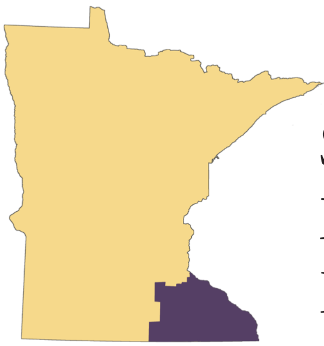

Southeast Minnesota
Economic and Business Conditions Report
First Quarter 2014

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Southeast Minnesota business conditions are expected to remain strong over the next several months according to the predictions of the St. Cloud State University (SCSU) Southeast Minnesota Index of Leading Economic Indicators. While an uptick in initial jobless claims helped push the leading economic indicator index (LEI) lower last quarter, overall business conditions remain steady in the southeast portion of the state. Strong gains in new residential building permits in the Rochester Metropolitan Statistical Area (MSA), along with growth in a general measure of state business conditions contributed favorably to the LEI. The Southeast Minnesota Index is now 16.1 percent higher than one year ago.

There were 847 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the first quarter of 2014 — representing a 1.5 percent decline from one year ago. There were 63 new regional business incorporations in the first quarter, a 3.1 percent decrease over year-ago levels. Over the past 12 months, new limited liability company (LLC) filings in Southeast Minnesota increased by 1.9 percent — rising to 473 in the first quarter of 2014. New assumed names totaled 273 in this year's first quarter — a reduction of 6.5 percent from the first quarter of 2013. There were 38 new filings for Southeast Minnesota non-profits in the first quarter— one fewer filing than one year ago.

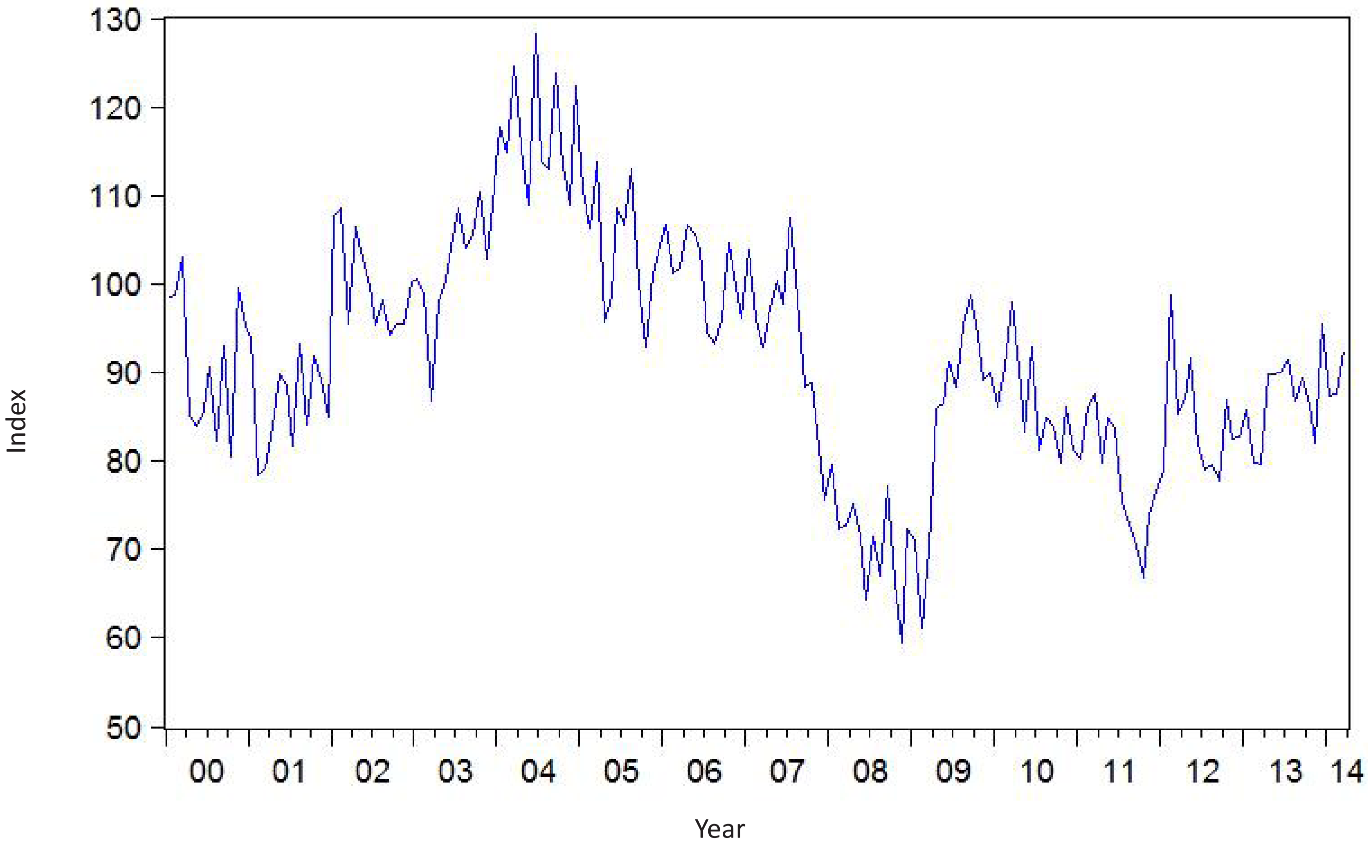
Employment of Southeast Minnesota residents increased by 1 percent over the year ending March 2014. Nearly 2,700 more residents of Southeast Minnesota are now employed than one year ago. The regional unemployment rate was 5.1 percent in March, an improvement from 5.3 percent one year ago. Initial claims for unemployment insurance increased from the levels one year ago, but still remain lower than in any month since October 2013. Job vacancies continue to rise in Southeast Minnesota as a share of unemployed persons. There is now nearly one vacancy for every two people unemployed in this region of Minnesota.

Data from the Rochester area — the largest market in Southeast Minnesota—were mixed with solid gains in average earnings per hour and residential building permits being offset by a decline in new business filings, and flat overall employment growth.

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. After three years of uneven performance after the Great Recession, the LEI has steadily trended upward over the past two years. Despite a small decline in this year's first quarter, the index has posted a healthy 16.1 percent increase over the past year. As seen in the accompanying chart, three indicators were lower this quarter with an increase in initial claims for unemployment insurance having the largest negative effect. Improvements in the Minnesota Business Conditions index (released by Creighton University) had the greatest positive influence on the LEI.

The SCSU Southeast Minnesota Leading Economic Indicators Index



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2014	Contribution to LEI, annual 2013
Minnesota Business Conditions Index	3.08	1.07
Southeast Minnesota initial claims for unemployment insurance	-4.36	-4.87
Southeast Minnesota new filings of incorporation and LLCs	-0.33	0.22
Rochester MSA residential building permits	0.25	0.77
Consumer Sentiment, Univ. of Michigan	-1.83	7.36
TOTAL CHANGE	-3.19	4.55

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 strongly over the last year but declined in the most recent quarter. Residential building permits in the Rochester metropolitan area also drove the index higher in March. New filings for business incorporations and LLCs in Southeast Minnesota were a slight drag on the LEI in the first quarter. Initial claims for unemployment insurance in the area rose, which leads to a decrease in LEI. The Minnesota Business Conditions survey conducted by Creighton University lifted the LEI in March. Overall, two indicators rose and three others fell, and after a substantial gain in 2013 (see the chart below), the overall index fell 3.19 points (LEI is an index equal to 100 in December 1999.)

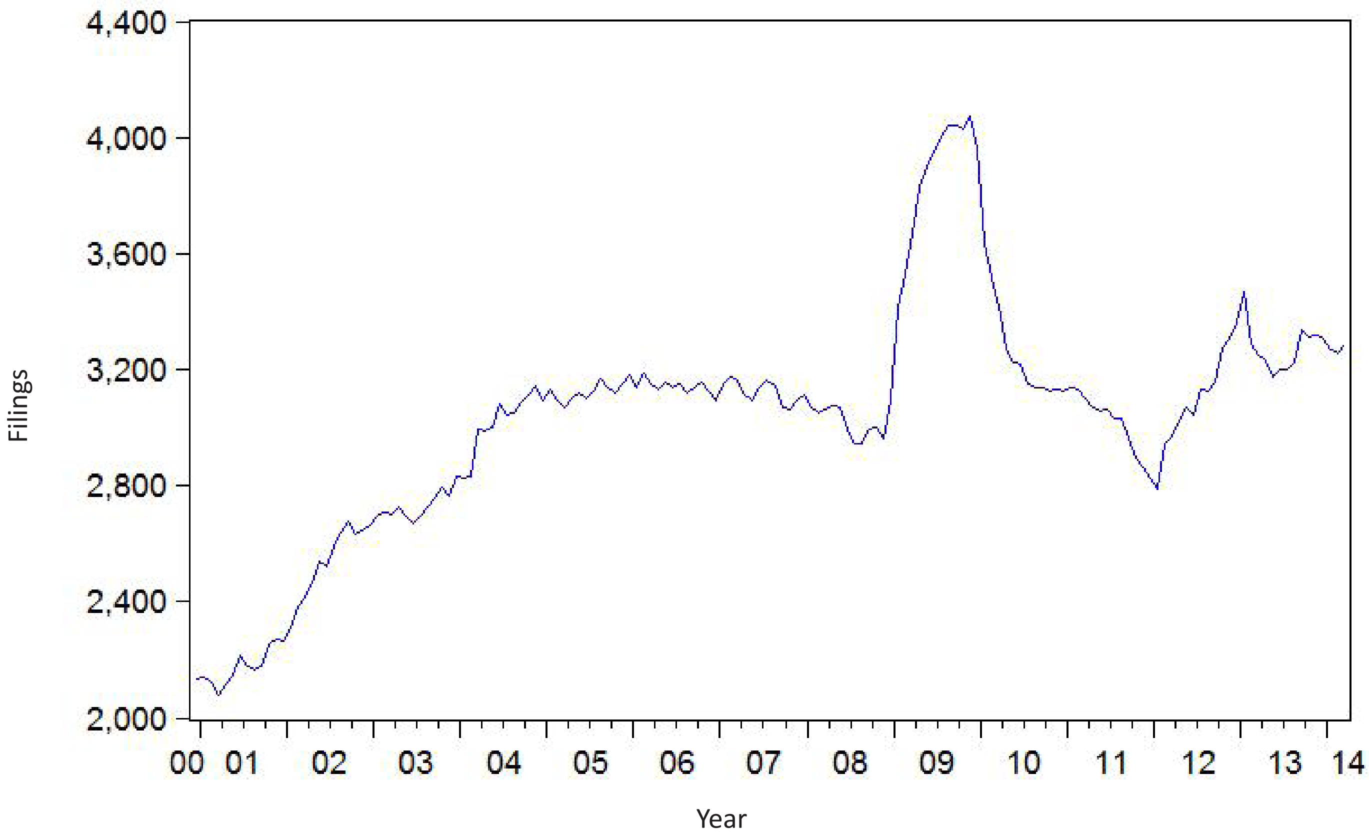
SCSU Southeast Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Minnesota Business Conditions Index March	64.1	55.2	16.1%
Southeast Minnesota initial claims for unemployment insurance March	1,599	1,454	10.0%
Southeast Minnesota new filings of incorporation and LLCs First Quarter	536	429	24.9%
Rochester MSA single family building permits March	49	38	28.9%
Consumer Sentiment, University of Michigan March	80	78.60	1.8%
Southeast Minnesota Leading Economic Indicators Index March (December 1999 = 100)	92.4	79.6	16.1%

Southeast Minnesota Business Filings

Total new business filings grew rapidly from 2000 to 2005, at which point they leveled off for three years (from 2006 to 2008). 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 in the graph below) 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. New filings declined during and after the Great Recession, but have rebounded over the last three years.

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. This adjustment is used to remove seasonal patterns in the data.

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



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Southeast Minnesota Total New Business Filings	860	821	842	780	847	-1.5%

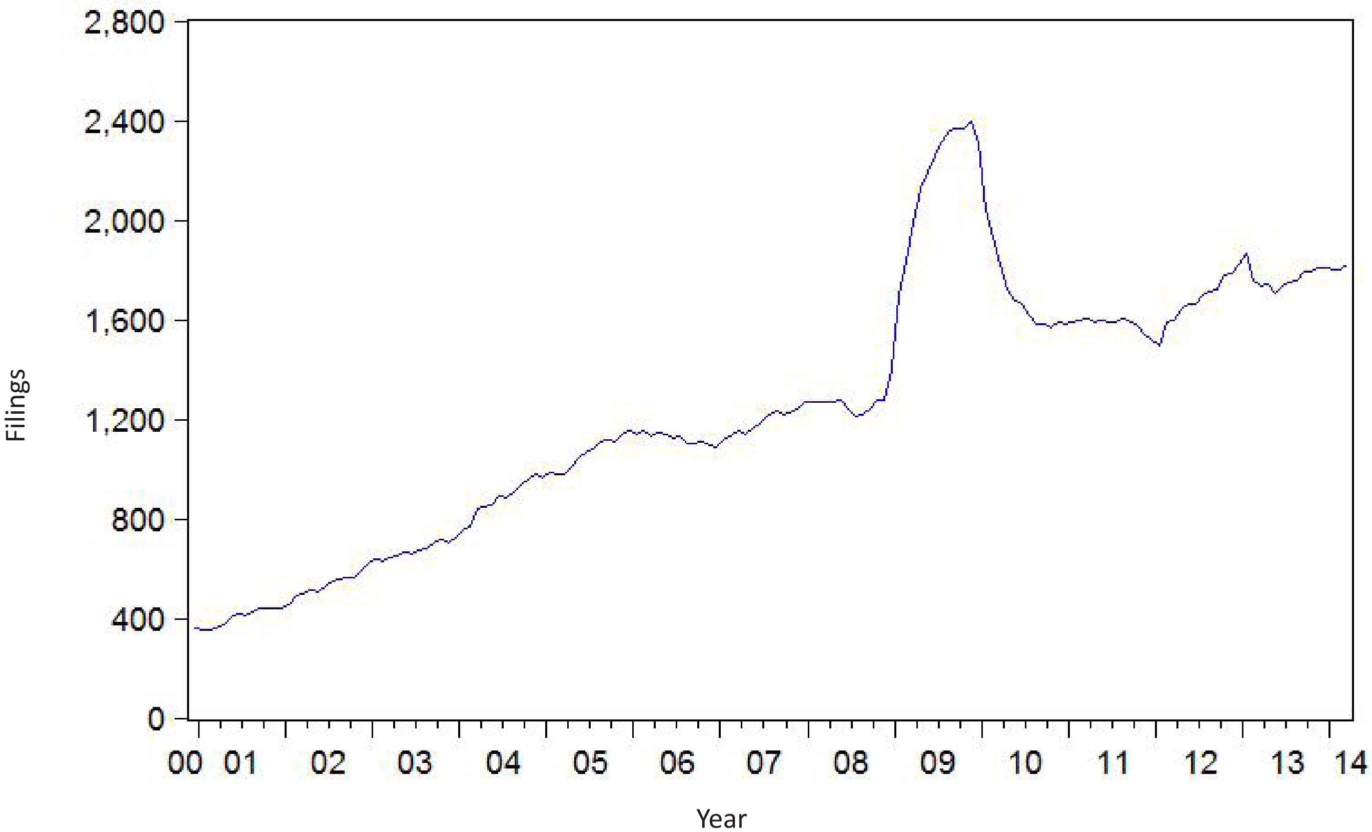
New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but they appear to have levelled off over the past two years. New business incorporations in the first quarter of 2014 decreased by 3.1 percent from one year earlier.

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

Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Southeast Minnesota New Business Incorporations	65	73	54	75	63	-3.1%

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 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 2000.

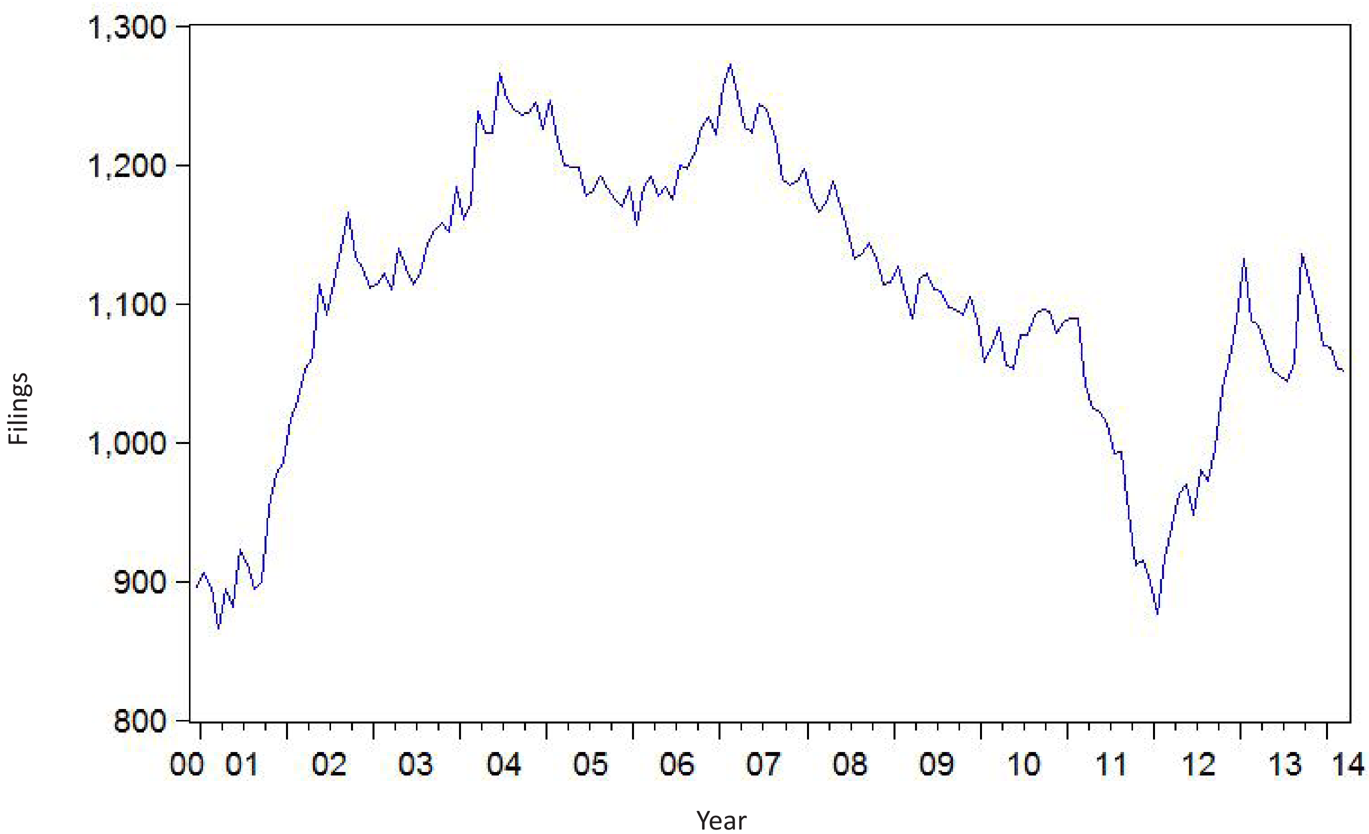
New Limited Liability Companies—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Southeast Minnesota New Limited Liability Companies	464	466	430	450	473	1.9%

Assumed names, which include sole proprietors or organizations that do not have limited liability, declined by 6.5 percent in the first quarter of 2014 compared to the same period last year. This series rebounded from a five-year decline in 2012, but has been volatile since that time.

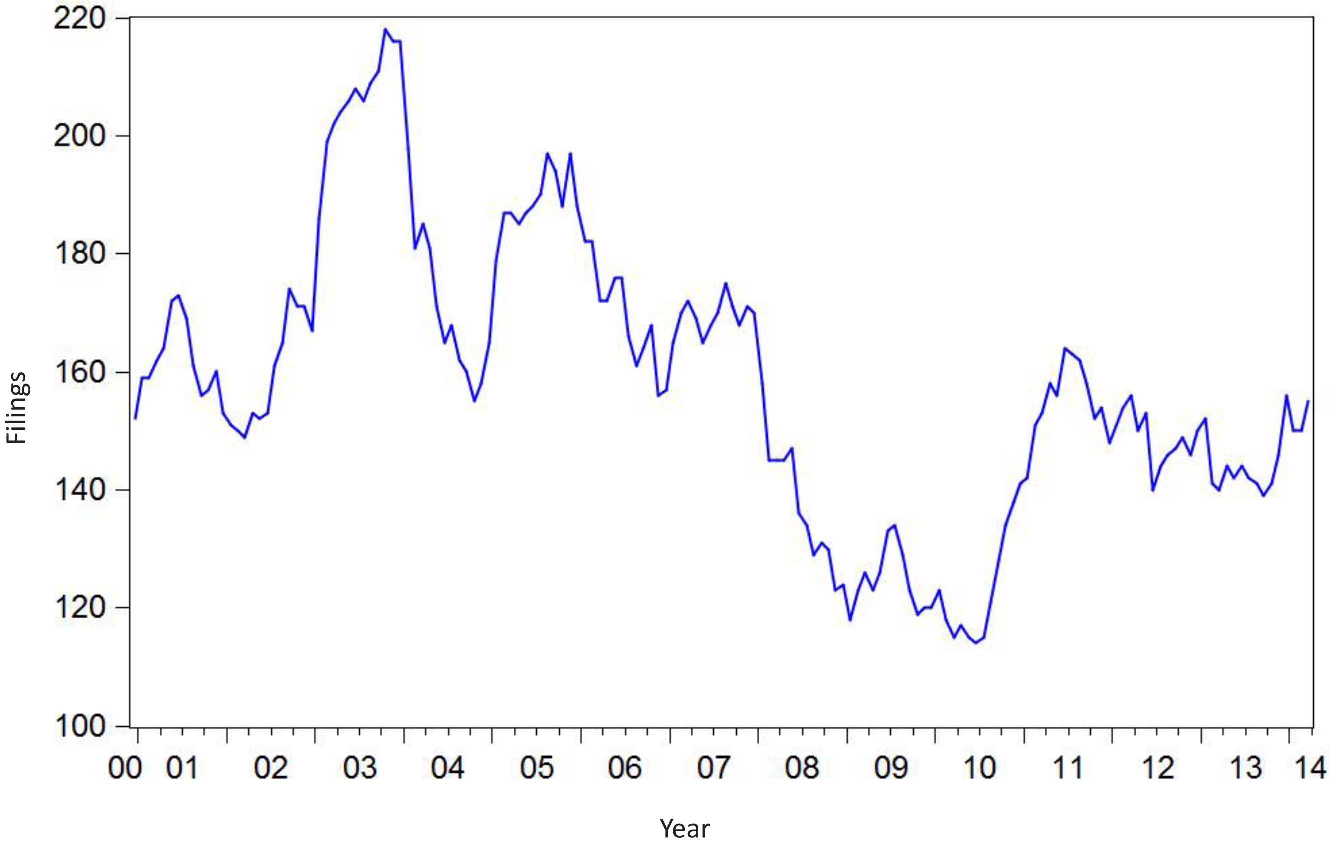
New Assumed Names—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Southeast Minnesota New Assumed Names	292	248	323	207	273	-6.5%

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 has now levelled at approximately 40 per quarter.

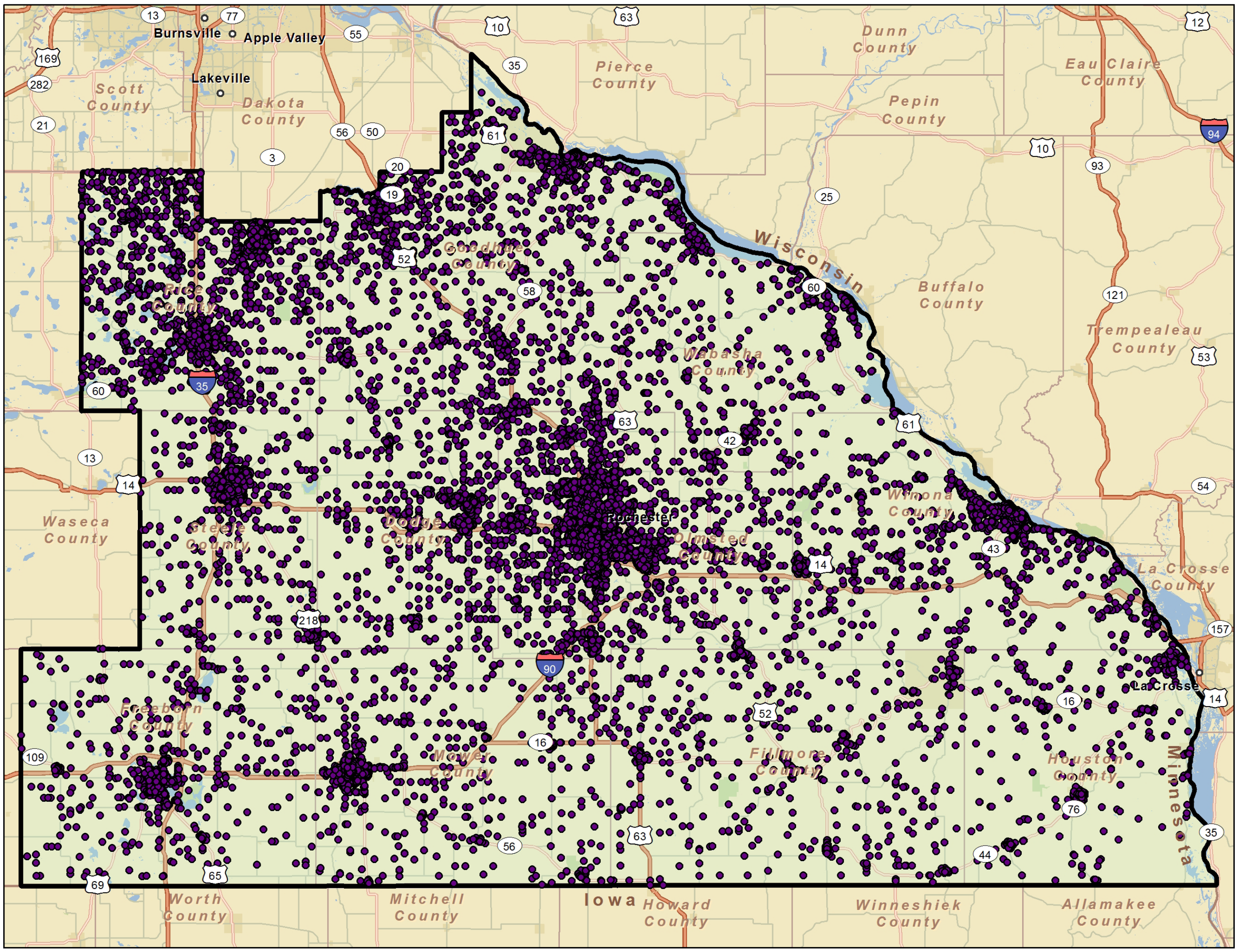
New Non-Profits—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2013	II: 2013	III: 2013	IV: 2013	I: 2014	Quarter I: Percent change from prior year
Southeast Minnesota New Non-Profits	39	34	35	48	38	-2.6%

The highlighted area in the map below is the 11-county Southeast Minnesota planning area, consisting of the following counties: Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona. Each dot within the area is a new business filing registered between January 2000 and March 2014. Within this area there were: 7,473 new business incorporations; 15,529 assumed names; 17,342 LLCs; and 2,225 non-profits. Some of these entities may no longer exist due to bankruptcies, mergers and other forms of business closings.

Geographic Distribution of All New Southeast Minnesota Business Filings since 2000



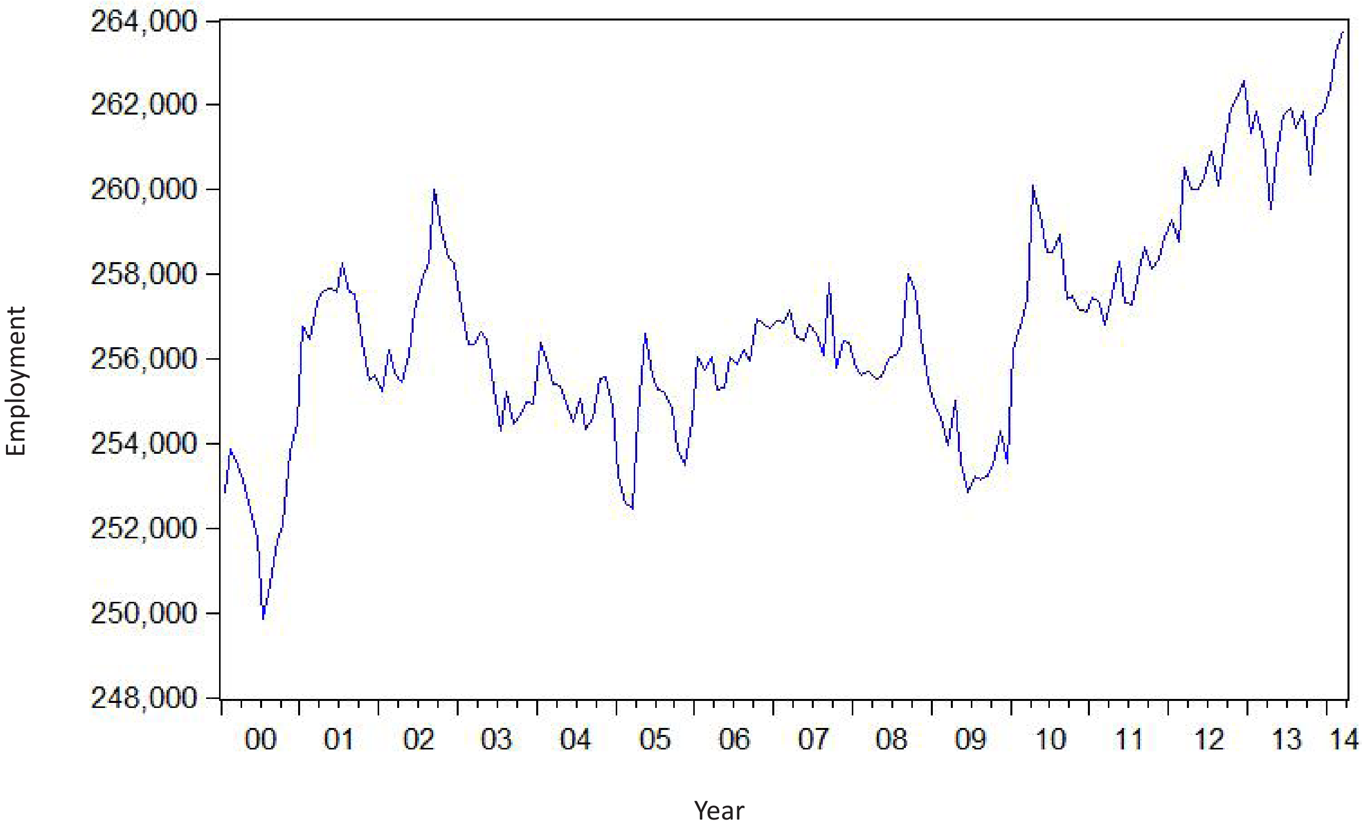
The pattern of new business formation in the Southeast Minnesota planning area follows the urban landscape. Rochester dominates the area, with smaller clusters along the cities of Interstates 35 and 90 (Albert Lea and Owatonna along the former; Austin and Winona along the latter.) Highway 14 also accounts for a significant portion of new business formation. Proximity to the Twin Cities further explains the greater density of development in the northern third of this planning area, as does proximity to the Mississippi River in its northeastern corner.

Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area grew 1 percent over the past year. The 12-month moving employment total has grown steadily in Southeast Minnesota over the past three years.

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.

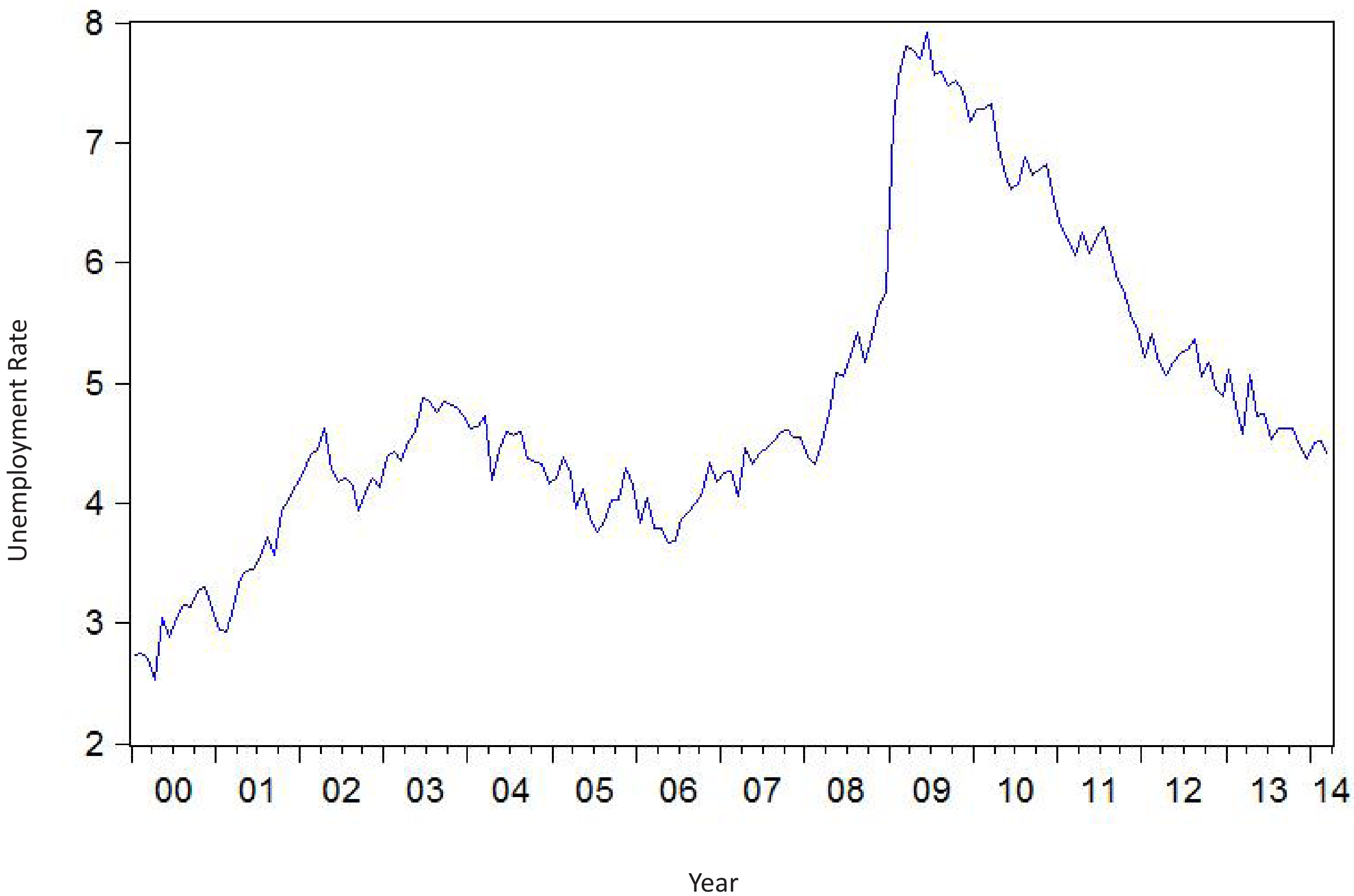
Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Employment (Not seasonally adjusted)	257,809	261,597	262,630	260,626	257,812	258,340	260,467

Seasonally adjusted unemployment in Southeast Minnesota continued to decline in the first quarter of 2014. The unemployment rate in this part of Minnesota has declined since peaking out at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 5.1 percent.

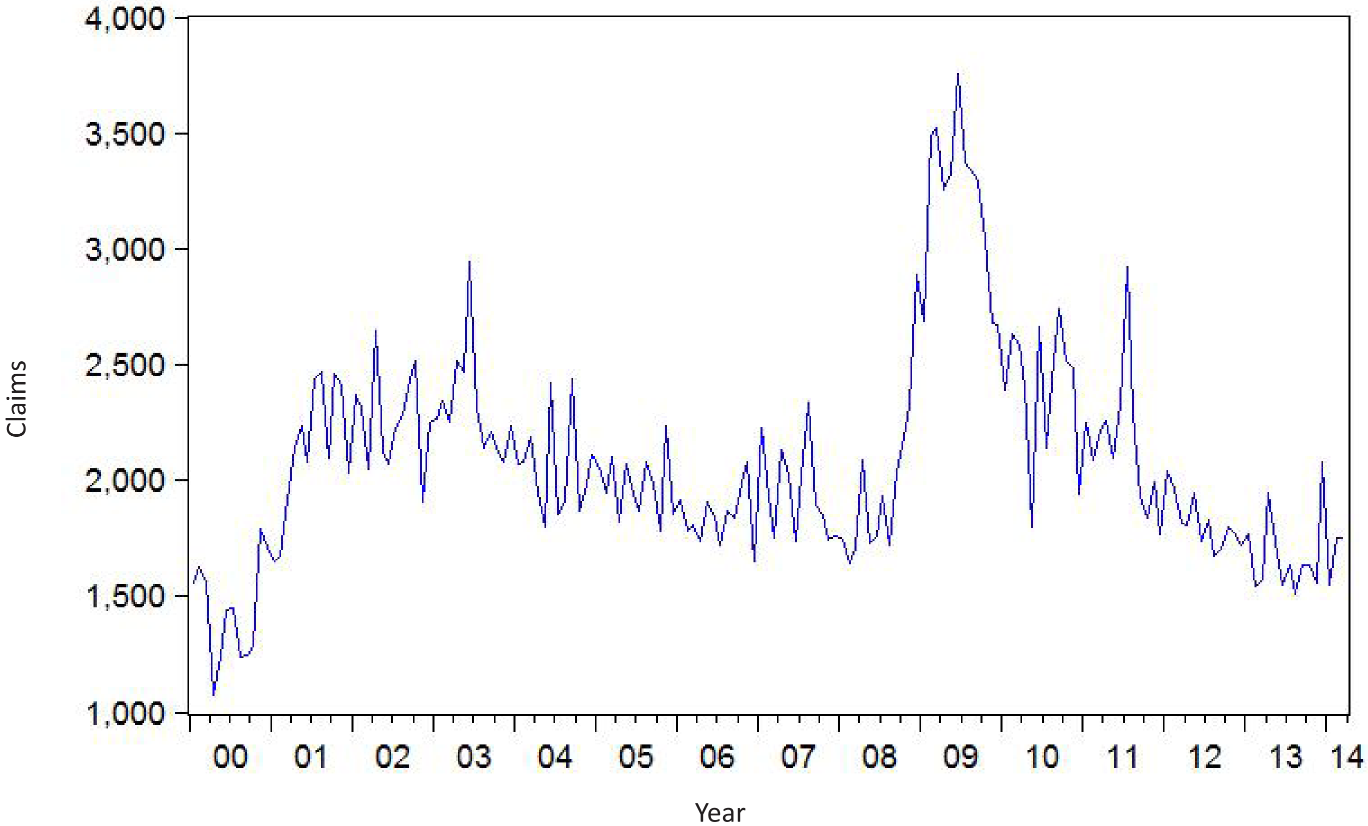
Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Unemployment Rate (Not seasonally adjusted)	5.3%	3.9%	3.8%%	4.2%	5.4%	5.4%	5.1%

New claims for March 2014 unemployment insurance increased from year-ago levels. While these claims were the lowest monthly reading since October 2013, there were still 145 more claims than one year earlier. Despite this, initial jobless claims are well below their heightened levels during the Great Recession.

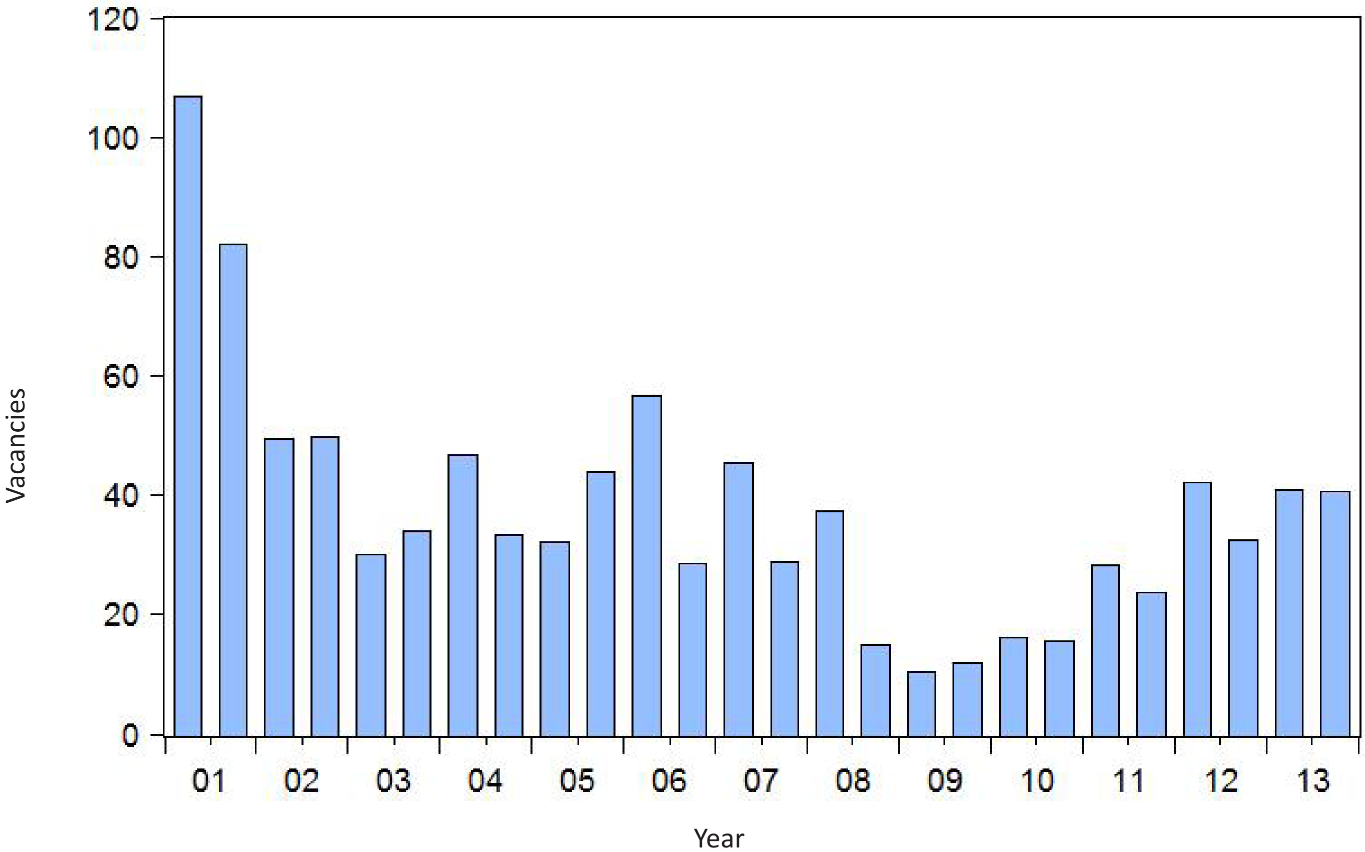
Total Initial Claims for Unemployment Insurance, seasonally adjusted
Southeast Minnesota Planning Area



Month	March 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014
Initial claims (Not seasonally adjusted)	1,454	1,498	2,178	3,466	2,183	1,668	1,599

The level of job vacancies continues to be elevated in Southeast Minnesota. There is nearly one vacant job for every two persons unemployed in the area, signaling a significant tightening of labor market activity compared to five years ago.

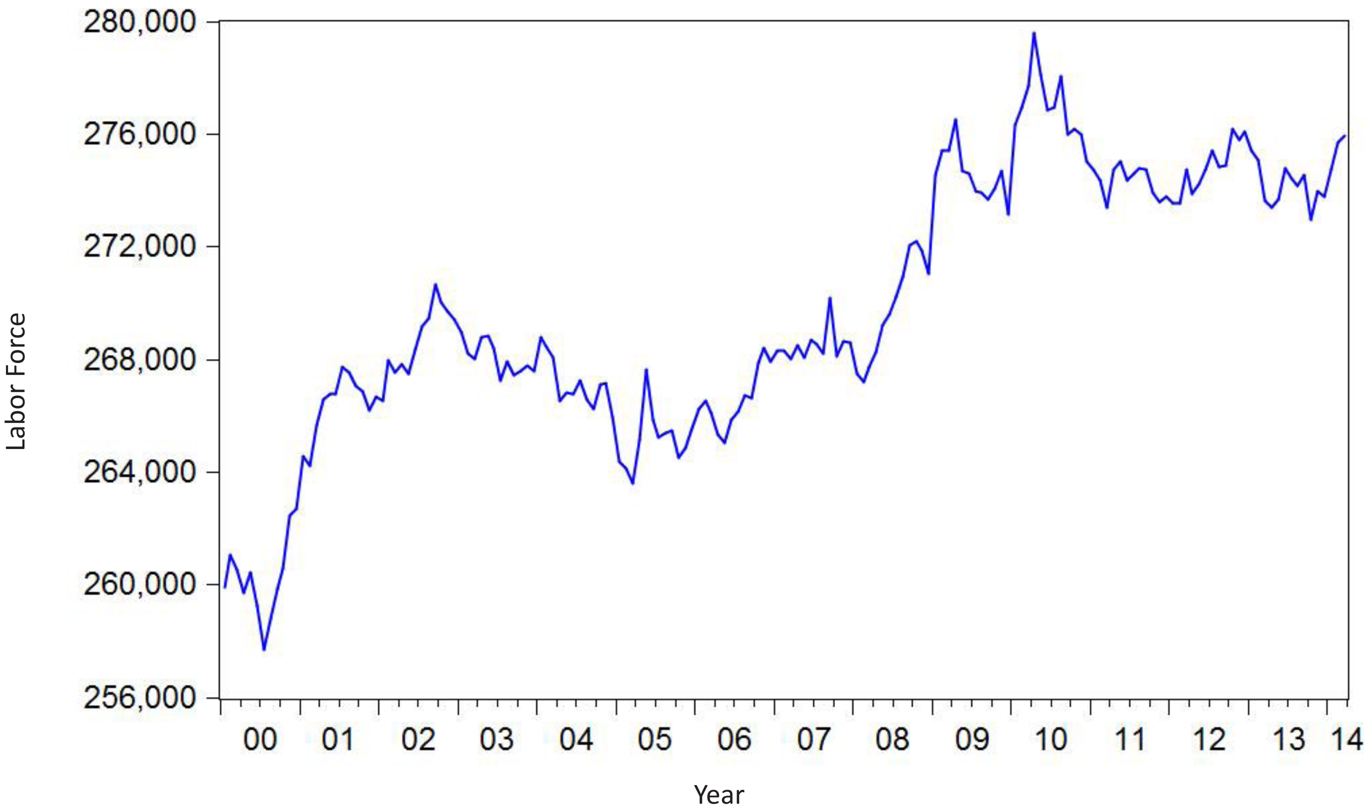
Job Vacancies per 100 unemployed—Southeast Minnesota Planning Area



Quarter	2011: 2nd	2011: 4th	2012: 2nd	2012: 4th	2013: 2nd	2013: 4th
Vacancies /100 unemployed	28.71	27.25	43.64	37.24	41.85	48.21

The size of the Southeast Minnesota labor force has remained largely unchanged over the last few years. Minnesota has seen different patterns of change in the labor force across its six planning areas, with only consistent long-run growth in the Twin Cities area.

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



Year (March)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	274,452	276,679	272,306	273,495	272,350	274,574

Southeast Minnesota Economic Indicators

Rochester MSA Indicators

Labor Market	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2014 (m)	106,486	106,719	-0.2% ↓	1.1%
Manufacturing Employment	March 2014 (m)	9,910	10,272	-3.5% ↓	-0.6%
Educational and Health Employment	March 2014 (m)	43,769	44,501	-1.6% ↓	3.1%
Average Weekly Work Hours--Private Sector	March 2014 (m)	33.8	32.2	5.0% ↑	33 (since 2008)
Average Earnings Per Hour--Private Sector	March 2014 (m)	$34.59	$33.34	3.7% ↑	5.4% (since 2008)
Unemployment Rate	March 2014 (m)	4.7%	4.7%	NA ↔	4.8%
Labor Force	March 2014 (m)	106057	105883	0.2% ↑	0.7%
Initial Jobless Claims	March 2014 (m)	537	454	18.3% ↑	NA
Business Formation					
Total New Business Filings	First Quarter 2014	349	389	-10.3% ↓	356 (since 2000)
New Business Incorporations	First Quarter 2014	17	21	-19% ↓	70 (since 2000)
New Limited Liability Companies	First Quarter 2014	209	220	-5% ↓	161 (since 2000)
New Assumed Names	First Quarter 2014	106	128	-17.2% ↓	120 (since 2000)
New Non-Profits	First Quarter 2014	17	20	-15% ↓	18 (since 2000)
Rochester Residential Building Permit Valuation	March 2014(m)	15011	8066	86.1% ↑	11247

(m) represents a monthly series

Southeast Minnesota contains the Rochester MSA, a region that derives more than 40 percent of its employment from the educational and health sector. This sector continues to be a pillar of economic vitality for the Rochester region (and for Southeast Minnesota).

While year-over-year employment in this key sector declined by 1.6 percent in March 2014, the long-term annualized growth of employment in this sector is 3.1 percent. Since 2000, the share of employment in Rochester's educational and health sector has increased from 30.3 percent of employment to 41.1 percent. Average earnings growth in the private sector was 3.7 percent over the year ending March 2014, modestly below its 5.4 percent average annualized increase since 2008. The Rochester area saw a decline in all forms of business filings with the Office of the Minnesota Secretary of State over the last 12 months, but it did see a large increase in the value of residential building permits.

State and National Indicators

MINNESOTA Indicators	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,813,900	2,811,700	2,770,000	0.1%	1.6%
Average weekly hours worked, private sector	34.0	34.0	33.4	0.0%	1.8%
Unemployment rate, seasonally adjusted	4.8%	4.7%	5.2%	NA	NA
Earnings per hour, private sector	$25.86	$25.94	$25.55	-0.3%	1.2%
Philadelphia Fed Coincident Indicator, MN	160.98	159.85	156.40	0.7%	2.9%
Philadelphia Fed Leading Indicator, MN	1.21	1.9	1.27	-36.3%	-4.7%
Minnesota Business Conditions Index	64.1	58.9	55.2	8.8%	6.7%
Price of milk received by farmers (cwt)	$26.40	$22.10	$19.50	19.5%	35.4%
Enplanements, MSP airport, thousands	1,568.8	1,392.1	1,510.1	12.7%	3.9%

NATIONAL Indicators	March 2014	Dec 2013	March 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	137928	137395	135682	0.4%	1.7%
Industrial production, index, SA	103.2	101.5	99.5	1.7%	3.7%
Real retail sales, SA	184140	182779	180159	0.7%	2.2%
Real personal Income less transfers	11,063	10,987	10,830	0.7%	2.2%
Real personal consumption expenditures	10979	10844	10674	1.2%	2.9%
Unemployment rate	6.7%	6.7%	7.5%	NA	NA
New building permits, thousands	990	991	890	-0.1%	11.2%
Standard and Poor's 500 stock price index	1872.34	1848.36	1569.19	1.3%	19.3%
Oil, price per barrel in Cushing,OK	$100.80	$97.63	$92.94	3.2%	8.5%

Across the state, there was growth in payrolls and a decline in the unemployment rate from one year ago. Earnings per hour in the private sector rose 1.2 percent over the past year. Broader indicators suggest strength in the state economy. Farmers are receiving higher prices for milk, an important indicator in many areas of Minnesota.

Despite a recent report of tepid output growth in the first quarter, the national economy continues its expansion. Despite a de facto tax hike that resulted from the elimination of the partial payroll tax holiday at the beginning of 2013, consumption rose 2.9 percent over the last 12 months, and building permits rose. The stock market surged in 2013, which may have helped consumer sentiment. Oil prices, on the other hand, rose over the past year, taking some discretionary income out of consumers' hands.

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.

Reports on second quarter 2014 business and economic conditions in each of the six planning areas will be available in August 2014.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Joseph Kucan and Jie Zu. Our thanks to Professor David Wall and Ian Wolfe of the SCSU Geography Department for GIS assistance.

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

U.S. Energy Information Administration: Oil Prices.