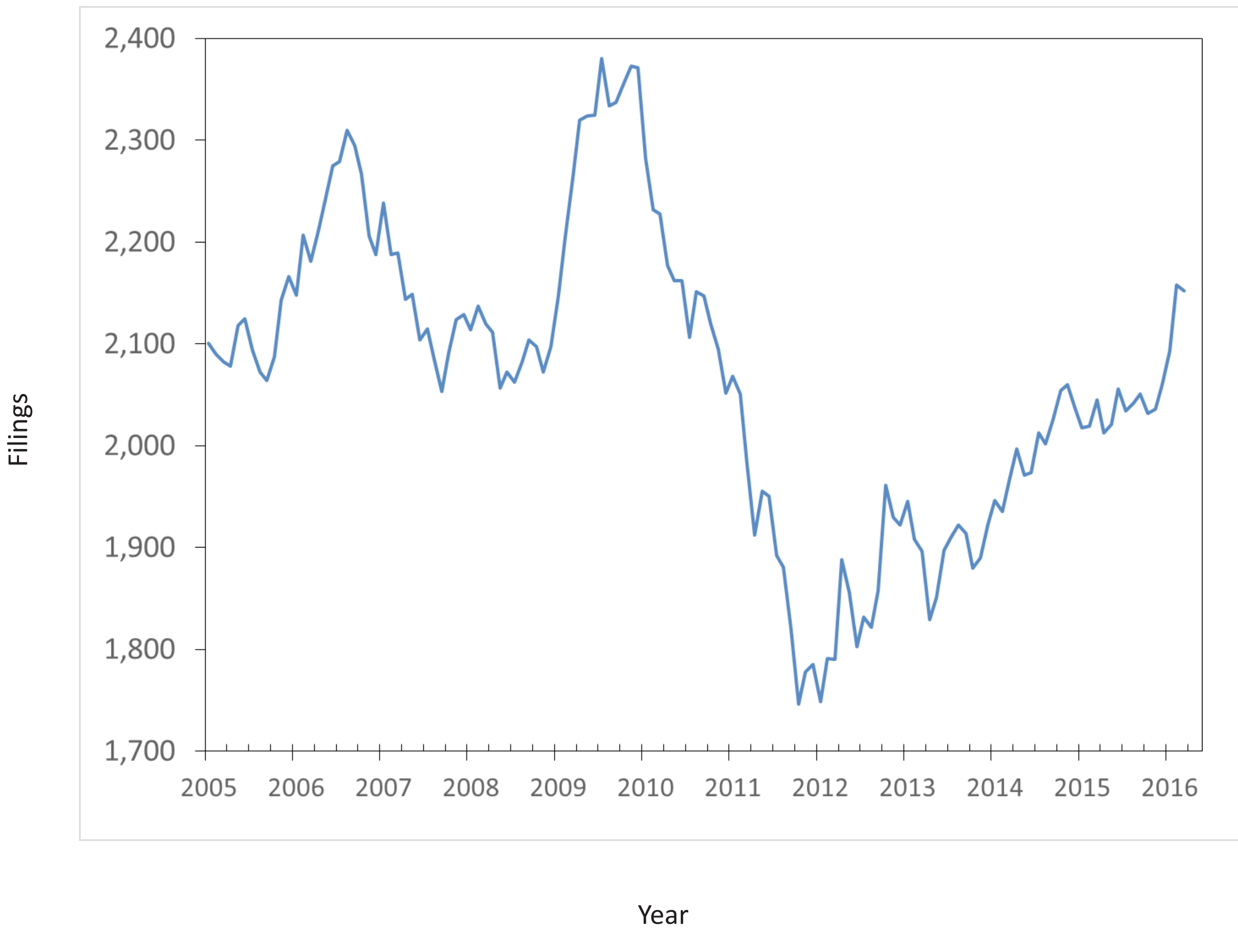
SCSU Northeast Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Minnesota Business Conditions Index March	50.7	50	1.4%
Northeast Minnesota initial claims for unemployment insurance March	1,414	1,537	-8.0%
Northeast Minnesota new filings of incorporation First Quarter	51	55	-7.3%
Duluth-Superior MSA single-family building permits March	4	2	100%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, March	51.8	51.5	0.6%
Northeast Minnesota Leading Economic Indicators Index March (December 1999 = 100)	85.4	81.4	4.8%

Northeast Minnesota Business Filings

Total new business filings rose by 16.8 percent compared to the first quarter of 2015. The 12-month moving total of this series has trended upward since the end of 2011. After a precipitous drop in the pace of new business formation during the Great Recession, new business filings in Northeast Minnesota still have not returned to the pace observed ten 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.

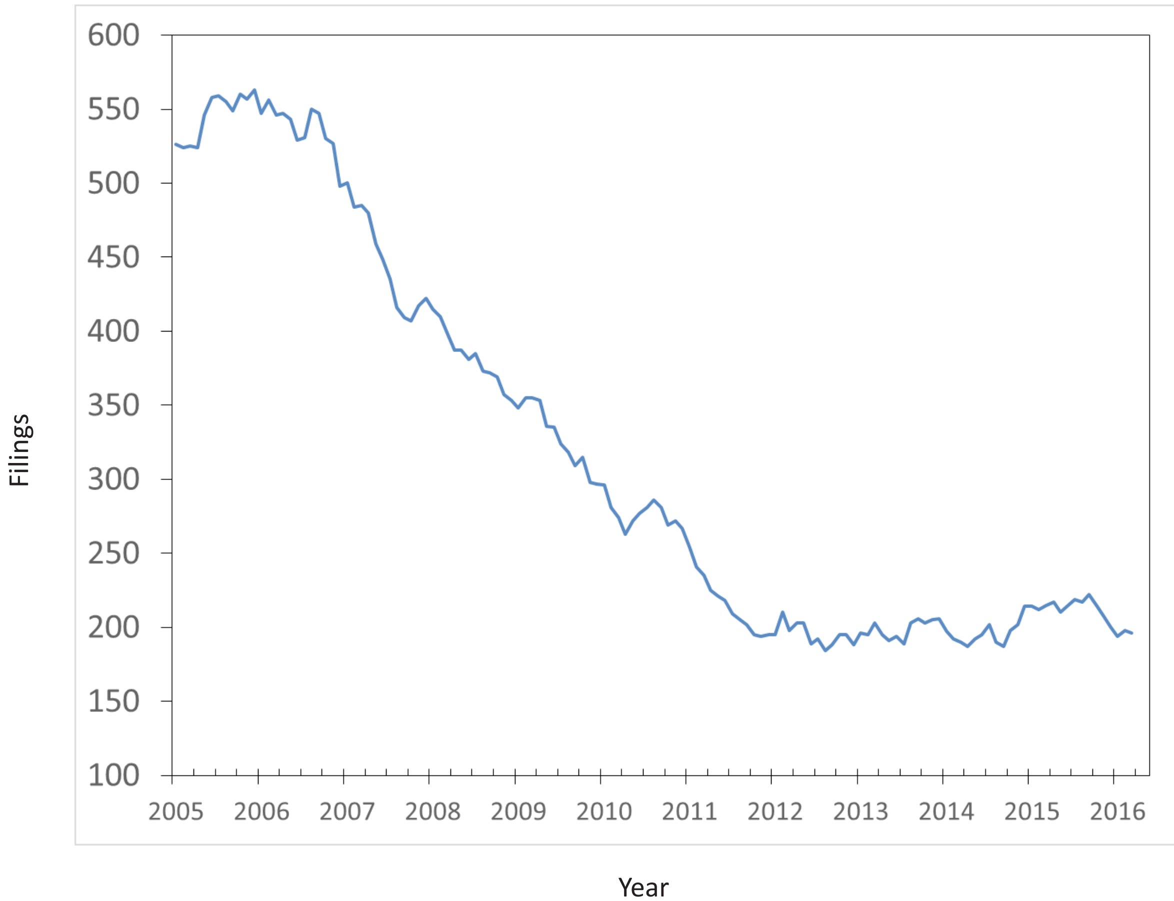
Total New Business Filings—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northeast Minnesota Total New Business Filings	547	559	467	487	639	16.8%

Compared to one year earlier, new filings for business incorporation declined in the first quarter. As can be seen in the accompanying graph, the 12 month moving total of Northeast Minnesota new business incorporations has flattened out since the beginning of 2012.

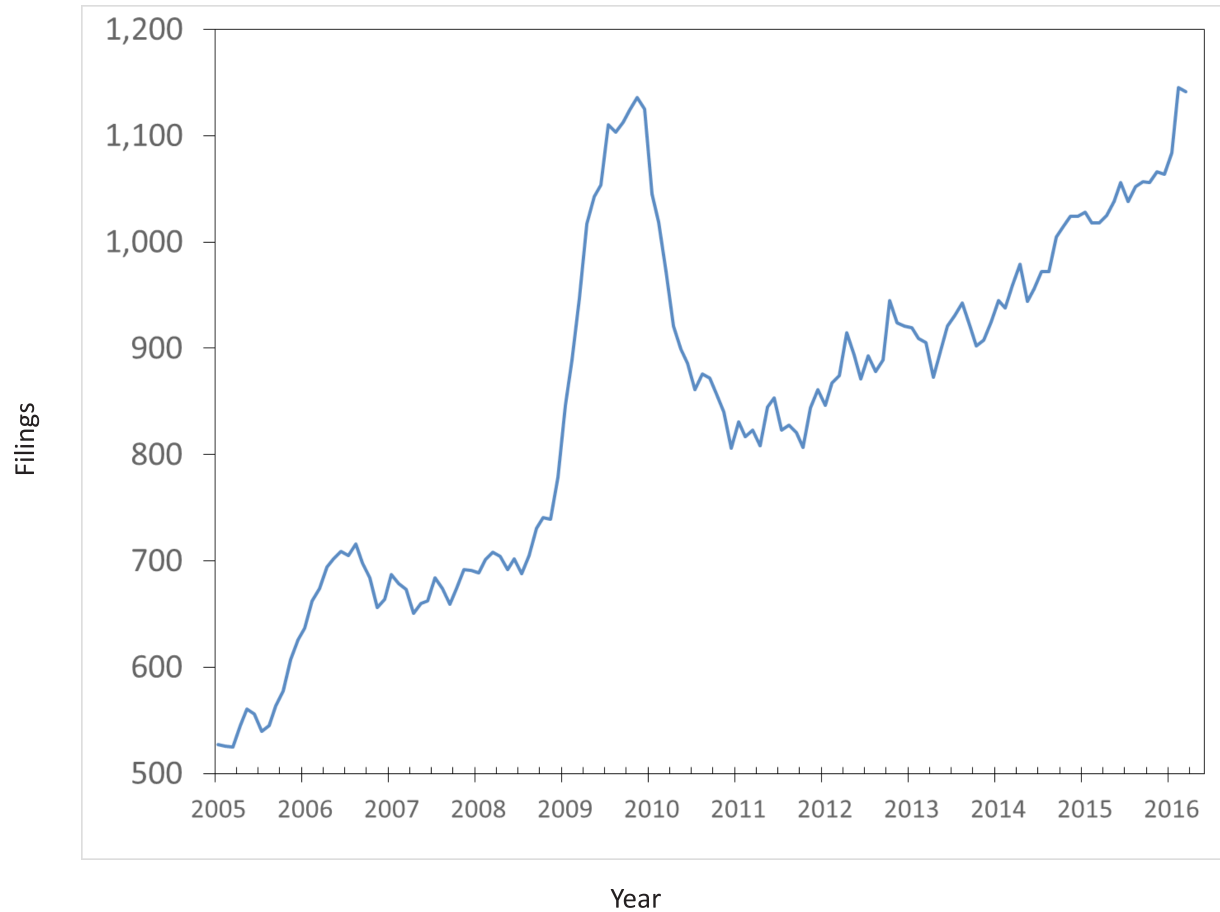
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northeast Minnesota New Business Incorporations	55	52	46	47	51	-7.3%

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. This trend continued in the first quarter as new LLC filings grew 29.6 percent compared to the same period one year earlier. 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.

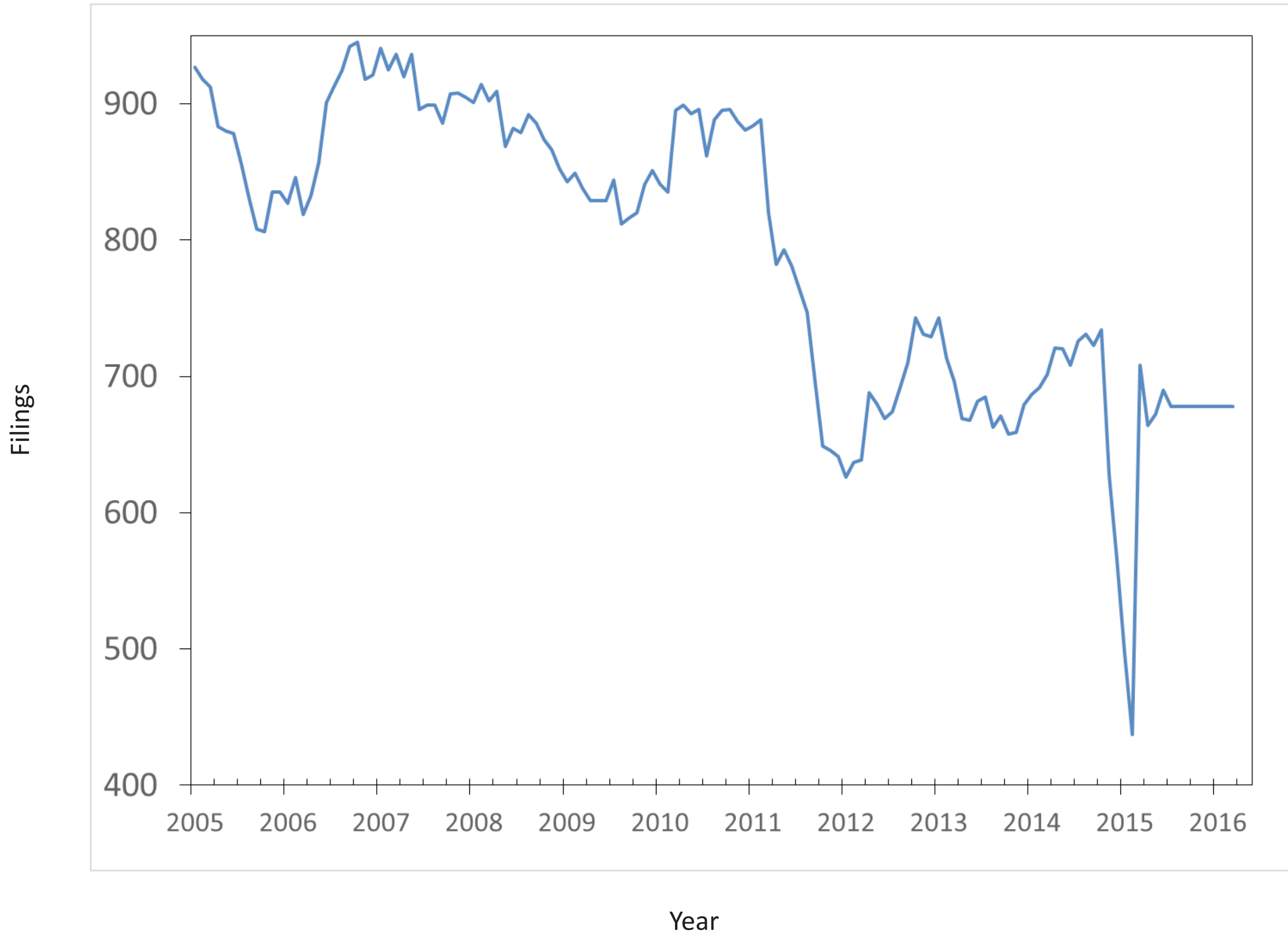
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	260	293	245	266	337	29.6%

Compared to the first quarter of 2015, assumed names increased by 4.4 percent in Northeast Minnesota. After leveling out from 2011 to 2014, new assumed names filings in Northeast Minnesota declined precipitously in 2014, but has since returned to its 2011-14 trend. However, the series still remains well below its level of the mid-2000s.

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



Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northeast Minnesota New Assumed Names	206	192	159	145	215	4.4%

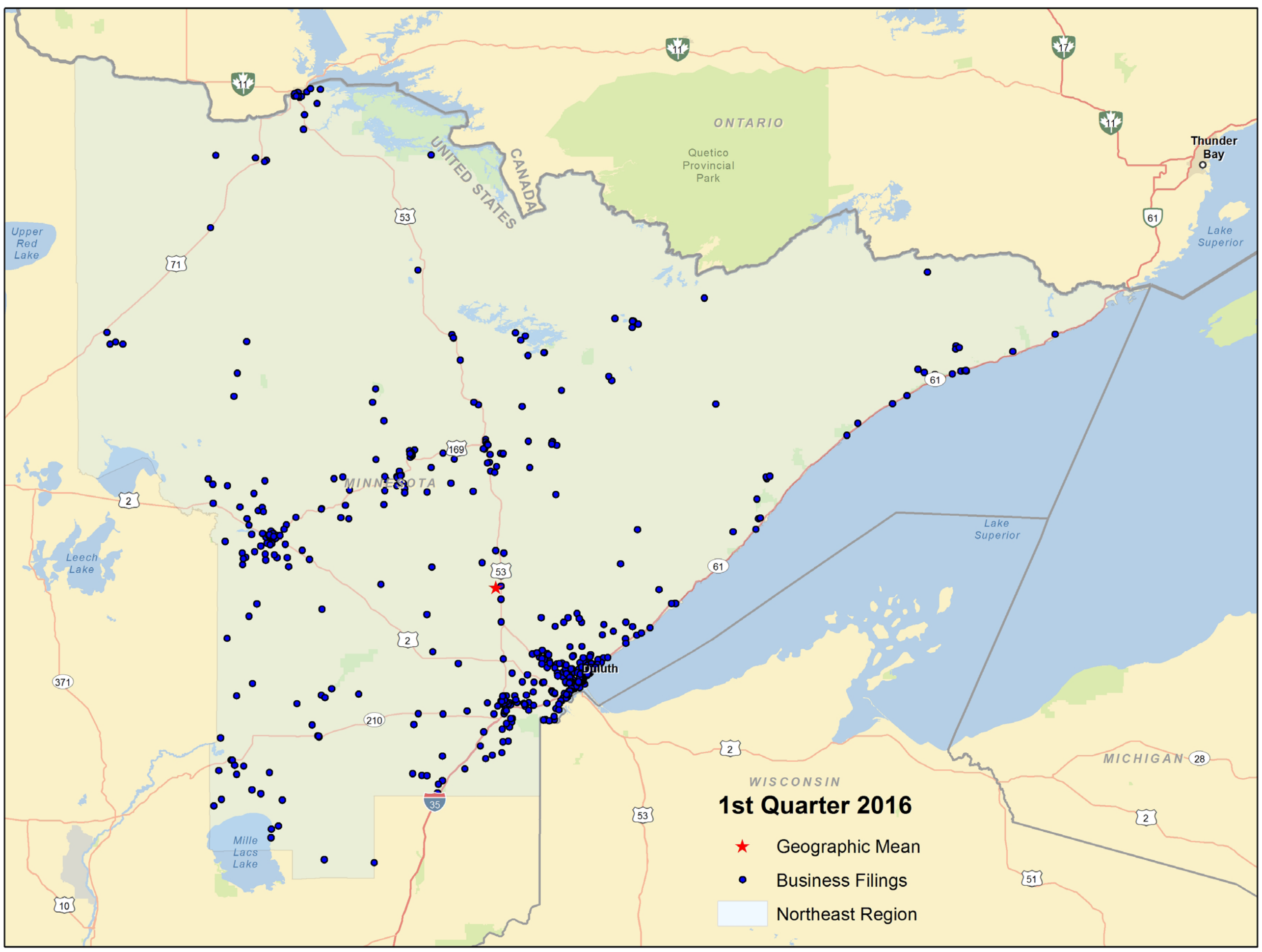
There were 36 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the first quarter of 2016, ten more than were recorded one year ago.

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

Quarter	I: 2015	II: 2015	III: 2015	IV: 2015	I: 2016	2016 Quarter I: Percent change from prior year
Northeast Minnesota New Non-Profits	26	22	17	29	36	38.5%

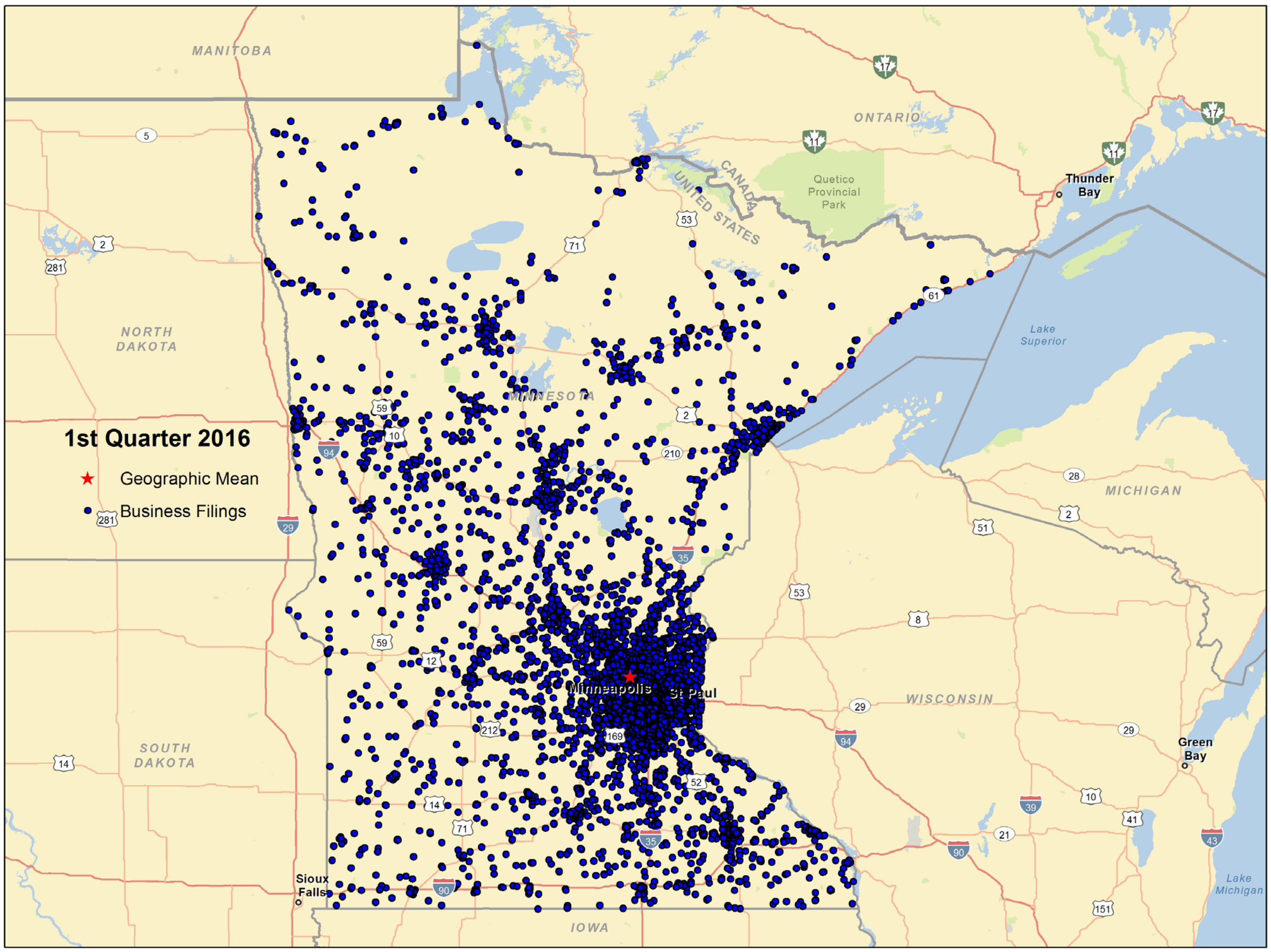
The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in the first quarter of 2016. The densest areas of new business formation are in the Duluth metro as well as along the region's well-traveled roadways. There was also a noticeable cluster of new business formation in the Grand Rapids area.

Northeast Minnesota Planning Area--New Business Formation--Quarter 1: 2016



The second map shows new business formation for the state as a whole. This visual aid demonstrates the considerable extent to which the Twin Cities metro area dominates new business formation in the state. The map shows how the Twin Cities metro stretches along roadways into the Southeast, Southwest and Central planning areas. Clusters of new business formation can also be seen in Duluth, Grand Rapids, Bemidji, Brainerd, Moorhead, Alexandria, St. Cloud, Rochester, and Mankato. The latter three cities are slowly losing their independent economic identity as they become increasingly connected to the Twin Cities metro.

Minnesota--New Business Formation--Quarter 1: 2016

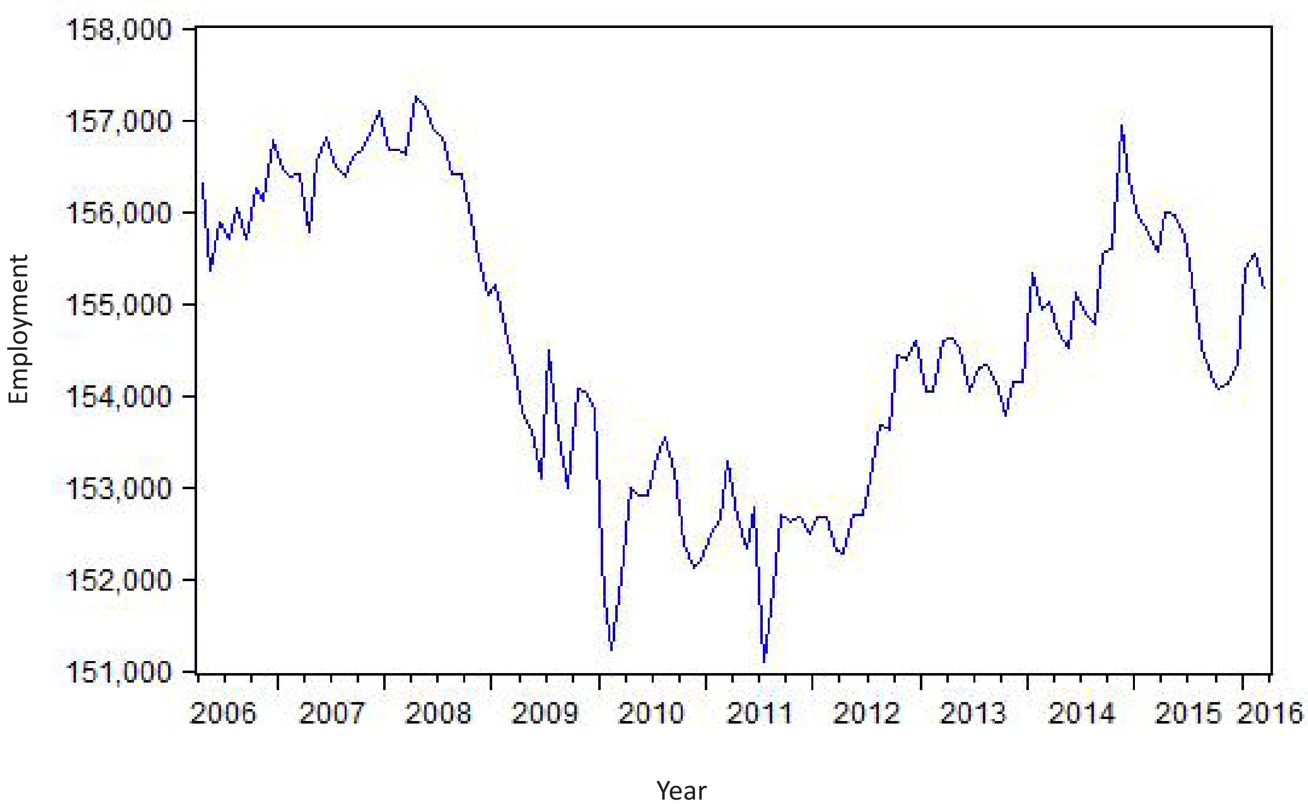


Northeast Minnesota Labor Market Conditions

March 2016 employment in the Northeast Minnesota planning area was 0.2 percent lower 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 had been slowly rising from the end of 2013 to the beginning of 2015, but this pattern reversed in the middle quarters of 2015. Employment gains tallied in last year's fourth quarter appeared to have returned this series back to its recent growth trend, but this quarter's job loss has slowed this recent progress.

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.

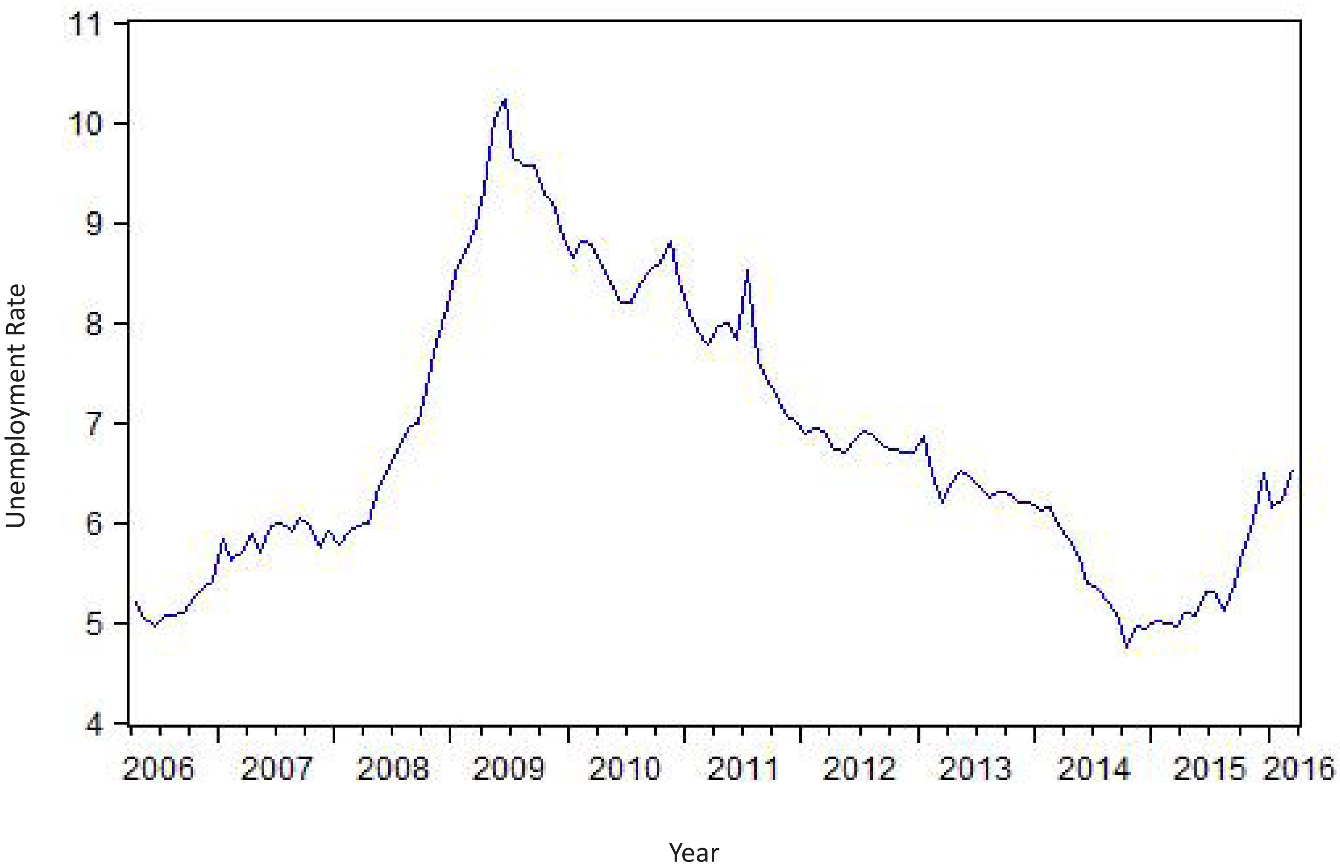
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Employment (Not seasonally adjusted)	153,525	155,382	154,419	153,545	151,599	153,409	153,143

The seasonally adjusted unemployment rate in Northeast Minnesota has been rising since the end of 2014. At 7.8 percent, the non-seasonally adjusted rate was substantially higher than one year earlier. Note that Northeast Minnesota's labor force expanded by 1.8 percent (an increase of 2,960) in the last year, so the large increase in the unemployment rate may have resulted from the growth of the regional workforce. The unemployment rate in Northeast Minnesota is higher than in any of Minnesota's six planning areas.

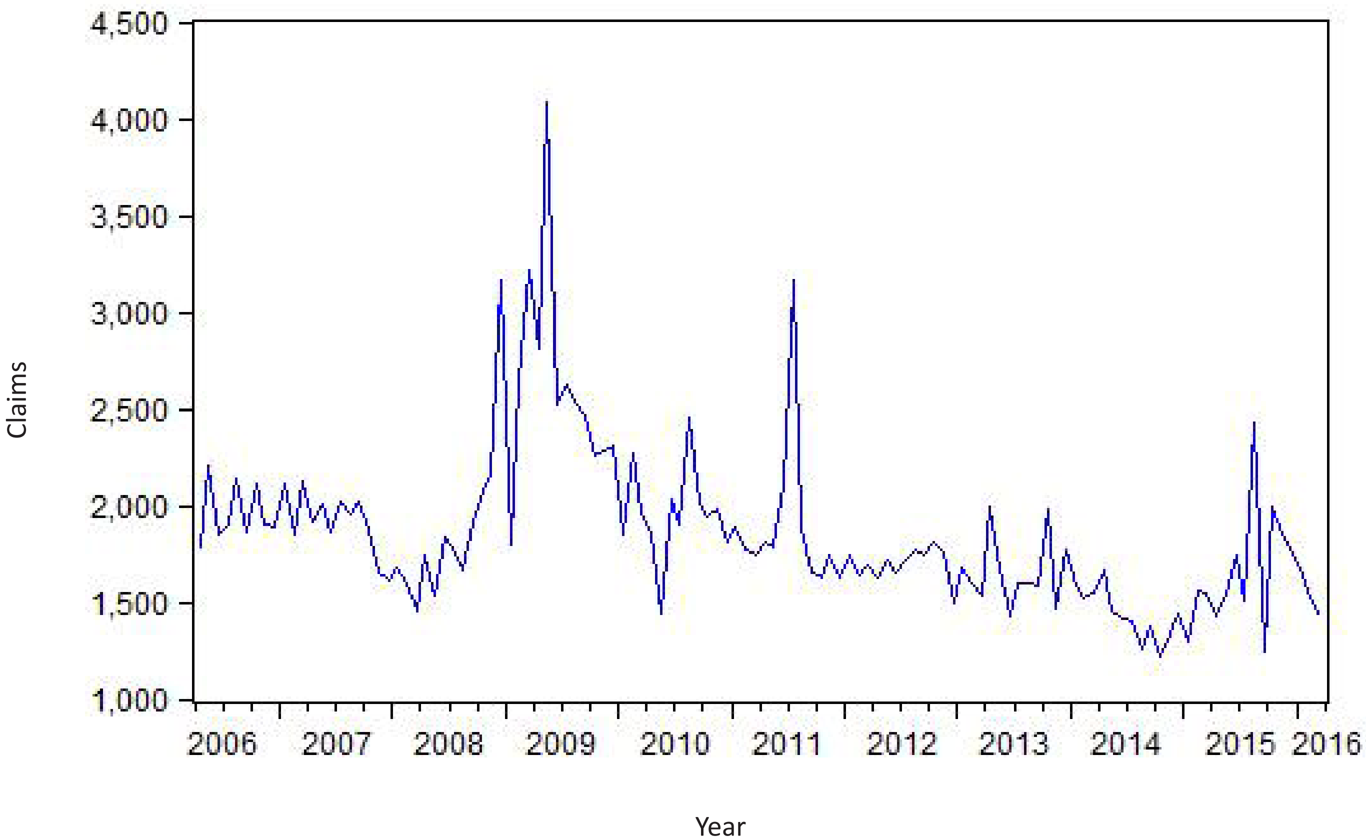
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Unemployment Rate (Not seasonally adjusted)	5.9%	4.6%	5.5%	6.3%	7.4%	7.2%	7.8%

On a seasonally adjusted basis, initial jobless claims in the Northeast region had been trending upward since the end of 2014. However, this trend was reversed by an 8 percent decrease in March 2016 initial jobless claims compared to one year earlier.

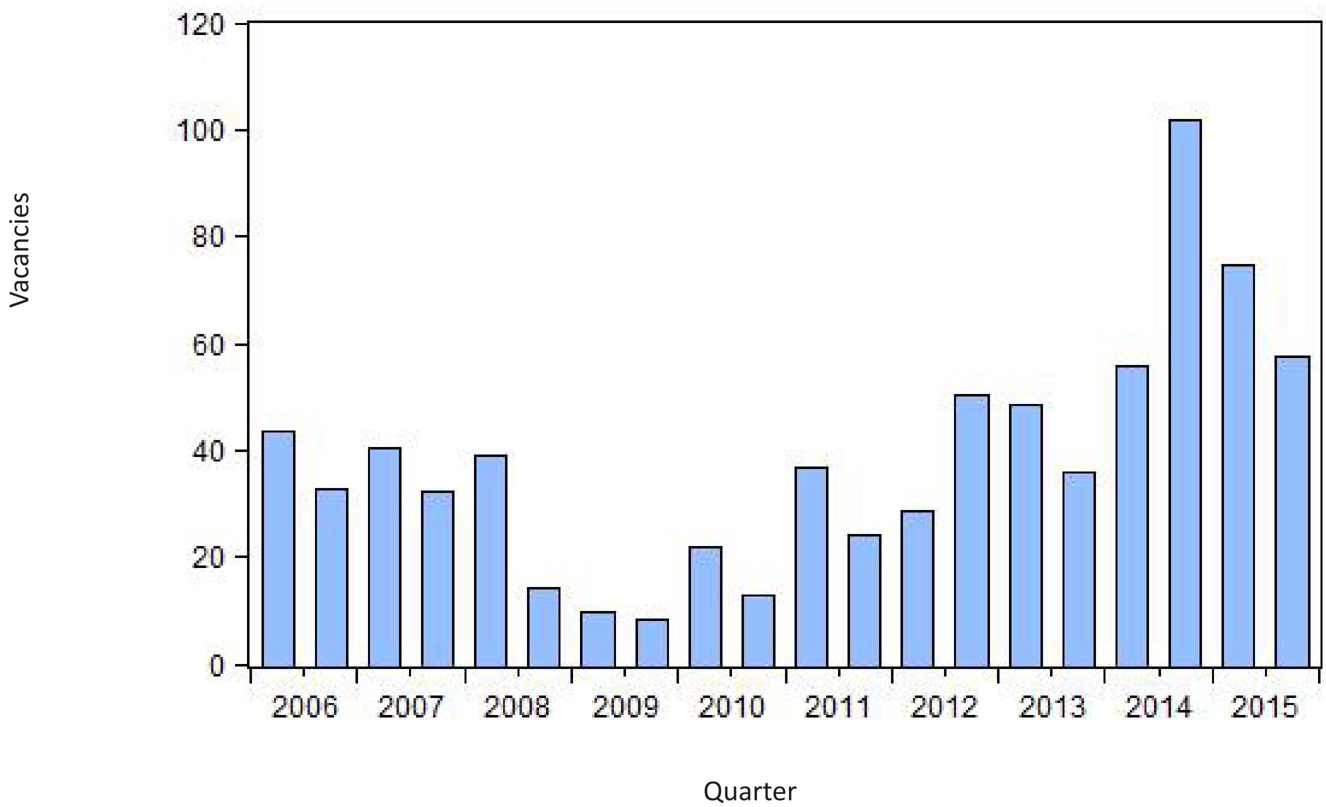
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Month	March 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016
Initial claims (Not seasonally adjusted)	1,537	2,014	2,843	2,905	1,982	1,341	1,414

The number of job vacancies per 100 unemployed declined in last year's fourth quarter (this is the most recently available data). This statistic (which is an indirect measure of area labor shortages) is now sharply lower than its fourth quarter 2014 value of 116.23. Seasonally adjusted unemployment data are used in constructing the chart below. None of the figures reported in the table are seasonally adjusted.

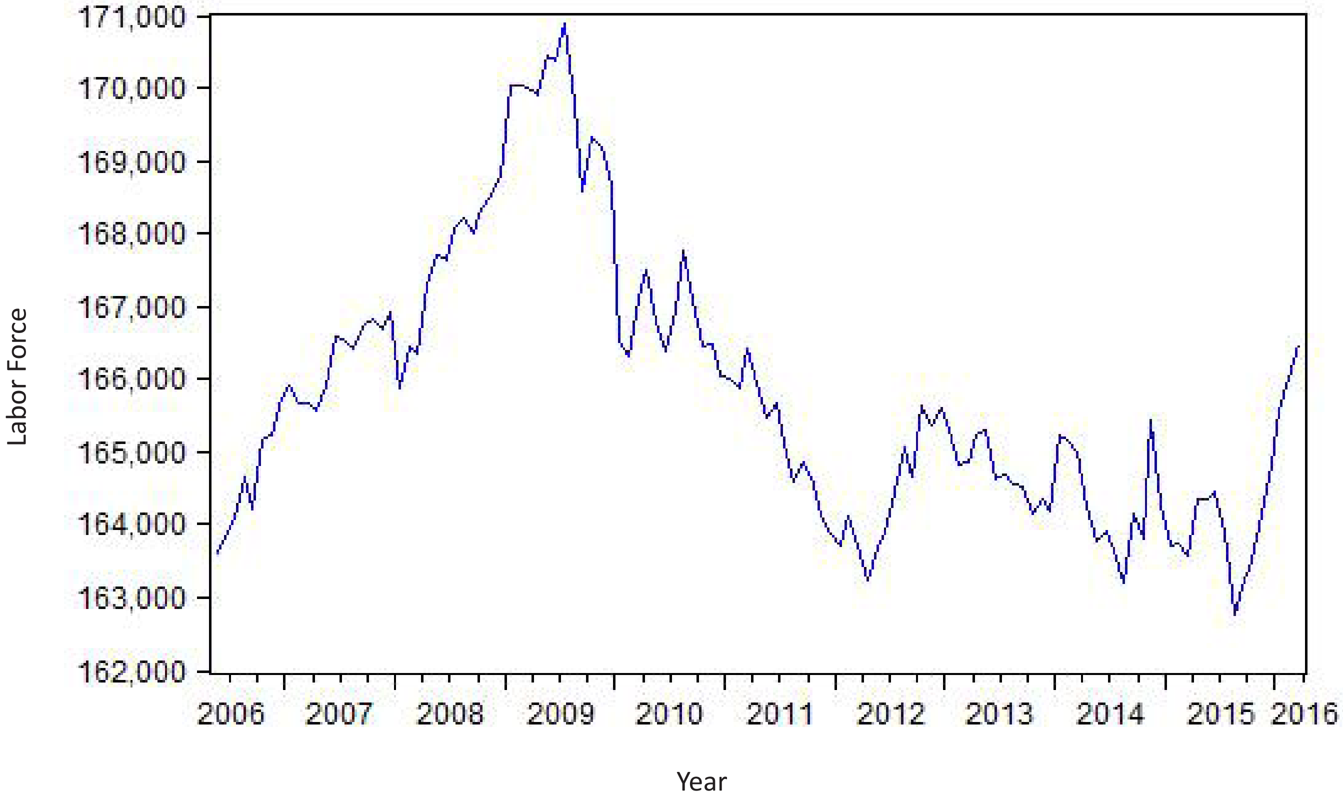
Job Vacancies per 100 Unemployed--Northeast Minnesota Planning Area



Quarter	2013:II	2013:IV	2014:II	2014:IV	2015:II	2015:IV
Job Vacancies per 100 Unemployed	48.63	39.84	57.97	116.23	72.83	68.03

The Northeast Minnesota labor force rose by 1.8 percent over the twelve month period ending March 2016. Using a 12-month moving average to account for seasonality, the regional labor force has started to rise after bottoming out over the previous two years.

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

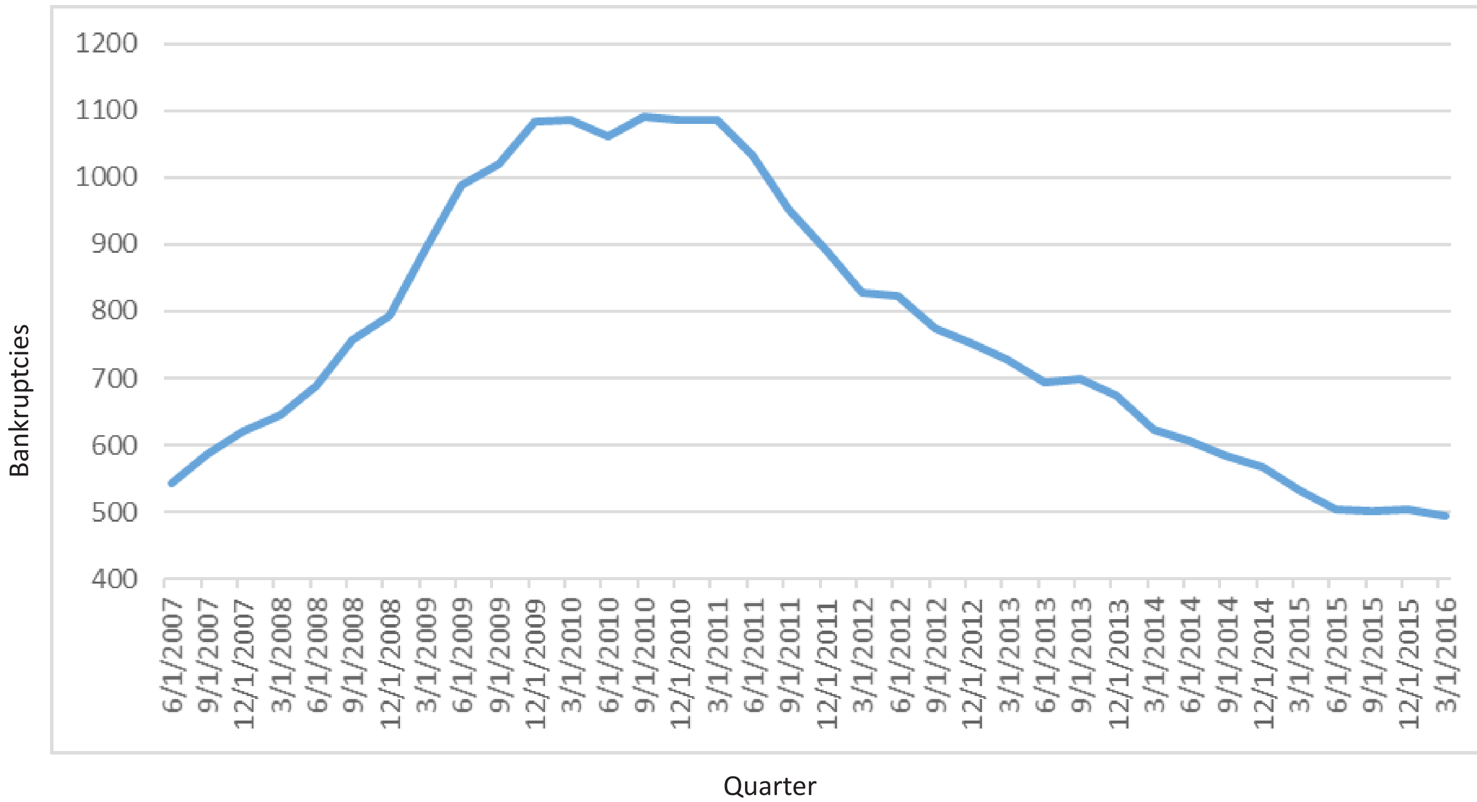


Year (March)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	165,649	163,095	164,345	164,520	163,148	166,108

Northeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Northeast 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 until the third quarter of 2009, then leveled out for a few quarters. The series gradually declined until the middle part of 2015. At that time, Northeast Minnesota bankruptcies leveled out. However, with 495 bankruptcies over the past twelve months, the level of bankruptcies in Northeast Minnesota appears to have declined slightly in the recent quarter. This series has now returned to a level last seen prior to the Great Recession.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	1,086	827	727	624	534	495

Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2016 (m)	130,675	133,267	-1.9% ↓	0.2%
Manufacturing Employment	March 2016 (m)	6,710	7,429	-9.7% ↓	-2.1%
Educational and Health Sector Employment	March 2016 (m)	31,895	31,839	0.2% ↑	2.9%
Average Weekly Work Hours-Private Sector	March 2016 (m)	32.1	33.1	-3.0% ↓	32.1 (since 2007)
Average Earnings Per Hour-Private Sector	March 2016 (m)	$24.75	$25.03	-1.1% ↓	3.0% (since 2007)
Unemployment Rate	March 2016 (m)	7.1%	5.5%	NA ↑	6.9%
Labor Force	March 2016 (m)	143,836	142,658	0.8% ↑	0.1%
Duluth-Superior Residential Building Permit Valuation, in thousands	March 2016 (m)	1,555	388	300.8% ↑	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mixed in March. Overall employment fell by 1.9 percent over the year ending March 2016 but employment in the key education/health sector (where more than 30,000 people have jobs) rose. The length of the average workweek and average hourly earnings each fell. The area unemployment rate also increased, although the labor force rose. The value of residential building permits in the Duluth/Superior MSA rose sharply from levels reported one year earlier.

State and National Indicators

MINNESOTA Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,876,500	2,875,700	2,845,500	0.3%	1.1%
Average weekly hours worked, private sector	33.5	33.7	33.9	-0.6%	-1.2%
Unemployment rate, seasonally adjusted	3.7%	3.7%	3.6%	NA	NA
Earnings per hour, private sector	$26.82	$26.36	$26.32	1.7%	1.9%
Philadelphia Fed Coincident Indicator, MN	177.73	176.69	173.74	0.6%	2.3%
Philadelphia Fed Leading Indicator, MN	1.42	1.06	1.89	33.4%	-24.9%
Minnesota Business Conditions Index	50.7	39.4	50.0	28.7%	1.4%
Price of milk received by farmers (cwt)	$15.80	$17.00	$17.40	-7.1%	-9.2%
Enplanements, MSP airport, thousands	1,662.9	1,429.0	1,629.6	16.4%	2.0%

NATIONAL Indicators	Mar 2016	Dec 2015	Mar 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	143,774	143,146	140,972	0.4%	2.0%
Industrial production, index, SA	103.4	104.1	105.5	-0.7%	-2.0%
Real retail sales, SA ($)	187,831	188,936	186,219	-0.6%	0.9%
Real personal income less transfers ($, bill.)	11,821.5	11,737.8	11,422.4	0.7%	3.5%
Real personal consumption expenditures ($, bill.)	11,397.1	11,358.5	11,104.4	0.3%	2.6%
Unemployment rate, SA	5.0%	5.0%	5.5%	NA	NA
New building permits, SA, thousands	19,300	17,620	17,477	9.5%	10.4%
Standard & Poor's 500 stock price index	2,022	2,054.1	2,080	-1.6%	-2.8%
Oil, price per barrel in Cushing, OK	$37.55	$37.19	$47.82	1.0%	-21.5%

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 inched up over the past twelve months and average weekly hours worked in the private sector declined. Indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy (although the leading indicators index was lower than last year). The Minnesota Business Conditions index surged in recent months. Milk prices were 9.2 percent lower than one year ago in March. This has been a particularly difficult period for those who make a living in milk production. Enplanements at the Minneapolis-St. Paul airport increased by 2 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 fell, most of the indicators showed strength. Employment, consumer expenditures, and income all experienced growth over the recent quarter and the national unemployment rate stabilized. Retail sales have shown some recent weakness and oil prices have stabilized in recent months (which is a welcome sign in the domestic energy sector). 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 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.

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

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Thomson Reuters and University of Michigan, Index of Consumer Sentiment

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U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income, Real Wages and Salaries.

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