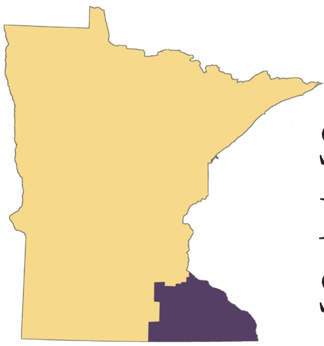

Southeast Minnesota
Economic and Business Conditions Report
Second Quarter 2015

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Southeast Minnesota business conditions are expected to improve over the next several months according to the most recent prediction of the Southeast Minnesota Index of Leading Economic Indicators (LEI). All five LEI components were positive in the second quarter of 2015 as the index rose 9.88 points after recording a negative reading in this year's first quarter. However, the LEI is still 4.8 percent lower than one year ago. A reduction in Southeast Minnesota initial jobless claims, recent improvement in the Minnesota Business Conditions Index (which serves as a general measure of state business conditions), higher new business filings, a rise in Rochester area residential building permits, and an improvement in consumer confidence have all favorably impacted the regional outlook.

There were 864 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the second quarter of 2015 — representing a 2.6 percent improvement from one year ago. There were 60 new regional business incorporations in the second quarter, a 20 percent fall from year ago levels. Second quarter new limited liability company (LLC) filings in Southeast Minnesota fell by 0.8 percent—declining to 509 in the most recent period. New assumed names totaled 246 in this year's second quarter—an increase of 15.5 percent from the same quarter in 2014. There were 51 new filings for Southeast Minnesota non-profits over the three months ending June 2015—10 more filings than one year ago.

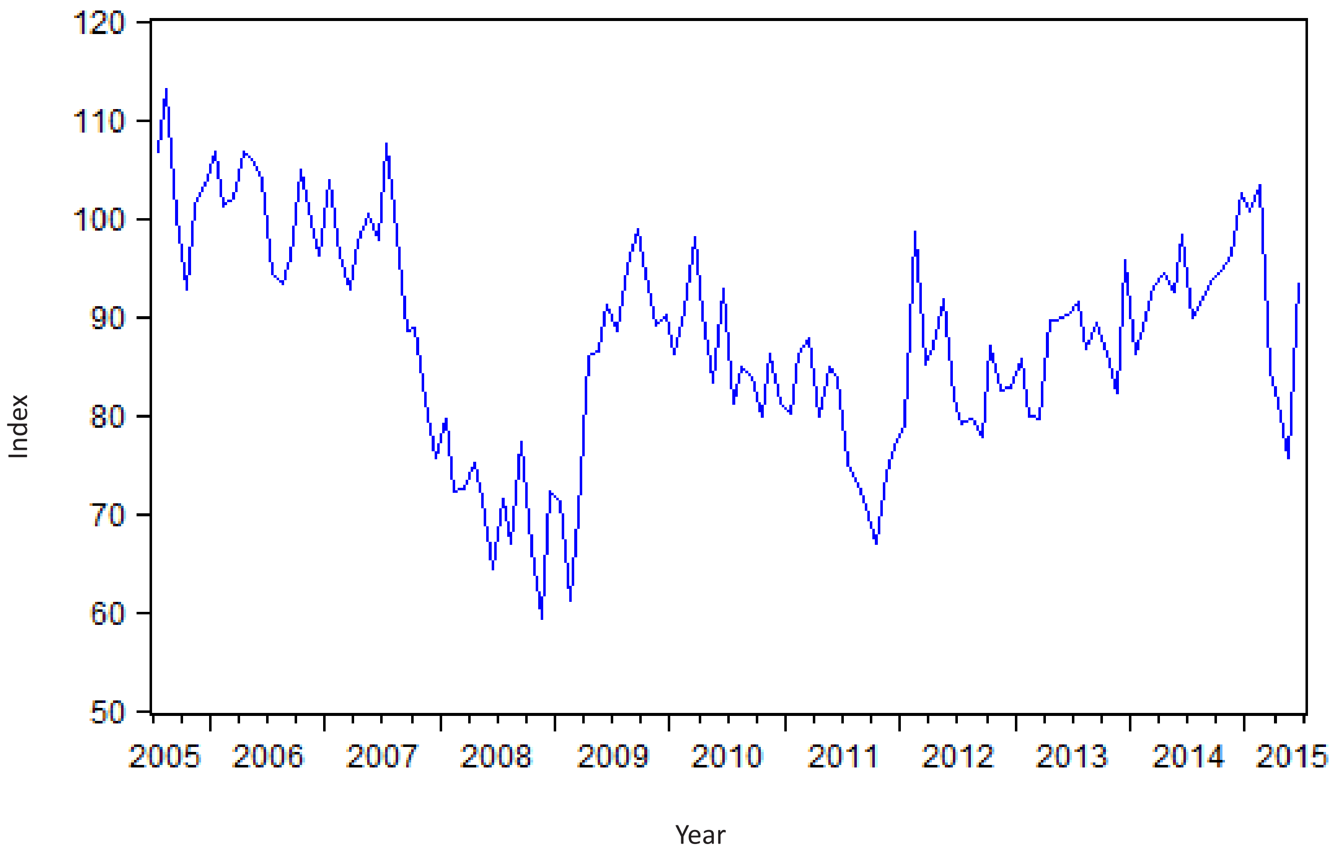
Employment of Southeast Minnesota residents increased by 1.2 percent over the year ending June 2015. Compared to June 2014, 3,238 more residents of Southeast Minnesota now have jobs. The regional unemployment rate was 3.6 percent in June, an improvement from 3.9 percent in the year earlier period. Initial claims for unemployment insurance in June 2015 were slightly lower than one year ago. The Southeast Minnesota labor force expanded by 2,745 over the past year, representing a 1 percent increase over the past twelve months. Average weekly wages declined by $10 (a 1.1 percent reduction) in the most recent period.

Data from the Rochester area—the largest market in Southeast Minnesota—were mixed, with a small decrease in overall employment (and a small reduction in health/education sector employment) and lower new business filings having a negative impact on the outlook. On the favorable side was a rise in the length of the workweek, increased average hourly earnings, a lower unemployment rate, increased labor force, lower initial jobless claims, and a rising value of residential building permits.

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 9.88 points higher in this year's second quarter, but remains 4.8 percent below its level of one year ago. As can be seen in the accompanying figure, the LEI had experienced a considerable decline prior to this period's positive reading. In future quarters, the index will hopefully return to the upward trend that began in 2011.

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, 2nd quarter 2015	Contribution to LEI, 1st quarter 2015
Minnesota Business Conditions Index	2.1	-7.36
Southeast Minnesota initial claims for unemployment insurance	1.25	-4.31
Southeast Minnesota new filings of incorporation and LLCs	1.77	-1.19
Rochester MSA residential building permits	2.82	-5.54
Consumer Sentiment, University of Michigan	1.94	-0.38
TOTAL CHANGE	**9.88**	**-18.78**

All five components of the LEI had a favorable reading this 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. Sentiment improved in the most recent quarter. Higher residential building permits in the Rochester metropolitan area also contributed favorably to the index in the second quarter. Higher new filings for business incorporations and LLCs in Southeast Minnesota earlier in the year also had a positive impact. Recent gains in the Minnesota Business Conditions survey (conducted by Creighton University), which serves as a general measure of state business conditions, also contributed to the second quarter increase in the LEI. Finally, lower initial jobless claims also helped drive the index higher.

SCSU Southeast Minnesota Leading Economic Indicators Index

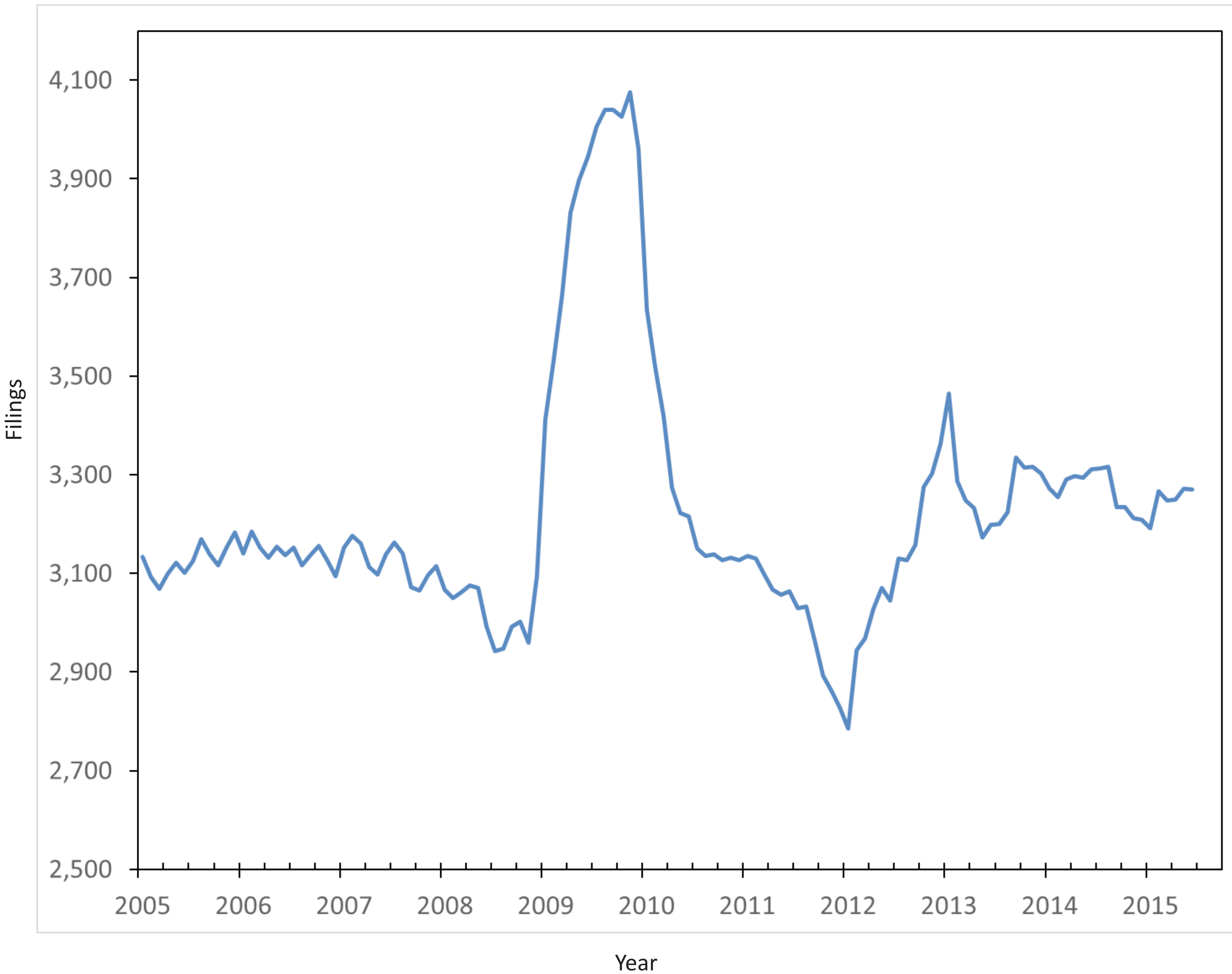
	2015	2014	Percentage change
Minnesota Business Conditions Index June	53	70.1	-24.4%
Southeast Minnesota initial claims for unemployment insurance June	1,334	1,351	-1.3%
Southeast Minnesota new filings of incorporation and LLCs Second Quarter	567	588	-3.6%
Rochester MSA single-family building permits June	57	65	-12.3%
Consumer Sentiment, University of Michigan June	96.1	82.5	16.5%
Southeast Minnesota Leading Economic Indicators Index June (December 1999 = 100)	93.6	98.3	-4.8%

Southeast Minnesota Business Filings

Other than a large rise in total new business filings in mid-2008, these new filings are little changed over the last decade. 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. Second quarter total new business filings were 2.6 percent higher than in the second quarter of 2014.

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.

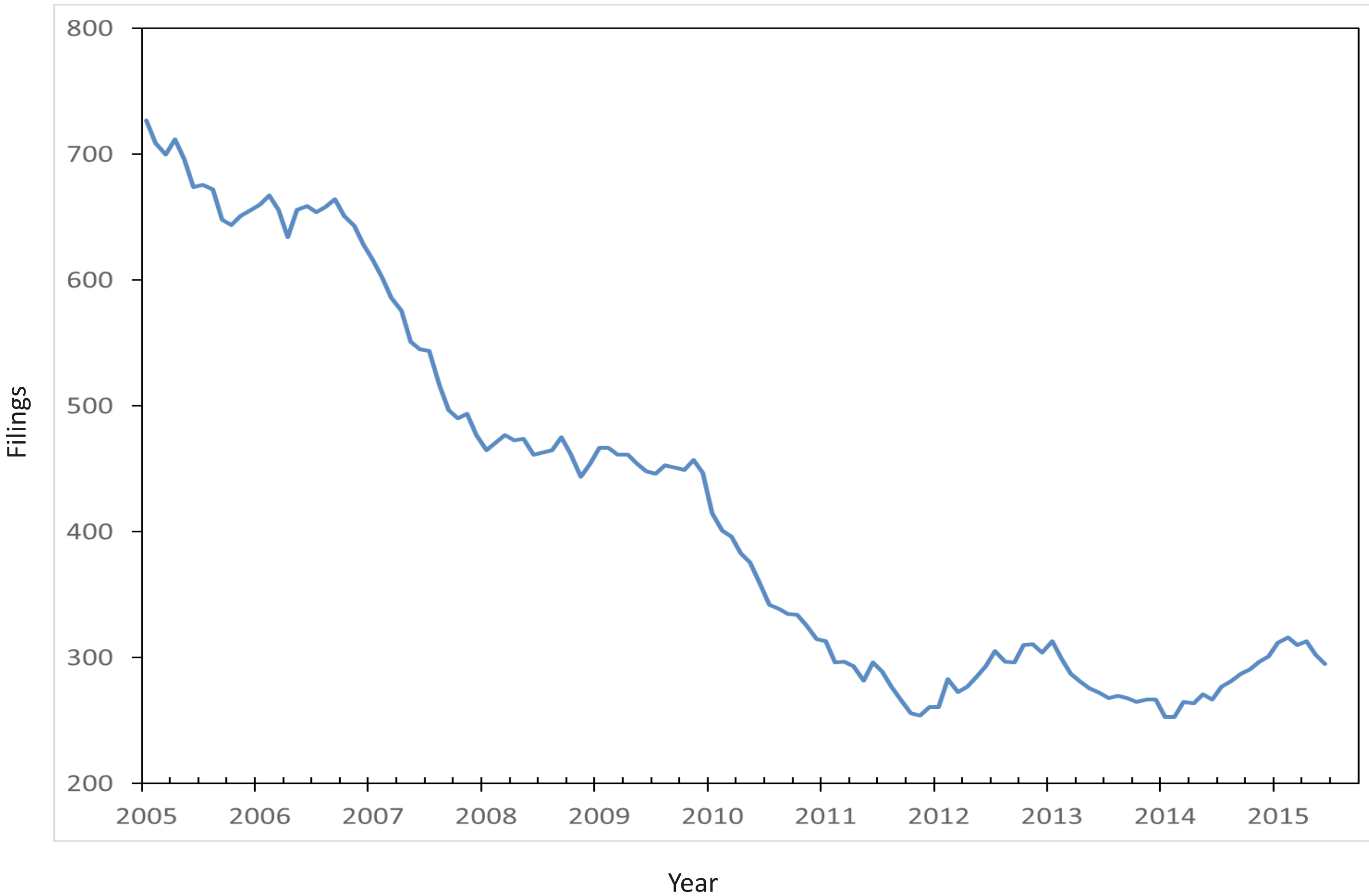
Total New Business Filings—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter 2: Percent change from prior year
Southeast Minnesota Total New Business Filings	842	765	754	887	864	2.6%

New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but they had leveled off over the past three years. However, in the second quarter of 2015, this series fell by 20 percent from one year earlier. This negative reading follows a 14.3 percent annual gain in new business incorporation filings in the first quarter.

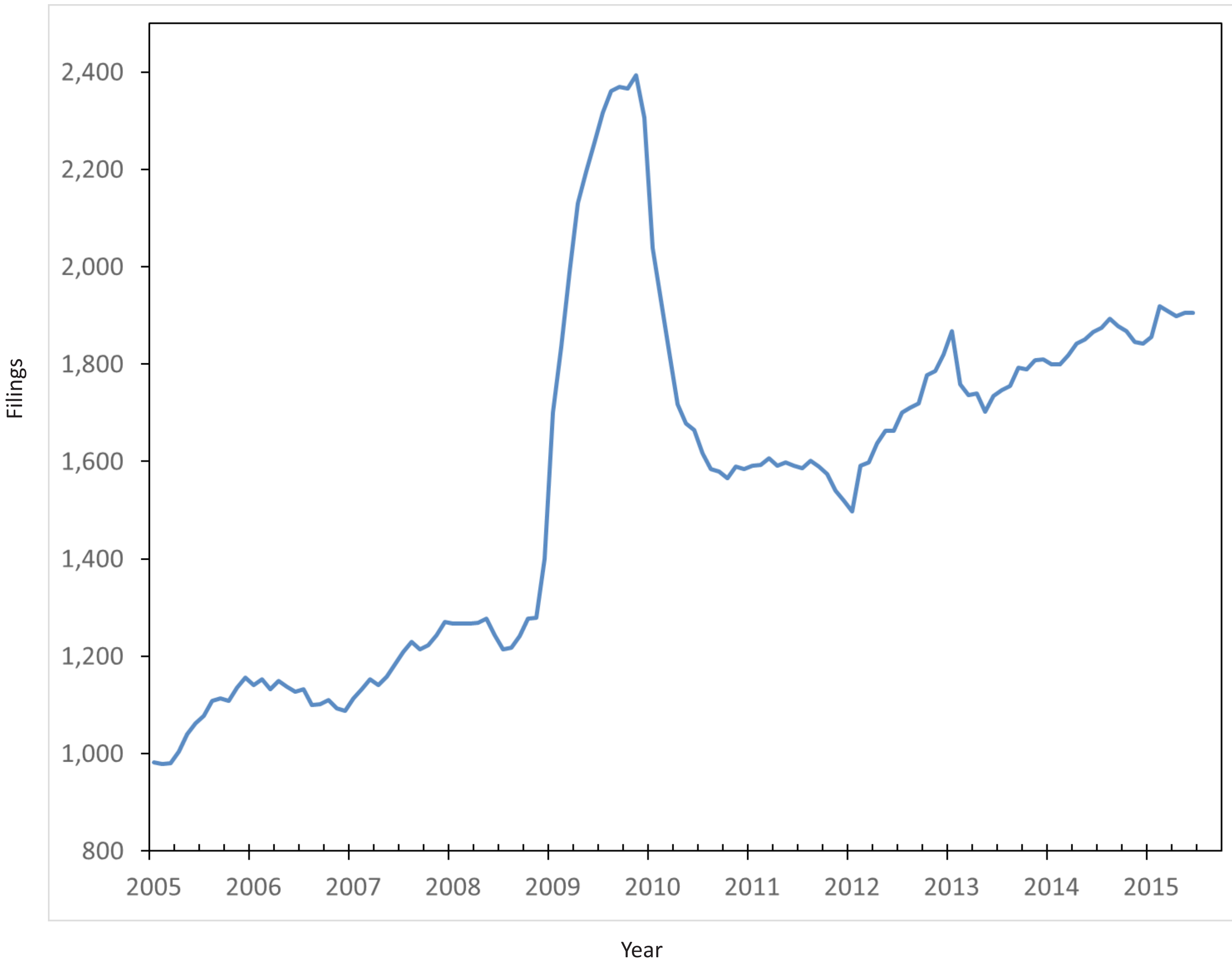
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter 2: Percent change from prior year
Southeast Minnesota New Business Incorporations	75	74	89	72	60	-20.0%

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. Second quarter LLC filings fell by 0.8 percent over their year ago level.

New Limited Liability Companies—Southeast 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
Southeast Minnesota New Limited Liability Companies	513	442	414	540	509	-0.8%

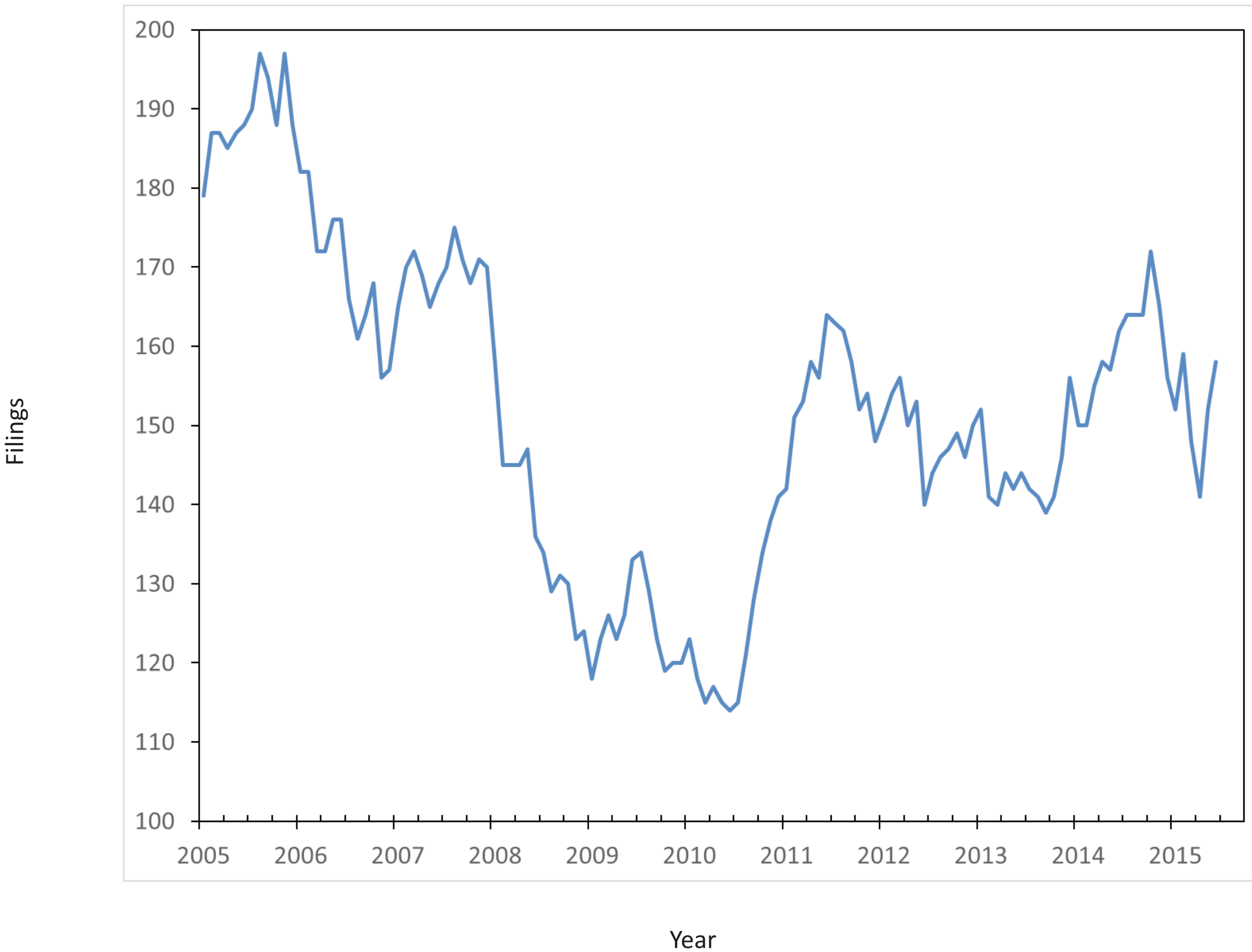
On a year over year basis, assumed names, which include sole proprietors or organizations that do not have limited liability, increased sharply in Southeast Minnesota in the second quarter. As can be seen in the accompanying graph, after increasing in 2012, this series moved downward until the beginning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

New Assumed Names—Southeast 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
Southeast Minnesota New Assumed Names	213	212	211	245	246	15.5%

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 51 in the recent quarter (a 24.4 percent increase from last year's second quarter). This series has now shown signs of rebounding in the last two quarters.

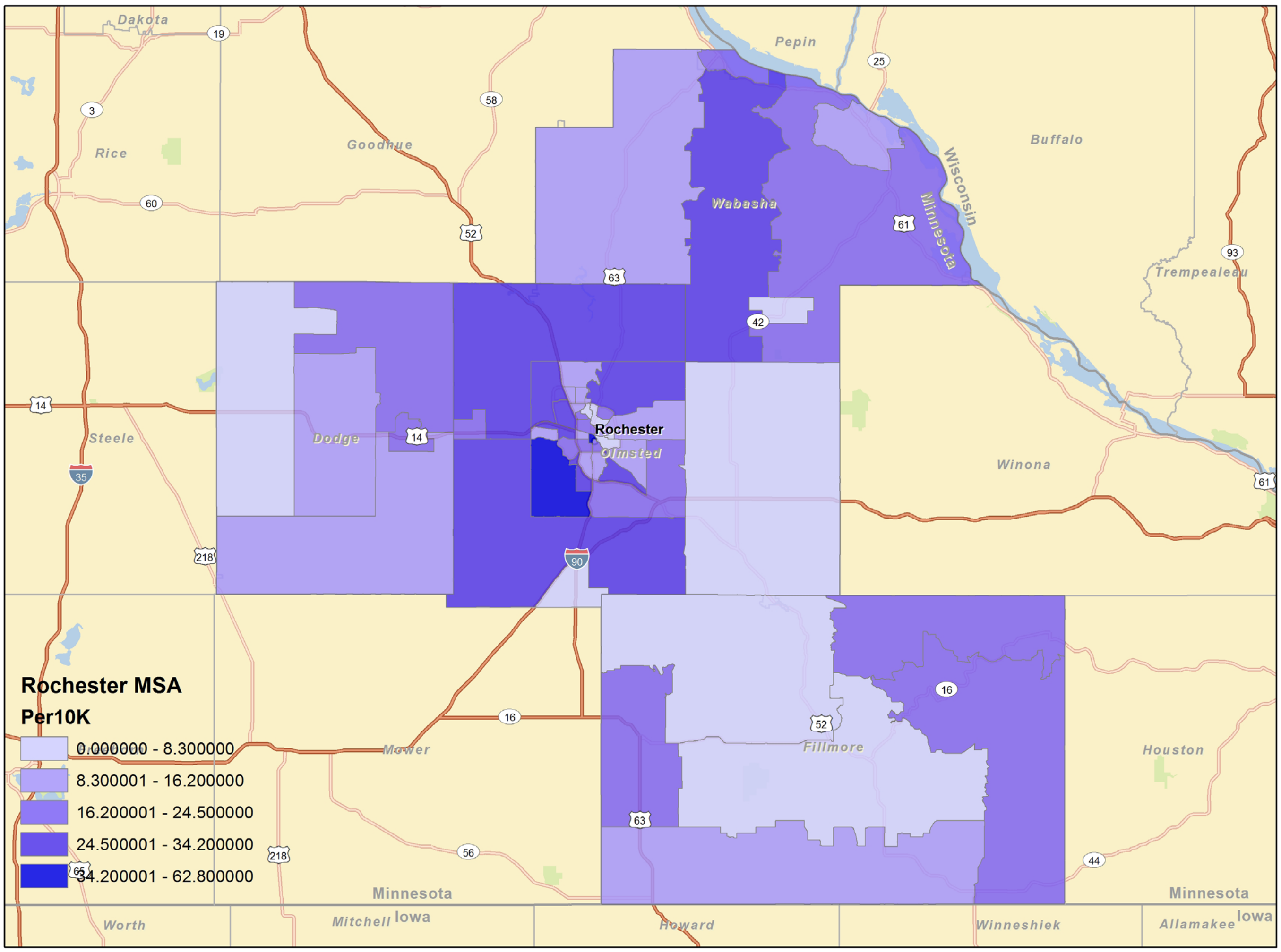
New Non-Profits—Southeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2014	III: 2014	IV: 2014	I: 2015	II: 2015	2015 Quarter 2: Percent change from prior year
Southeast Minnesota New Non-Profits	41	37	40	30	51	24.4%

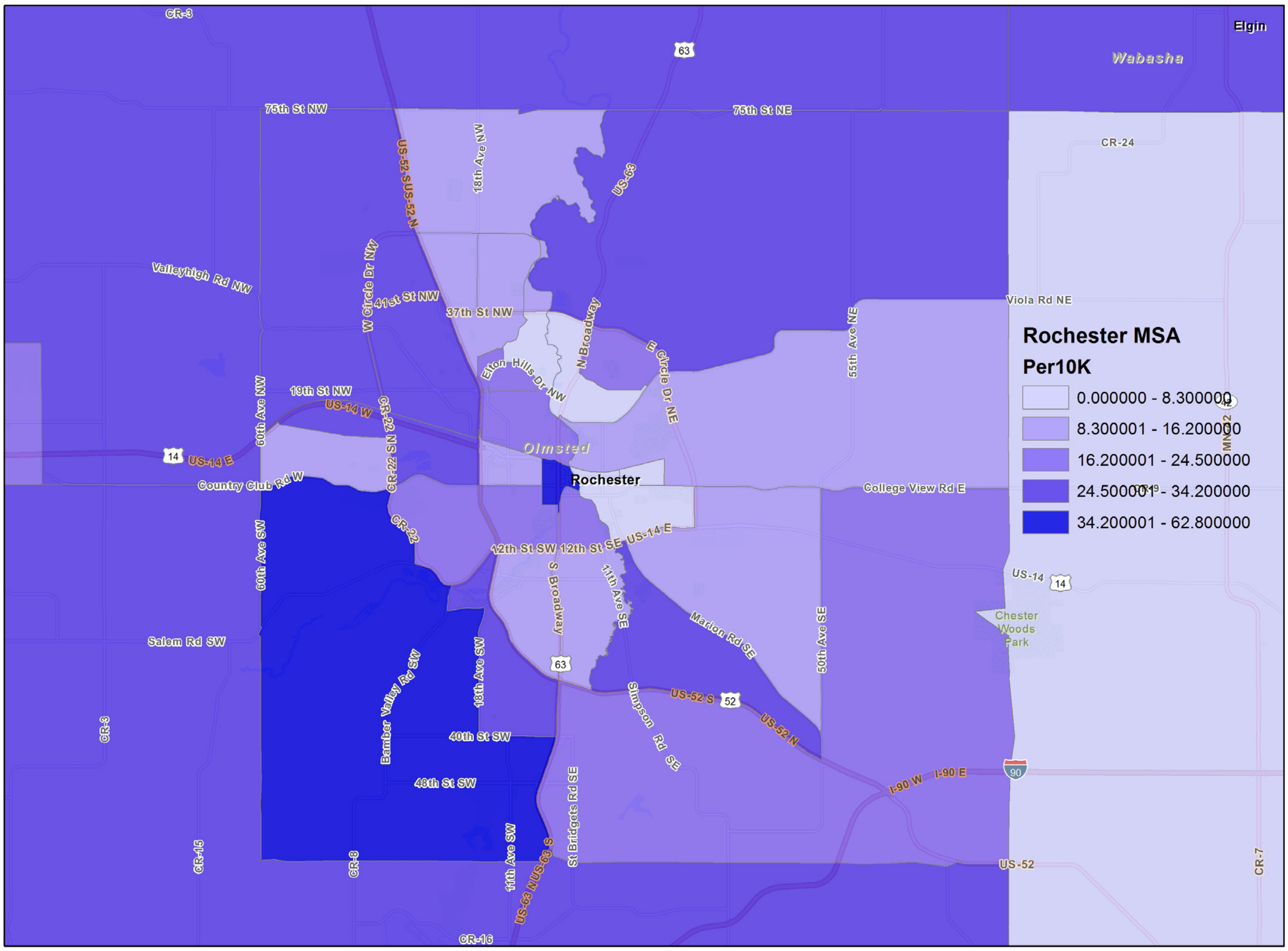
The map below highlights per capita new business formation by census tract in this year's second quarter in the Rochester Metropolitan Statistical Area (MSA). This MSA was recently redefined to include four counties—Olmsted, Wabasha, Dodge, and now Fillmore counties. While there were 404 new business filings in the Rochester 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 Rochester 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—Rochester MSA



The map below zooms in on some of the areas of the Rochester 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—Rochester MSA

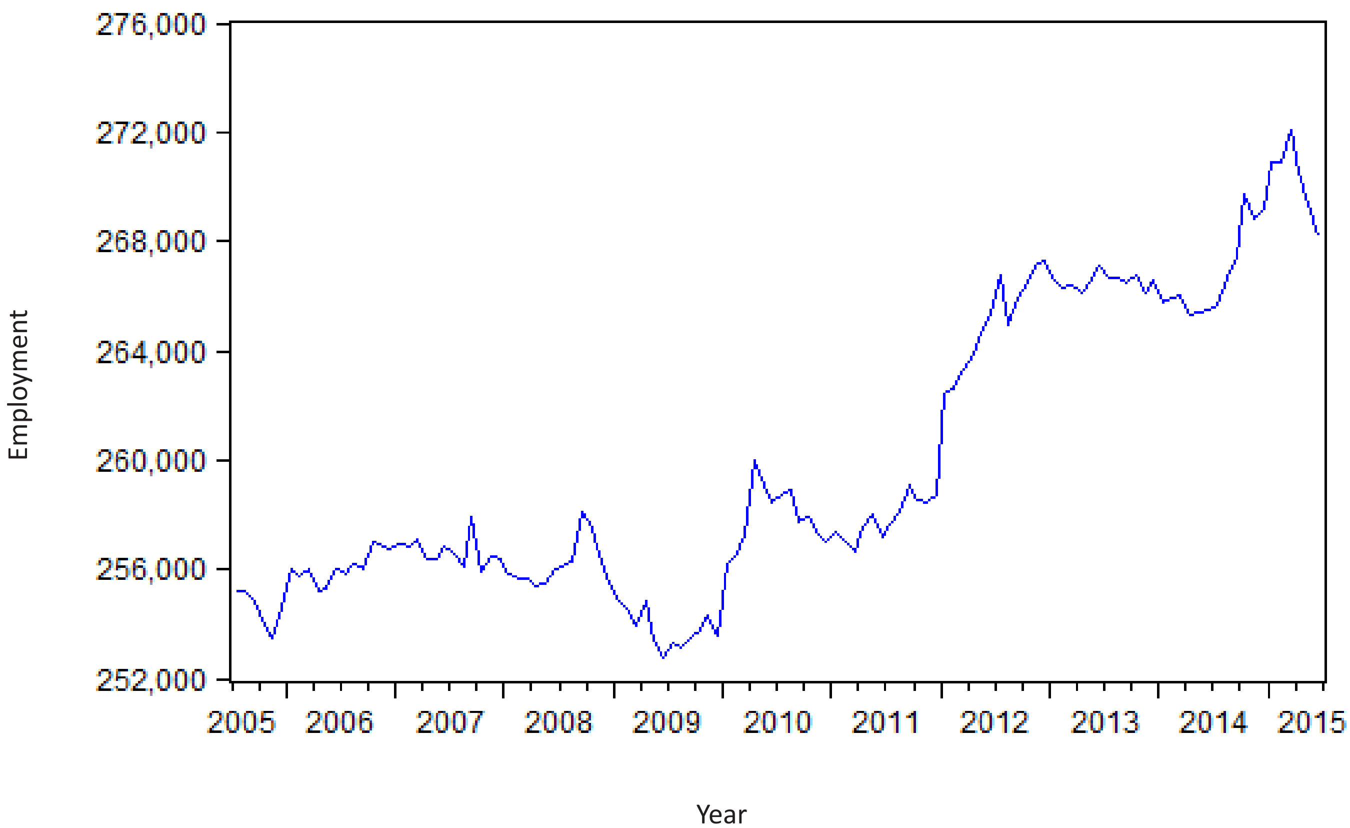


Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area grew 1.2 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 appears to be declining since the beginning 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.

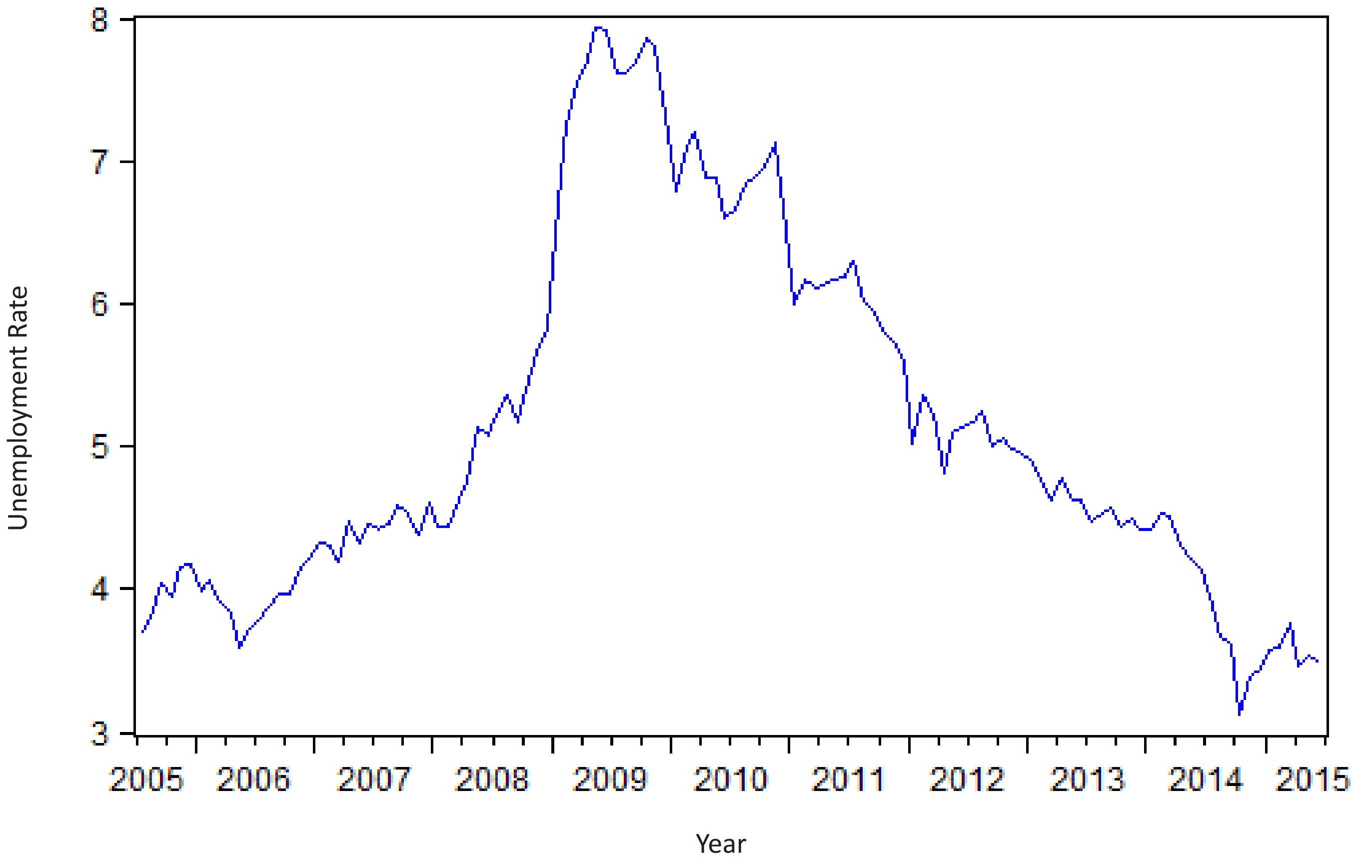
Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Employment (Not seasonally adjusted)	267,635	266,718	266,595	269,202	269,576	269,732	270,873

The seasonally adjusted unemployment rate in Southeast Minnesota has started to rise in the Southeast Minnesota planning area. The unemployment rate in this part of Minnesota had declined since peaking out at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 3.6 percent, lower than the 3.9 percent rate observed one year ago.

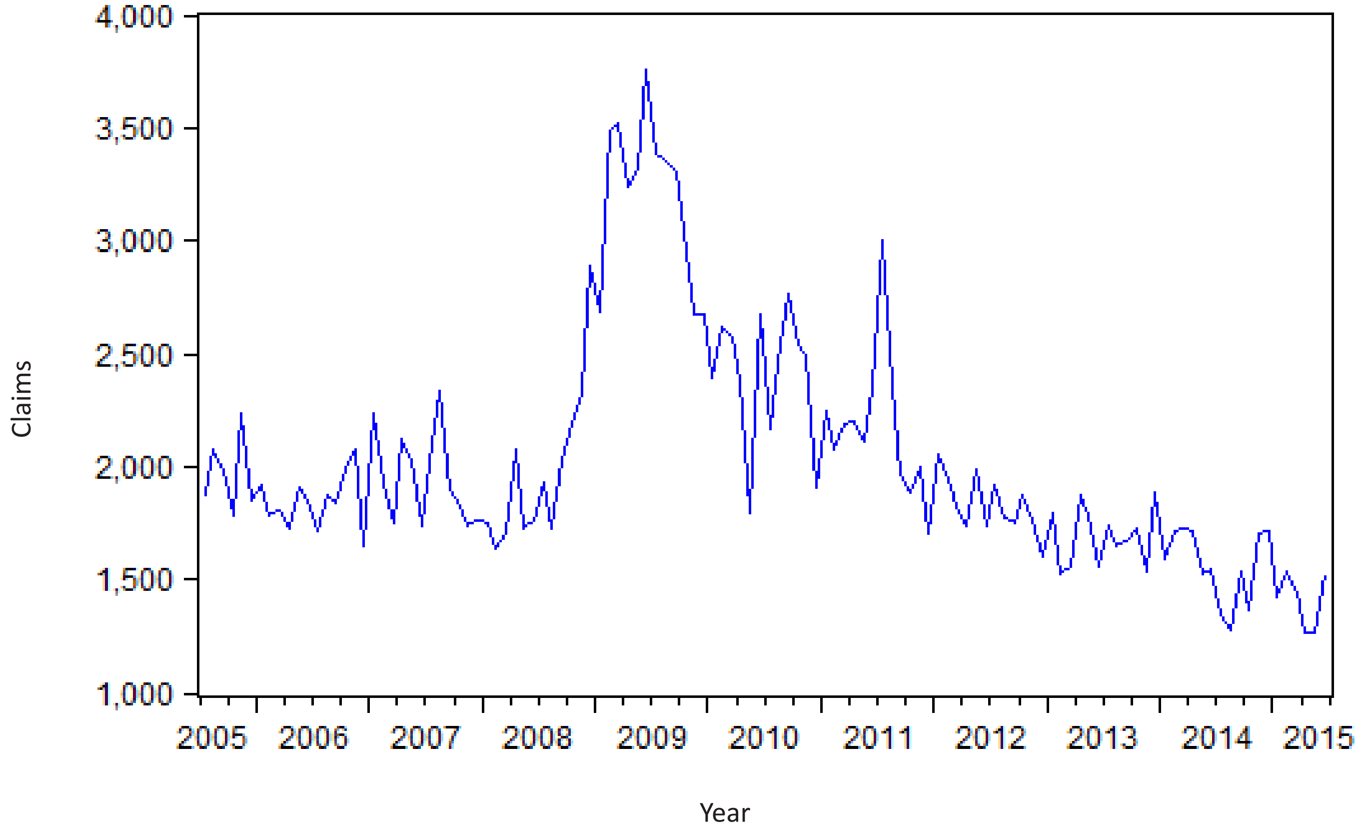
Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area



Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Unemployment Rate (Not seasonally adjusted)	3.9%	4.3%	4.2%	4.3%	3.4%	3.3%	3.6%

New claims for unemployment insurance in June 2015 were just 20 lower than one year ago. This represents a 1.5 percent annual decline. On a seasonally adjusted basis, these claims remain much lower than the period in which they peaked—the middle months of 2009.

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



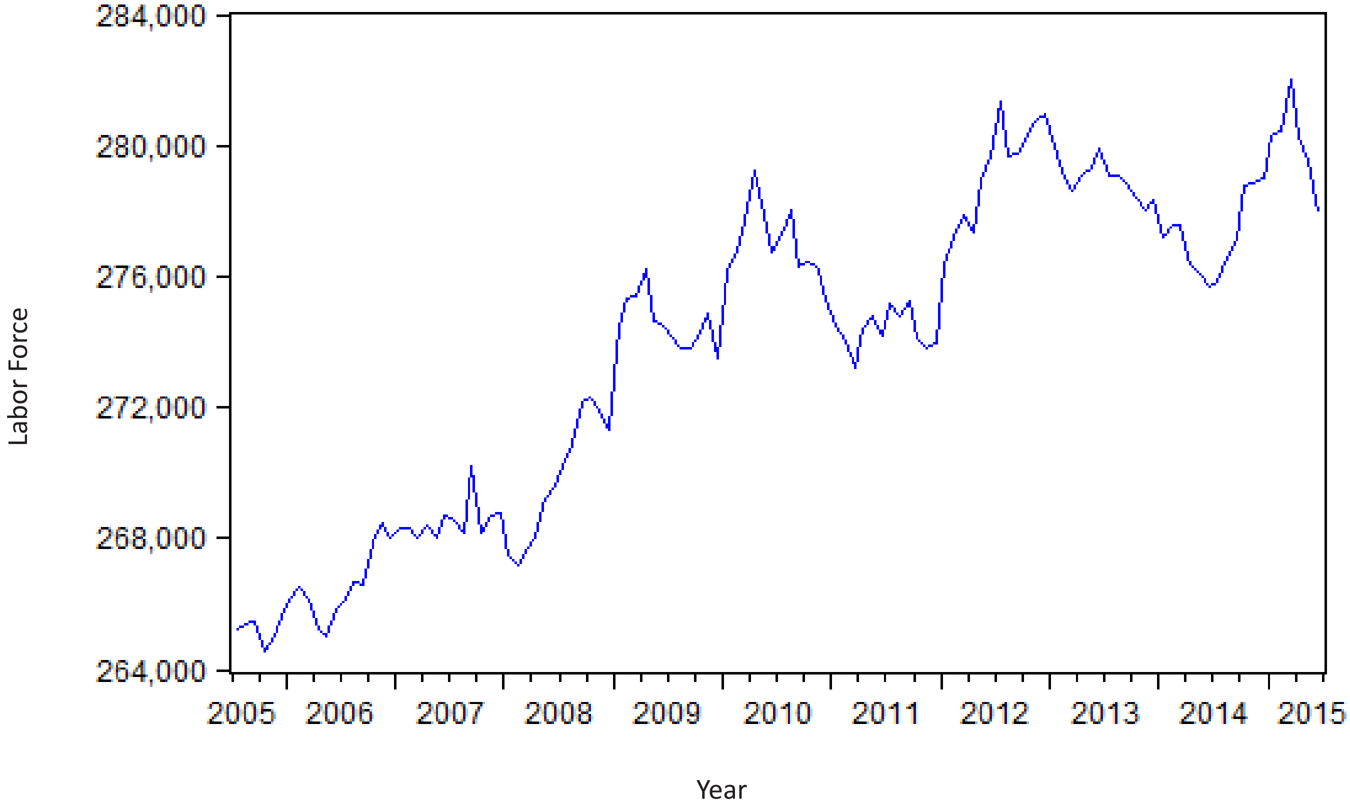
Month	June 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Initial claims (Not seasonally adjusted)	1,354	1,939	1,485	1,335	1,034	1,009	1,334

Average weekly wages in the Southeast Minnesota planning area decreased by 1.1 percent to $877 over the year ending in the fourth quarter of 2014 (this is the most recently available data). This is the only one of Minnesota's six planning areas to experience declining weekly wages. Despite this, Southeast Minnesota is still the second highest ranked area of Minnesota in terms of average weekly wages. Only the Twin Cities pays higher average wages.

Quarter	2009:IV	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV
Average Weekly Wage	$821	$960	$840	$873	$887	$877

The Southeast Minnesota labor force increased over the last year. With a 1 percent increase, the Southeast Minnesota labor force is now 2,745 higher than in June 2014, though less than in corresponding months in 2012 and 2013.

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

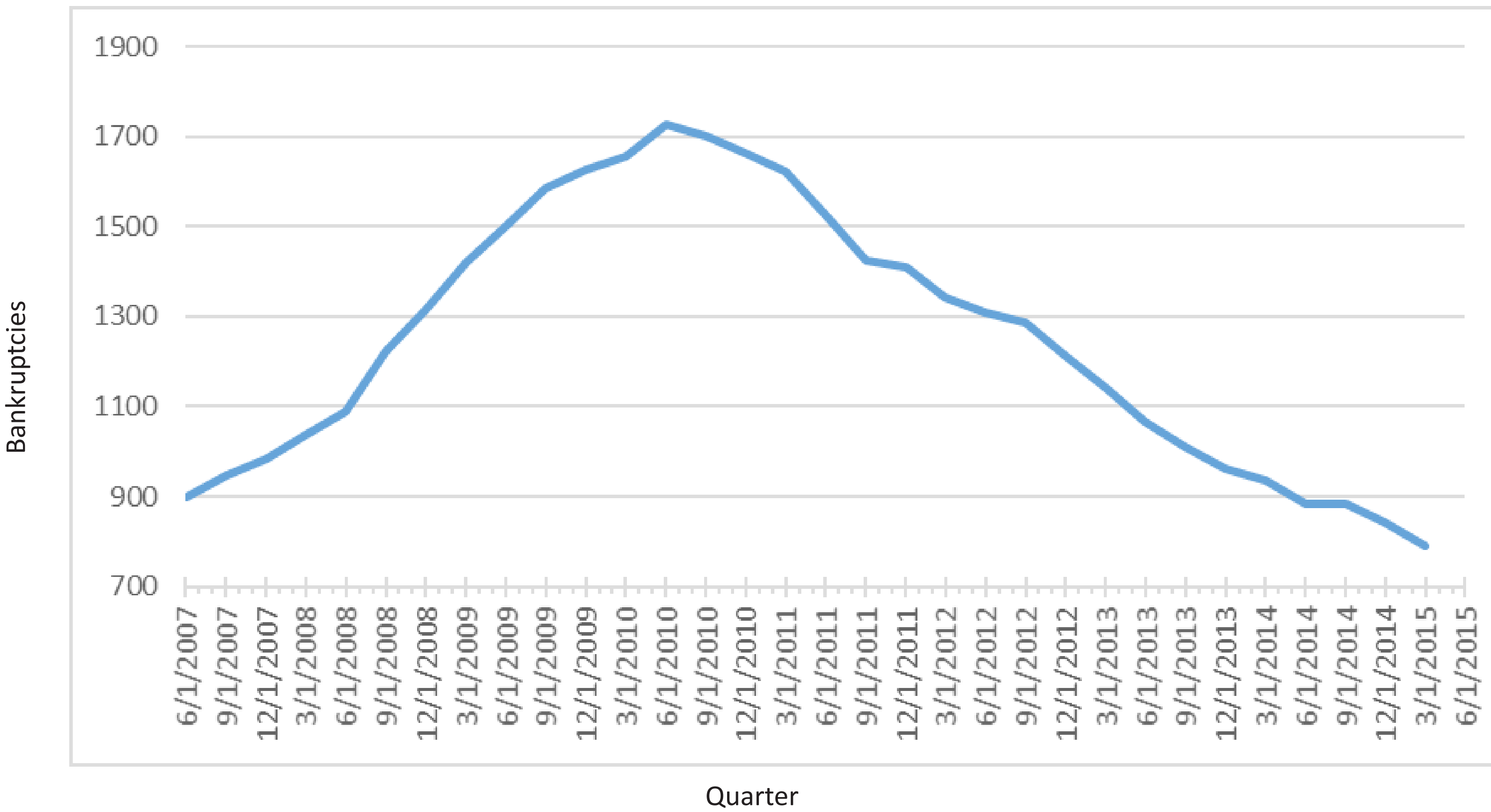


Year (June)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	278,334	279,916	282,518	282,612	278,374	281,119

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 791 bankruptcies over the past 12 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 (First Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (Not seasonally adjusted)	1,655	1,624	1,342	1,141	934	791

Economic Indicators

Rochester MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)
Labor Market						
Employment	June 2015 (m)	116,614	116,748	-0.1%	↓	0.8%
Manufacturing Employment	June 2015 (m)	11,130	10,925	1.9%	↑	-2.8%
Educational and Health Employment	June 2015 (m)	45,226	45,290	-0.1%	↓	2.6%
Average Weekly Work Hours Private Sector	June 2015 (m)	35.2	34.5	2.0%	↑	32.9 (since 2007)
Average Earnings Per Hour Private Sector	June 2015 (m)	$33.49	$33.35	0.4%	↑	3.6% (since 2007)
Unemployment Rate	June 2015 (m)	3.5%	3.6%	NA	↓	4.2%
Labor Force	June 2015 (m)	118,189	117,931	0.2%	↑	0.6%
Initial Jobless Claims	June 2015 (m)	465	514	-9.5%	↓	NA
Business Formation						
Total New Business Filings	Second Quarter 2015	404	436	-7.3%	↓	371 (since 2000)
New Business Incorporations	Second Quarter 2015	37	41	-9.8%	↓	57 (since 2000)
New Limited Liability Companies	Second Quarter 2015	238	270	-11.9%	↓	167 (since 2000)
New Assumed Names	Second Quarter 2015	105	107	-1.9%	↓	130 (since 2000)
New Non-profits	Second Quarter 2015	24	18	33.3%	↑	18 (since 2000)
Rochester Residential Building Permit Valuation	June 2015 (m)	20,284	14,922	35.9%	↑	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 declined slightly by 0.1 percent over the year ending in June 2015. Employment in the key education/health sector also fell by 0.1 percent. This is well below the 2.6 percent long-term annualized growth of employment in this sector. This is worth noting, since 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 rose by 0.4 percent over the year ending June 2015, which is also well below the average annual rate since 2007. With the exception of weakness in new business filings in the Rochester MSA, all other economic indicators in the above table seem solid. The length of the workweek increased, the unemployment rate fell, the labor force expanded, new initial jobless claims were lower, and the value of residential building permits surged.

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 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.

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.

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Thomson Reuters and University of Michigan, Index of Consumer Sentiment

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