Central Minnesota
Economic and Business Conditions Report
Second Quarter 2016

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Central Minnesota Planning Area consists of 13 counties: Benton, Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, Stearns, and Wright.

Office of the Minnesota
Secretary of State

School of Public Affairs
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Executive Summary

The Central Minnesota planning area is expected to experience economic growth that is slightly weaker than normal over the next several months according to predictions of the Central Minnesota Index of Leading Economic Indicators (LEI). The leading index fell by 2.41 points in the most recent period, with two components producing negative readings. Weaker new filings for business incorporation along with slowing residential building permits in the St. Cloud area helped tip the index down this quarter. Improvements in a general measure of statewide business conditions and a decrease in initial jobless claims in Central Minnesota had a positive impact on the LEI in the second quarter. An uptick in national durable goods orders also contributed favorably to the regional outlook.

There were 1,454 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the second quarter of 2016 — representing a 4.2 percent increase from one year ago. There were 163 new regional business incorporations in the second quarter, a 1.8 percent decrease from year ago levels. New limited liability company (LLC) filings in Central Minnesota increased 1.1 percent relative to the second quarter of 2015—rising to 792 in this year's second quarter. New assumed names totaled 458 over the recent quarter—an increase of 14.8 percent compared to the same period in 2015. There were 41 new filings for Central Minnesota non-profit in the second quarter—seven fewer filings than one year ago.

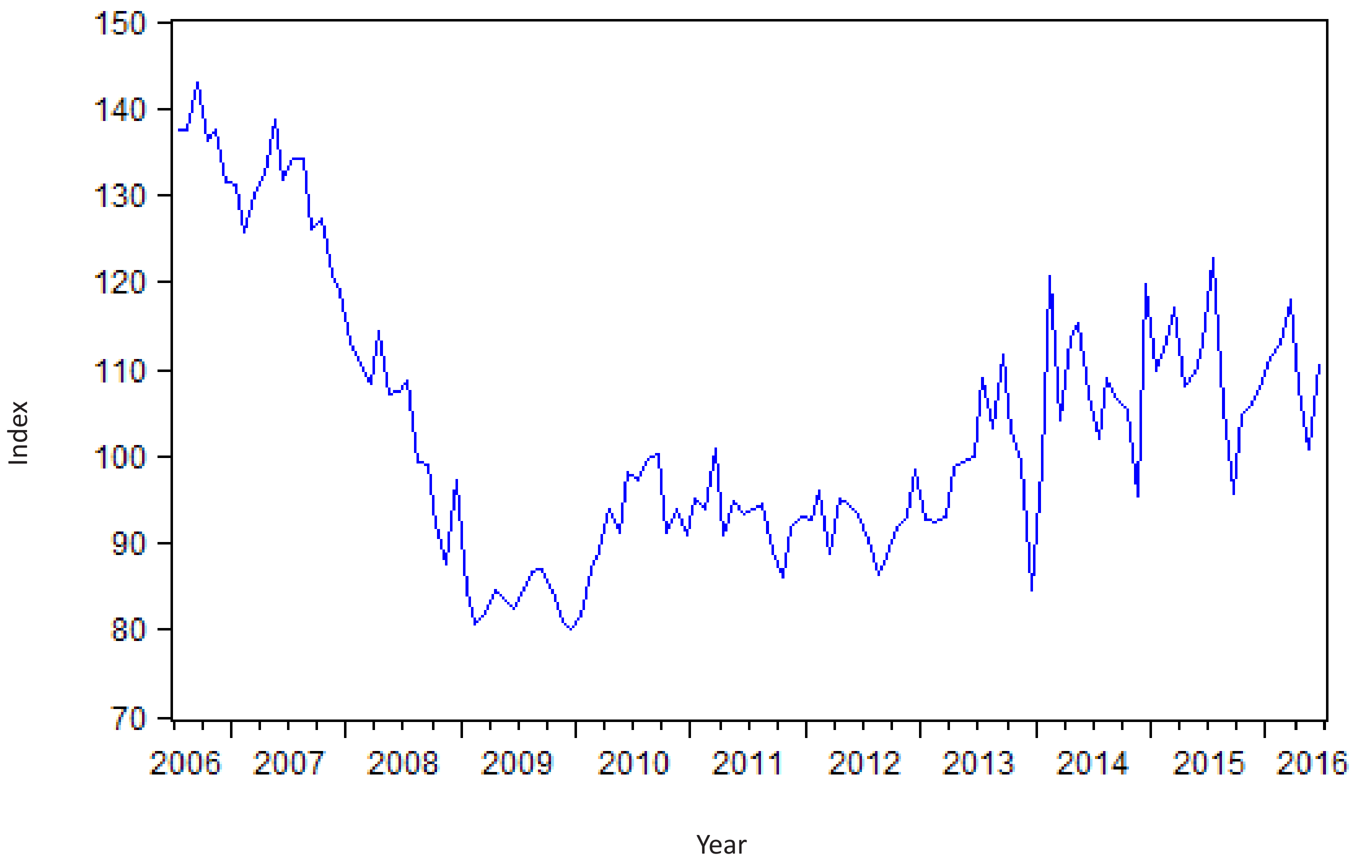
Central Minnesota employment was 0.4 percent higher in June 2016 than it was one year earlier. Compared to one year ago, only 1,514 more residents of Central Minnesota now have jobs. The June regional unemployment rate was 4.5 percent—up from 4.3 percent one year earlier. Initial claims for unemployment insurance were 2.5 percent lower in June than they were in the same month last year. The Central Minnesota labor force continues to grow (rising 0.5 percent over the past year) and the average weekly wage jumped by 6.7% to $826 in the fourth quarter of 2015. Central Minnesota bankruptcies are starting to level out. The region's 1,597 bankruptcies over the past twelve months are slightly higher than they were in last quarter's report.

Economic performance in the St. Cloud area was mixed, with higher unemployment rates, less help wanted linage, weaker home prices and lower new business filings being offset by accelerating wages, a rising work week, higher employment, fewer jobless claims and a rising labor force. A recent survey of St. Cloud area business leaders was less optimistic about future business activity than one year earlier. It appears the economic expansion in St. Cloud (and Central Minnesota) has matured, so less rapid growth can be expected in future quarters.

Central Minnesota Leading Economic Indicators Index

The SCSU Central 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 fell 2.41 points in the second quarter after rising a revised 1.55 points in the first quarter of the year. Compared to last year, the LEI is 1.95 percent lower. Central Minnesota's expected growth mirrors that which is seen in other areas of Minnesota—slowing growth that is weaker than normal, but no current concerns about recession in the near future.

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



Components of SCSU Central Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2016	Contribution to LEI, 1st quarter 2016
Minnesota Business Conditions Index	0.35	1.01
Central Minnesota initial claims for unemployment insurance	2.00	-3.45
Central Minnesota new filings of incorporation	-1.25	0.63
St. Cloud MSA residential building permits	-4.05	3.69
National new order for durable goods, real	0.54	-0.33
TOTAL CHANGE	**-2.41**	**1.55**

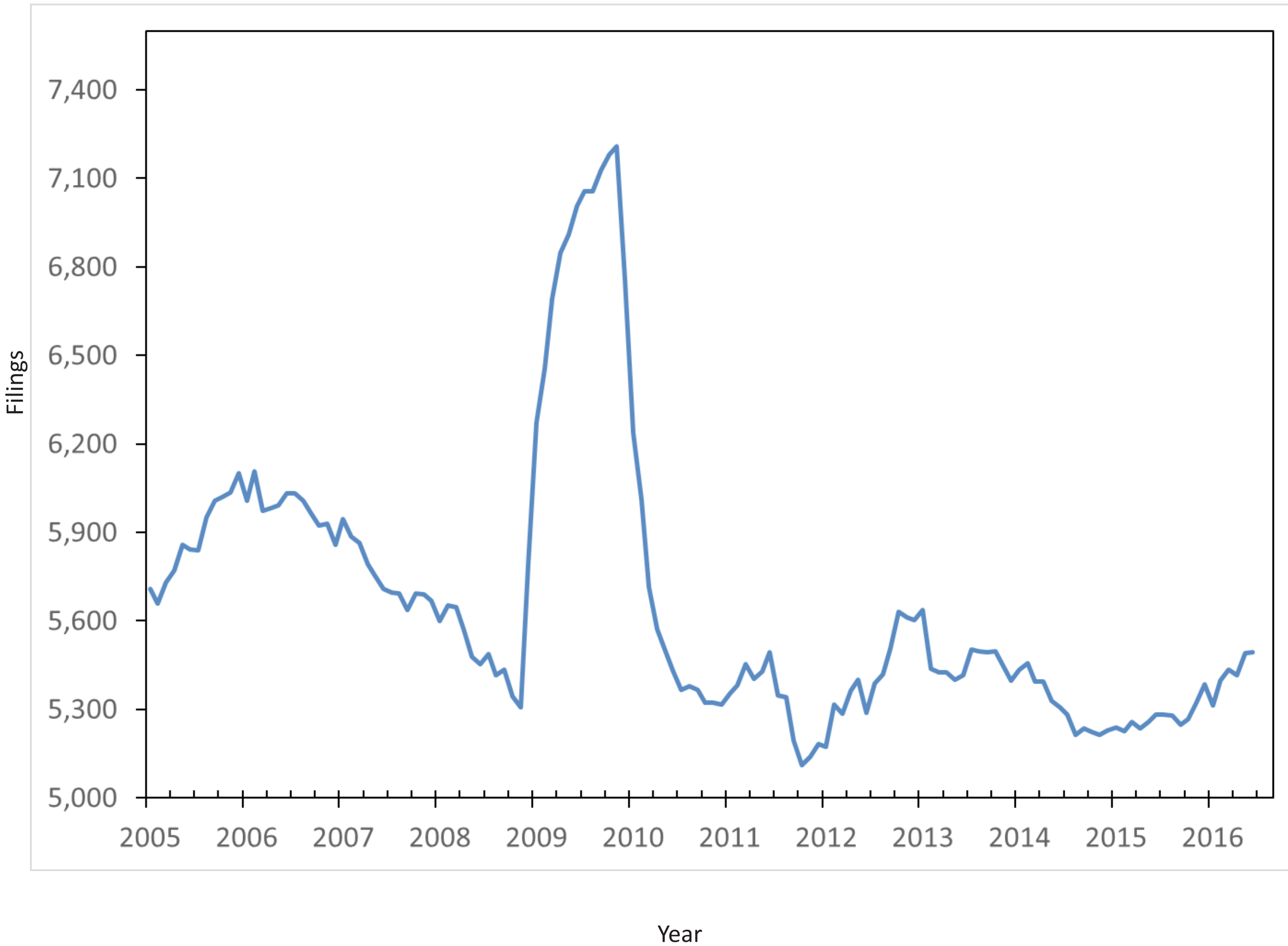
Two index components—Central Minnesota new filings of incorporation and St. Cloud MSA residential building permits had negative readings in the second quarter. Since Central Minnesota is an exporter of consumer durables, national durable goods orders are used as a proxy for regional economic performance. This indicator was positive in the current quarter. As indicated in previous reports, the Bureau of Census tally of St. Cloud MSA residential building permits appears to be underreported, so we now use local data to tally area building permits. This measure showed relative weakness in the second quarter. Lower initial jobless claims and a recent strengthening of the Minnesota Business Conditions Index had a favorable impact on this quarter's LEI.

SCSU Central Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Minnesota Business Conditions Index June	51.6	53	-2.64%
Central Minnesota initial claims for unemployment insurance June	2,246	2,400	-6.42%
Central Minnesota new filings of incorporation Second Quarter	159	166	-4.22%
St. Cloud MSA single family building permits June	32	45	-28.89%
National new orders for durable goods, billions of real 1984 dollars, June	224.5	217.4	3.27%
Central Minnesota Leading Economic Indicators Index June (June 1999 = 100)	110.7	112.9	-1.95%

Central Minnesota Business Filings

The graphs in this section show 12-month moving totals for the various new business filings in Central Minnesota that are registered with the Office of the Minnesota Secretary of State. There were 1,454 new business filings in Central Minnesota in the second quarter. This represents a 4.2 percent increase from the same period in 2015. As can be seen in the accompanying graph, there was an abrupt increase in new business filings in mid-2008. This resulted from a sharp increase in new LLC filings at that time. 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. The 12-month moving total of new business filings has been trending upward since the end of 2014.

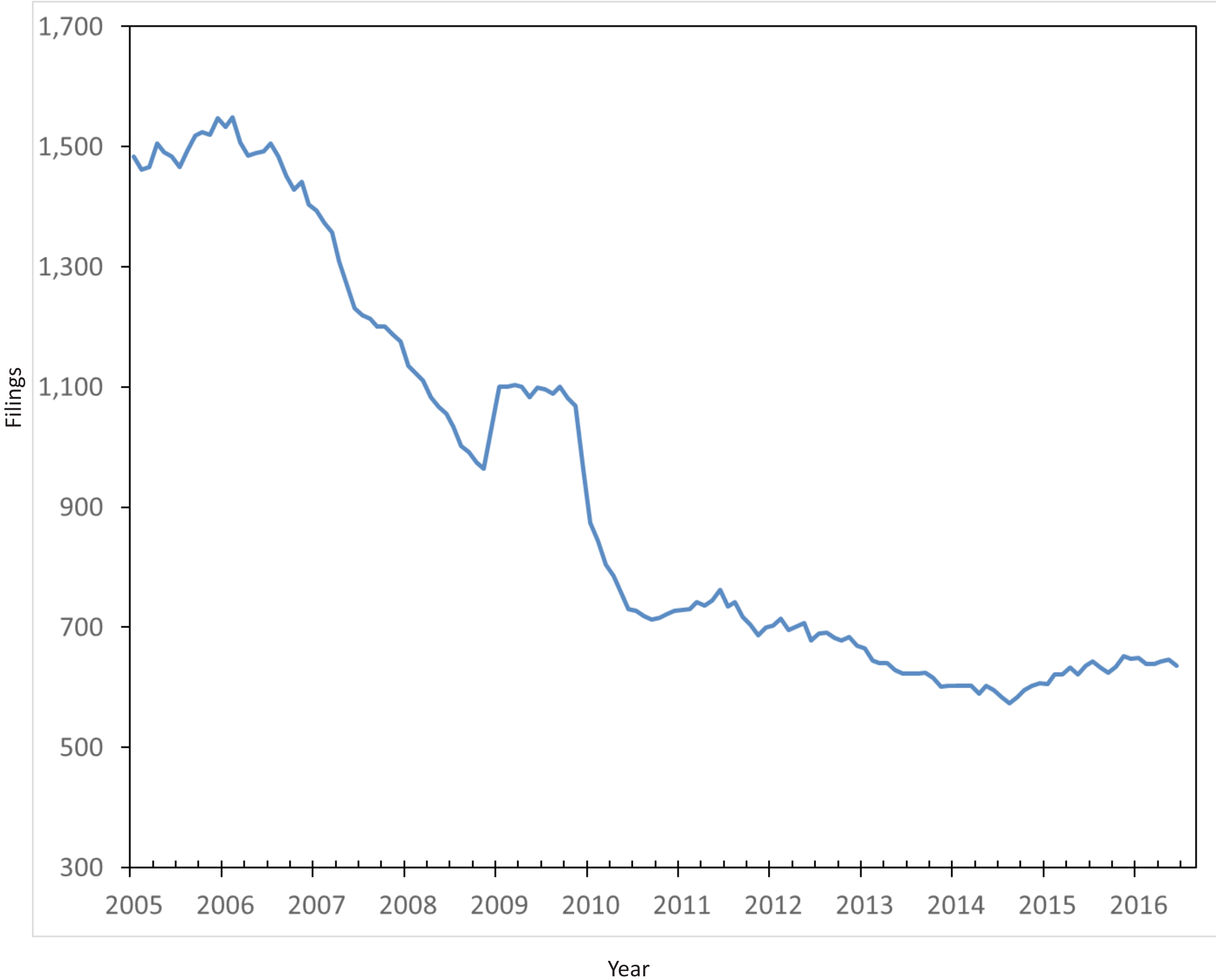
Total New Business Filings—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Central Minnesota Total New Business Filings	1,396	1,181	1,329	1,529	1,454	4.2%

New business incorporations trended downward in Central Minnesota from 2005 to 2015. However, over the past several quarters, the 12-month moving total of this series has levelled out. Compared to one year ago, quarterly figures of new business incorporations decreased by 1.8 percent in the second quarter—falling from 166 in 2015: II to 163 in the most recent period.

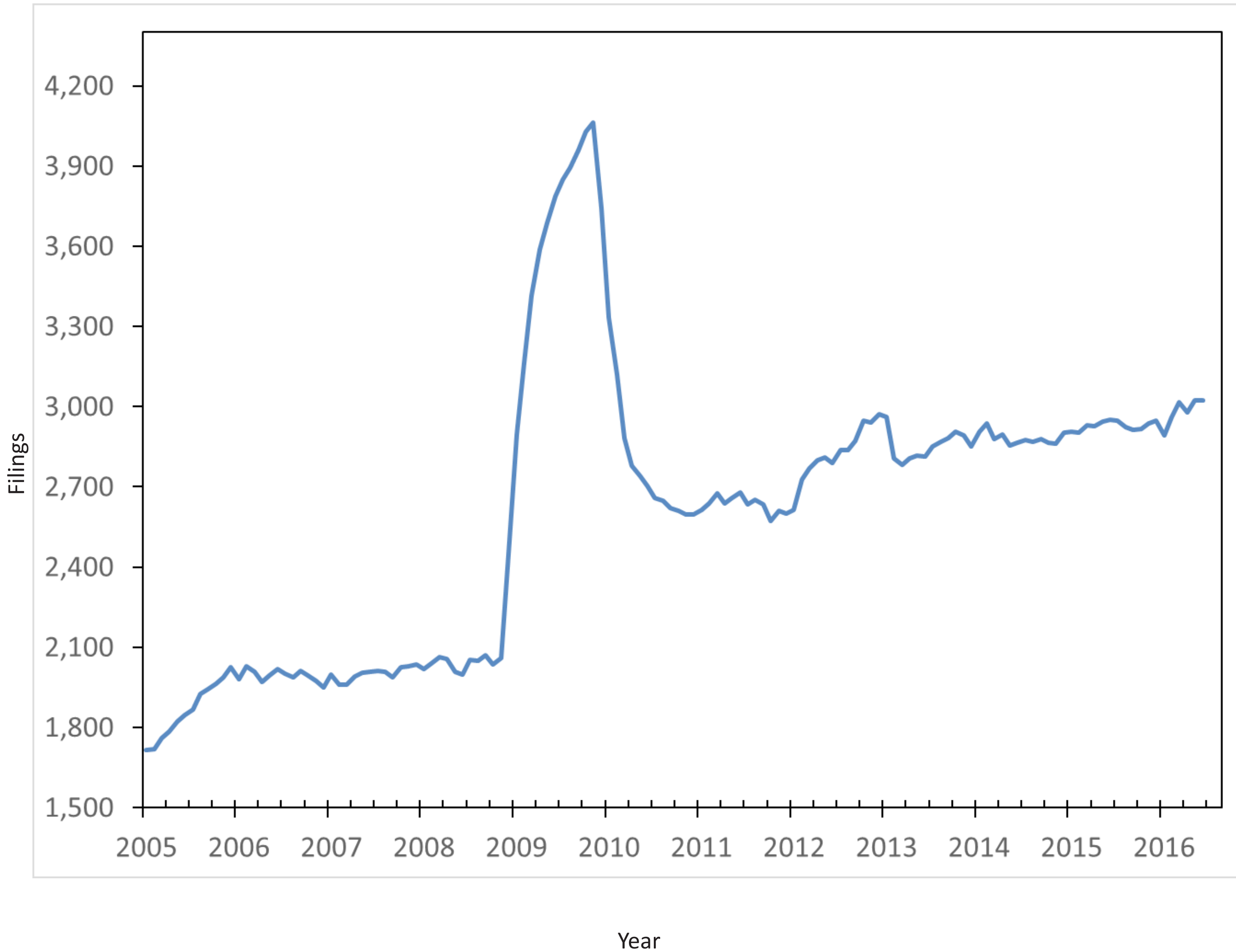
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Central Minnesota New Business Incorporations	166	114	177	182	163	-1.8%

There has been a move away from the traditional incorporation form of business organization towards the LLC throughout Minnesota. While new business incorporations remain an important indicator of new business formation in Central Minnesota, LLCs are increasingly useful in evaluating regional economic performance. The number of new LLCs increased by 1.1 percent (to 792) from one year earlier. As can be seen in the accompanying graph, the number of Central Minnesota LLCs has slowly trended upward in recent years.

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



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Central Minnesota New Limited Liability Companies	783	669	723	840	792	1.1%

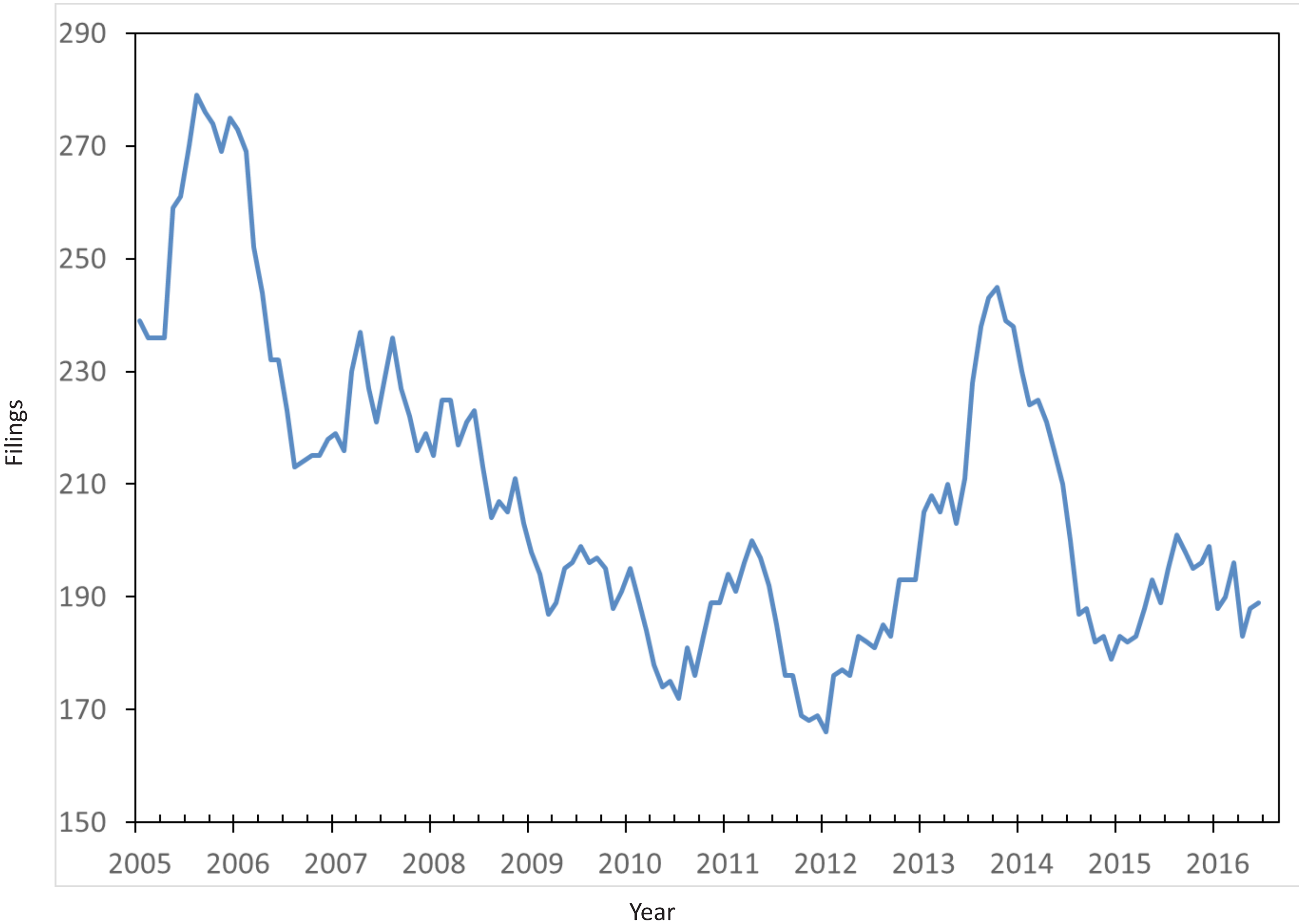
Assumed names, which include sole proprietors or organizations that do not have limited liability, surged in this year's second quarter. After a decade of decline (other than a brief steady period in 2011-12), this series has been trending upward in recent quarters.

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

Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Central Minnesota New Assumed Names	399	348	384	454	458	14.8%

There were 41 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the second quarter of 2016. This was 14.6 percent fewer filings than one year ago.

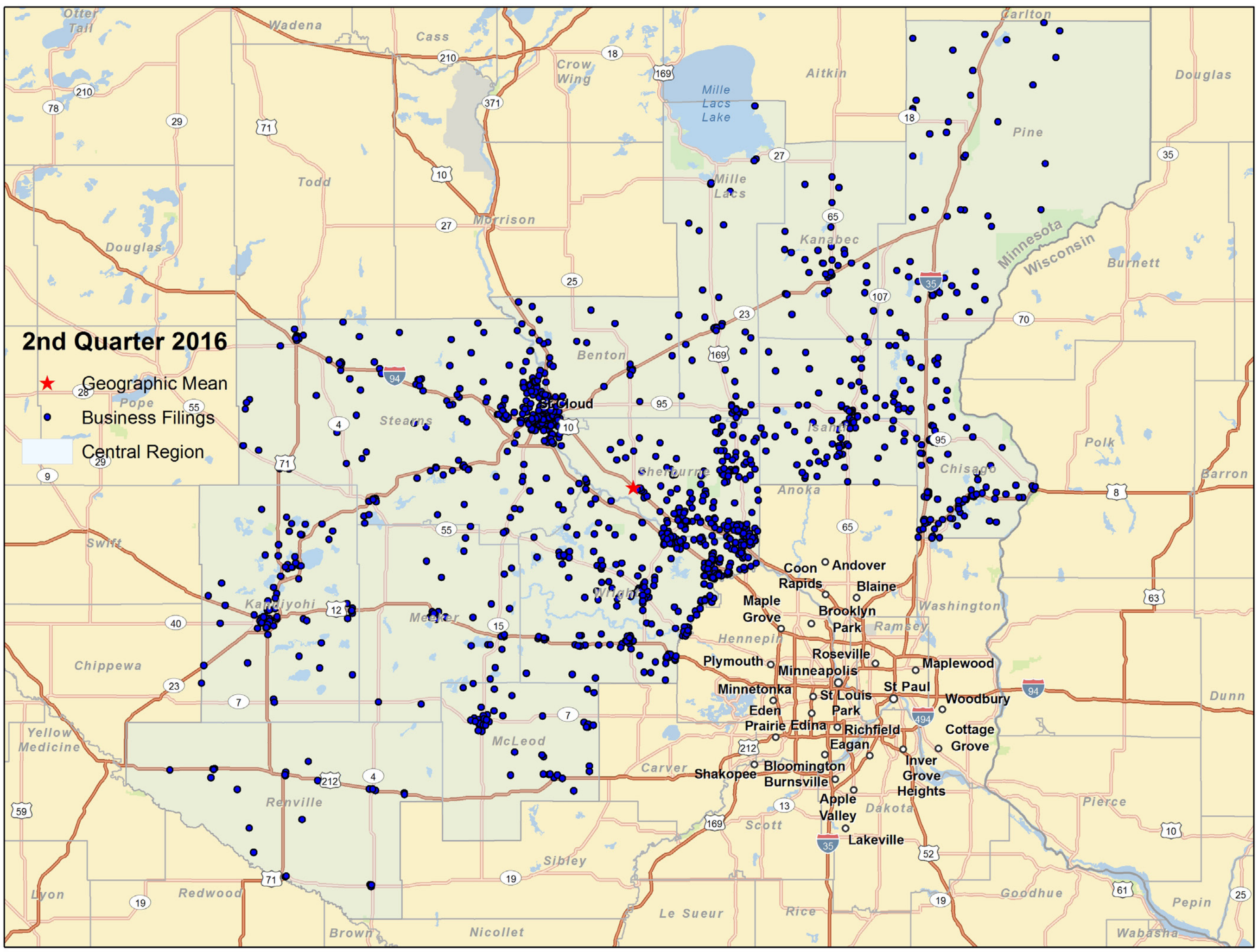
New Non-Profits—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Central Minnesota New Non-Profits	48	50	45	53	41	-14.6%

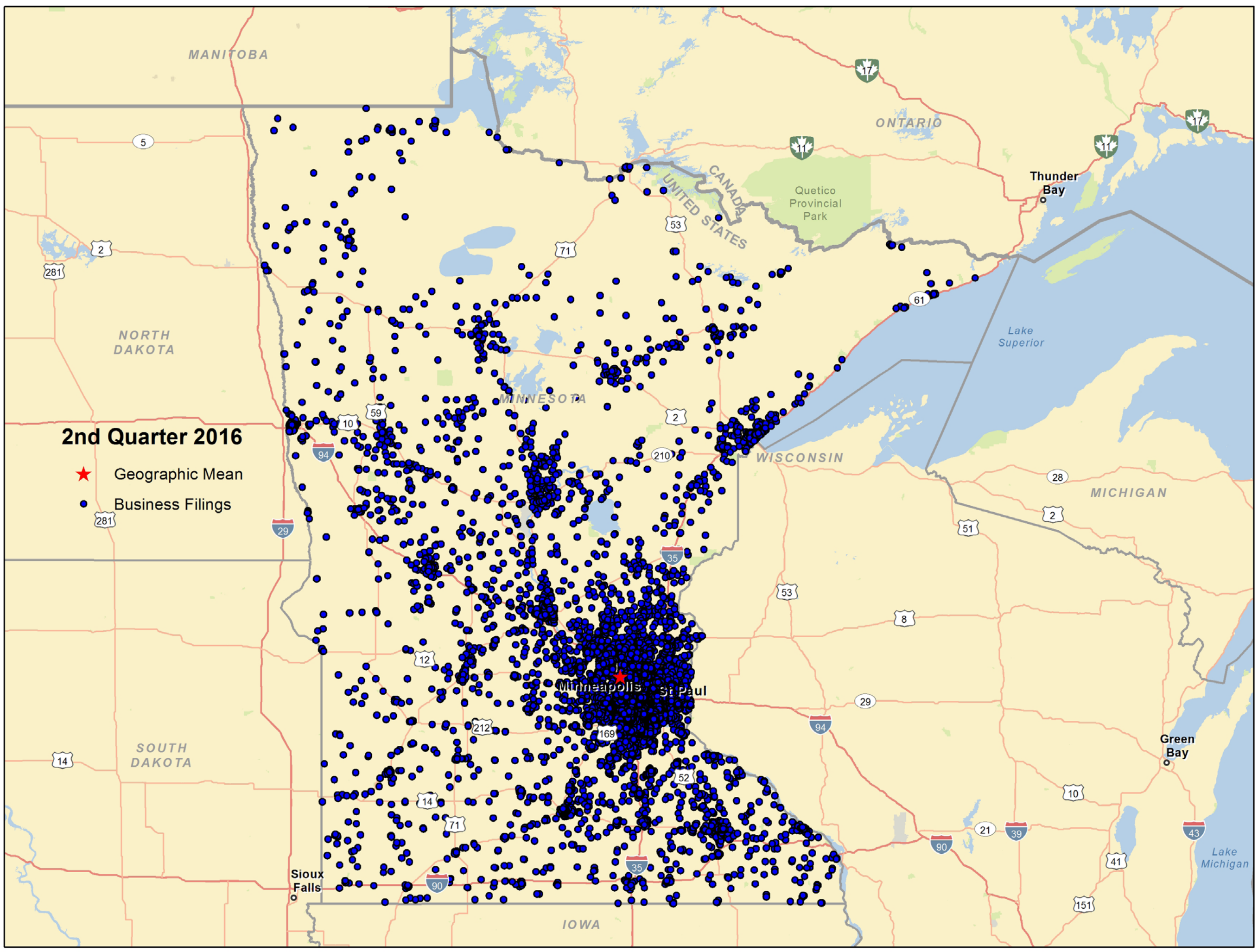
The first map shown below is a visual representation of new business filings around the Central Minnesota planning area in the second quarter of 2016. The densest areas of new business formation are in the St. Cloud metro as well as along the I-94/US-10 corridor approaching the Twin Cities. The geographic center of new filings lies within that I-94/US-10 corridor. Well-traveled roadways are also a predictor of new business filings in Central Minnesota.

Central Minnesota Planning Area--New Business Formation--Quarter 2: 2016



The second map shows new business filings for the state as a whole. This visual aid demonstrates the considerable extent to which the Twin Cities metro area dominates new business formation in the state. The map shows how the Twin Cities metro stretches along roadways into the Southeast, Southwest and Central planning areas. The map demonstrates the importance of cities and roadways in encouraging economic development. With each passing quarter, St. Cloud, Rochester, and Mankato appear to be more connected to the Twin Cities metro.

Minnesota--New Business Formation--Quarter 2: 2016

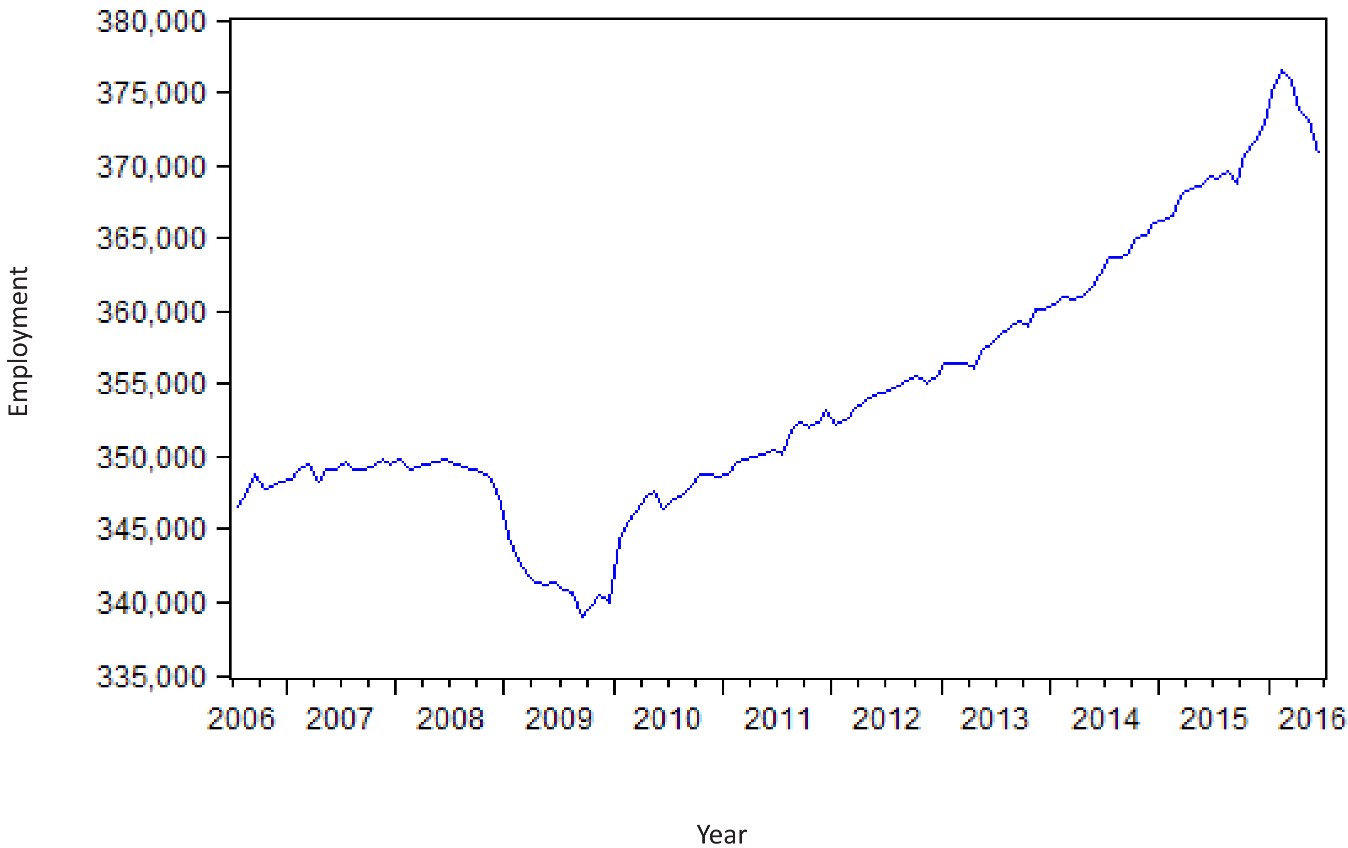


Central Minnesota Labor Market Conditions

Central Minnesota employment grew 0.4 percent over the year ending June 2016. Note that four of Minnesota's six planning areas experienced declining year-over-year employment in June. Only the Central and Twin Cities planning areas experienced job growth. Recent weakness in job creation can be seen in the accompanying graph, where the 12-month moving average of Central Minnesota employment has started to turn downward in recent quarters.

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.

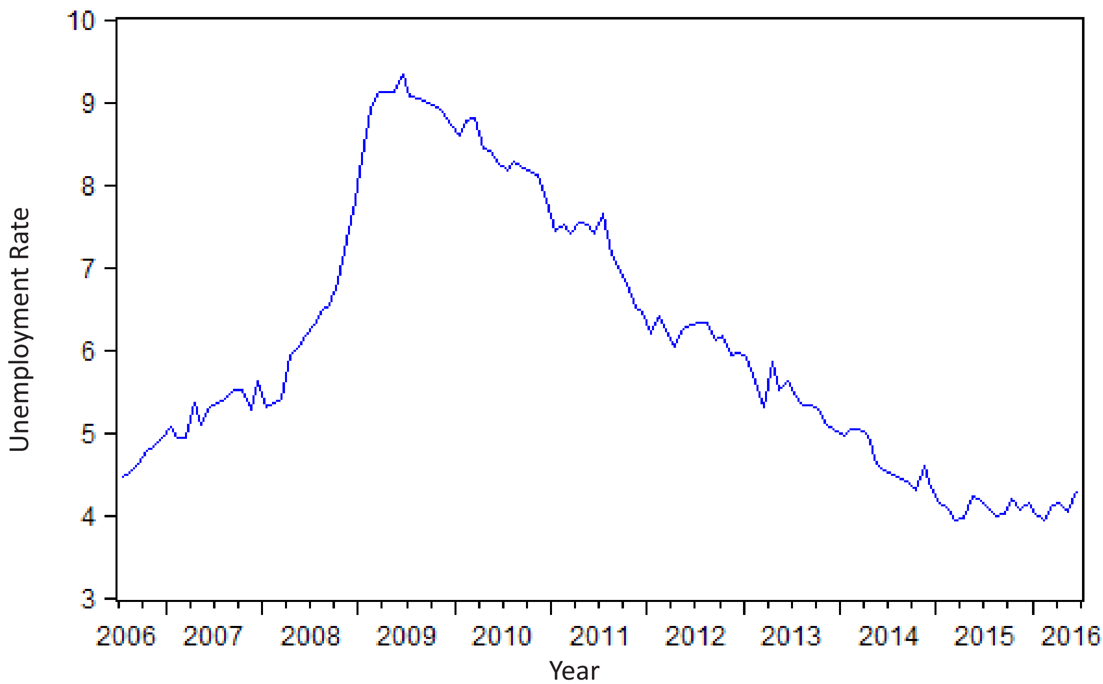
Employment—Central Minnesota Planning Area (12-month moving average)



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Employment (Not seasonally adjusted)	371,315	369,854	371,547	372,025	373,107	374,057	372,829

Central Minnesota's unemployment rate was 4.1 percent in June 2016, slightly higher than one year earlier. This higher unemployment rate can be partially explained by an increase in the regional labor force. As can be seen in a separate table, the Central Minnesota labor force grew more rapidly than employment in the Central Minnesota planning area, which helped cause a small uptick in the year-over-year unemployment rate. The seasonally adjusted unemployment rate has leveled off in recent quarters (see figure below).

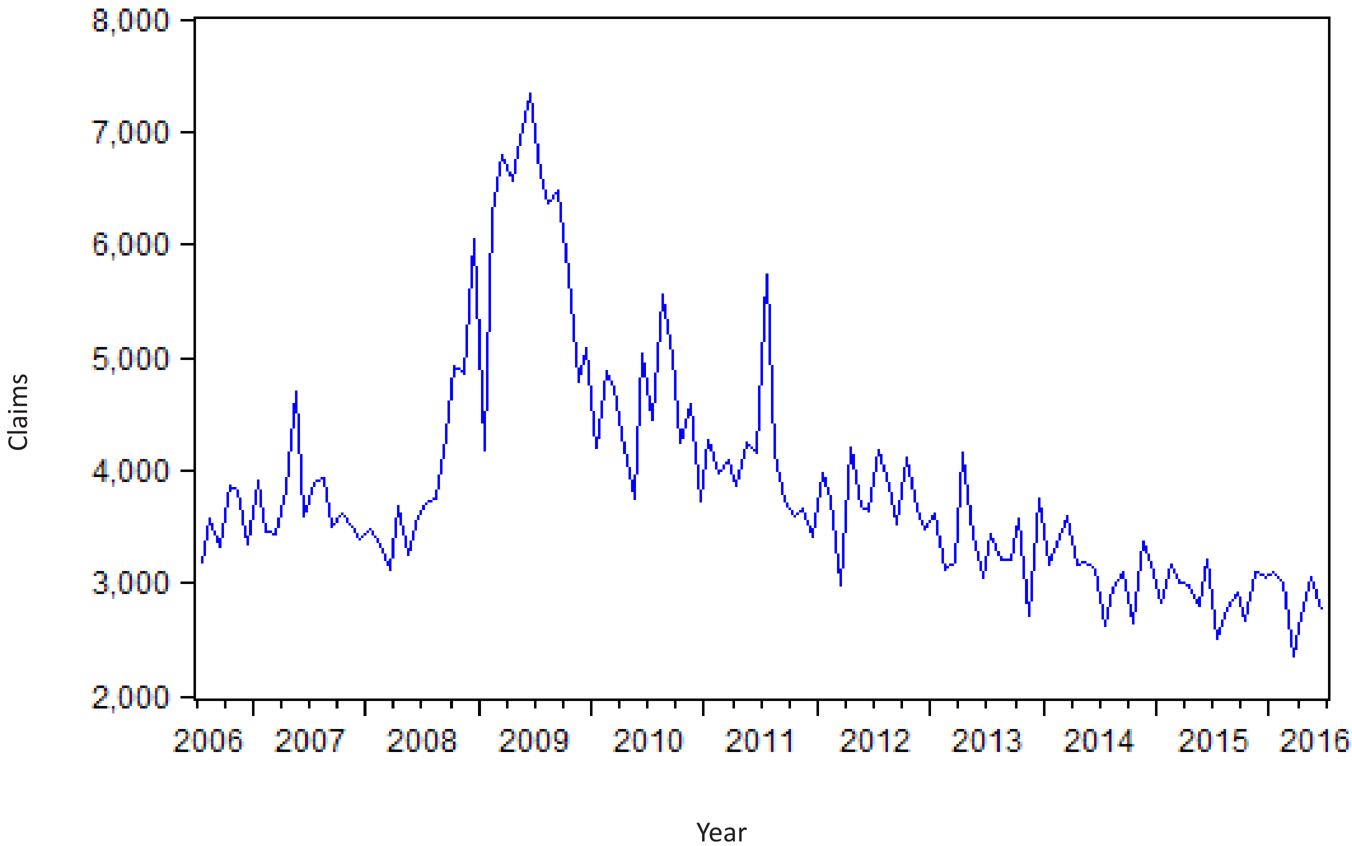
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Unemployment Rate (Not seasonally adjusted)	4.0%	5.4%	5.3%	5.5%	4.2%	3.5%	4.1%

Initial claims for unemployment insurance in the Central Minnesota planning area were 2,073 in June 2016. This was 13.6 percent fewer claims than one year ago. As can be seen in the accompanying graph, the seasonally adjusted initial jobless claims series has trended downward since peaking in 2009.

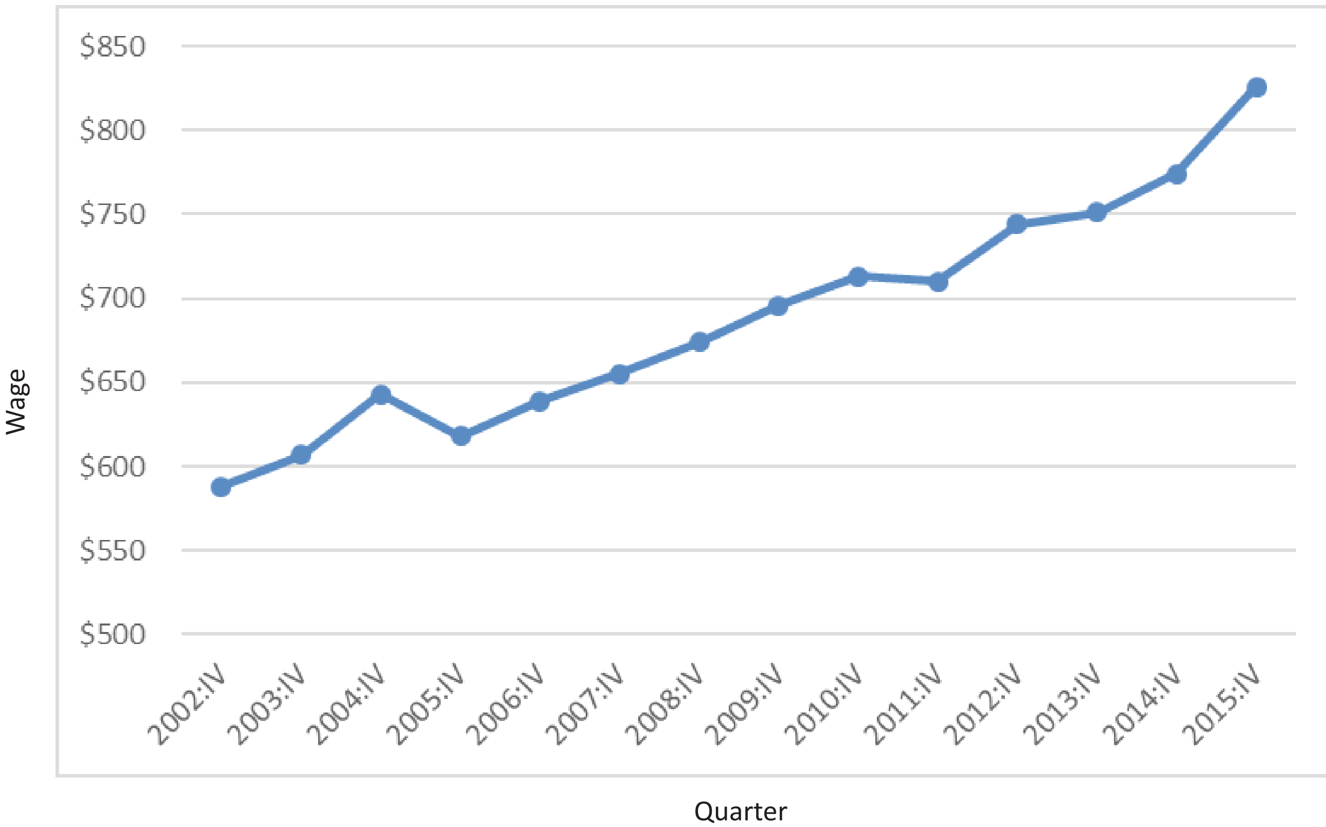
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Central Minnesota Planning Area



Period	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Initial claims (Not seasonally adjusted)	2,400	4,087	2,765	2,235	1,969	2,437	2,073

The average weekly wage in the Central Minnesota planning area rose by 6.7% over the year ending with the fourth quarter of 2015 (this is the most recently available data). Tightness in the regional labor market has begun to put upward pressure on wages in Central Minnesota. Wage growth is also being seen in Minnesota's other five planning areas.

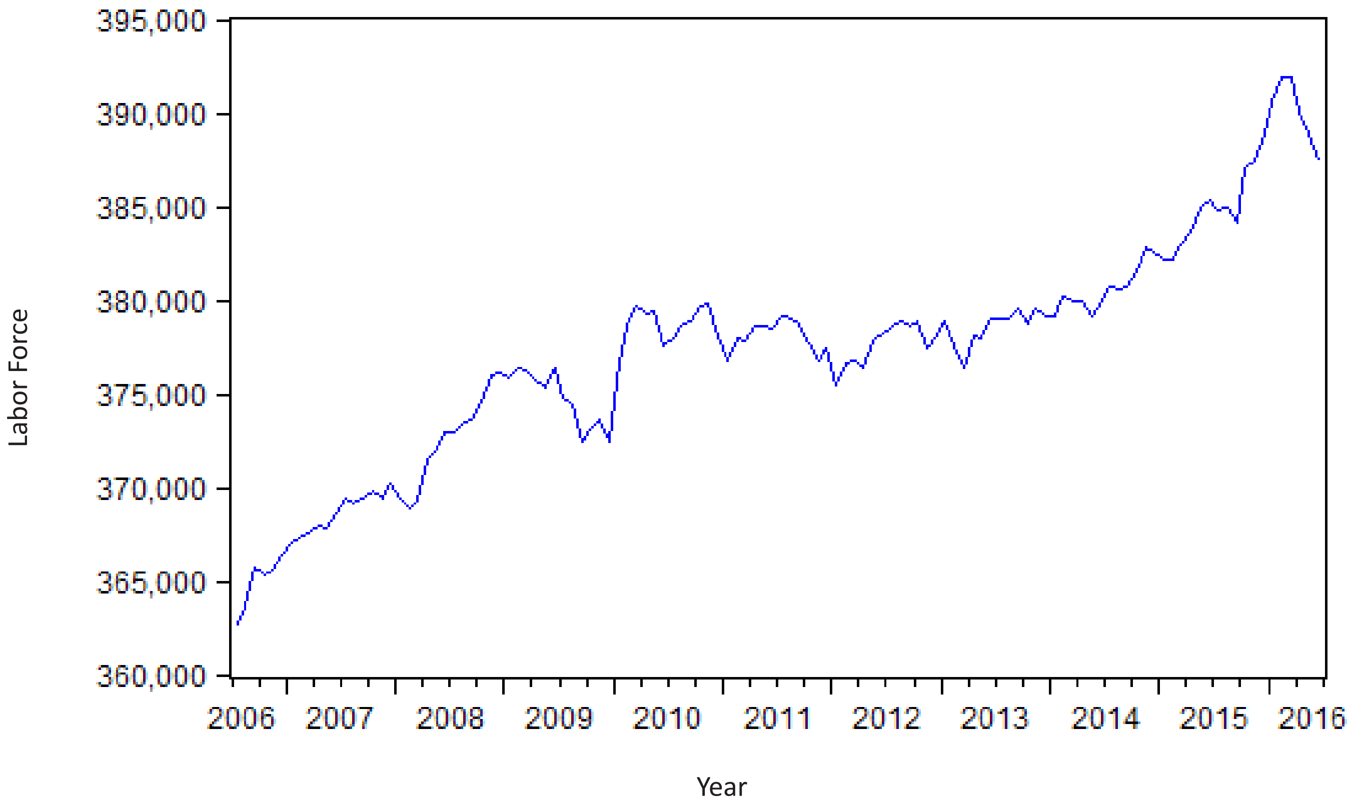
Average Weekly Wage---Central Minnesota Planning Area



Quarter	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV	2015:IV
Average Weekly Wage	$713	$710	$744	$751	$774	$826

The Central Minnesota labor force grew at a 0.5 percent rate over the year ending in June 2016. However, as seen in the accompanying graph, the 12-month moving average of the regional labor force has started to decline in the region. As with other areas throughout the state, Central Minnesota is having difficulty replacing retiring workers—an economic and demographic trend that could go on for several years.

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

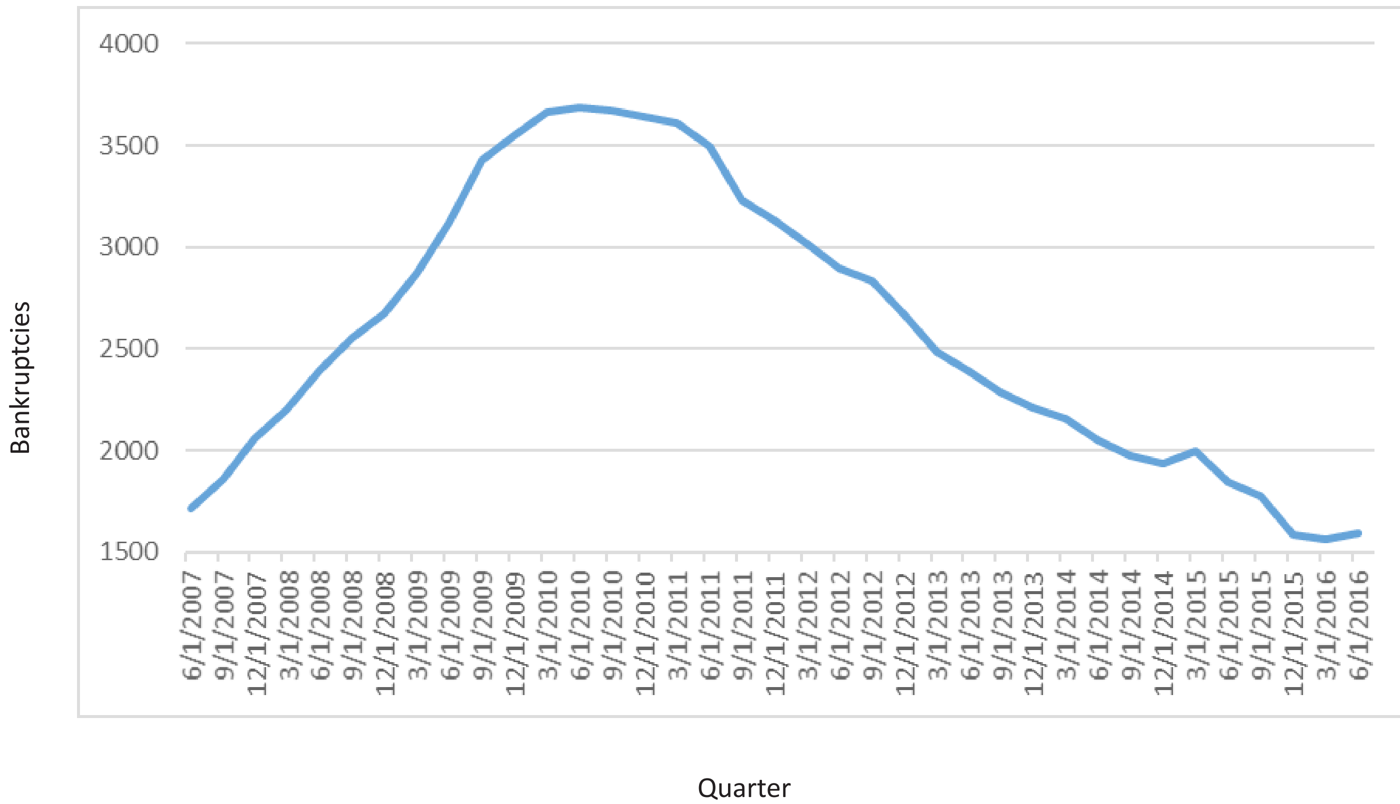


Year (June)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	379,022	379,026	380,030	380,959	386,662	388,728

Central Minnesota Bankruptcies

The figure below shows the 12-month moving total for Central 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 now started to bottom out. With 1,597 bankruptcies over the past twelve months, the level of bankruptcies in Central Minnesota has now returned to a level last seen prior to the Great Recession.

Central Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (Not seasonally adjusted)	3,495	2,893	2,396	2,053	1,845	1,597

Economic Indicators

St. Cloud MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
LABOR MARKET					
Employment	June 2016 (m)	111,316	108,023	3.0% ↑	1.1%
Manufacturing Employment	June 2016 (m)	14,948	15,167	-1.4% ↓	-0.9%
Average Weekly Work Hours--Private Sector	June 2016 (m)	32.3	32.2	0.3% ↑	33.8 (since 2007)
Average Earnings Per Hour--Private Sector	June 2016 (m)	$24.95	$24.06	3.7% ↑	3.1% (since 2007)
Unemployment Rate	June 2016 (m)	3.9%	3.8%	NA ↑	4.8%
Labor Force	June 2016 (m)	111,986	110,388	1.4% ↑	0.7%
SCSU Future Employment Index	May 2016 (q)	19.2	34.8	-44.8% ↓	25.7 (since 2005)
SCSU Future Length of Workweek Index	May 2016 (q)	17.5	17.4	0.5% ↑	10.9 (since 2005)
SCSU Future Employee Compensation Index	May 2016 (q)	43.9	58	-24.3% ↓	39.5 (since 2005)
SCSU Future Worker Shortage Index	May 2016 (q)	33.3	34.8	-4.3% ↓	20.3 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	June 2016 (m)	617	676	-8.7% ↓	NA
St. Cloud Times Help Wanted Linage	April 2016 (q)	964	2,084	-53.8% ↓	NA
BUSINESS FORMATION					
New Business Filings	Second Quarter 2016 (q)	368	391	-5.9% ↓	367 (since 2000)
Assumed Names	Second Quarter 2016 (q)	116	123	-5.7% ↓	130 (since 2000)
Business Incorporations	Second Quarter 2016 (q)	46	37	24.3% ↑	65 (since 2000)
Limited Liability Companies	Second Quarter 2016 (q)	197	213	-7.5% ↓	156 (since 2000)
Non-Profits	Second Quarter 2016 (q)	9	18	-50.0% ↓	16 (since 2000)

(m) represents a monthly series; (q) represents a quarterly series

St. Cloud MSA Indicators, Cont'd.

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
BUSINESS ACTIVITY					
SCSU Future Business Activity Index	May 2016 (q)	47.3	52.2	-9.4% ↓	45.5 (since 2005)
SCSU Future Capital Expenditures Index	May 2016 (q)	28	31.9	-12.2% ↓	23.1 (since 2005)
SCSU Future National Business Activity Index	May 2016 (q)	28	24.7	13.4% ↑	24.7 (since 2005)
St. Cloud Index of Leading Economic Indicators	April 2016 (m)	102.5	102.4	0.1% ↑	NA
PRICES					
St. Cloud Cost of Living Index	First Quarter 2016 (q)	95.5	95.1	0.4% ↑	NA
St. Cloud Median Home Sales Prices	June 2016 (m)	$165,450	$167,000	-0.9% ↓	NA
SCSU Future Prices Received Index	May 2016 (q)	17.5	26.1	-33.0% ↓	21.3 (since 2005)

(m) represents a monthly series; (q) represents a quarterly series

Central Minnesota contains the St. Cloud MSA, where mixed signals of the future economic health of this metropolitan area have emerged in recent months. For example, the outlook for future business activity from a survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University was somewhat weaker than one year ago. In addition, new business filings fell, median home sales prices declined, Help Wanted linage in the St. Cloud Times is down and the unemployment rate rose. But several labor market indicators have improved. Average hourly earnings rose, employment expanded, the labor force increased and initial jobless claims declined. The relative cost of living in St. Cloud appears to have increased.

State and National Indicators

MINNESOTA Indicators	Jun 2016	Mar 2015	Jun 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,891,800	2,876,200	2,859,500	0.5%	1.1%
Average weekly hours worked, private sector	34.3	33.5	34.1	2.4%	0.6%
Unemployment rate, seasonally adjusted	3.8%	3.8%	3.6%	NA	NA
Earnings per hour, private sector	$26.64	$27.05	$25.71	-1.5%	3.6%
Philadelphia Fed Coincident Indicator, MN	180.34	179.04	175.78	0.7%	2.6%
Philadelphia Fed Leading Indicator, MN	1.70	1.31	1.50	29.8%	13.3%
Minnesota Business Conditions Index	51.6	50.7	54.3	1.8%	-5.0%
Price of milk received by farmers (cwt)	$15.00	$15.80	$17.90	-5.1%	-16.2%
Enplanements, MSP airport, thousands	1,725.6	1,662.9	1,680.9	3.8%	2.7%

NATIONAL Indicators	Jun 2016	Mar 2015	Jun 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	144,193	143,733	141,724	0.3%	1.7%
Industrial production, index, SA	104.1	103.4	104.9	0.7%	-0.8%
Real retail sales, SA ($)	190,850	188,259	187,323	1.4%	1.9%
Real personal income less transfers ($, bill.)	11,849.7	11,828.7	11,661.1	0.2%	1.6%
Real personal consumption expenditures ($, bill.)	11,514.3	11,374.4	11,199.2	1.2%	2.8%
Unemployment rate, SA	4.9%	5.0%	5.3%	NA	NA
New building permits, SA, thousands	22,634	19,300	24,190	17.3%	-6.4%
Standard & Poor's 500 stock price index	2,083.9	2,022	2,099	3.1%	-0.7%
Oil, price per barrel in Cushing, OK	$48.76	$37.55	$59.82	29.9%	-18.5%

Across the state there was growth in payrolls, higher earnings per hour, and more average weekly hours worked in the private sector over the past twelve months (note that June earnings were lower than three months earlier). The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy. The Minnesota Business Conditions index improved over the past three months, but was lower than year ago levels. Milk prices continue to fall across the state. As was noted in last quarter's report, this has been a particularly difficult period for those who make a living in milk production. Enplanements at the Minneapolis-St. Paul airport increased by 2.7 percent over the last twelve months.

The national economic indicators reported in the table are mixed. Over the past twelve months, industrial production and stock prices declined, building permits are lower, and oil prices have continued to fall. However, employment, consumer expenditures, and income all experienced growth over the recent quarter (and year) and the national unemployment rate fell. Retail sales improved. This all seems to fit with a general outlook of positive growth that is lower than normal for the U.S. economy. While there is little fear of recession, sluggish growth conditions persist.

The Central 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.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Alex Franta. Professor David Wall of the SCSU Geography Department provided GIS assistance.

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Federal Reserve Board of Governors: Industrial Production.

Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.

Metropolitan Airports Commission: MSP Enplanements.

Minnesota Department of Employment and Economic Development (and U.S. Department of Labor Bureau of Labor Statistics): Average Hourly Earnings, Average Weekly Work Hours, Employment, Initial Claims for Unemployment Insurance, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.

Office of the Minnesota Secretary of State: Assumed Names, Business Incorporations, Limited Liability Companies, Non-Profits.

SCSU School of Public Affairs Research Institute: SCSU Central Minnesota Index of Leading Economic Indicators, SCSU Future Business Activity Index, SCSU Future Capital Expenditures Index, SCSU Future Employee Compensation Index, SCSU Future Employment Index, SCSU Future Length of Workweek Index, SCSU Future National Business Activity Index, SCSU Future Prices Received Index, SCSU Future Worker Shortage Index, St. Cloud Index of Leading Economic Indicators.

St. Cloud Area Association of REALTORS: Median Home Prices.

St. Cloud Times: St. Cloud Times Help Wanted Linage.

Standard & Poor's: Standard & Poor's 500 Stock Price Index.

Thomson Reuters and University of Michigan: Index of Consumer Sentiment

U.S. Bankruptcy Courts: Bankruptcies

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

U.S. Department of Agriculture: Milk Prices.

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

U.S. Energy Information Administration: Oil Prices.