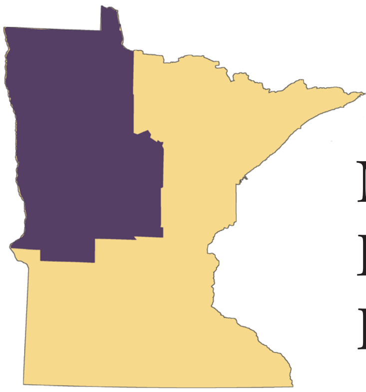

Northwest Minnesota
Economic and Business Conditions Report
First Quarter 2015

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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Executive Summary

Northwest Minnesota business conditions are expected to slow over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI). A weaker macroeconomic environment for rural America and softness in consumer sentiment have contributed to an 8.01 point decline in the LEI. With two consecutive quarters of decline in the LEI, the Northwest Minnesota economy seems likely to grow less rapidly over the next several months. While a sustained downturn in economic activity seems unlikely to hit this portion of the state, it is worth noting that weakness in the agriculture and energy sectors could adversely affect economic performance in this planning area. Three components of the LEI improved in the first quarter, including a rise in new incorporations and limited liability companies (LLCs), reduced initial jobless claims, and an increase in residential building permits in the two key metropolitan areas of Northwest Minnesota.

There were 1,102 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the first quarter of 2015 — representing a 7.6 percent increase from one year ago. 117 new regional business incorporations were recorded in the first three months of this year, a 2.5 percent reduction from last year's first quarter. In the first quarter, new LLC filings in Northwest Minnesota were up 15.4 percent—increasing to 593. New assumed names totaled 343 in this year's first quarter—a reduction of 0.6 percent from the same period in 2014. There were 49 new filings for Northwest Minnesota non-profits in the first quarter—8.9 percent more filings than one year ago.

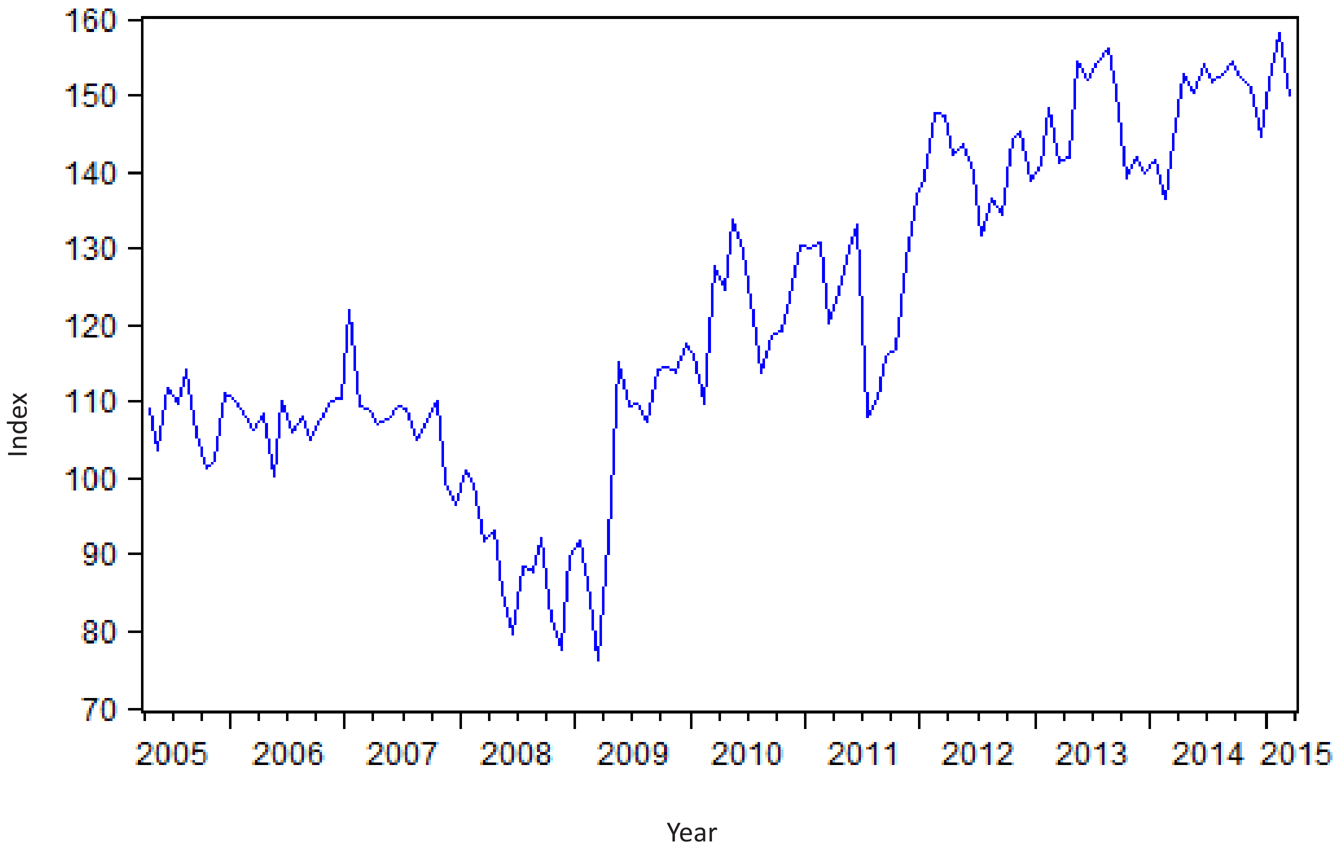
Employment of Northwest Minnesota residents increased by 4.5 percent over the year ending March 2015. The regional unemployment rate was 6.1 percent in March, an improvement on its 7 percent reading one year ago. Initial claims for unemployment insurance in April were 39 lower (a decrease of 2.5 percent) than in April 2014 and job vacancies per 100 unemployed increased slightly to 73.25 from a level of 71.69 in the prior six months. The regional labor force expanded by 10,558 (a 3.6 percent increase) from one year earlier.

The Fargo/Moorhead Metropolitan Statistical Area (MSA) experienced a mixed economic performance over the past quarter. This MSA tallied strong gains in overall employment (and a large increase in mining, logging, and construction employment) and average hourly earnings along with a large increase in residential building permits and an expanded work force. However, average hours worked were weaker, initial jobless claims increased, and the MSA unemployment rate rose in this area in the first quarter. Economic activity in the Grand Forks/East Grand Forks MSA was similarly mixed in the first three months of the year. Higher employment, a lower area unemployment rate, and a rising labor force were offset by declining weekly work hours, lower average hourly earnings, increased initial jobless claims, and a large reduction in residential building permits.

Northwest Minnesota Leading Economic Indicators Index

The SCSU Northwest 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 now declined for two consecutive quarters and stands 4.4 percent below its level of the first quarter of 2014. As shown in the accompanying graph, the LEI has trended upward since the end of the Great Recession, so there is reason to hope that recent weakness will be reversed in coming months.

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



Components of SCSU Northwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2015	Contribution to LEI, 4th quarter 2014
Rural Mainstreet Index	-16.22	0.06
Northwest Minnesota initial claims for unemployment insurance	0.90	-0.50
Northwest Minnesota new filings of incorporation and LLCs	1.05	-1.72
Fargo-Moorhead + Grand Forks-EGF MSA residential building permits	6.53	-3.4
Consumer Sentiment, University of Michigan	-0.27	4.25
TOTAL CHANGE	-8.01	-1.31

The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns averaging a population of 1,300 in 10 Midwestern states. This series is used as a proxy for economic activity in the rural areas of Northwest Minnesota. As can be seen in the accompanying table, this rural index was the primary component that drove this quarter's index into negative territory. Because Northwest Minnesota exports many recreational vehicles, consumer sentiment is included as a proxy for demand in that industry. The University of Michigan's Consumer Sentiment Index also exhibited weakness in the most recent quarter. Residential building permits in the Fargo/Moorhead and Grand Forks/East Grand Forks were strong and new business filings for incorporation and LLC contributed favorably to this quarter's regional outlook. Lower initial jobless claims also bolstered the first quarter LEI.

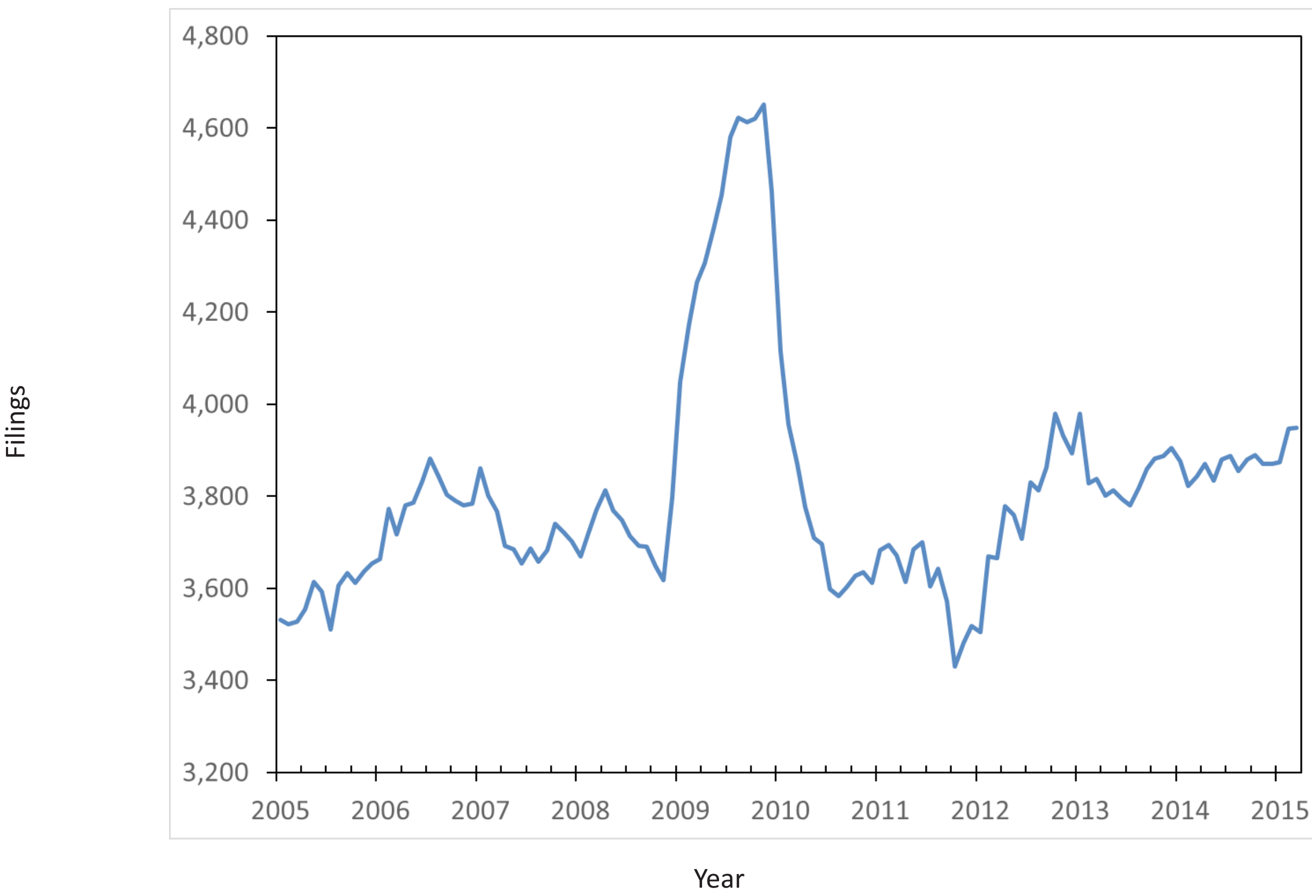
SCSU Northwest Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Rural Mainstreet Index, Creighton University, March	26.8	50.1	-46.5%
Northwest Minnesota initial claims for unemployment insurance, March	1,933	1,975	-2.1%
Northwest Minnesota new filings of incorporation and LLCs, First Quarter	710	634	12.0%
Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, March	126	44	186.4%
Consumer Sentiment, University of Michigan, March	93.0	80.0	16.3%
Northwest Minnesota Leading Economic Indicators Index March (December 1999 = 100)	137.3	143.6	-4.4%

Northwest Minnnesota Business Filings

With the exception of a large increase in 2008, total new business filings in this region have largely leveled off over the past decade, although there is a slight upward trend since 2012. 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 and appears to be a one-time only transitory event seen in the data in all regions of Minnesota. As shown in the accompanying table, first quarter total new business filings increased by 7.6 percent from the prior year in Northwest Minnesota.

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

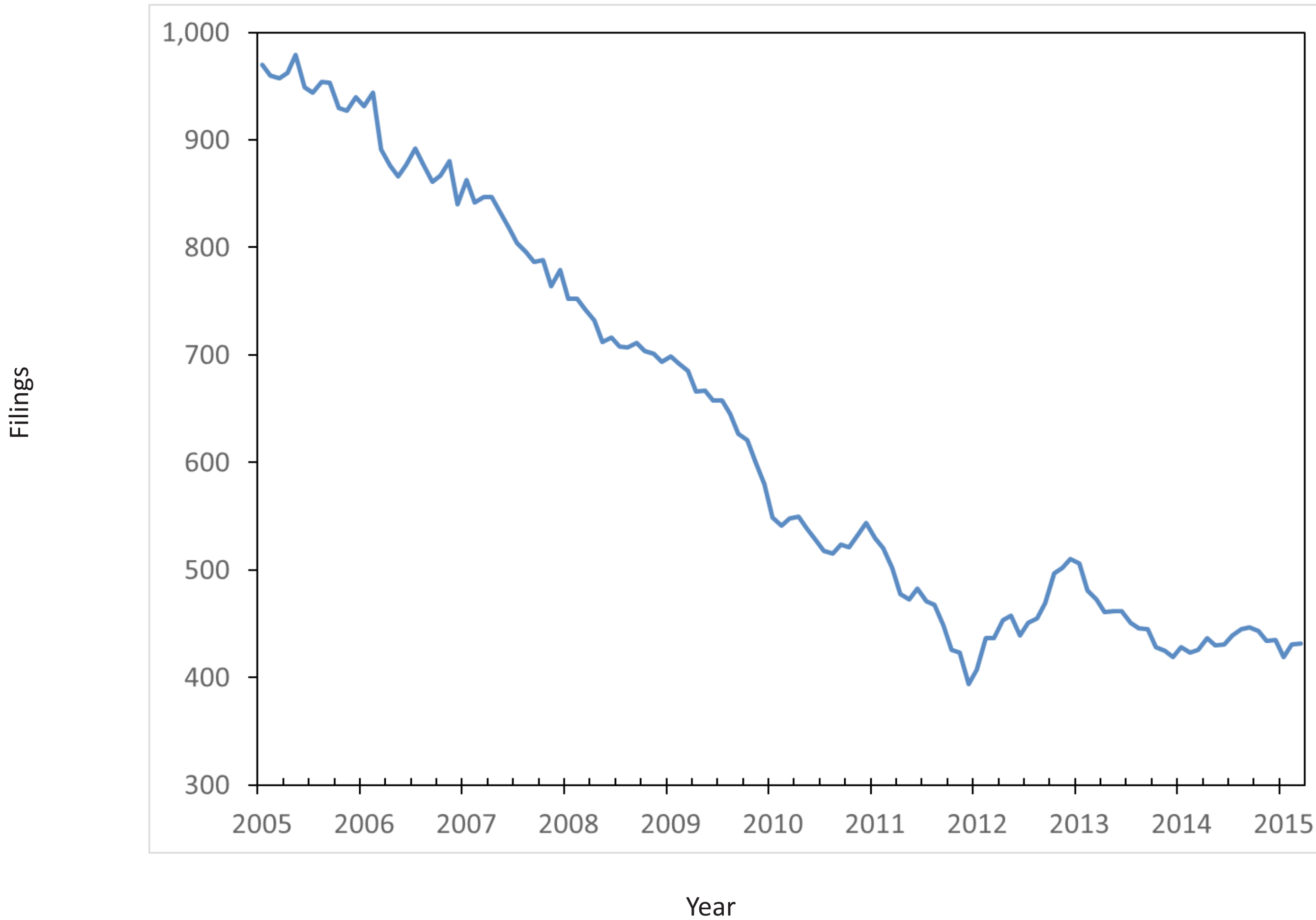
Total New Business Filings—Northwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northwest Minnesota Total New Business Filings	1,024	1,089	894	863	1,102	7.6%

New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, but have since leveled out. New business incorporations totaled 117 (a decrease of 2.5 percent) in the first quarter of 2015.

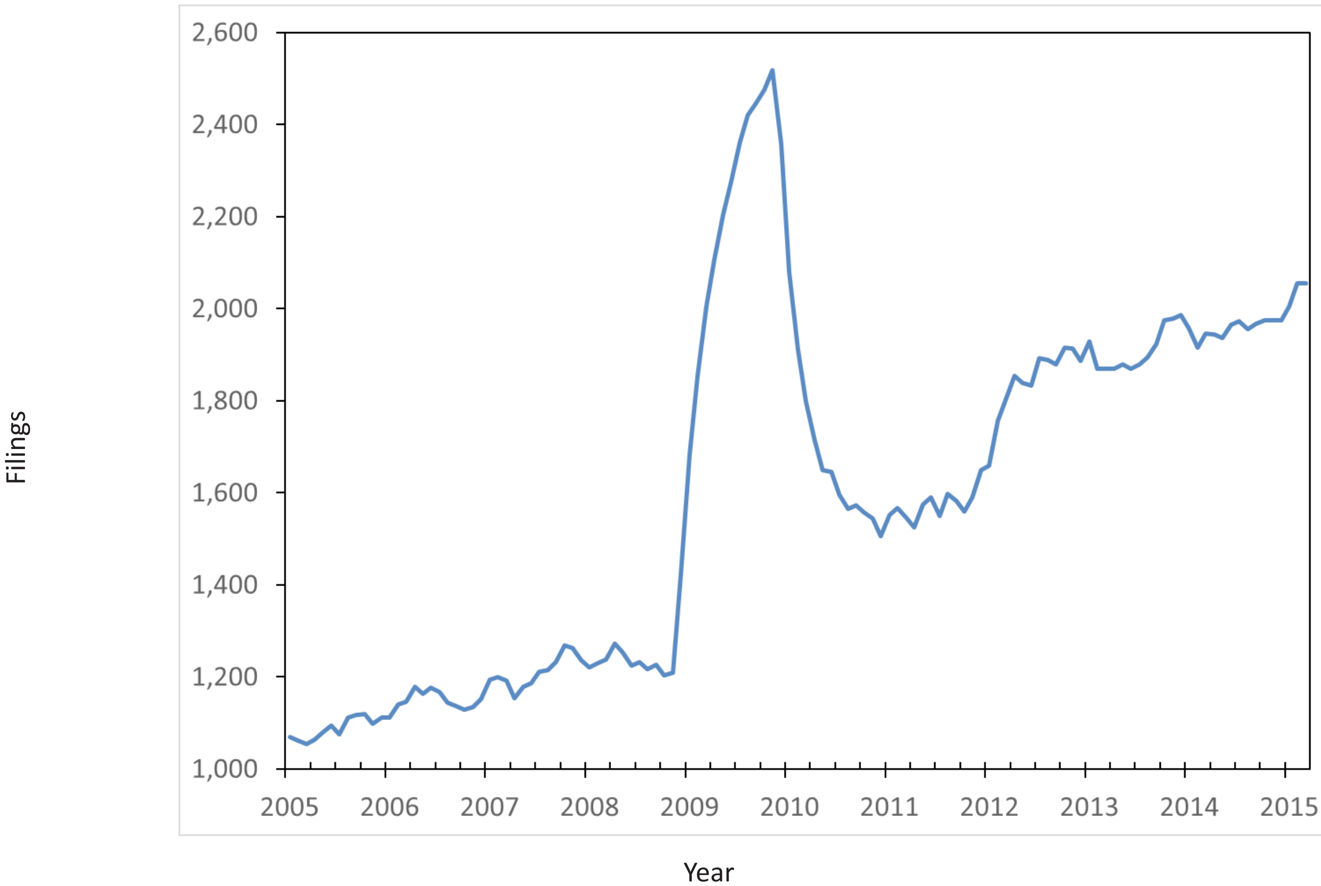
New Incorporations—Northwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northwest Minnesota New Business Incorporations	120	124	100	91	117	-2.5%

There has been a move in Northwest Minnesota (and the rest 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 Northwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northwest Minnesota. With the exception of the outlier period in 2008–2009, new LLC formation has shown a fairly steady rate of growth over the last ten years. First quarter 2015 LLC filings increased by 15.4 percent compared to the same period in 2014.

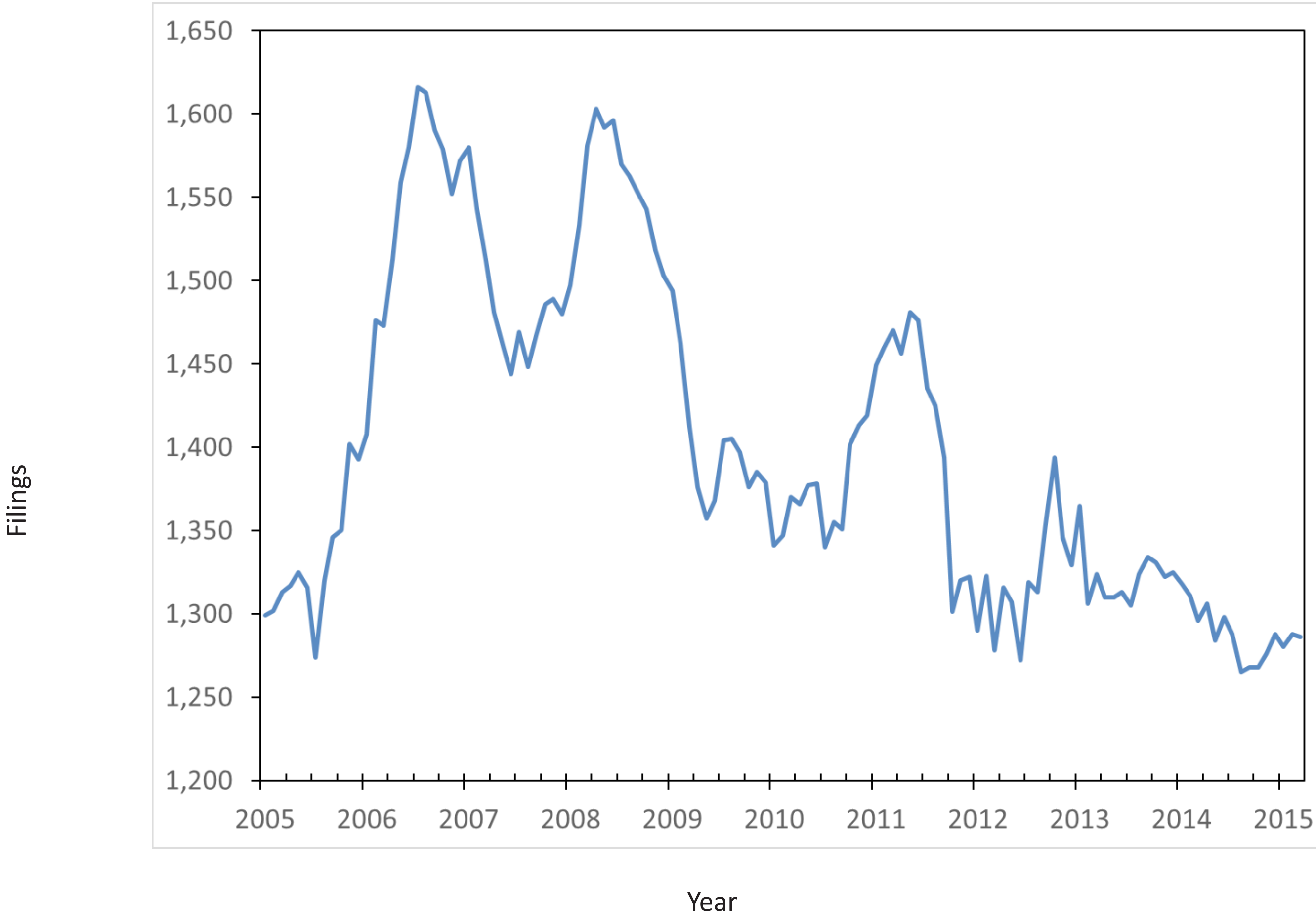
New Limited Liability Companies—Northwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	514	539	447	475	593	15.4%

Assumed names, which include sole proprietors or organizations that do not have limited liability, decreased by 0.6 percent from the same period last year. This series has not yet recovered from its peak levels of 2006–2007.

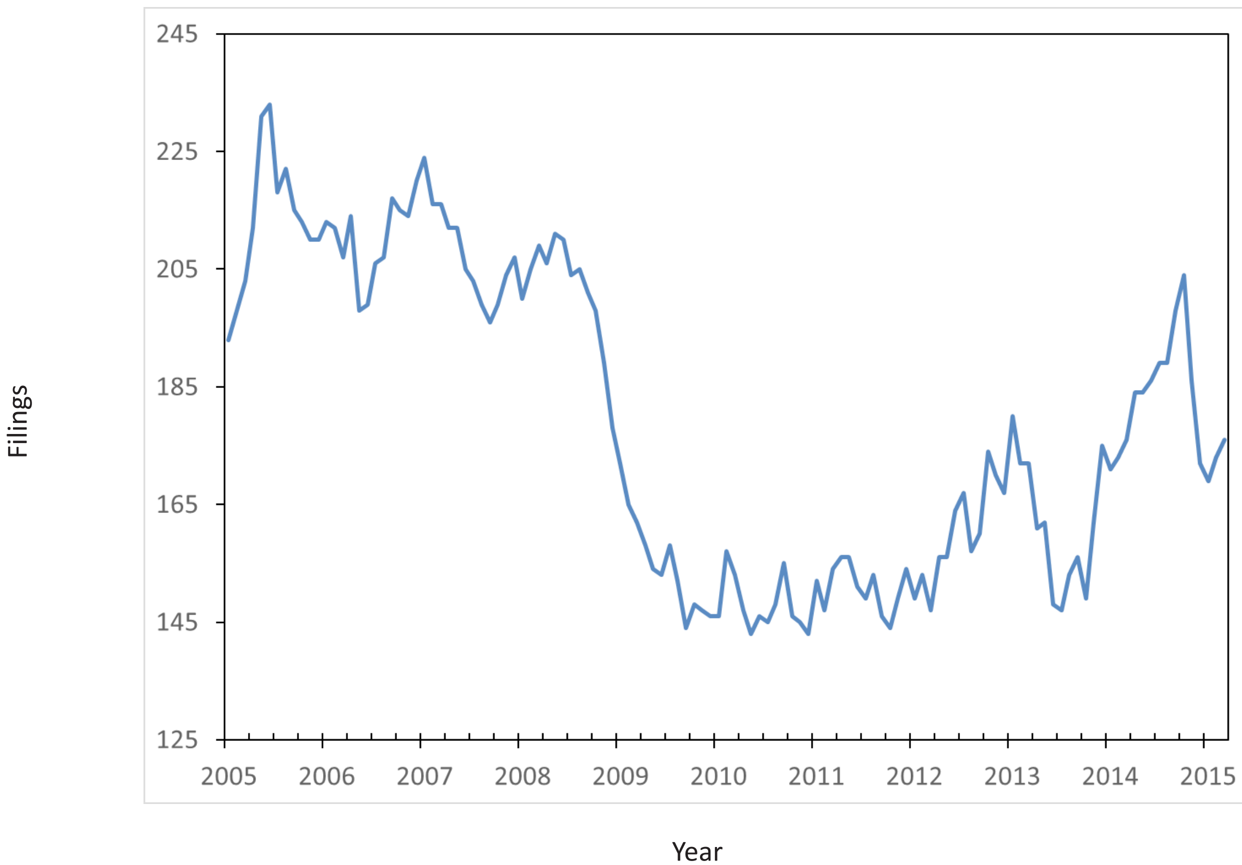
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)



Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northwest Minnesota New Assumed Names	345	385	295	263	343	-0.6%

After a large drop last quarter, the number of newly formed non-profits in the Northwest Minnesota planning area rebounded in this year's first three months. The number of new non-profits increased by 8.9 percent over last year's first quarter in the recent period.

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

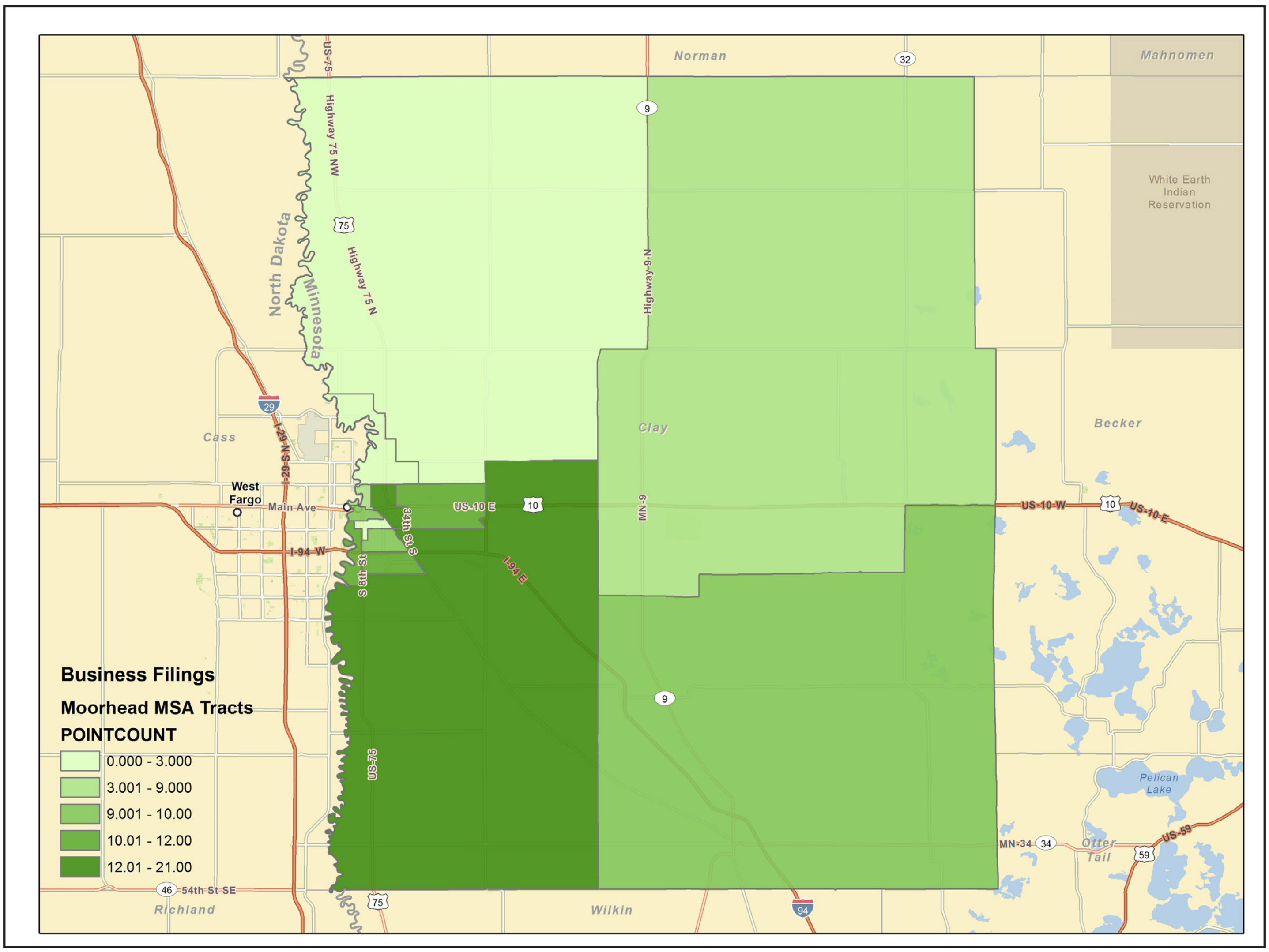


Quarter	I: 2014	II: 2014	III: 2014	IV: 2014	I: 2015	2015 Quarter 1: Percent change from prior year
Northwest Minnesota New Non-Profits	45	41	52	34	49	8.9%

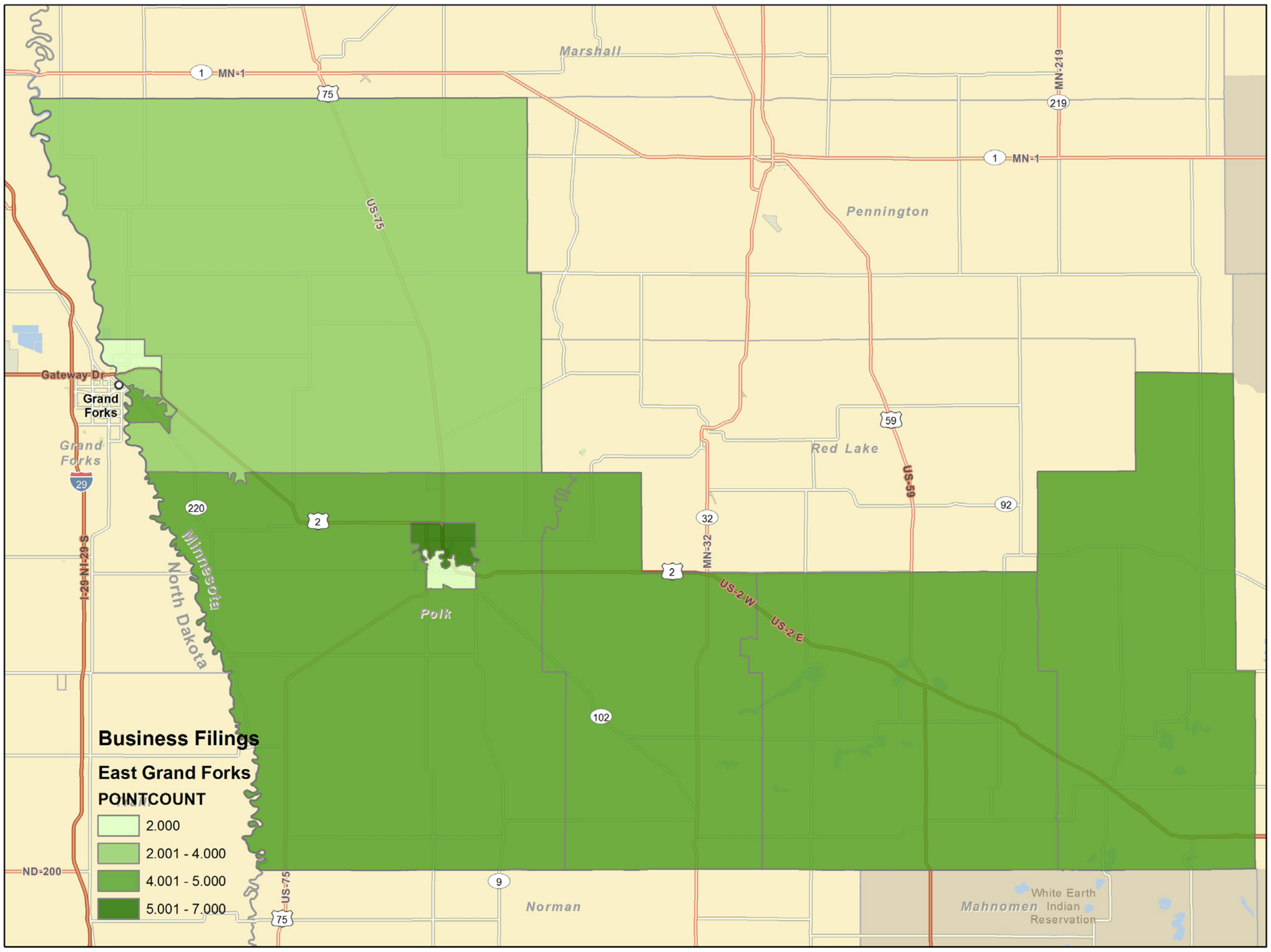
The maps below highlight new business formation by census tract in this year's first quarter in the Minnesota counties of the two Metropolitan Statistical Areas (MSA) in Northwest Minnesota. Note that new business filing data are unavailable from North Dakota. These MSAs represent Fargo/Moorhead and Grand Forks/East Grand Forks. The first figure looks at the distribution of new business filings in Clay County, Minnesota (this is part of the Fargo/Moorhead MSA). While there were many new business filings in this MSA in this year's first quarter, the distribution of new filings is clearly uneven across the metro area.

Some portions (represented by the lighter colored blocks) of Clay County experienced relatively little new business formation in this period, while others (the darker colored blocks) enjoyed fairly strong gains. The same result applies to the second map, which shows the distribution of new business filings in Polk County, MN (this is part of the Grand Forks/ East Grand Forks MSA). This mapping tool has the potential to focus on those areas within each MSA that are most likely to experience growth of new businesses. This can inform regional economic development efforts. In coming issues of the Northwest Minnesota Quarterly Economic and Business Conditions Report, we hope to extend this analysis of targeted business formation by controlling for differences in population and households across the region.

New Business Formation By Census Tract in 2015, Quarter 1—Fargo-Moorhead MSA



New Business Formation By Census Tract in 2015, Quarter 1—Grand Forks-East Grand Forks MSA

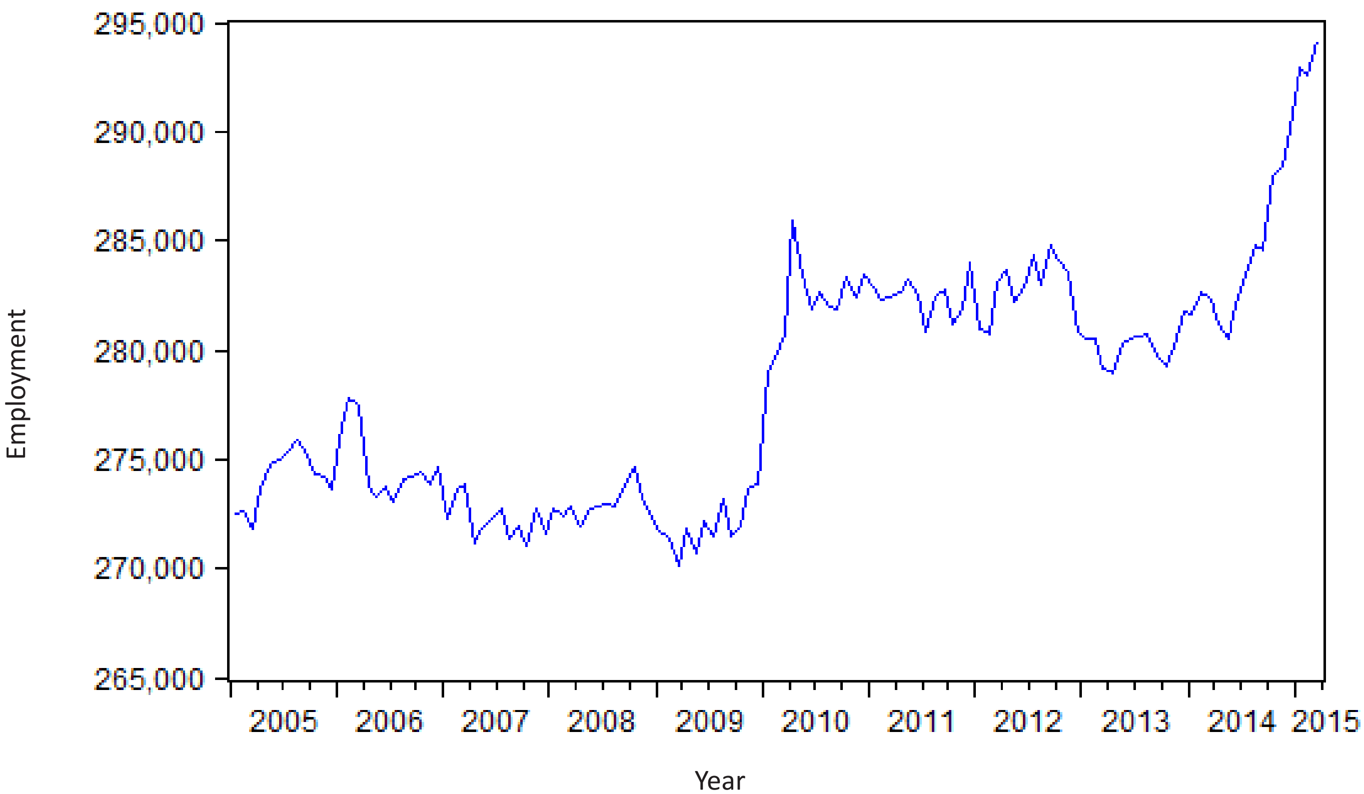


Labor Market Conditions

Employment in the Northwest Minnesota planning area grew 4.5 percent over the year ending March 2015. As can be seen in the accompanying graph, the area has experienced rapid job growth over the last twelve months. Given the prediction of the Northwest Index of Leading Economic Indicators, this rapid employment growth is likely to slow in the coming months.

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.

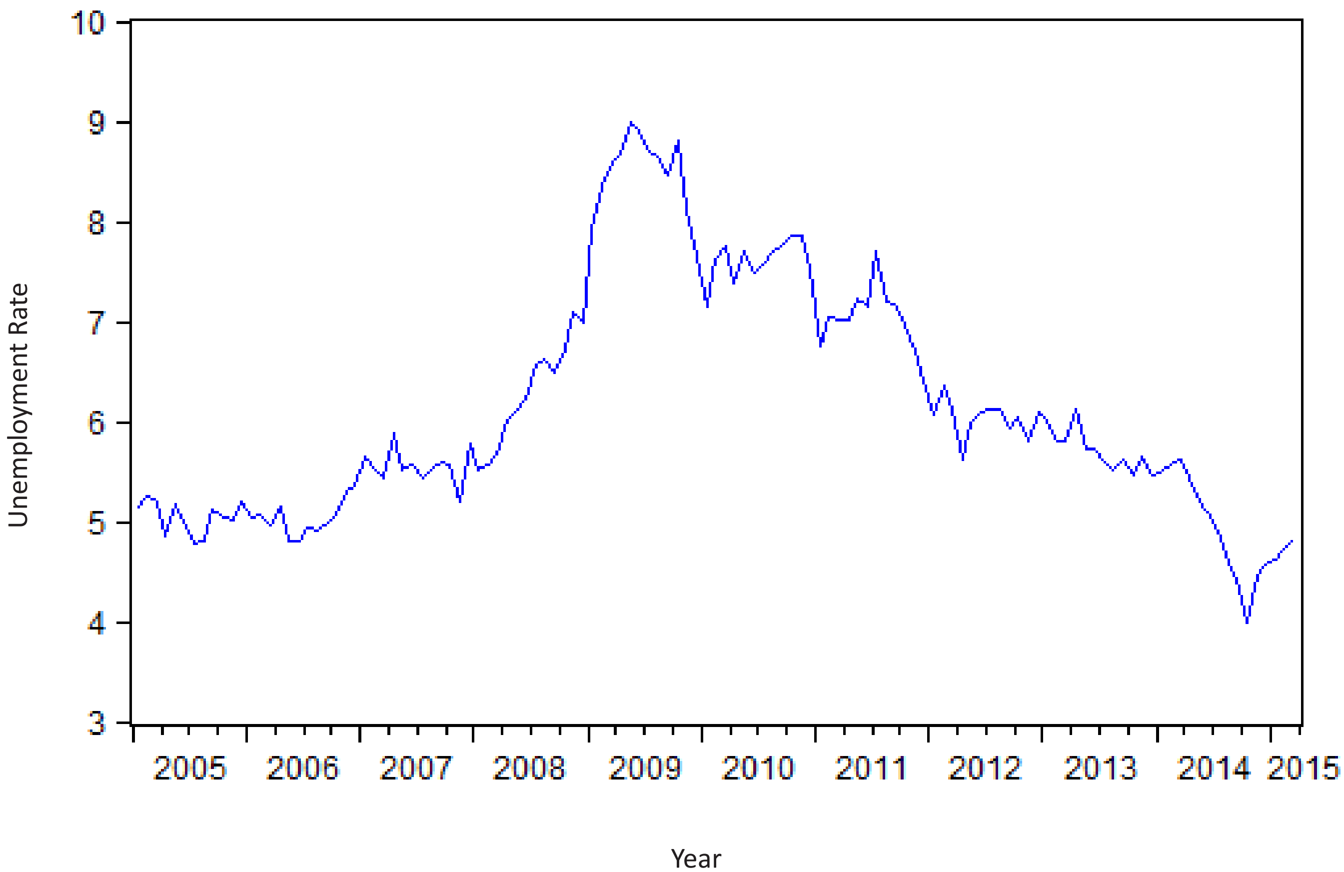
Employment—Northwest Minnesota Planning Area (12-month moving average)



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Employment (Not seasonally adjusted)	274,665	289,848	286,771	283,962	283,263	282,826	287,073

Seasonally adjusted unemployment rates increased in the recent quarter. This series had declined since peaking at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 6.1 percent, well below its 7 percent level in March 2014.

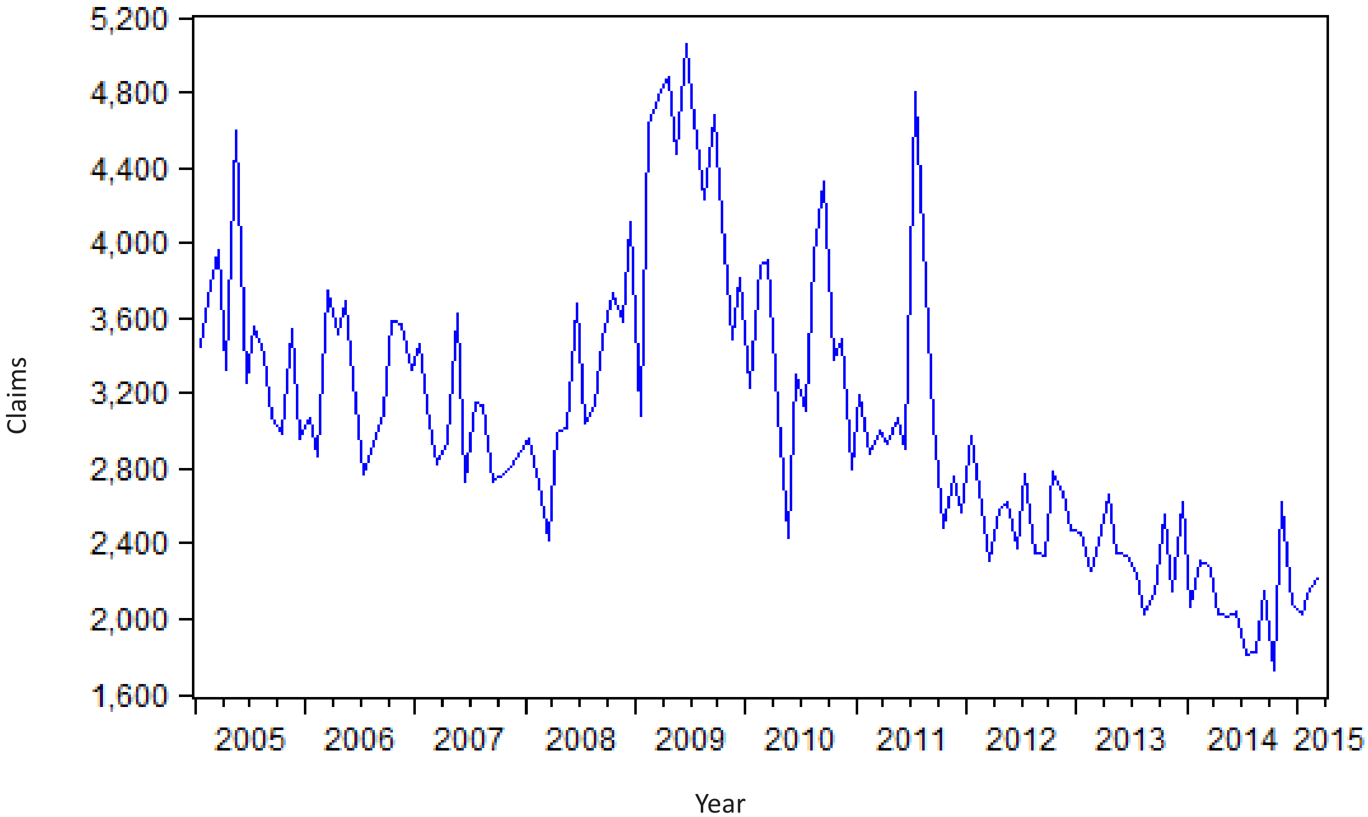
Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area



Month	March 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015
Unemployment Rate (Not seasonally adjusted)	7.0%	3.1%	3.9%	4.9%	6.3%	6.1%	6.1%

New claims for April 2015 unemployment insurance decreased slightly from year-ago levels. They are now lower than one year ago by only 39 (a 2.5 percent reduction). Initial jobless claims are still well below their heightened levels during the Great Recession, but they have started to inch up on a seasonally adjusted basis.

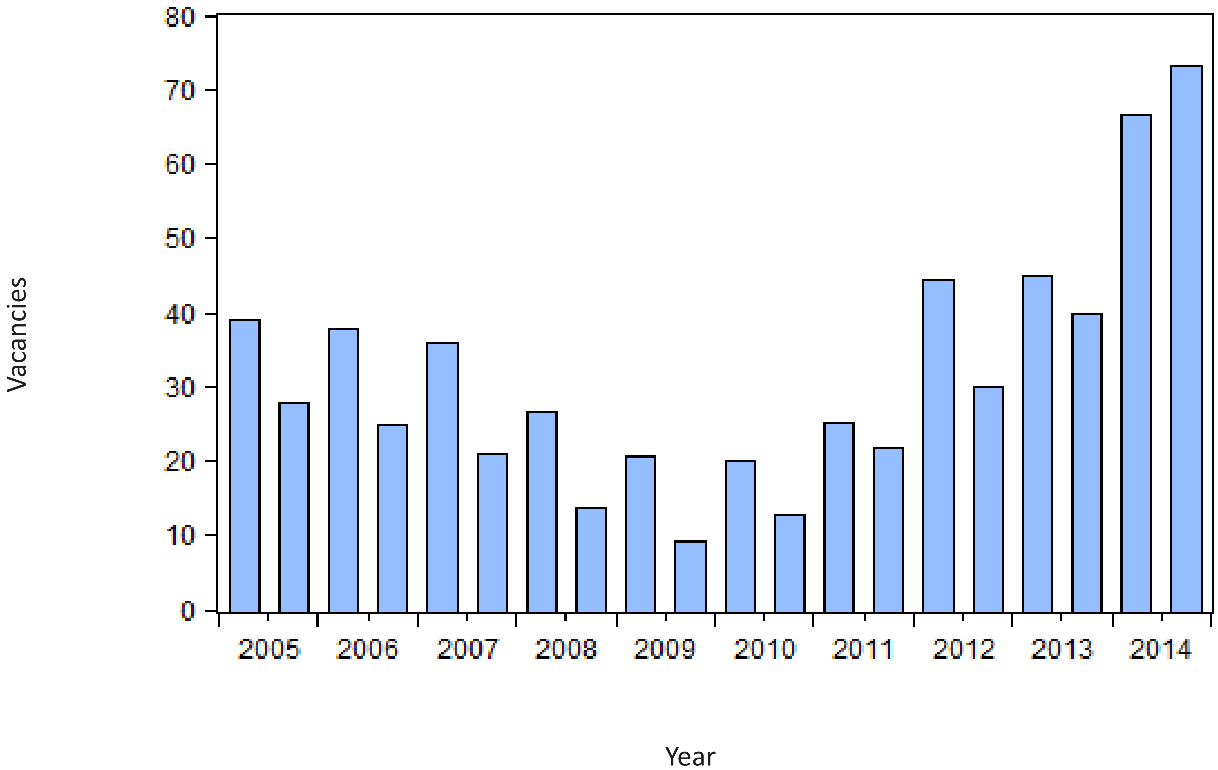
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	April 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015
Initial claims (Not seasonally adjusted)	1,540	4,978	4,734	2,482	1,685	1,933	1,501

The number of job vacancies is expanding throughout the state as worker shortages grow. In the Northwest Minnesota planning area the rate of job vacancies per 100 unemployed was 73.25 in the fourth quarter of 2014 (this is the most recently available data). This was a small increase from the job vacancy rate recorded in the second quarter of 2014. At that time, the job vacancy rate in the Northwest Minnesota planning area was the highest of any of Minnesota's six planning areas. This is no longer the case. The Northwest planning area now ranks fifth out of the six planning areas in this category.

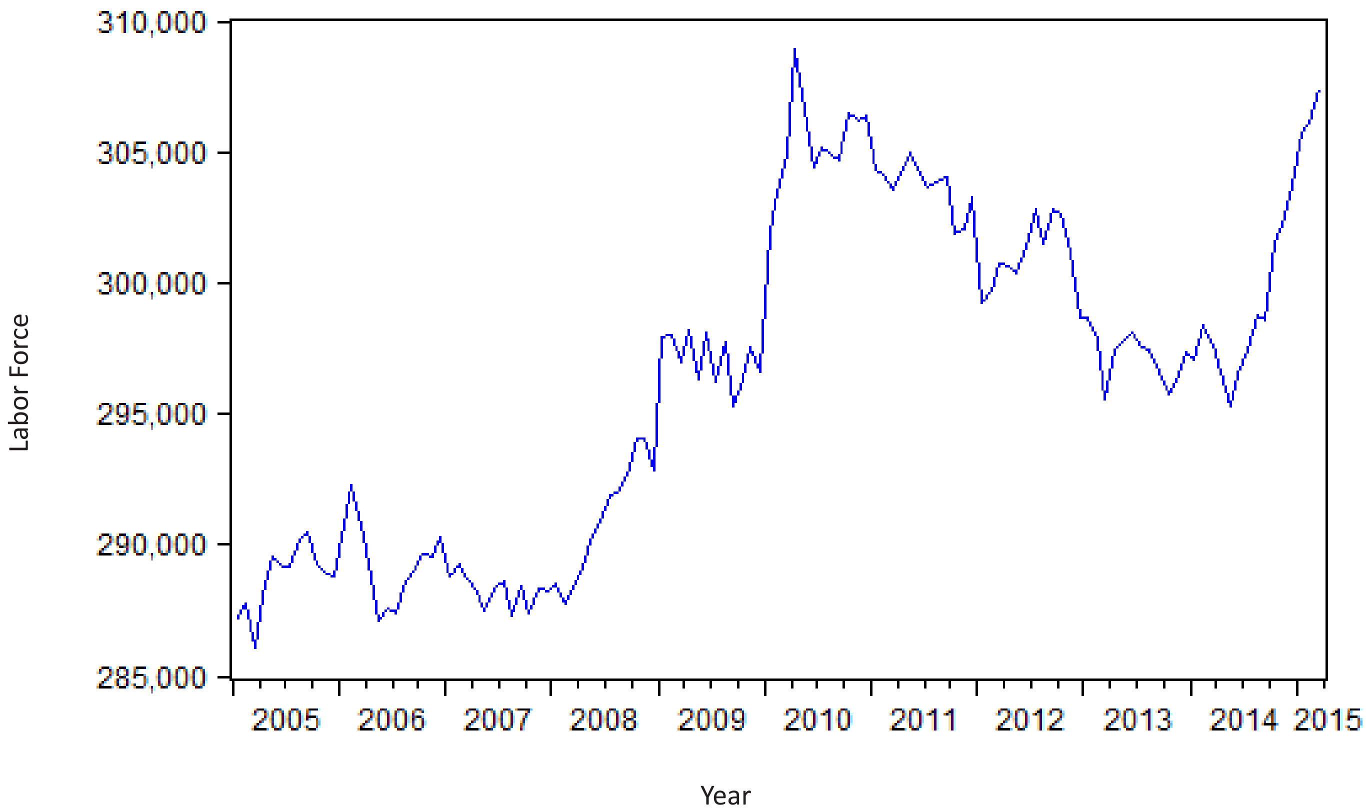
Job Vacancies per 100 Unemployed—Northwest Minnesota Planning Area



Quarter	2012:II	2012:IV	2013:II	2013:IV	2014:II	2014:IV
Job Vacancies per 100 Unemployed	47.86	33.29	47.22	44.72	71.69	73.25

The size of the Northwest Minnesota labor force grew over the year ending March 2015. At 305,739, the regional labor force is 10,558 larger (representing a 3.6 percent increase) than one year ago.

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



Year (March)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	298,802	297,428	294,547	292,929	295,181	305,739

Economic Indicators

Fargo-Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2015 (m)	138,200	133,300	3.7% ↑	2.1%
Manufacturing Employment	March 2015 (m)	9,900	10,000	-1.0% ↓	1.7%
Mining, Logging, Construction Employment	March 2015 (m)	7,700	6,900	11.6% ↑	3.2%
Average Weekly Work Hours, Private Sector	March 2015 (m)	33.6	34.1	-1.5% ↓	32.2 (since 2007)
Average Earnings Per Hour, Private Sector	March 2015 (m)	$23.91	$23.25	2.8% ↑	3.4% (since 2007)
Unemployment Rate	March 2015 (m)	3.4%	3.3%	NA ↑	3.7%
Labor Force	March 2015 (m)	130,296	127,085	2.5% ↑	1.5%
Initial Jobless Claims	March 2015 (m)	469	278	68.7% ↑	NA
Fargo-Moorhead Residential Building Permit Valuation	March 2015 (m)	37,865	9,126	314.9% ↑	9,748
Fargo-Moorhead Cost of Living Index	2014 (annual average)	94.0	93.9	0.1% ↑	NA

Grand Forks-East Grand Forks MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2015 (m)	57,100	55,900	2.1% ↑	1.1%
Maufacturing Employment	March 2015 (m)	3,900	3,800	2.6% ↑	0.7%
Mining, Logging, Construction Employment	March 2015 (m)	2,600	2,400	8.3% ↑	1.0%
Average Weekly Work Hours, Private Sector	March 2015 (m)	32.0	32.2	-0.6% ↓	31.9 (since 2007)
Average Earnings Per Hour, Private Sector	March 2015 (m)	$20.61	$20.95	-1.6% ↓	0.2% (since 2007)
Unemployment Rate	March 2015 (m)	4.0%	4.3%	NA ↓	4.6%
Labor Force	March 2015 (m)	55,509	54,538	1.8% ↑	0.3%
Initial Jobless Claims	March 2015 (m)	184	138	33.3% ↑	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation	March 2015 (m)	2,058	32,016	-93.6% ↓	3,456

(m) represents a monthly series

The Bureau of Labor Statistics identifies two MSAs in Northwest Minnesota—each of which crosses the North Dakota/Minnesota border. While North Dakota business filing data are not incorporated into this report, a variety of economic measures can be analyzed. The data in the table show strong employment gains in the Fargo/Moorhead area (with an extremely large increase in mining/logging/construction employment) and a 2.8 percent increase in average hourly earnings. The labor force grew by 2.5 percent and the value of Fargo/Moorhead residential building permits surged. On the negative side, area manufacturing employment fell, average hours worked declined, the unemployment rate increased, initial jobless claims rose, and the relative cost of living increased.

Grand Forks/East Grand Forks MSA economic activity was also mixed in the first three months of 2015. MSA employment rose at a 2.1 percent annual pace and the key manufacturing and mining/logging/construction sectors also experienced job growth. The area unemployment rate fell and the labor force increased. However, average hourly earnings and the length of the workweek both declined. This area also suffered from rising initial jobless claims and a large decline in the value of residential building permits.

State and National Economic Indicators

MINNESOTA Indicators	Mar 2015	Dec 2014	Mar 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,844,600	2,831,400	2,795,400	0.5%	1.8%
Average weekly hours worked, private sector	33.9	33.9	34.0	0%	-0.3%
Unemployment rate, seasonally adjusted	3.8%	3.7%	4.4%	NA	NA
Earnings per hour, private sector	$26.32	$25.82	$25.83	1.9%	1.9%
Philadelphia Fed Coincident Indicator, MN	167.33	166.07	162.38	0.8%	3.0%
Philadelphia Fed Leading Indicator, MN	1.81	1.73	2.04	4.6%	-11.3%
Minnesota Business Conditions Index	50.0	61.4	66.1	-18.6%	-24.4%
Price of milk received by farmers (cwt)	$17.10	$20.50	$26.10	-16.6%	-34.5%
Enplanements, MSP airport, thousands	1,629.6	1,387.6	1,615.7	17.4%	0.9%

NATIONAL Indicators	Mar 2015	Dec 2014	Mar 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	141,144	140,592	138,055	0.4%	2.2%
Industrial production, index, SA	105.2	106.2	103.1	-0.9%	2%
Real retail sales, SA	185,279	185,197	182,093	0%	1.7%
Real personal Income less transfers	11,506	11,435	11,161	0.6%	3.1%
Real personal consumption expenditures	11,193	11,145	10,903	0.4%	2.7%
Unemployment rate	5.5%	5.6%	6.6%	NA	NA
New building permits, SA, thousands	1,038	1,077	1,061	-3.6%	-2.2%
Standard & Poor's 500 stock price index	2,079.99	2,054.27	1,863.52	1.3%	11.6%
Oil, price per barrel in Cushing, OK	$47.82	$59.29	$100.80	-19.3%	-52.6%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Average weekly hours worked fell, although earnings per hour in the private sector rose over the past year. Two of three broader indicators suggest softening in the state economy in the first quarter. Milk prices were 34.5 percent lower than one year ago in March. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 0.9 percent over the last twelve months.

The national economic indicators reported in the table suggest continued strong economic performance at the national level—yet there are emerging signs of softness in national economic activity that have been reported since this table was constructed. Still, 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. While there is little concern that the national economy will be entering recession in the coming months, observers will be wise to keep a watchful eye out for any continuation of the recent soft patch that seems to have emerged in the last couple of months.

The Northwest 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 Northwest Minnesota Planning Area consists of 26 counties: Becker; Beltrami; Cass; Clay; Clearwater; Crow Wing; Douglas; Grant; Hubbard; Kittson; Lake of the Woods; Mahnomen; Marshall; Morrison; Norman; Otter Tail; Pennington; Polk; Pope; Red Lake; Roseau; Stevens; Todd; Traverse; Wadena; and Wilkin.

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