Northeast 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

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Executive Summary

Business conditions in Northeast Minnesota are 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 this year's second quarter as the overall index rose by 8.22 points. After being in negative territory for the previous two quarters, this quarter's positive LEI reading is a welcome sign of future improvement in the Northeast Minnesota economy. A recent rise in initial jobless claims in the region was the only drag on the LEI in the second quarter. A rise in residential building permits in the Duluth/Superior area earlier in the year had a favorable impact on the outlook. Also contributing to the stronger results was an improvement in a general measure of state business conditions, higher filings for business incorporation over the past several months, and an increase in a supply managers' survey index.

There were 559 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the second quarter of 2015 — representing a 2 percent improvement from one year ago. Fifty-two new regional business incorporations were filed in the second quarter, representing no change from 2014. New limited liability company (LLC) filings in Northeast Minnesota rose by 14.9 percent to 293. New assumed names totaled 192 in this year's second quarter—an 8.6 percent decrease from the second quarter of 2014. There were 22 new filings for Northeast Minnesota non-profit in the 2015 second quarter—nine fewer than one year earlier.

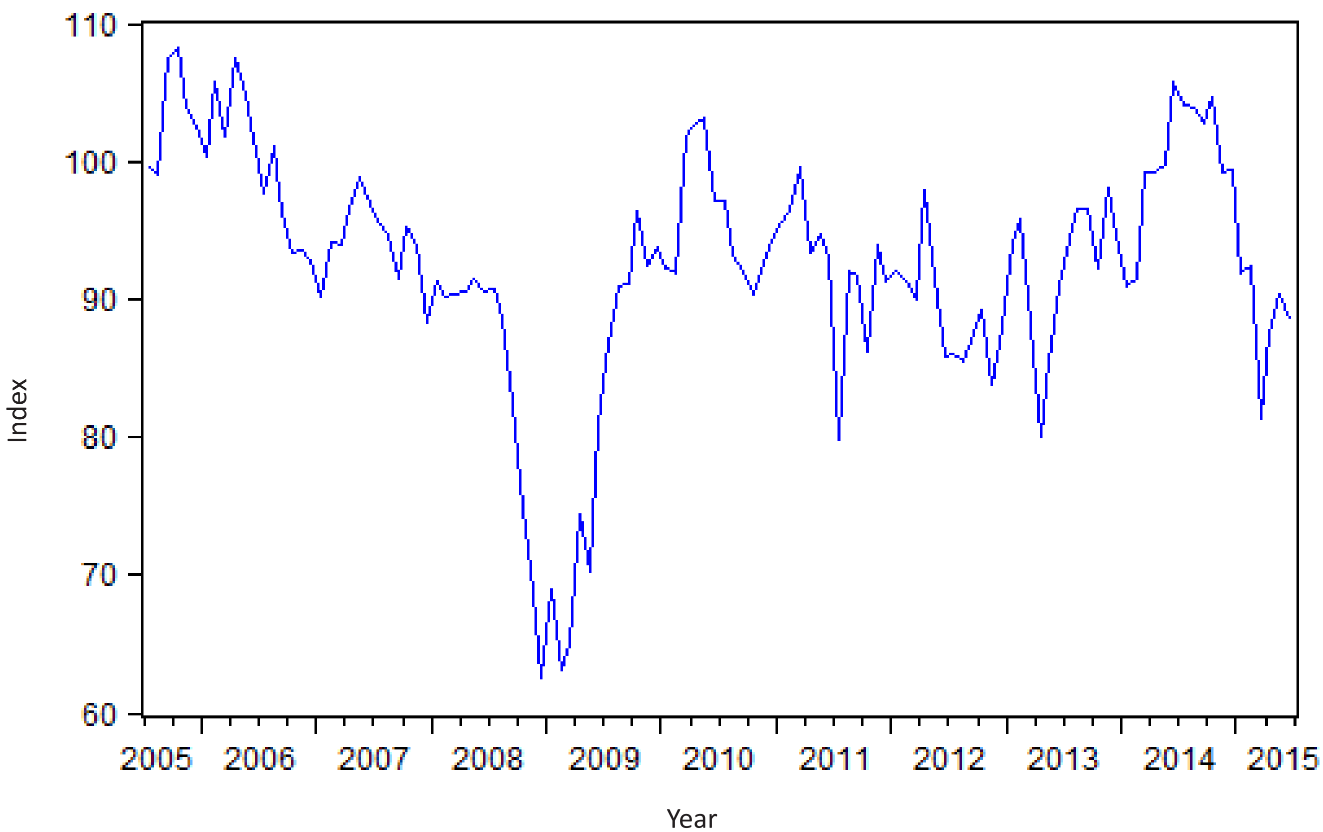
Northeast Minnesota employment was 0.4 percent higher than year earlier levels in June. The regional unemployment rate increased to 5.6 percent, but the Northeast Minnesota labor force grew by 0.6 percent. Despite this, the regional labor force is still 2,138 lower than in June 2010. June 2015 initial claims for unemployment insurance were 263 higher than the year earlier (a 21.4 percent increase) and average weekly wages finished the fourth quarter of 2014 at $803, a 3.3 percent increase from the end of 2013.

Economic performance in the Duluth/Superior Metropolitan Statistical Area (MSA) was largely favorable. Northeast Minnesota's largest market experienced a 1.5 percent rise in overall employment over the year ending June 2015, and the key education/health sector added jobs. The length of the workweek stabilized as average hourly earnings rose. The area unemployment rate rose and the labor force also increased. The value of residential building permits was 75.2 percent lower in June than one year earlier. This may cause a weaker outlook in future quarters.

Northeast Minnesota Leading Economic Indicators Index

The SCSU Northeast Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. The LEI finished 8.22 points higher in this year's second quarter. Despite the recent strength of the index, the LEI is still 16.4 percent below its level one year ago. As can be seen in the accompanying figure, the LEI has shown considerable quarterly volatility since the end of the Great Recession, so the recent positive reading of the index could easily be reversed in coming quarters.

The SCSU Northeast Minnesota Leading Economic Indicators Index



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2015	Contribution to LEI, 1st quarter 2015
Minnesota Business Conditions Index	1.22	-4.26
Northeast Minnesota initial claims for unemployment insurance	-1.56	-0.39
Northeast Minnesota new filings of incorporation	1.34	-0.31
Duluth-Superior MSA residential building permits	5.31	-3.4
Institute of Supply Management Purchasing Managers Index for manufacturing	1.91	-11.56
TOTAL CHANGE	**8.22**	**-19.92**

The only component of the LEI that decreased in the second quarter of 2015 was initial jobless claims in the region. All other components had positive readings. 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 second quarter. Increased new filings for business incorporation in Northeast Minnesota over the past several months also helped push up the index, as did strength earlier in the year of the Minnesota Business Conditions Index (which is used as an indicator of general statewide business conditions). By far, the largest positive component of this quarter's LEI was Duluth-Superior MSA residential building permits tallied earlier in the year. A rise in this component caused a 5.31 point increase in the LEI.

SCSU Northeast Minnesota Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index June	53	70.1	-24.4%
Northeast Minnesota initial claims for unemployment insurance June	1,493	1,230	21.4%
Northeast Minnesota new filings of incorporation Second Quarter	52	52	0.0%
Duluth-Superior MSA single-family building permits June	12	53	-77.4%
Institute for Supply Management Purchasing Managers' Index manufacturing sector, June	53.5	55.6	-3.8%
Northeast Minnesota Leading Economic Indicators Index June (December 1999 = 100)	88.4	105.8	-16.4%

Northeast Minnesota Business Filings

Total new business filings increased by 2 percent compared to the second quarter of 2014. This series has trended upward since the end of 2011, but had weakened over the previous two quarters. 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.

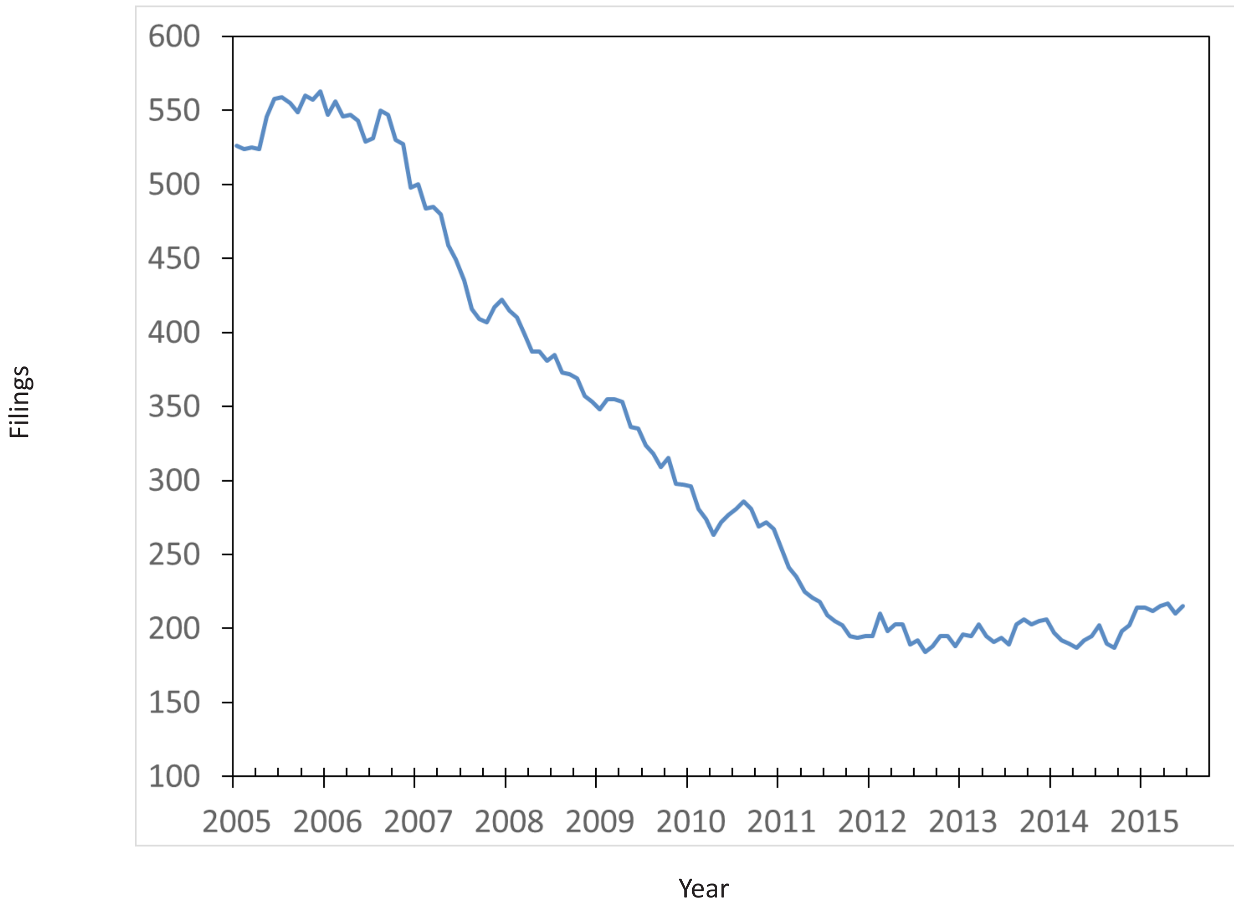
Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data.

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

Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northeast Minnesota Total New Business Filings	548	472	478	547	559	2.0%

New filings for business incorporation have flattened out since the beginning of 2012. There were 52 new filings for incorporation in this year's second quarter. This is the same number of filings as there were one year ago.

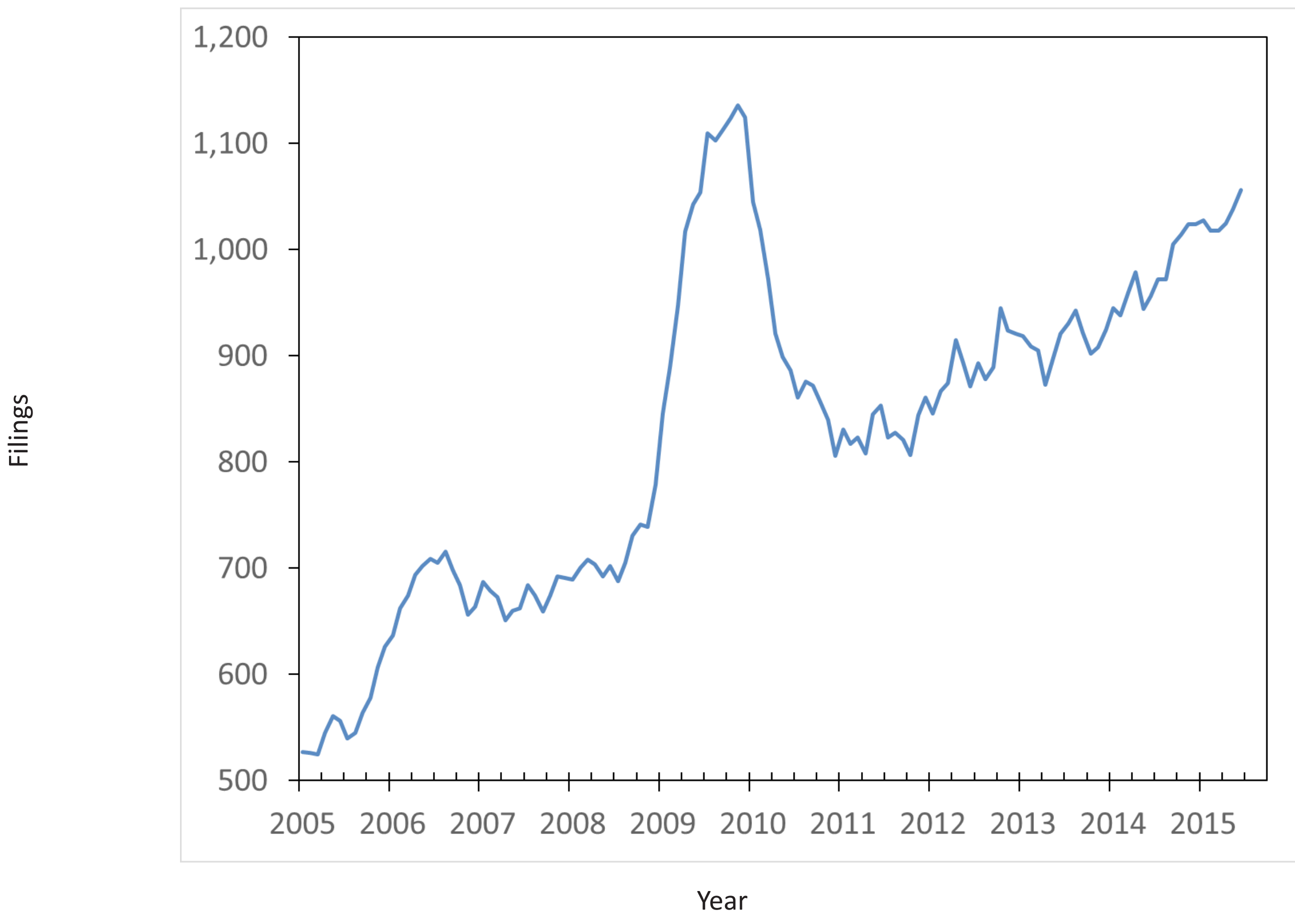
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northeast Minnesota New Business Incorporations	52	39	69	55	52	0%

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 second quarter as new filings surged, increasing by 14.9 percent compared to the same quarter last year. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

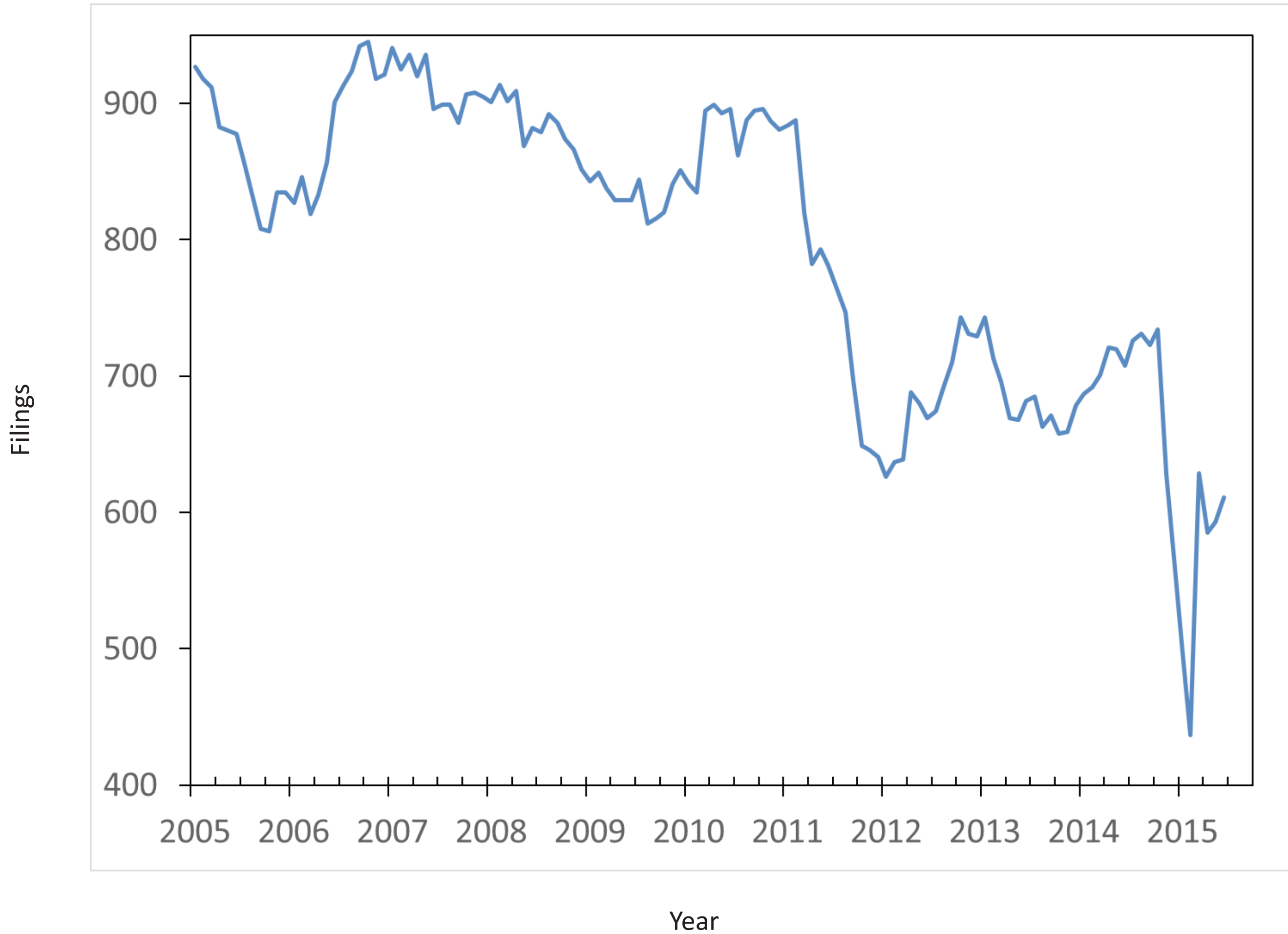
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	255	244	259	260	293	14.9%

Compared to last year's second quarter, assumed names declined 8.6 percent in Northeast Minnesota. After leveling out from 2011 to 2014, new assumed names filings in Northeast Minnesota declined precipitously in 2014. The series has not returned to its level during that three year period.

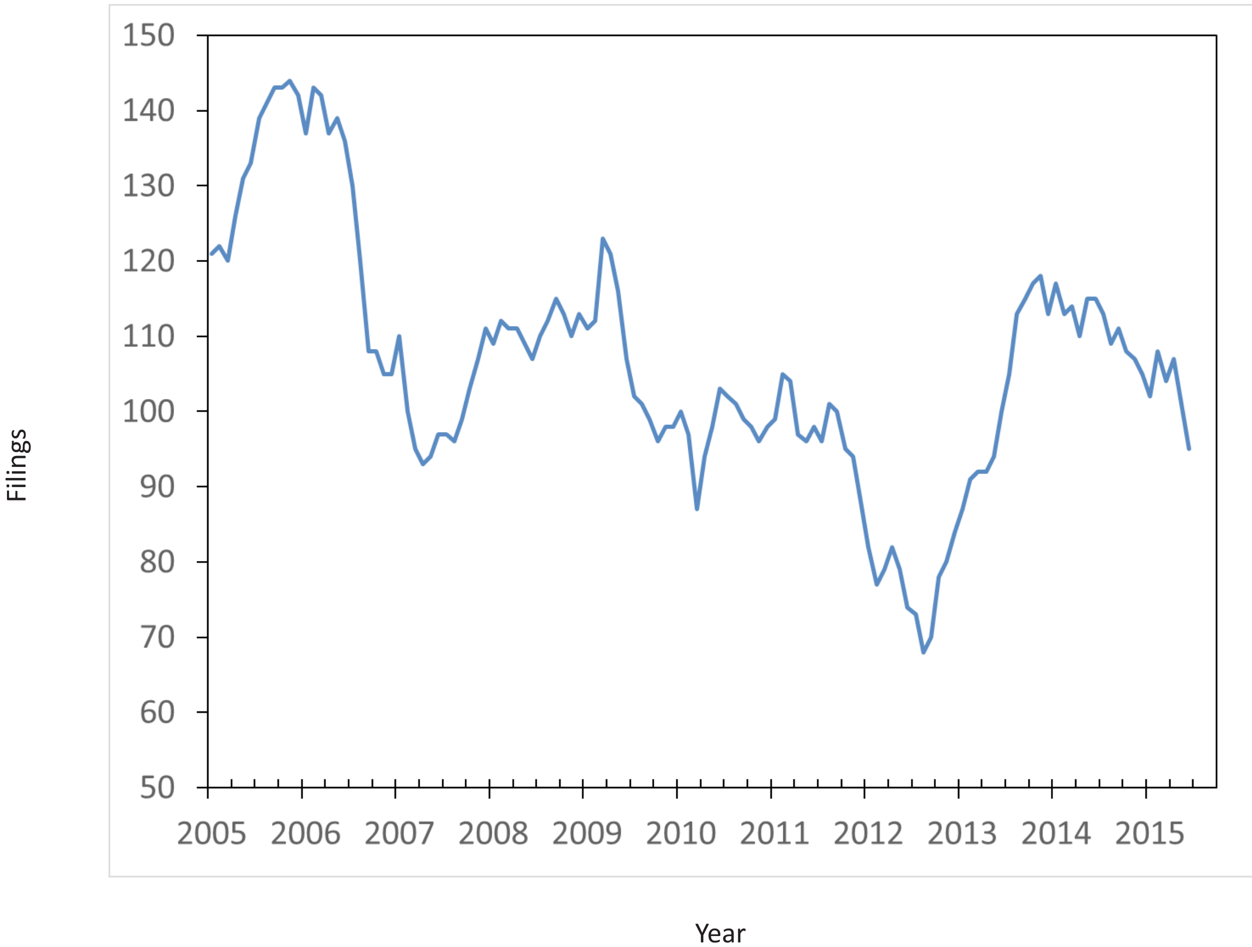
New Assumed Names—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northeast Minnesota New Assumed Names	210	164	128	206	192	-8.6%

There were 22 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the second quarter of 2015, nine fewer than were recorded one year ago.

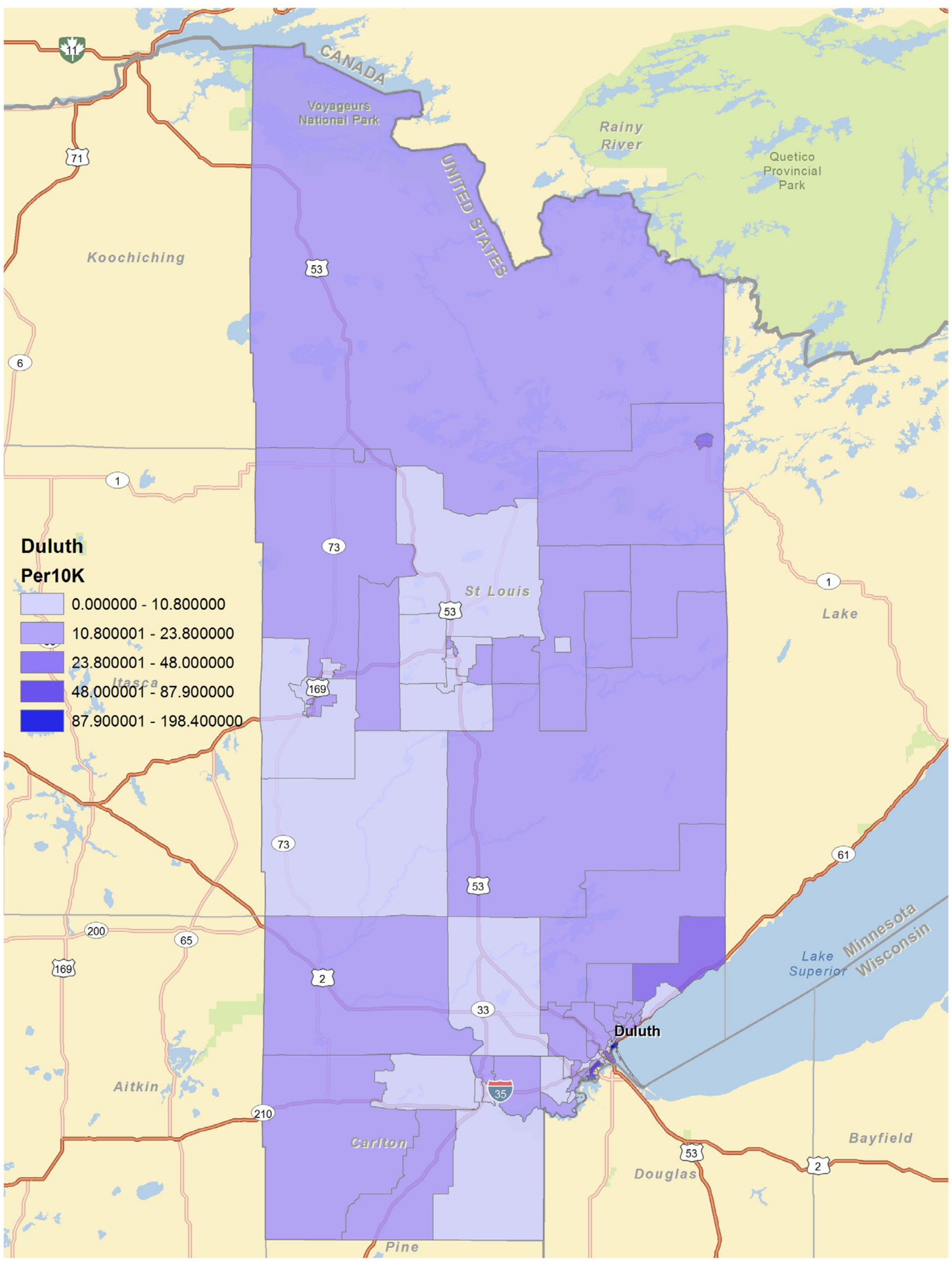
New Non-Profits—Northeast Minnesota Planning Area (12-month moving total)



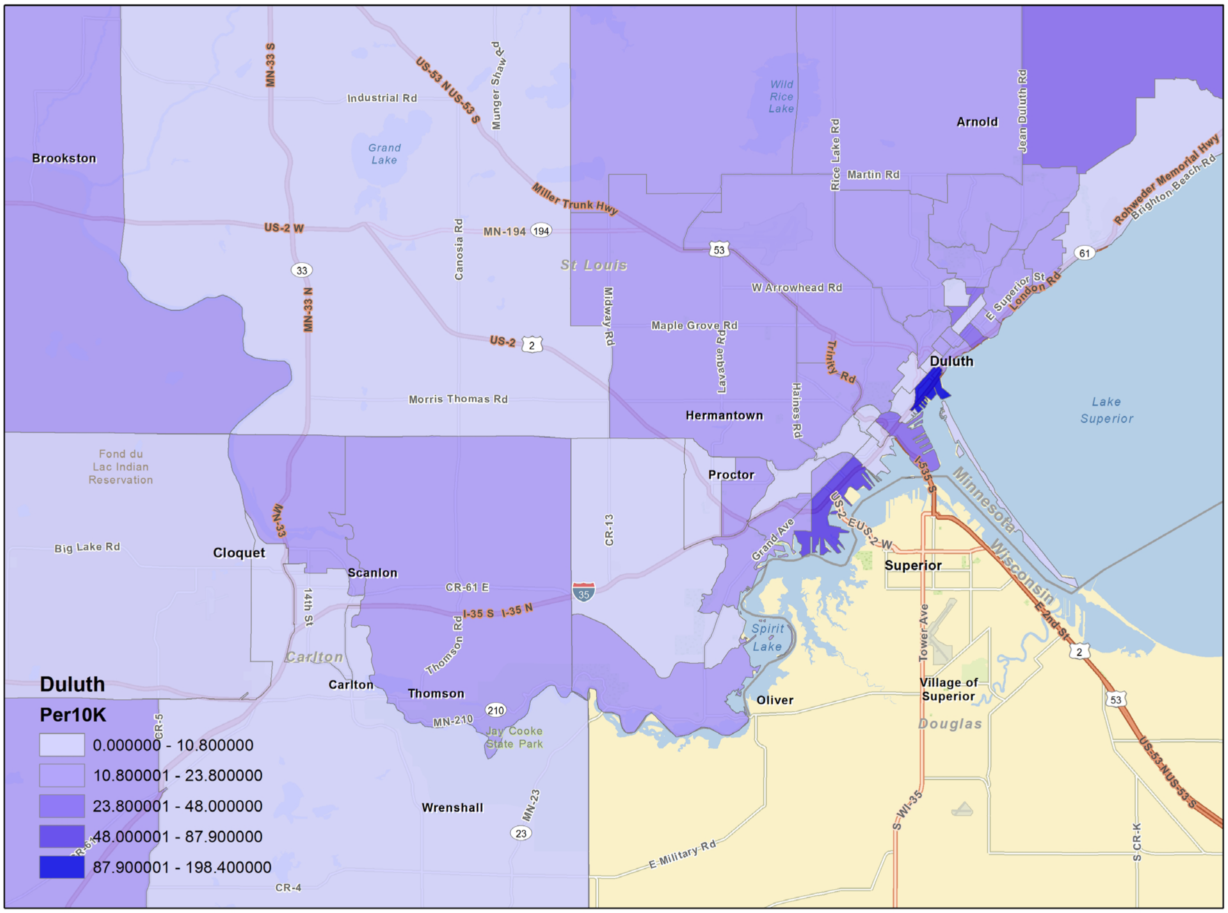
Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter II: Percent change from prior year
Northeast Minnesota New Non-Profits	31	25	22	26	22	-29.0%

The map below highlights per capita new business formation by census tract in this year's second quarter in the Minnesota counties (Carlton and St. Louis) of the Duluth-Superior Metropolitan Statistical Area (MSA). This MSA also includes Douglas county (Wisconsin), but business filing data are only available for Minnesota counties. The distribution of new filings in Carlton and St. Louis counties 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 Duluth-Superior 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.

Duluth-Superior MSA New Business Formation per 10,000 People
By Census Tract--Quarter 2:2015



The map below zooms in on some of the areas of the Duluth-Superior MSA that experienced the most rapid per capita new business formation in this year's second quarter. While downtown Duluth enjoys the most dense per capita new business filings, there are many other tracts in the planning area that are also enjoying strong gains in new business formation.

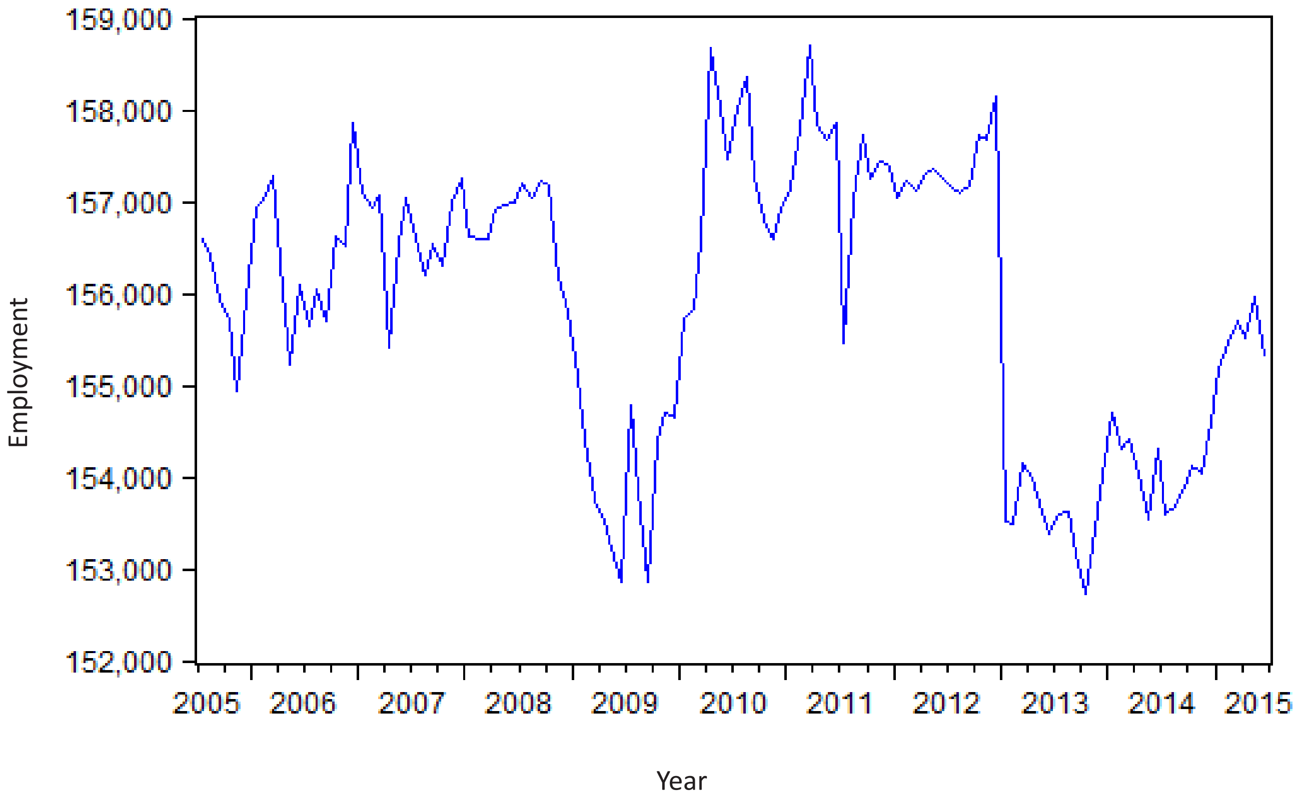


Northeast Minnesota Labor Market Conditions

June 2015 employment in the Northeast Minnesota planning area was 0.4 percent higher than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment has been slowly rising over the past two years, but is well below its level of 2005.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, soparesearch@stcloudstate.edu.

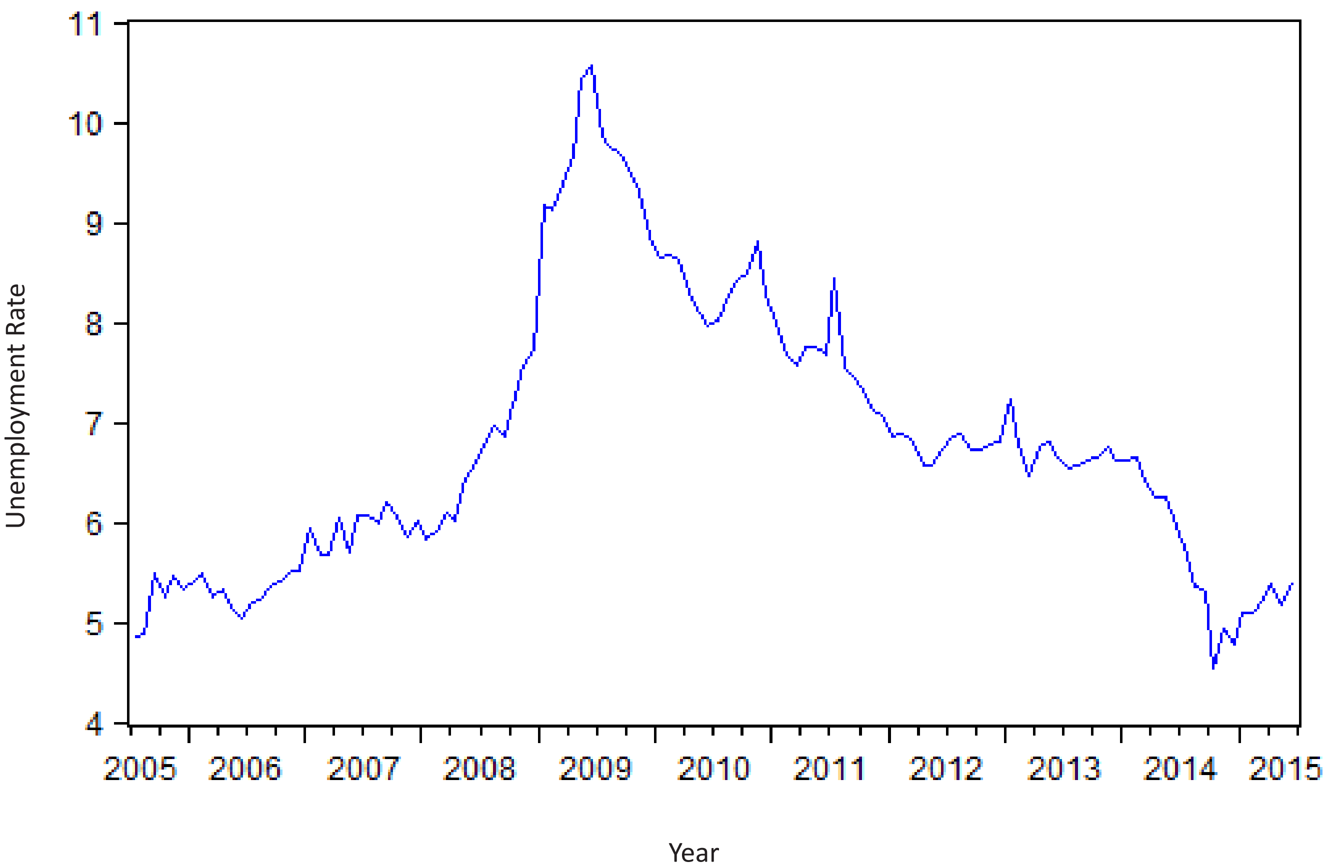
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Employment (Not seasonally adjusted)	156,769	151,067	152,981	153,481	154,279	156,851	157,422

The seasonally adjusted unemployment rate in Northeast Minnesota has been rising since the end of 2014. At 5.6 percent, the non-seasonally adjusted rate was higher than one year ago. This increase in the unemployment rate occurred at the same time the labor force was expanding, so this could be a temporary increase in the area jobless rate. Note that the Northeast Minnesota planning area has the highest unemployment rate of any of Minnesota's six planning areas.

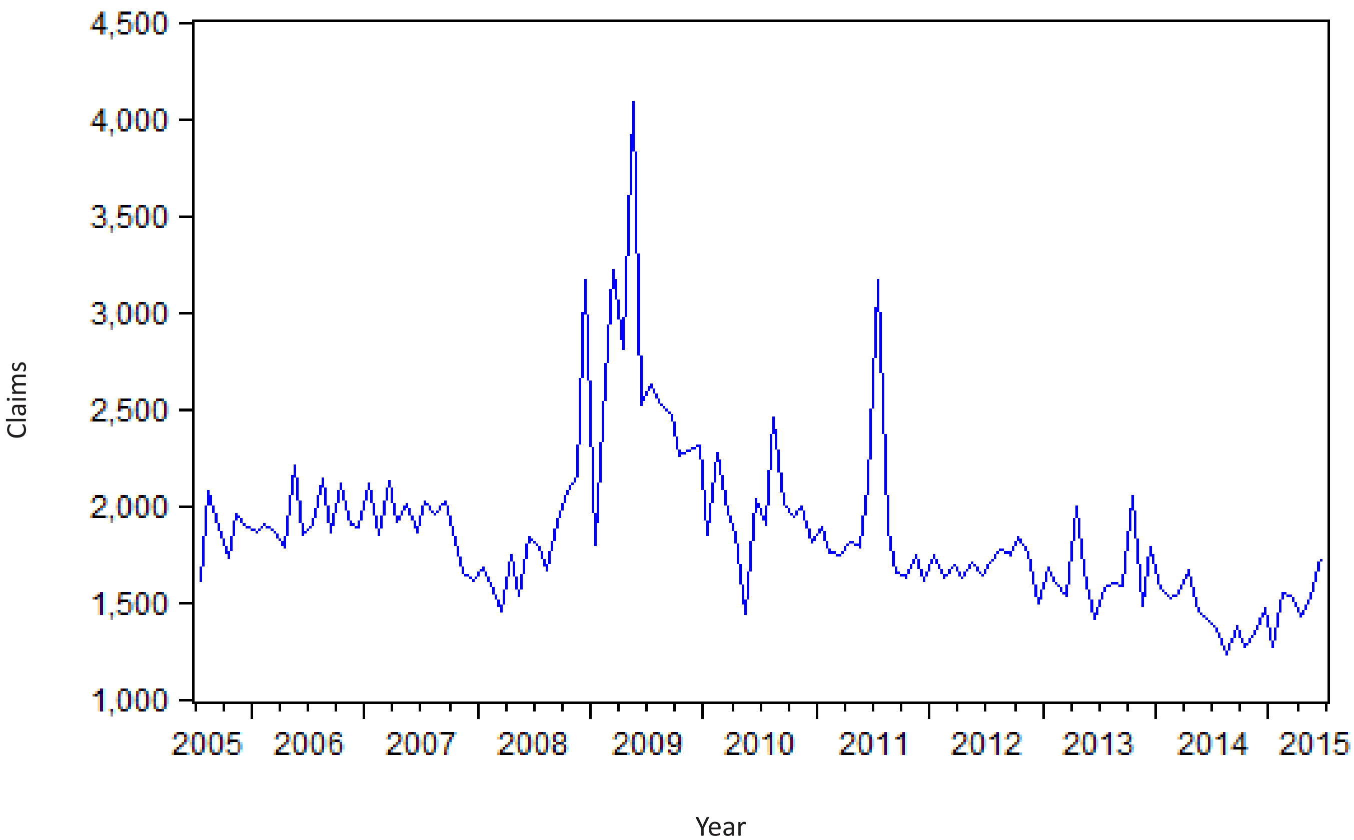
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Unemployment Rate (Not seasonally adjusted)	5.4%	5.9%	5.9%	6.1%	5.6%	5.0%	5.6%

On a seasonally adjusted basis, initial jobless claims in the Northeast region have been rising over the past year. As indicated in the table below, there were 263 more initial claims in June than one year earlier.

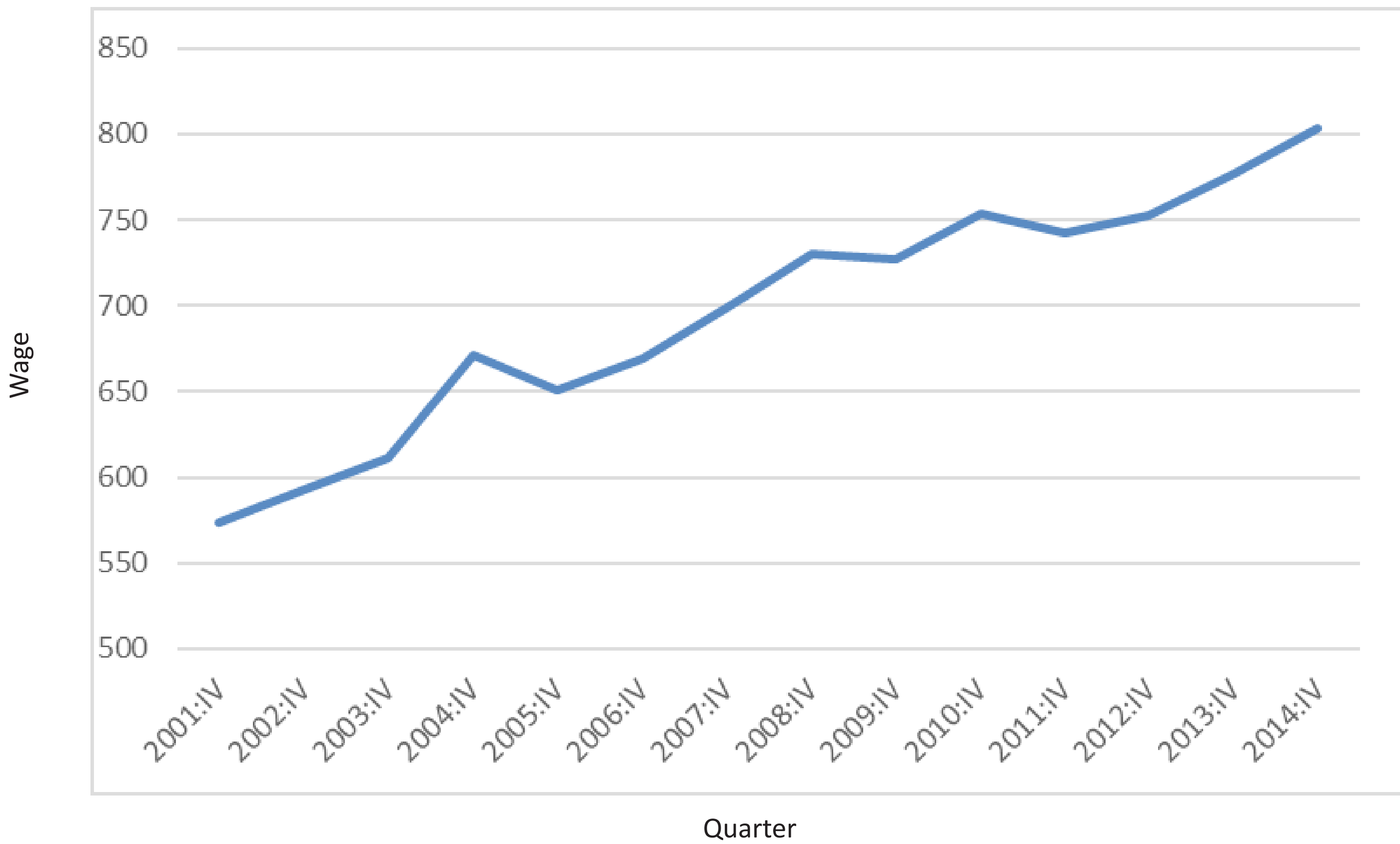
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Initial claims (Not seasonally adjusted)	1,230	1,547	1,366	1,537	1,237	1,343	1,493

Average weekly wages in the Northeast Minnesota planning area increased by 3.3 percent to $803 over the year ending in the fourth quarter of 2014 (this is the most recently available data). Northeast Minnesota average wages rank third out of the six Minnesota planning areas. Only Twin Cities and Southeast planning areas have higher wages.

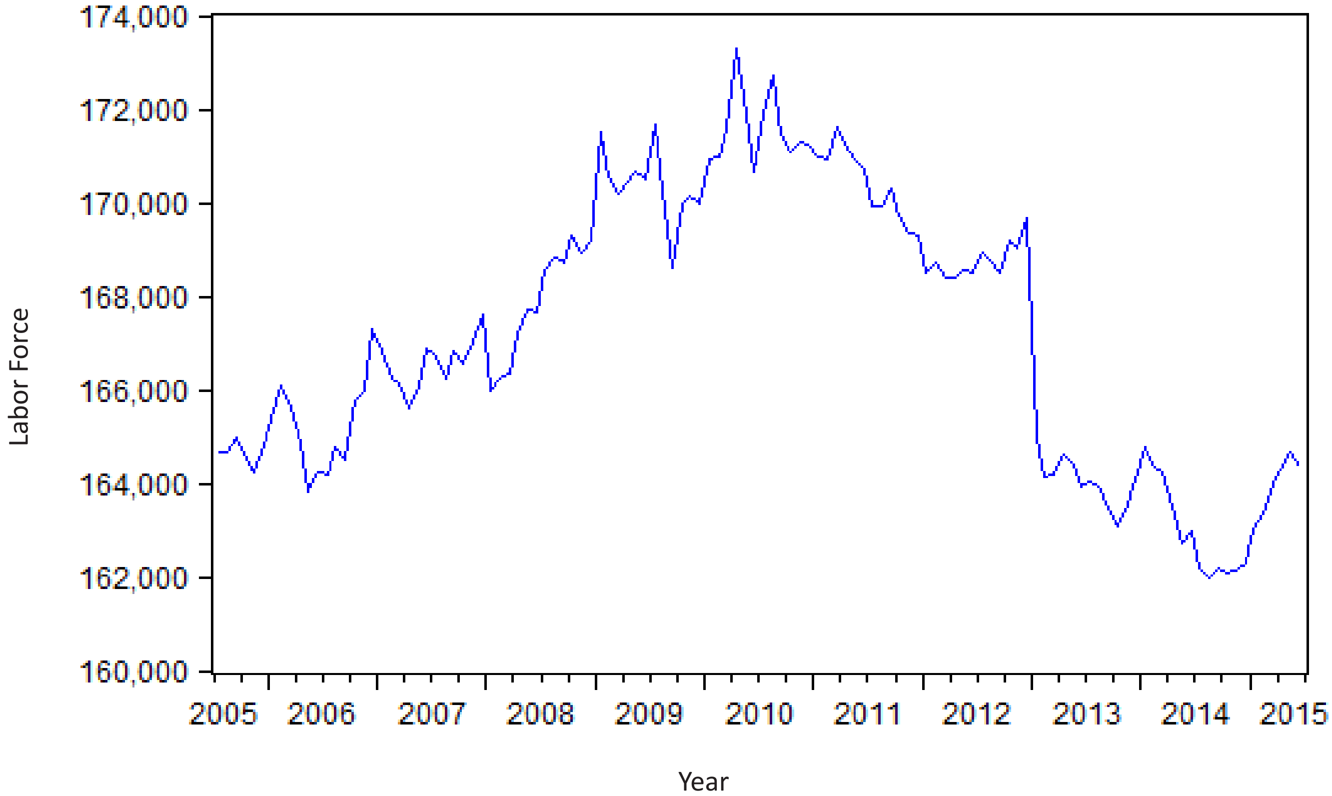
Average Weekly Wages--Northeast Minnesota Planning Area



Quarter	2009:IV	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV
Average Weekly Wage	$727	$754	$742	$753	$777	$803

The Northeast labor force rose in the twelve month period ending June 2015. Using a 12 month moving average to account for seasonality, the Northeast Minnesota labor force has slowly inched upward over the past year. Despite this, the level of the planning area's work force is well below that which was observed in 2010.

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

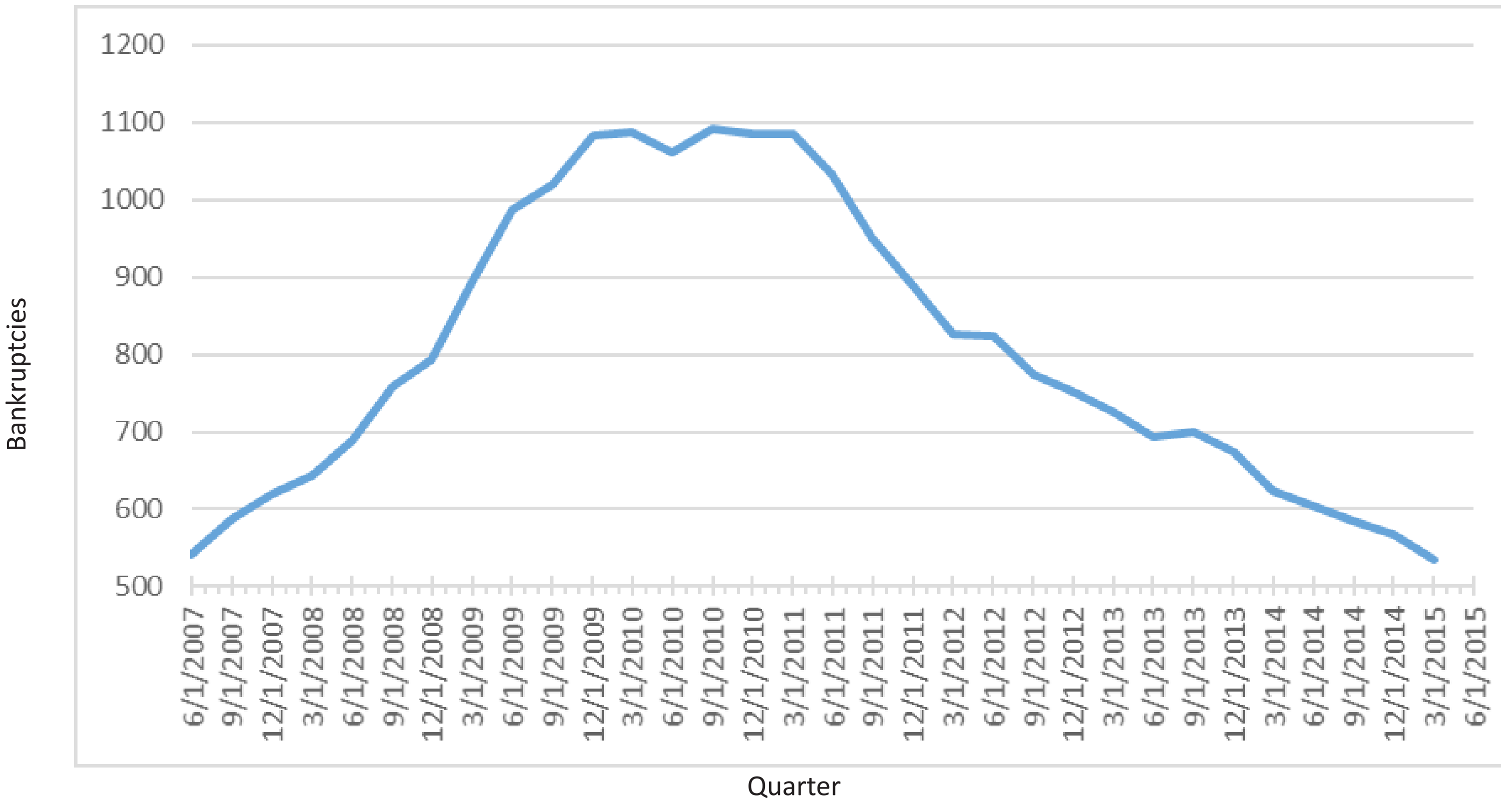


Year (June)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	168,835	167,985	166,112	166,764	165,684	166,697

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 has been gradually declining since the first half of 2011. With 534 bankruptcies over the past twelve months, the level of bankruptcies in Northeast Minnesota has now returned to a level last seen prior to the Great Recession.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1087	1086	827	727	624	534

Economic Indicators

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2015 (m)	138,441	136,433	1.5% ↑	0.3%
Manufacturing Employment	June 2015 (m)	7,358	7,384	-0.4% ↓	-1.9%
Educational and Health Sector Employment	June 2015 (m)	31,498	30,439	3.5% ↑	3.0%
Average Weekly Work Hours-Private Sector	June 2015 (m)	33.3	33.3	0.0% ↔	32.3 (since 2007)
Average Earnings Per Hour-Private Sector	June 2015 (m)	$25.12	$24.29	3.4% ↑	4.6% (since 2007)
Unemployment Rate	June 2015 (m)	5.3%	5.2%	NA ↑	6.1%
Labor Force	June 2015 (m)	145,136	144,346	0.5% ↑	0.0%
Duluth-Superior Residential Building Permit Valuation	June 2015 (m)	3,351	13,539	-75.2% ↓	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where there were favorable results from the most recently available economic indicators. Overall employment increased by 1.3 percent over the year ending June 2015 and employment in the key education/health sector (where more than 30,000 people have jobs) expanded at a 3.5 percent annual pace. The length of the average work week was unchanged, but average hourly earnings rose. While the area unemployment rate rose, this may have resulted from a 0.5 percent increase in the labor force. Finally, the value of residential building permits in the Duluth/Superior MSA declined by 75.2 percent from its level one year ago. This may be due to reporting problems that appear to be occurring in other areas of Minnesota.

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 Northeast Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

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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

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U.S. Bureau of Census: Durable Goods Orders, Housing Permits, Residential Building Permits, Retail Sales.

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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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