Southwest Minnesota
Economic and Business Conditions Report
Second Quarter 2015

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

TABLE OF CONTENTS

Executive Summary

Southwest Minnesota business conditions are expected to be steady over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI). An increase in Mankato area residential building permits in the first part of the year and an improvement in the rural outlook made positive contributions to the LEI in the second quarter. Higher initial jobless claims earlier in the year had a negative impact on the index. Also contributing unfavorably to this quarter's LEI was weaker new business filings earlier this year. The LEI for the second quarter was basically neutral, declining by a modest 0.85 points. This is much improved from the first quarter reading of the index (when it fell 22.22 points). The Southwest LEI is now 3.5 percent below last year's level.

There were 646 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the second quarter of 2015 — representing 8.8 percent more new filings than one year ago. There were 59 new regional business incorporations in the second quarter, an 11.3 percent increase from one year ago. New LLC filings in Southwest Minnesota fell by 0.3 percent—declining to 359 in the second quarter of 2015. New assumed names totaled 200 in this year's second quarter—30.7 percent more than last year. There were twenty-eight new filings for Southwest Minnesota non-profits in the second quarter—unchanged from one year ago.

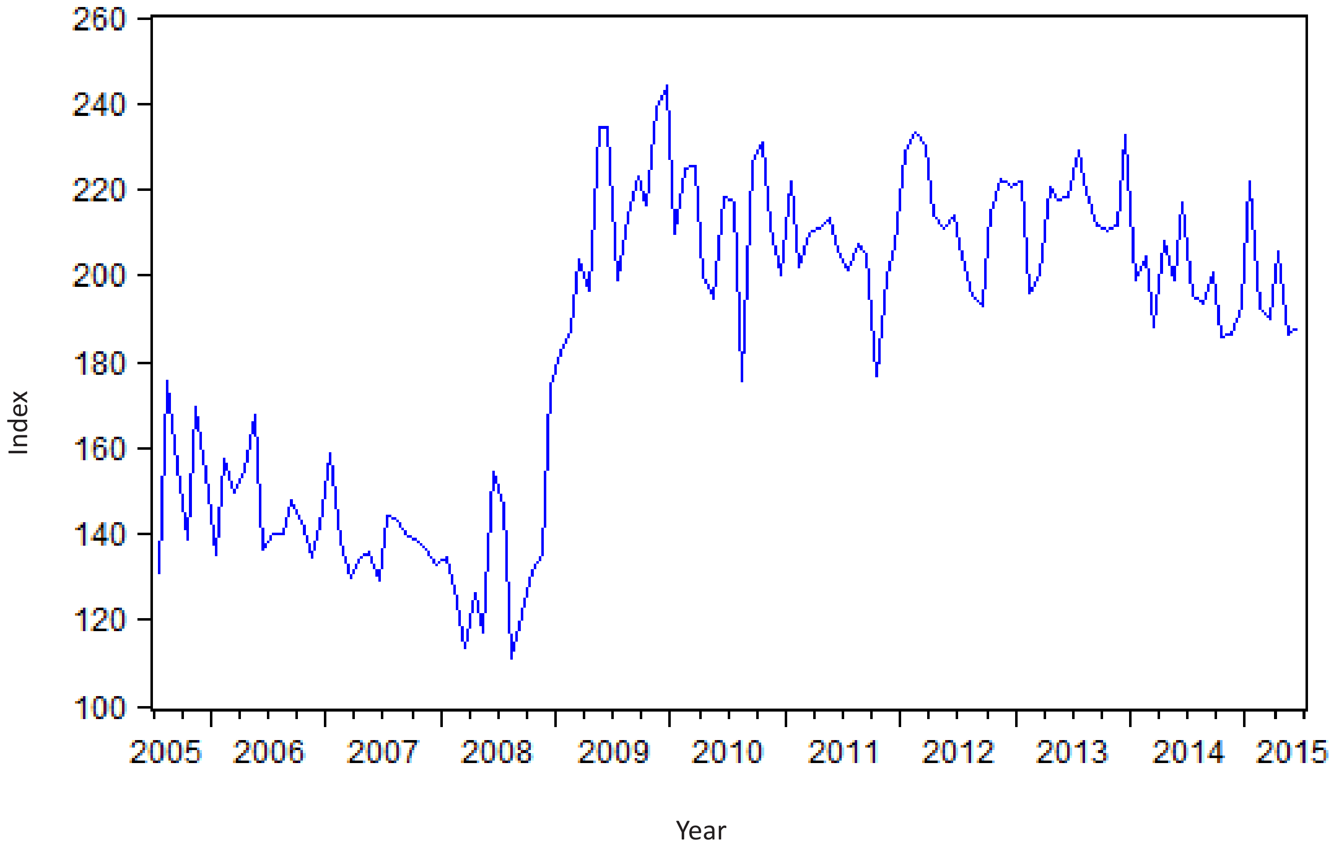
Employment of Southwest Minnesota residents jumped 4.1 percent over the year ending June 2015. 8,539 more Southwest Minnesota residents have jobs than did one year ago. The regional unemployment rate was 3.9 percent in June, an improvement on its 4.1 percent reading in June 2014. Initial claims for unemployment insurance fell by 409 from year-ago levels—a 25 percent decrease. The Southwest Minnesota labor force increased by 8,519 over the year ending June 2015 and average weekly wages increased 2.2 percent to $751 in the most recent reporting period.

There was mixed economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota. On the positive side, overall employment grew at an annual rate of 1 percent, the unemployment rate fell, the labor force expanded, and nearly all categories of new business filings rose. Showing weakness was Mankato area residential building permits, average weekly work hours, and average hourly earnings. Initial jobless claims in the Mankato area were also higher and the relative cost of living in the MSA appeared to rise.

Southwest Minnesota Leading Economic Indicators Index

The SCSU Southwest 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 has declined over each of the last four quarters and its level is now 3.5 percent lower than one year ago. With a decline of 0.85 points in this year's second quarter, the LEI is basically neutral in predicting future economic activity in Southwest Minnesota. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has been highly variable for several years—and has slowly trended downward over the past two years.

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



Components of SCSU Southwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2015	Contribution to LEI, 1st quarter 2015
Rural Mainstreet Index	1.66	-0.65
Southwest Minnesota initial claims for unemployment insurance	-3.23	1.74
Southwest Minnesota new filings of incorporation and LLCs	-2.66	5.27
Mankato MSA single-family building permits	3.38	-7.85
TOTAL CHANGE	**-0.85**	**-1.49**

The Southwest Minnesota LEI has four components, two of which experienced a decline in the second quarter. A decline in new business filings for incorporation and LLC earlier in the year weighed on this quarter's LEI, as did an increase in initial jobless claims in the first part of 2015. Higher Mankato/North Mankato Metropolitan Statistical Area (MSA) residential building permits had a positive effect on the LEI in the second quarter. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns with average population of 1,300 in ten Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. This index had a favorable impact on the LEI in the most recent quarter.

SCSU Southwest Minnesota Leading Economic Indicators Index

	2015	2014	Percentage change
Rural Mainstreet Index, Creighton University June	52.6	54.3	-3.1%
Southwest Minnesota initial claims for unemployment insurance June	1,224	1,633	-25.0%
Southwest Minnesota new filings of incorporation and LLCs Second Quarter	418	413	1.2%
Mankato MSA single-family building permits June	10	19	-47.4%
Southwest Minnesota Leading Economic Indicators Index June (December 1999 = 100)	188.2	195.1	-3.5%

Southwest Minnesota Business Filings

The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings rose by 8.8 percent from year earlier levels in the second quarter of this year. Note that the abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier 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 (although less so in the southwest region).
Note: The graphs in this section show the 12-month moving total for the various new business filings in the Twin Cities that are registered with the Office of the Minnesota Secretary of State. This adjustment removes seasonal patterns in the data.

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

Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter 2: Percent change from prior year
Southwest Minnesota Total New Business Filings	594	565	563	690	646	8.8%

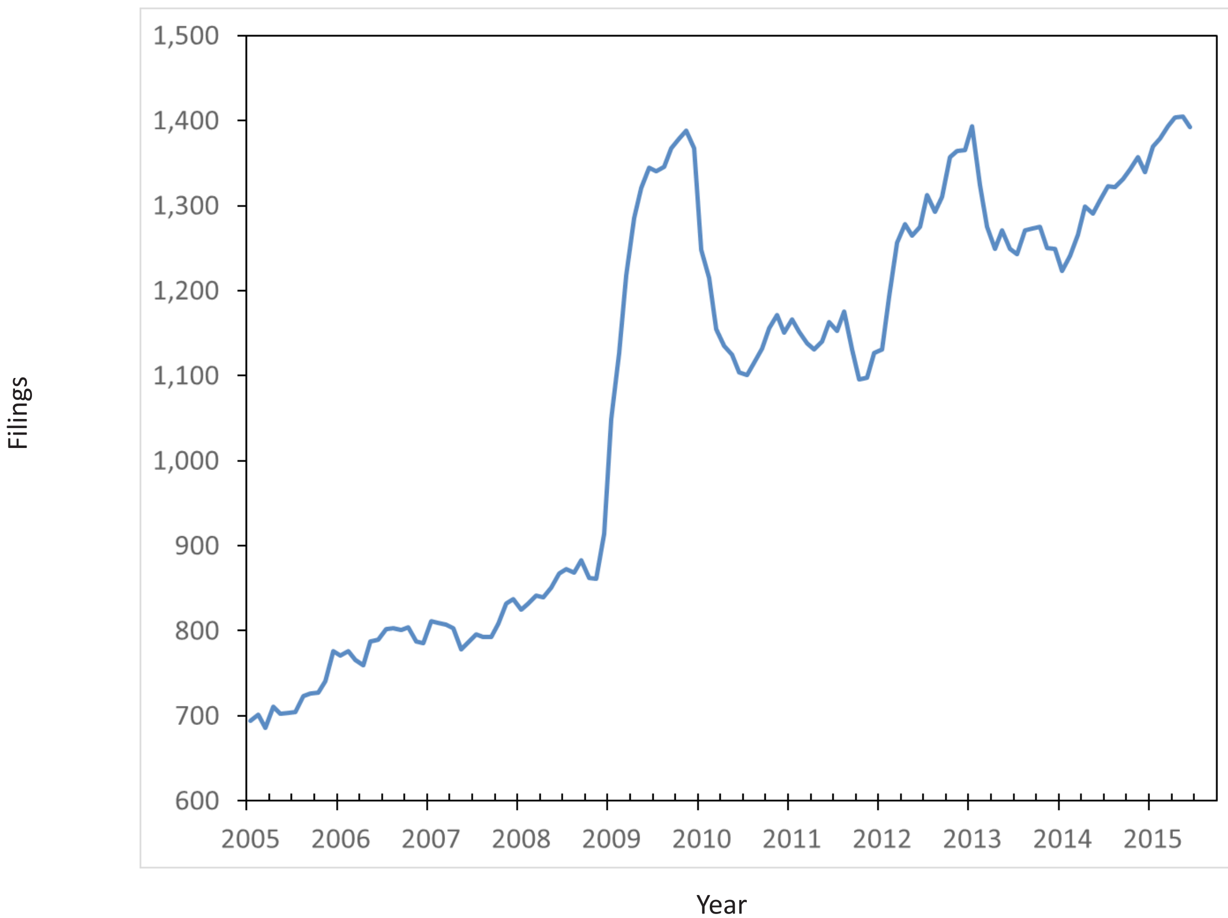
New business incorporations trended downward in Southwest Minnesota from 2005 to 2011, but they appear to have leveled off over the past several years. New regional incorporations totaled 59 in the second quarter of this year—an 11.3 percent improvement from last year.

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

Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter 2: Percent change from prior year
Southwest Minnesota New Business Incorporations	53	47	47	62	59	11.3%

There has been a move in Southwest Minnesota, as in the rest of the state, away from traditional incorporation and towards the limited liability company (LLC). While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Southwest Minnesota since 2005. However, new LLC filings were basically flat in the most recent quarter.

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



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter 2: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	360	309	319	405	359	-0.3%

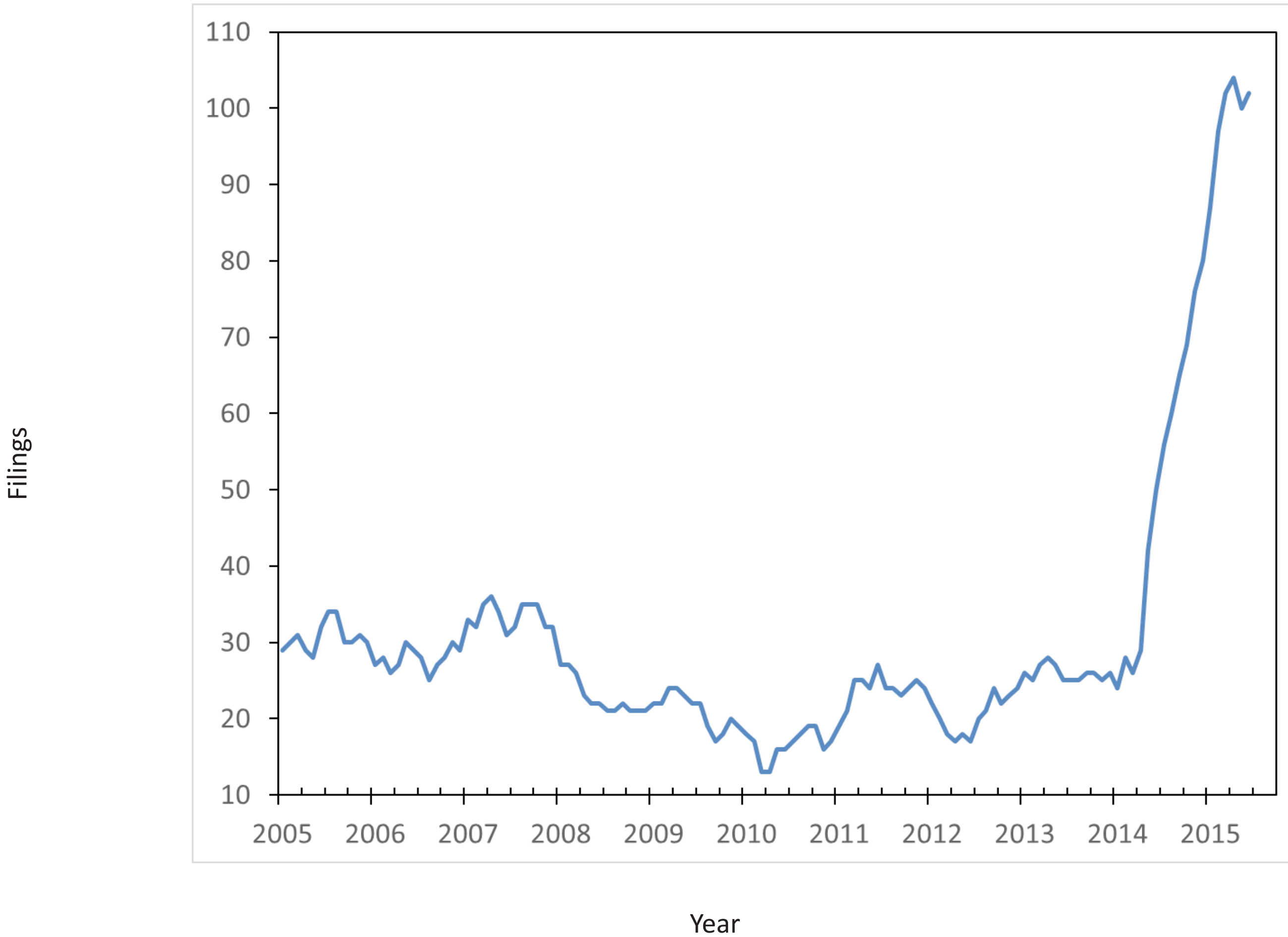
Second quarter assumed names jumped by 30.7 percent compared to the same period in 2014. As can be seen in the accompanying figure, while this series has been very volatile in recent years, new assumed names are little changed since the beginning of 2013.

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

Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter 2: Percent change from prior year
Southwest Minnesota New Assumed Names	153	184	177	194	200	30.7%

There were 28 newly registered non-profits in the second quarter. This is unchanged from one year ago. As can be seen in the graph below, the non-profits series had increased considerably since the beginning of 2014.

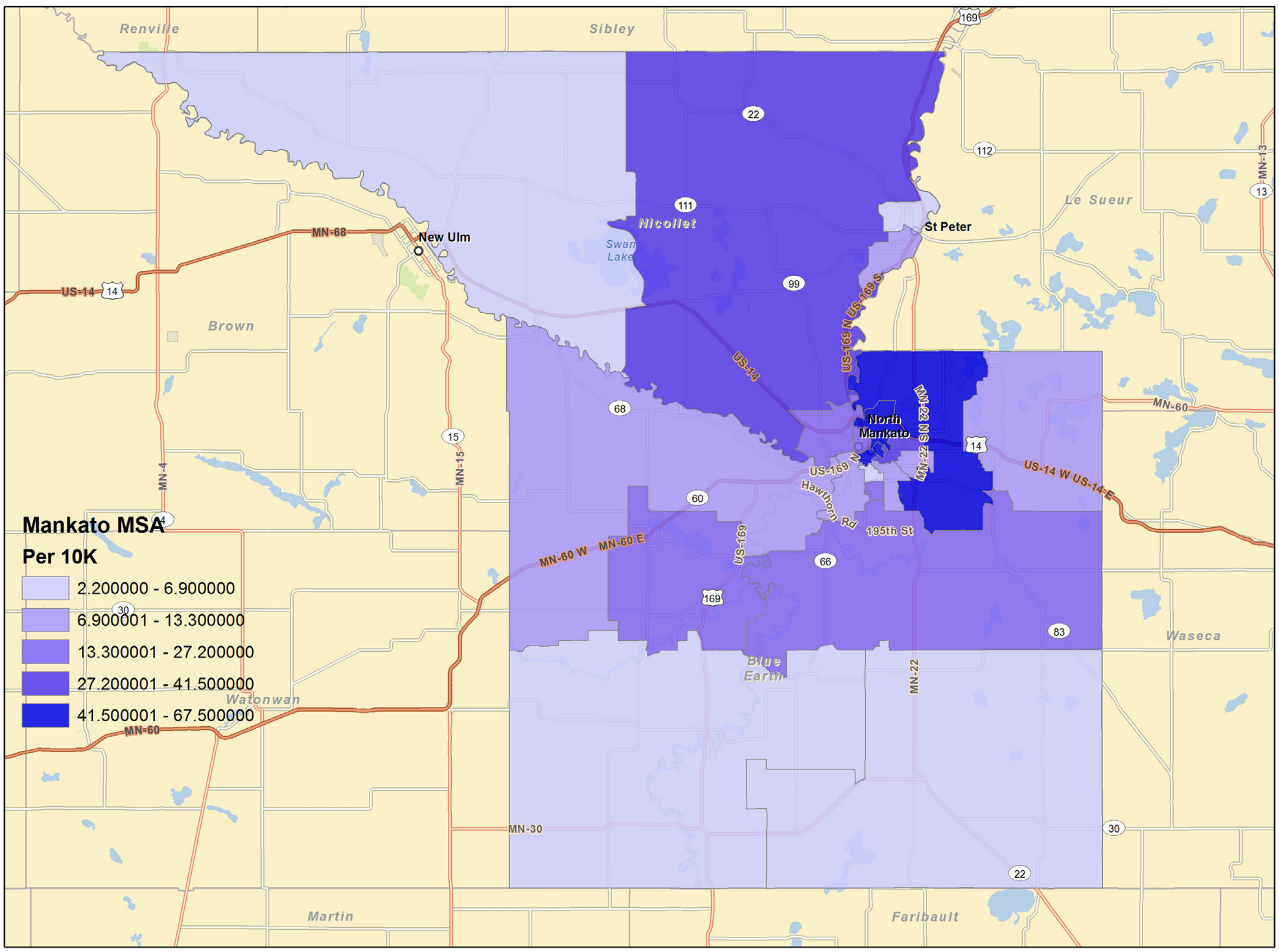
New Non-Profits—Southwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter 2: Percent change from prior year
Southwest Minnesota New Non-Profits	28	25	20	29	28	0%

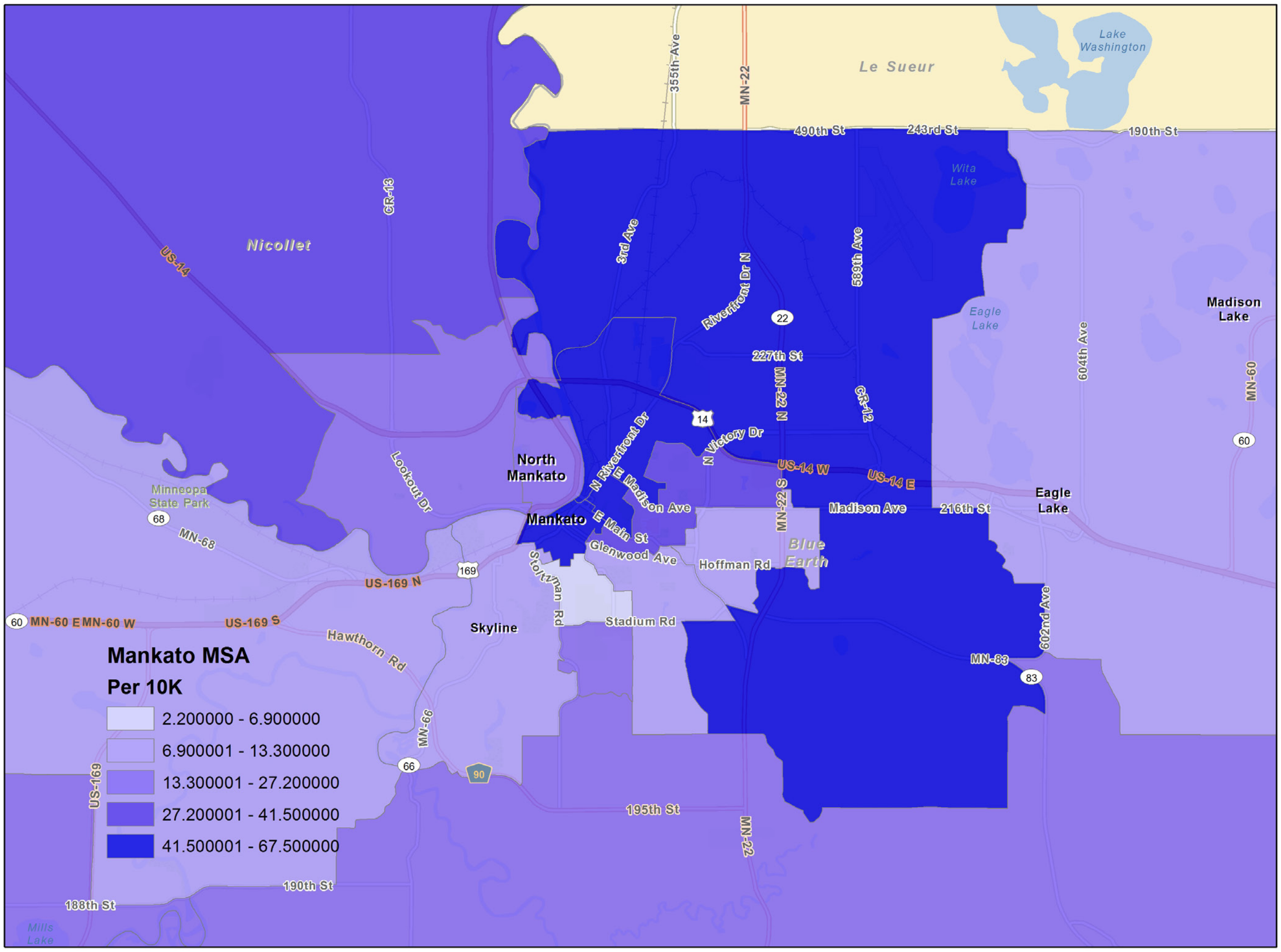
The map below highlights per capita new business formation by census tract in this year's second quarter in the Mankato/North Mankato Metropolitan Statistical Area (MSA). This MSA consists of two counties—Nicollet and Blue Earth. While there were 199 new business filings in the Mankato MSA in this year's second quarter, the distribution of new filings is clearly uneven over the metro area. Using census tract population numbers from the 2010 census, the map shows some portions (represented by the lighter colored blocks) of the Mankato MSA experienced relatively little new per capita business formation in this period, while others (the darker colored blocks) enjoyed fairly strong gains. Some areas naturally experience a disproportionately large number of per capita new business filings. For example, relatively few people live in downtown areas (where there tends to be a lot of office space), while business filings tend to be strong. This map is a reminder that after controlling for population, some areas of the MSA are more likely than others to experience new economic development.

New Business Formation Per 10,000 People By Census Tract in 2015, Quarter 2—Mankato-North Mankato MSA



The map below zooms in on some of the areas of the Mankato MSA that experienced the most rapid per capita new business formation in this year's second quarter.

New Business Formation Per 10,000 People By Census Tract in 2015, Quarter 2—Mankato-North Mankato MSA

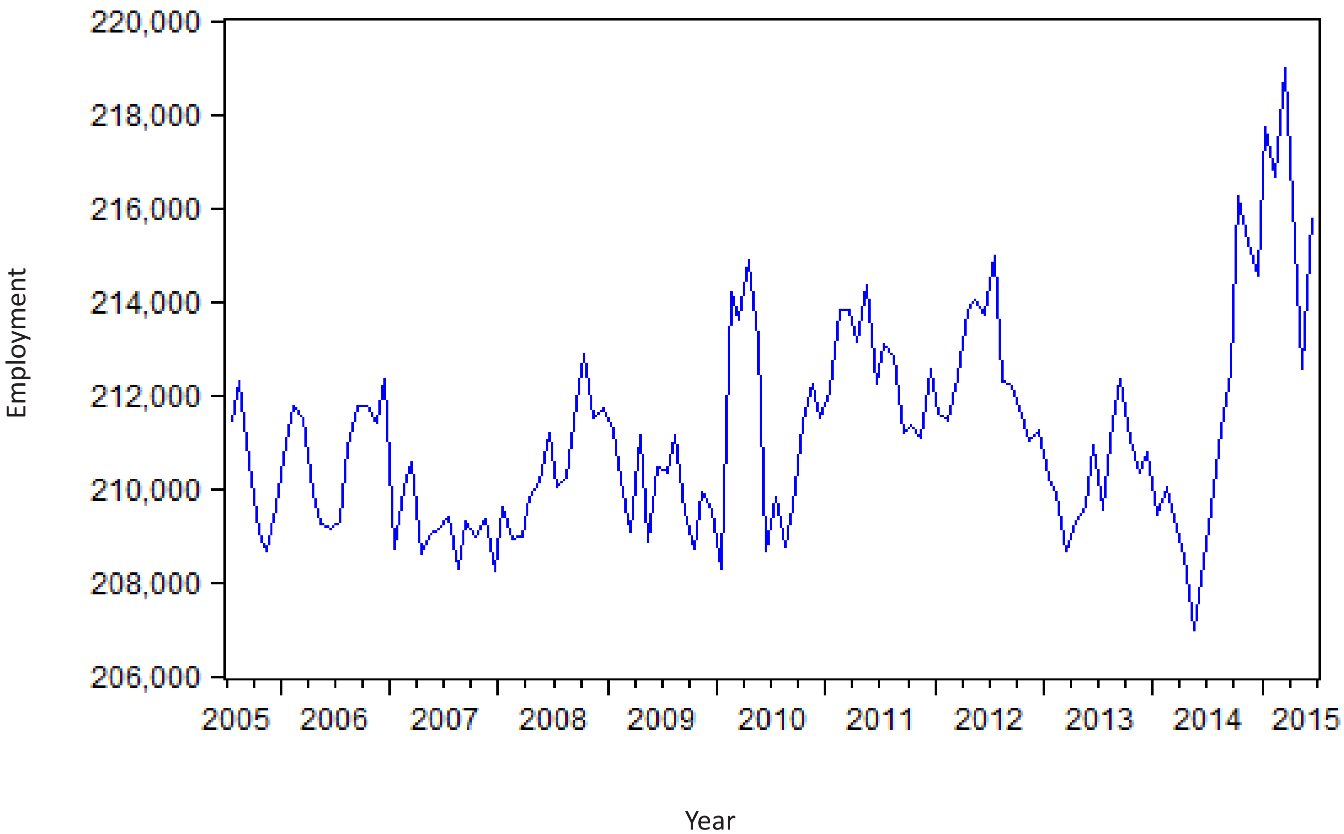


Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 4.1 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average has increased substantially since the first quarter of 2014. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in June 2015 (see accompanying table) was 218,378.

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.

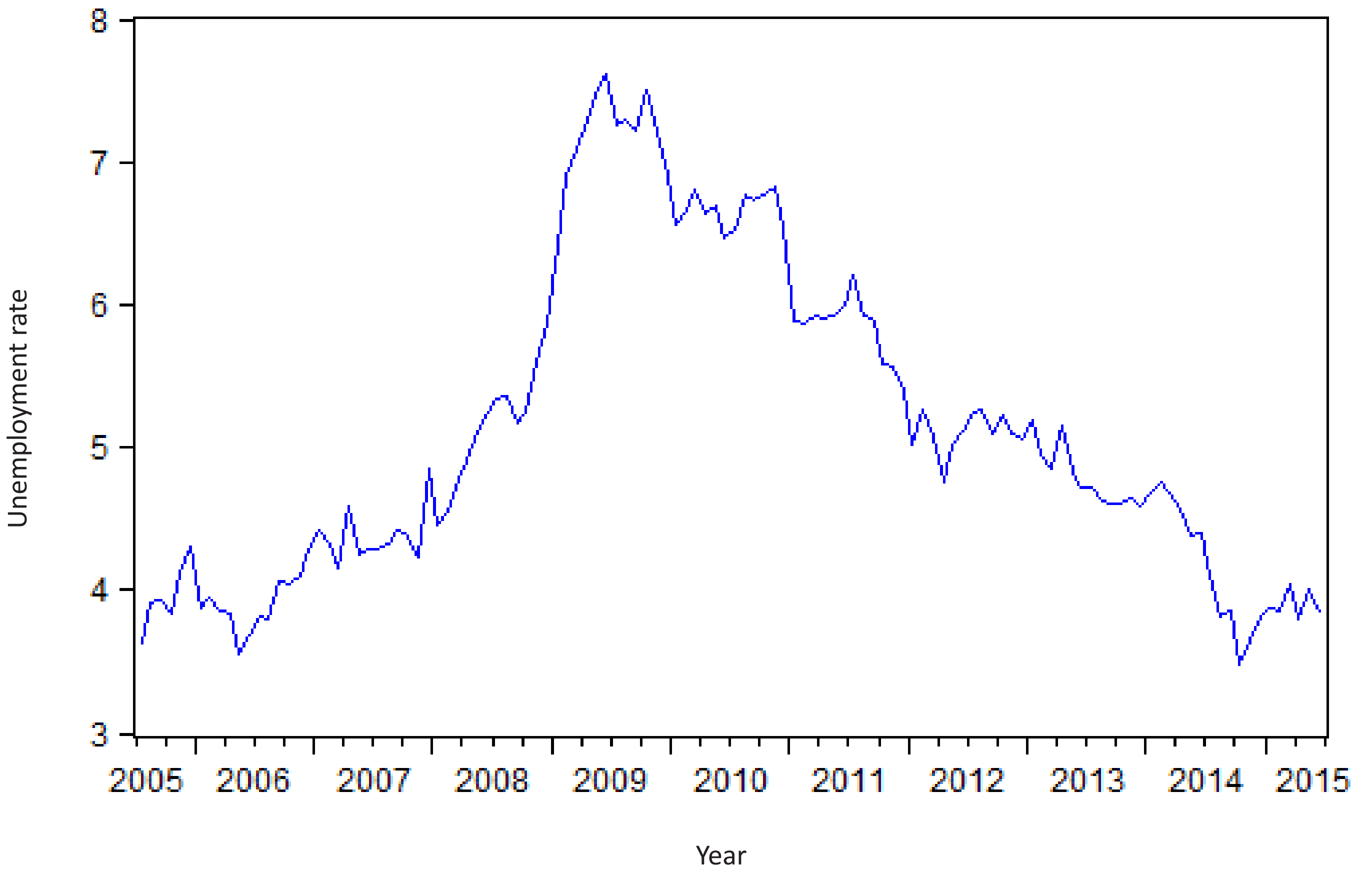
Employment—Southwest Minnesota Planning Area (12-month moving average)



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Employment (Not seasonally adjusted)	209,839	214,333	213,190	217,432	215,594	214,854	218,378

Seasonally adjusted unemployment in Southwest Minnesota has started to inch up after its continual decline from its late 2009 peak. The non-seasonally adjusted unemployment rate now stands at 3.9 percent — an improvement on the 4.1 percent rate recorded in June 2014.

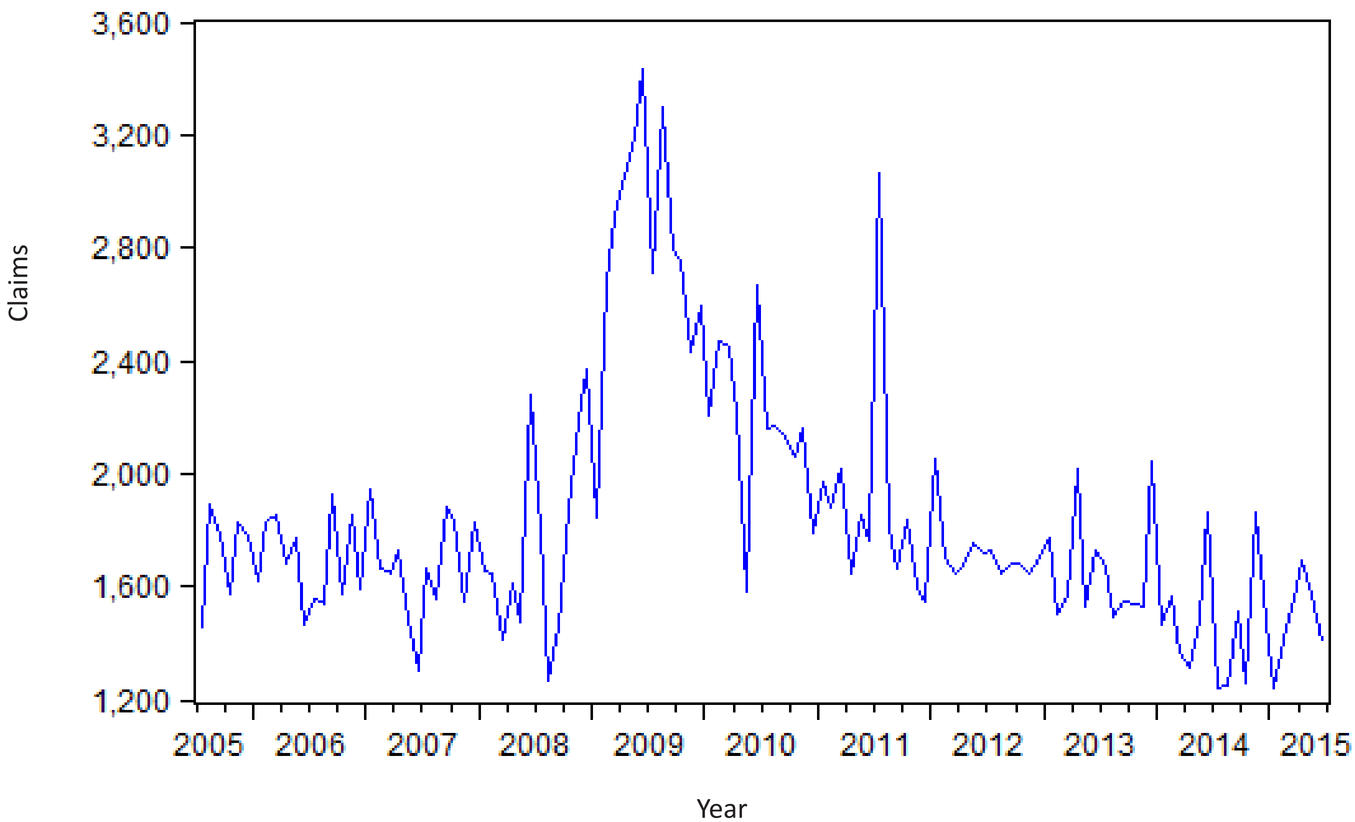
Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area



Month	June 2014	January 2015	February 2015	March 2014	April 2015	May 2015	June 2015
Unemployment Rate (Not seasonally adjusted)	4.1%	4.9%	4.7%	4.8%	3.7%	3.6%	3.9%

New claims for unemployment insurance in June 2015 were lower than one year earlier. There were 1,224 initial claims for unemployment benefits in this most recent month, 409 fewer than one year ago — a 25 percent decrease. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series remains volatile, but has drifted downward since the end of the Great Recession.

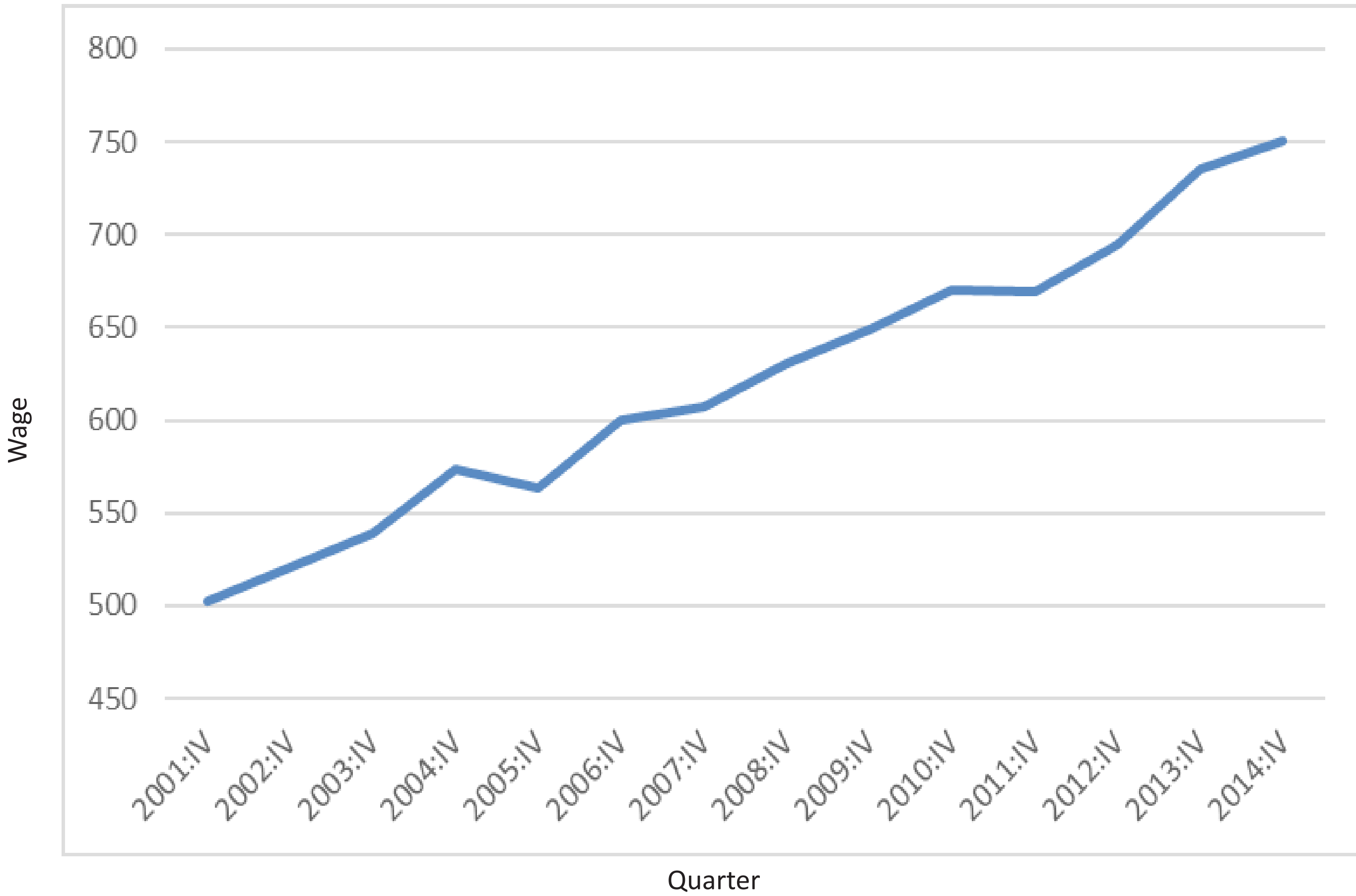
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Initial claims (Not seasonally adjusted)	1,633	1,675	1,178	1,333	1,298	1,332	1,224

Average weekly wages in the Southwest Minnesota planning area increased by 2.2 percent to $751 over the year ending in the fourth quarter of 2014 (this is the most recently available data). Southwest Minnesota average wages rank fifth out of the six Minnesota planning areas. Only the Northwest planning area has lower wages.

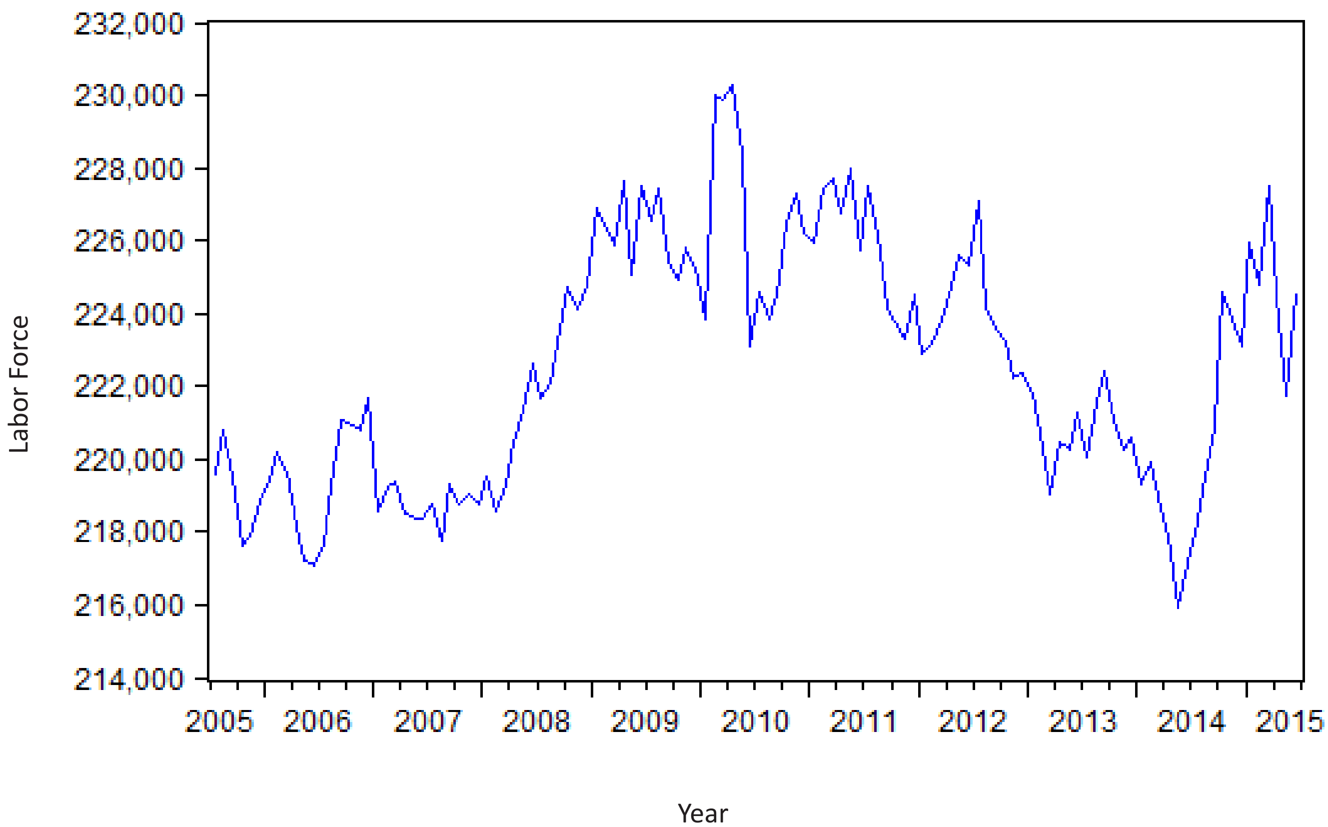
Average Weekly Wages -- Southwest Minnesota Planning Area



Quarter	2009:IV	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV
Average Weekly Wage	$649	$670	$669	$695	$735	$751

The Southwest Minnesota labor force increased by 8,519–a 3.9 percent annual increase—over the year ending June 2015. As can be seen in the accompanying figure, recent increases in this planning area's labor force appear to have reversed the five year slide that began in 2009.

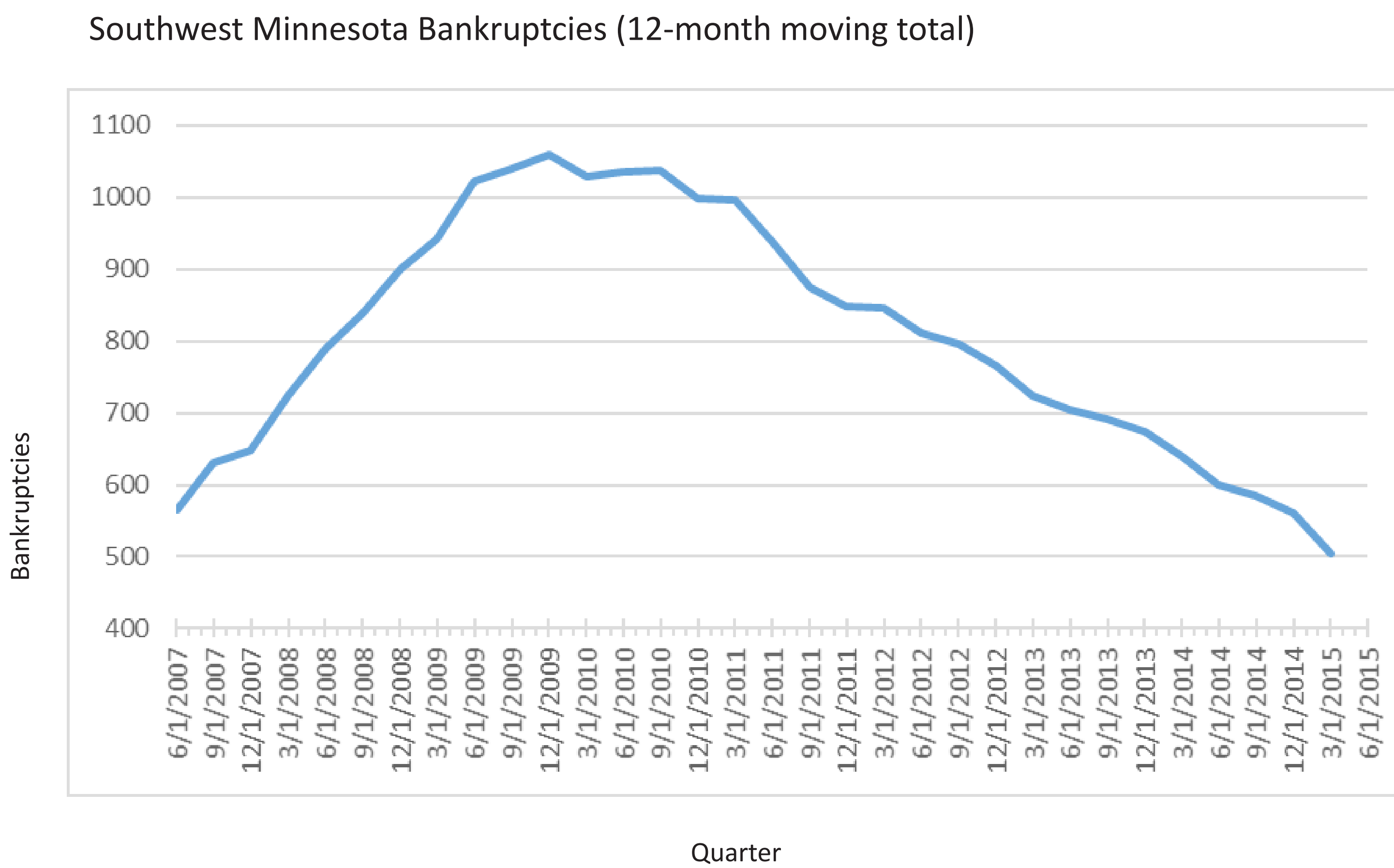
Labor Force—Southwest Minnesota Planning Area (12-month moving average)



Year (June)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	226,126	228,595	227,496	223,007	218,787	227,306

Southwest Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southwest 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 end of 2009, and has steadily declined since that time. With 504 bankruptcies over the past twelve months, the level of bankruptcies in Southwest Minnesota are now the lowest observed over the past eight years.



Year (First Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1,029	997	847	725	639	504

Economic Indicators

Mankato-North Mankato MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	June 2015 (m)	55,851	55,296	1.0% ↑	0.9%
Goods-Producing Employment	June 2015 (m)	10,368	10,315	0.5% ↑	-0.5%
Average Weekly Work Hours - Private Sector	June 2015 (m)	31.1	31.8	-2.2% ↓	33.4 (since 2008)
Average Earnings Per Hour - Private Sector	June 2015 (m)	$22.05	$22.30	-1.1% ↓	0.1% (since 2008)
Unemployment Rate	June 2015 (m)	3.3%	3.6%	NA ↓	4.1%
Labor Force	June 2015 (m)	58,910	58,234	1.2% ↑	0.5%
Initial Jobless Claims	June 2015 (m)	252	244	3.3% ↑	NA
Business Formation					
Total New Business Filings	Second Quarter 2015	199	165	20.6% ↑	151 (since 2000)
New Business Incorporations	Second Quarter 2015	21	18	16.7% ↑	25 (since 2000)
New Limited Liability Companies	Second Quarter 2015	112	96	16.7% ↑	66 (since 2000)
New Assumed Names	Second Quarter 2015	62	46	34.8% ↑	51 (since 2000)
New Non-profits	Second Quarter 2015	4	5	-20.0% ↓	8 (since 2000)
Mankato / North Mankato Residential Building Permit Valuation	June 2015 (m)	2,890	6,069	-52.4% ↓	NA
Mankato / North Mankato Cost of Living Index	First Quarter 2015	95.3	94.9	0.4% ↑	NA

(m) represents a monthly series

Southwest Minnesota contains the Mankato/North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. As the accompanying table shows, Mankato enjoyed a 1 percent increase in employment over the year ending June 2015—although the goods-producing sector created jobs at a lower 0.5 percent rate. The unemployment rate fell, the labor force expanded, and nearly all categories of new business filings rose. However, initial jobless claims increased while the length of the workweek and average hourly earnings fell. There does appear to be some cost of living pressures that are being felt in Mankato, but the area still is very affordable compared to other U.S. metropolitan areas. The value of residential building permits in Mankato declined in June 2015 compared to one year earlier.

State and National Indicators

MINNESOTA Indicators	Jun 2015	Mar 2015	Jun 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,854,500	2,844,600	2,817,700	0.3%	1.3%
Average weekly hours worked, private sector	34.0	33.9	34.5	0.3%	-1.4%
Unemployment rate, seasonally adjusted	3.8%	3.7%	4.4%	NA	NA
Earnings per hour, private sector	$25.75	$26.32	$25.73	-2.2%	0.1%
Philadelphia Fed Coincident Indicator, MN	174.58	173.50	169.66	0.6%	2.9%
Philadelphia Fed Leading Indicator, MN	1.21	1.43	1.78	-15.4%	-32.0%
Minnesota Business Conditions Index	54.3	50.0	70.1	8.6%	-22.5%
Price of milk received by farmers (cwt)	$17.60	$17.10	$23.40	2.9%	-24.8%
Enplanements, MSP airport, thousands	1,673.7	1,629.6	1,609.6	2.7%	4.0%

NATIONAL Indicators	Jun 2015	Mar 2015	Jun 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	141,842	141,178	138,907	0.5%	2.1%
Industrial production, index, SA	107.1	107.4	105.7	-0.3%	1.3%
Real retail sales, SA	185,895	186,041	183,689	-0.1%	1.2%
Real personal Income less transfers	11,511.0	11,416.2	11,116.6	0.8%	3.5%
Real personal consumption expenditures	11,176.3	11,104.4	10,860.8	0.6%	2.9%
Unemployment rate	5.3%	5.5%	6.1%	NA	NA
New building permits, SA, thousands	1,337	1,038	1,033	28.8%	29.4%
Standard & Poor's 500 stock price index	2,099.28	2,079.99	1,947.09	0.9%	7.8%
Oil, price per barrel in Cushing, OK	$59.82	$47.82	$105.79	25.1%	-43.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Average weekly hours worked fell and earnings per hour in the private sector were essentially unchanged over the past year. Two of three broader indicators suggest softening in the state economy in the second quarter. Milk prices were 24.8 percent lower than one year ago in June. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 4 percent over the last twelve months.

The national economic indicators reported in the table suggest strong economic performance at the national level. Compared to year earlier levels, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment, and the unemployment rate are all improved. Oil prices have declined significantly over the past year. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. The national economy appears to have rebounded from a soft patch in the year's first quarter and now appears poised to grow at a moderate rate through the remainder of 2015.

The Southwest 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 Southwest Minnesota Planning Area consists of 23 counties: Big Stone; Blue Earth; Brown; Chippewa; Cottonwood; Faribault; Jackson; Lac qui Parle; Le Sueur; Lincoln; Lyon; Martin; Murray; Nicollet; Nobles; Pipestone; Redwood; Rock; Sibley; Swift; Waseca; Watonwan; and Yellow Medicine.

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: Bankruptcies

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.