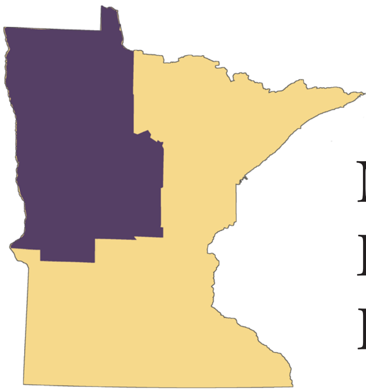

# Northwest Minnesota
# Economic and Business Conditions Report
# Fourth Quarter 2016

This issue is part of a series for the six planning areas of Minnesota –
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.

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

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## Executive Summary

**The Northwest Minnesota planning area economy is expected to experience strong growth over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI).** Four of the five components of the leading index were higher in the fourth quarter, as the LEI surged by 7.84 points. An increase in the Rural Mainstreet Index (which signals an improving macroeconomic environment for rural America) and stronger consumer sentiment helped drive the index higher. Lower initial jobless claims and increased residential building permits in Fargo/Moorhead and Grand Forks/East Grand Forks also contributed favorably to the outlook. A fifth LEI component, new filings for LLC and incorporation in the Northwest Minnesota planning area, was the only LEI component that declined in the fourth quarter.

**There were 958 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the fourth quarter of 2016 — representing a 3.8 percent increase from one year ago.** 126 new regional business incorporations were recorded in the most recent quarter, which was 12.5 percent higher than in the same quarter of 2015. In the fourth quarter, new LLC filings in Northwest Minnesota were up 1.4 percent from one year earlier—rising to 511. New assumed names totaled 284 in the fourth quarter—9.7 percent more filings than the same period in 2015. There were 37 new filings for Northwest Minnesota non-profits in the fourth quarter—eleven fewer filings than one year ago.

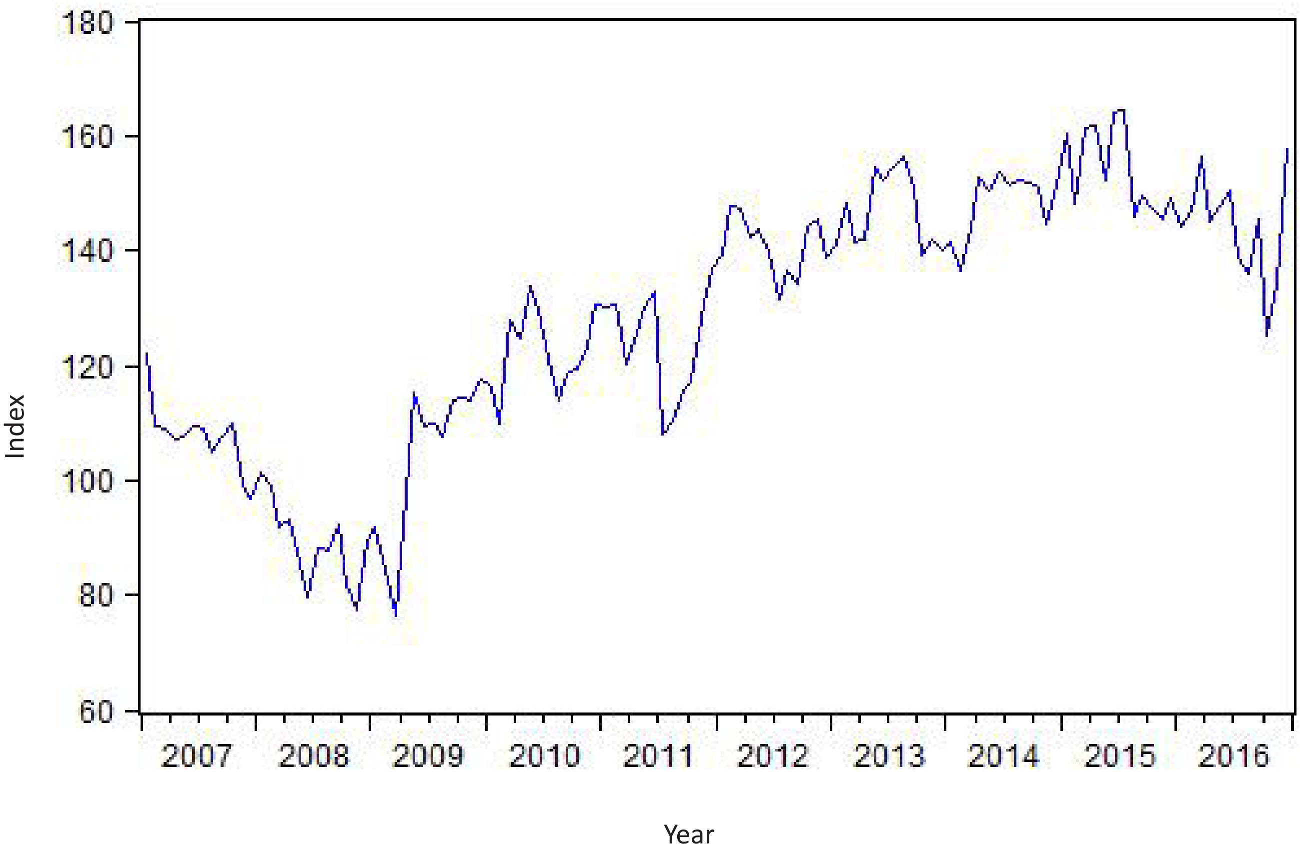
**Using preliminary data, employment of Northwest Minnesota residents declined by 2.3 percent over the year ending December 2016.** The regional unemployment rate was 5.8 percent in December, which was higher than the 5.3 percent rate observed one year ago. The Northwest Minnesota labor force contracted over the past twelve months (there are now 5,411 fewer people in the regional labor force than there was one year ago). Initial claims for unemployment insurance in December 2016 were 4.5 percent lower than one year earlier. Average weekly wages in Northwest Minnesota in the second quarter of 2016 rose to $708. The region's total bankruptcies have started to rise.

**Economic performance in the Fargo/Moorhead Metropolitan Statistical Area (MSA) was mostly favorable in the past quarter.** This MSA tallied gains in overall employment and in mining, logging and construction employment (but decreased manufacturing employment), lower initial jobless claims, a rise in the regional workforce, and a lower relative cost of living. The area did experience an increased unemployment rate (which can be partly explained by a rising labor force) and lower valuation of residential building permits. Economic activity in the Grand Forks/East Grand Forks MSA was also favorable in the fourth quarter. Higher overall employment (including an increase in manufacturing employment), a rising labor force, and lower initial jobless claims all contributed favorably to regional economic performance. However, the area unemployment rate was higher and the value of residential building permits in Grand Forks/East Grand Forks fell.

## 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 rose by 7.84 points in the fourth quarter after declining by 0.81 points in the third quarter of 2016. The index now stands 5.9 percent above its level of the fourth quarter of 2015. As shown in the accompanying graph, the LEI had trended downward over the past several quarters until this quarter's surge was experienced.

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, 4th quarter 2016 | Contribution to LEI, 3rd quarter 2016 |
|---|---|---|
| Rural Mainstreet Index | 0.41 | -3.16 |
| Northwest Minnesota initial claims for unemployment insurance | 0.41 | 1.20 |
| Northwest Minnesota new filings of incorporation and LLCs | -0.44 | 2.20 |
| Fargo-Moorhead + Grand Forks-EGF MSA residential building permits | 4.32 | 0.01 |
| Consumer Sentiment, University of Michigan | 3.14 | -1.06 |
| **TOTAL CHANGE** | 7.84 | -0.81 |

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 had a favorable impact on this quarter's index. 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 was another LEI component that had a positive impact on the regional outlook in the most recent quarter. Reduced initial jobless claims for unemployment insurance and an increase in residential building permits in Fargo/Moorhead and Grand Forks/East Grand Forks also helped lift the index. New filings for incorporation and LLC in Northwest Minnesota had a minor unfavorable effect on the LEI.

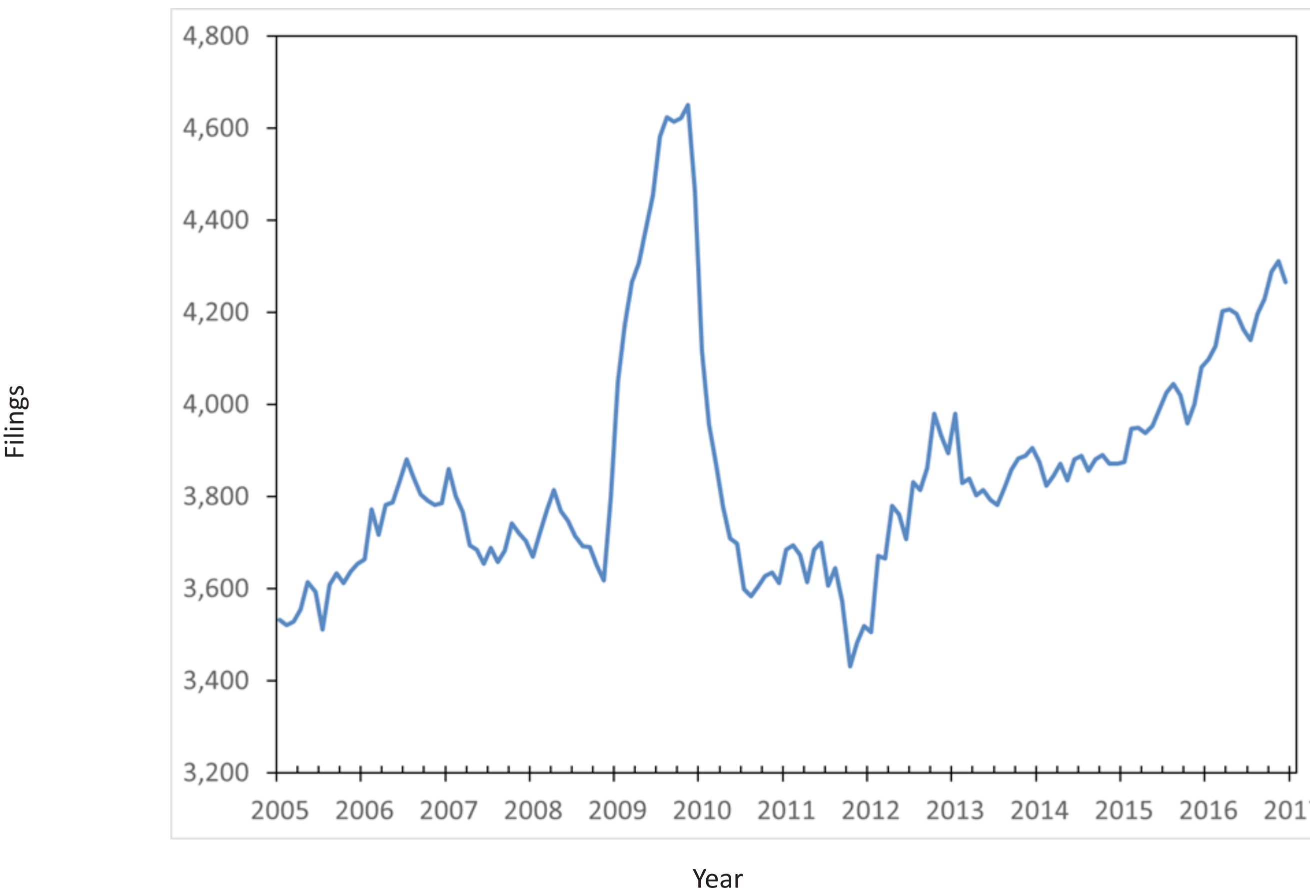
| SCSU Northwest Minnesota Leading Economic Indicators Index | 2016 | 2015 | Percentage change |
|---|---|---|---|
| Rural Mainstreet Index, Creighton University, December | 41.7 | 37 | 12.7% |
| Northwest Minnesota initial claims for unemployment insurance, December | 5,273 | 5,523 | -4.5% |
| Northwest Minnesota new filings of incorporation and LLCs, Fourth Quarter | 637 | 616 | 3.4% |
| Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, December | 52 | 38 | 36.8% |
| Consumer Sentiment, University of Michigan, December | 98.2 | 92.6 | 6.0% |
| Northwest Minnesota Leading Economic Indicators Index December (December 1999 = 100) | 157.9 | 149.1 | 5.9% |

## Northwest Minnnesota Business Filings

The 12-month moving total of new business filings in this region has trended upward since the end of 2011. Total new filings rose by 3.8% compared to last year's fourth quarter. 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.

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 | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Northwest Minnesota Total New Business Filings | 923 | 1,225 | 1,088 | 993 | 958 | 3.8% |

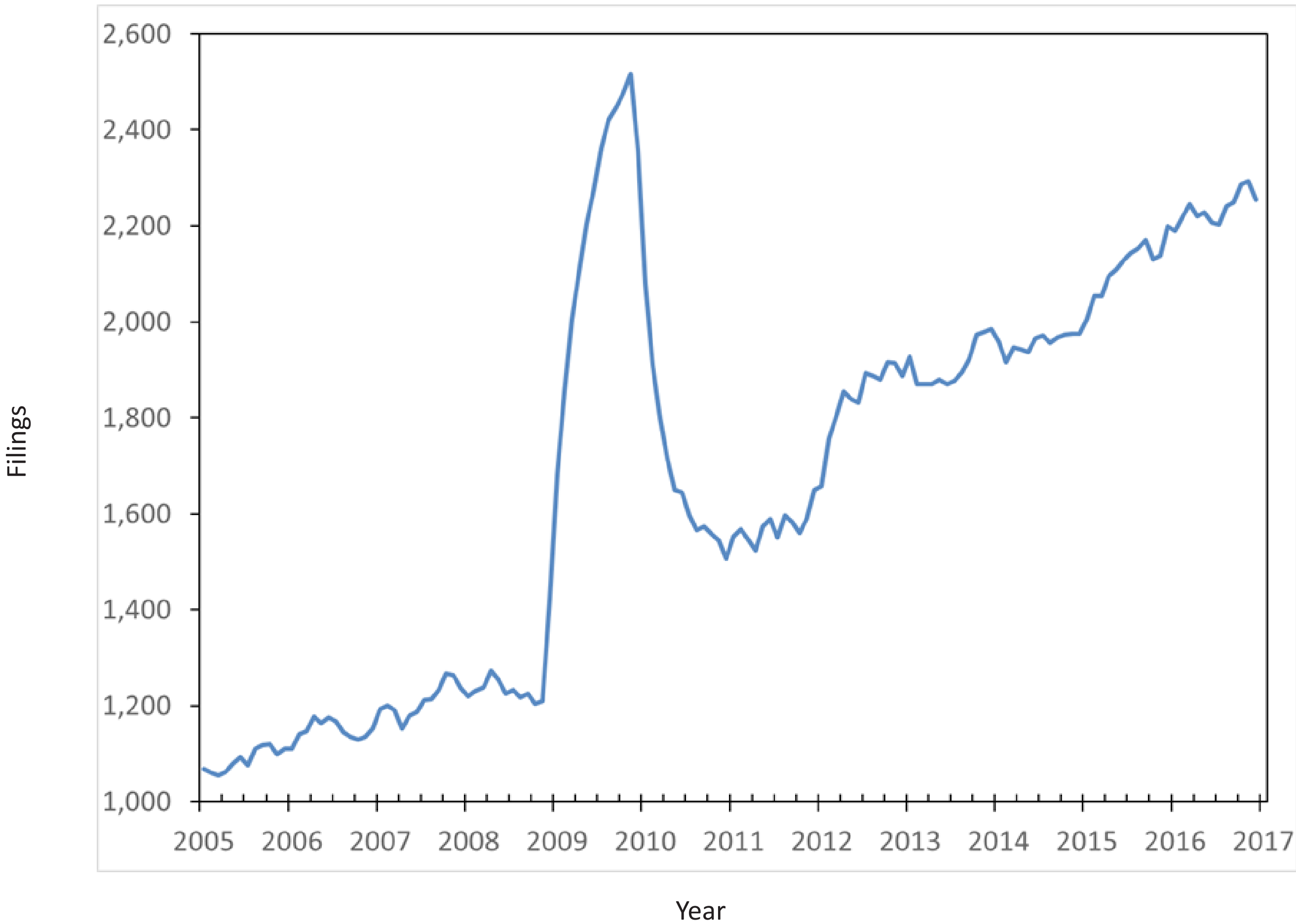
New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, but have since leveled out. New business incorporations in this year's fourth quarter jumped by 12.5 percent compared to one year ago.

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


| Quarter | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Northwest Minnesota New Business Incorporations | 112 | 134 | 119 | 121 | 126 | 12.5% |

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 has been a 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 eleven years. This trend continued in the fourth quarter of 2016 as LLC filings rose by 1.4 percent compared to the same period in 2015.

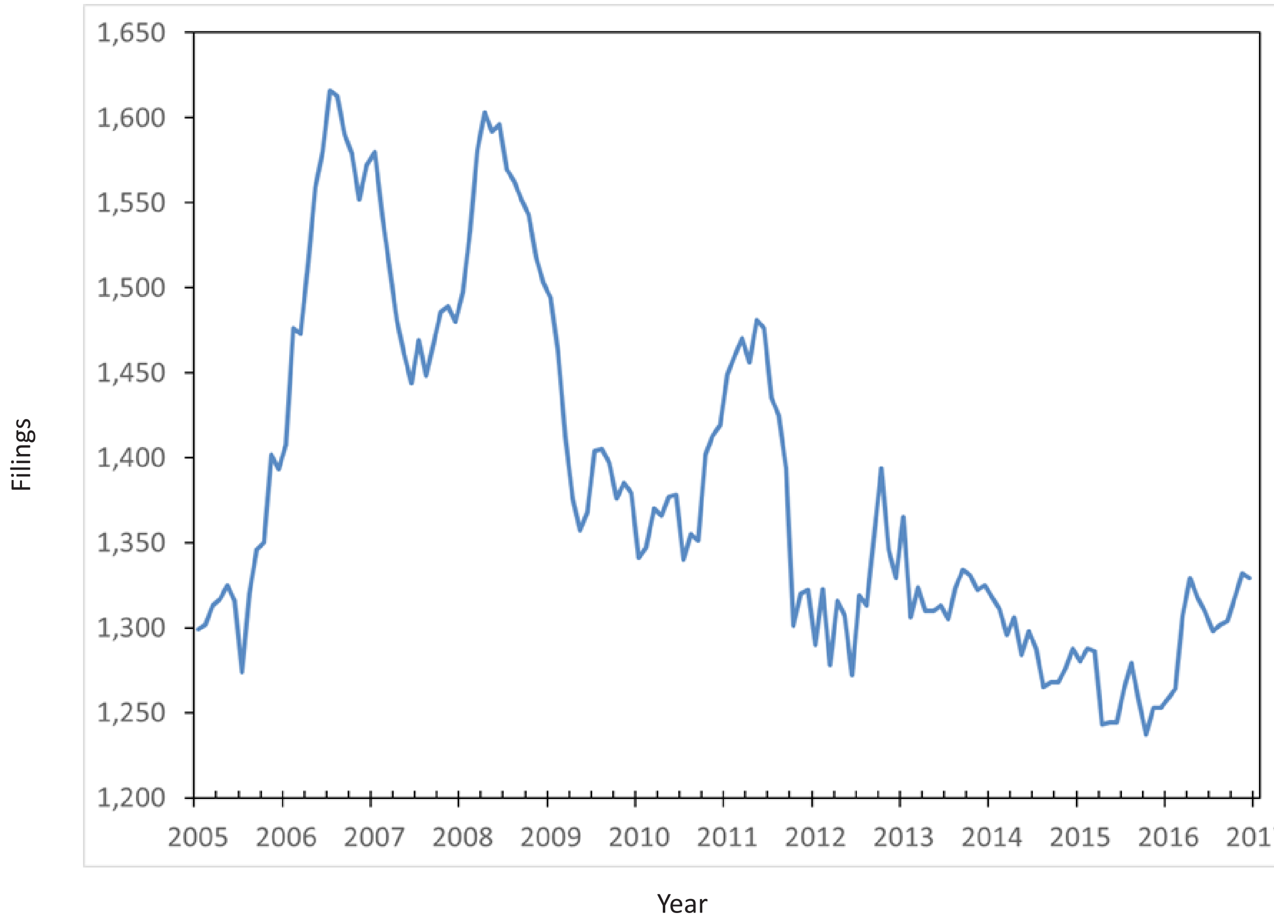
## New Limited Liability Companies—Northwest Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Northwest Minnesota New Limited Liability Companies | 504 | 639 | 575 | 530 | 511 | 1.4% |

Assumed names, which include sole proprietors or organizations that do not have limited liability, rose by 9.7 percent compared to the same period last year. The 12 month moving total suggests this series bottomed out at the end of 2015 and has been rising since that time.

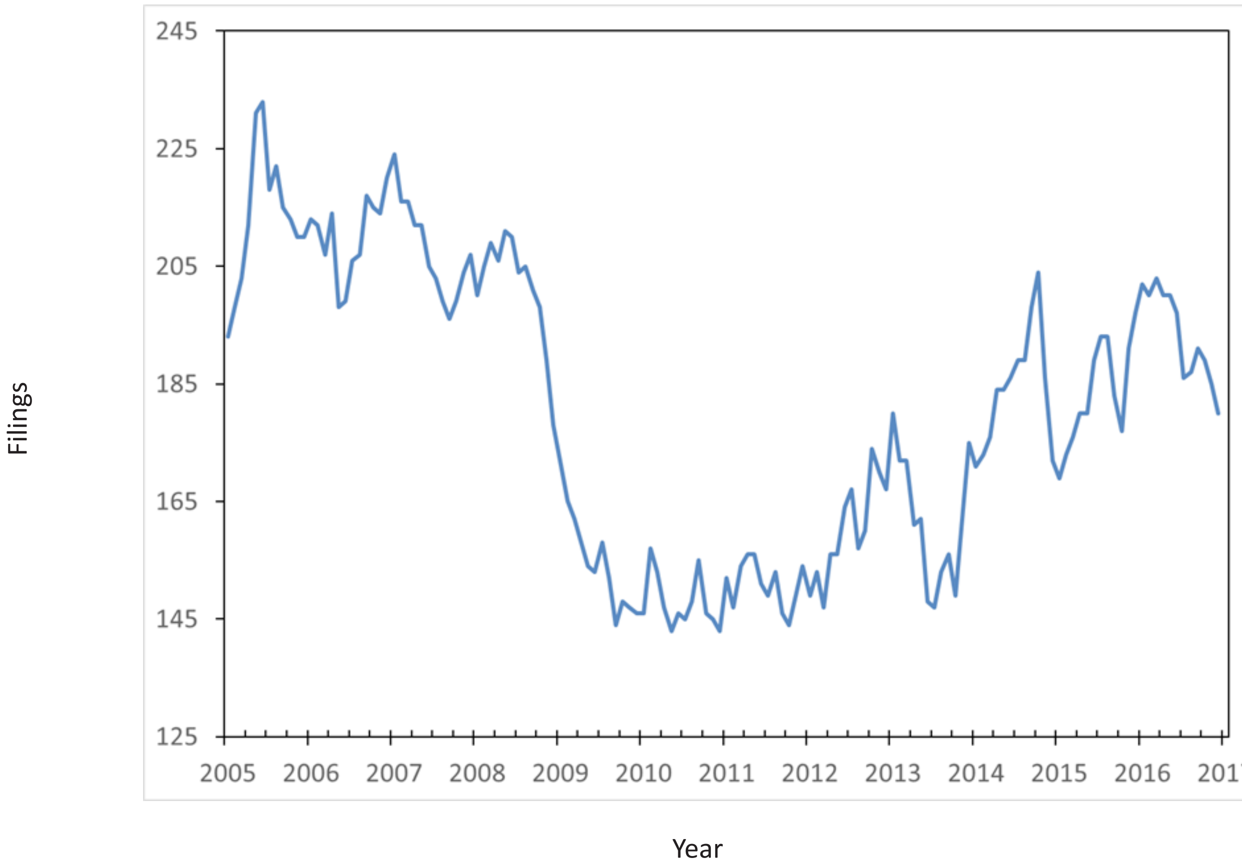
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Northwest Minnesota New Assumed Names | 259 | 397 | 346 | 302 | 284 | 9.7% |

The number of new non-profits in the Northwest Minnesota planning area was 37 in the fourth quarter. This was eleven fewer filings than one year earlier.

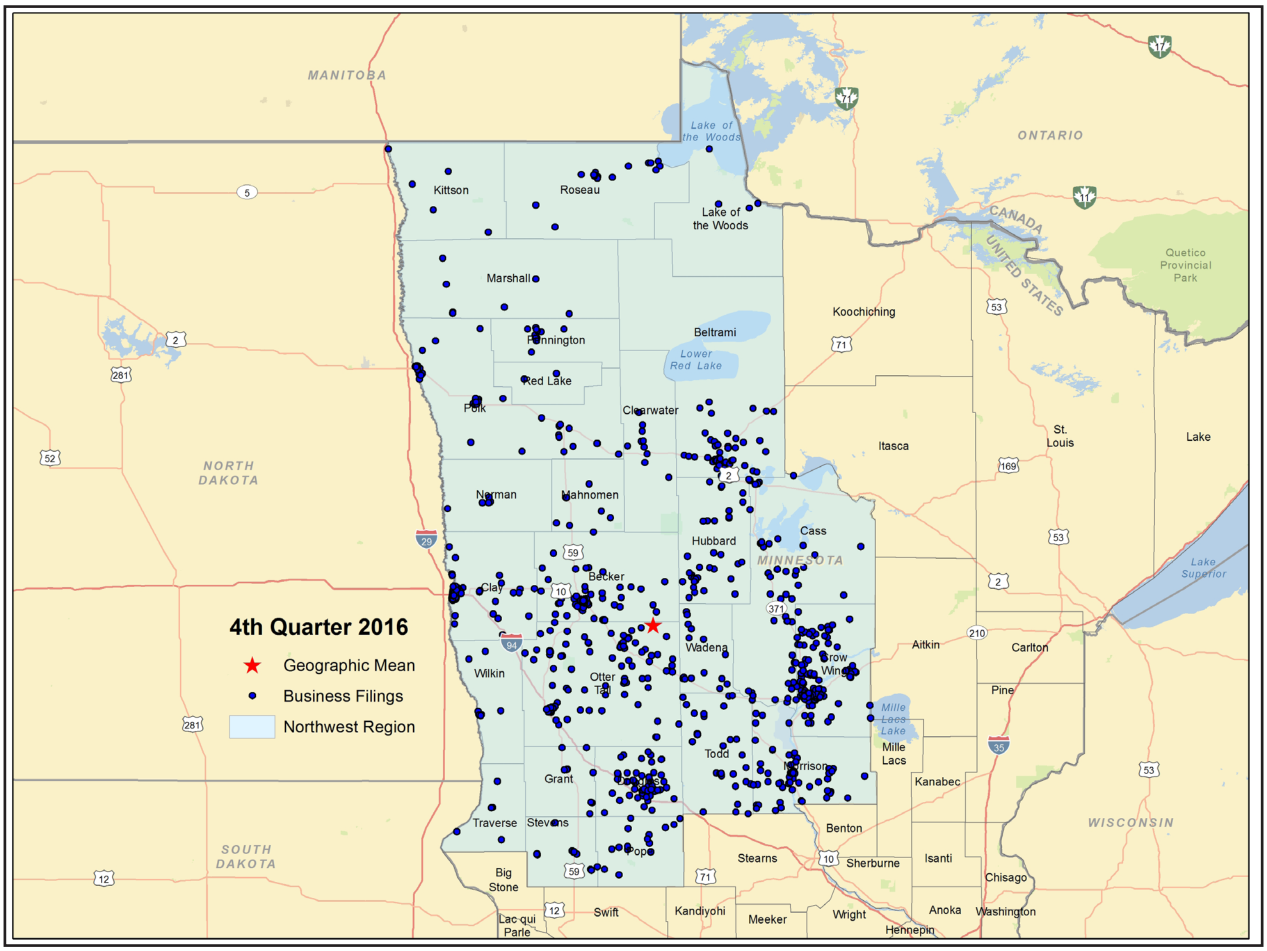
## New Non-Profits—Northwest Minnesota Planning Area (12-month moving total)




| Quarter | IV: 2015 | I: 2016 | II: 2016 | III: 2016 | IV: 2016 | 2016 Quarter IV: Percent change from prior year |
|---|---|---|---|---|---|---|
| Northwest Minnesota New Non-Profits | 48 | 55 | 48 | 40 | 37 | -22.9% |

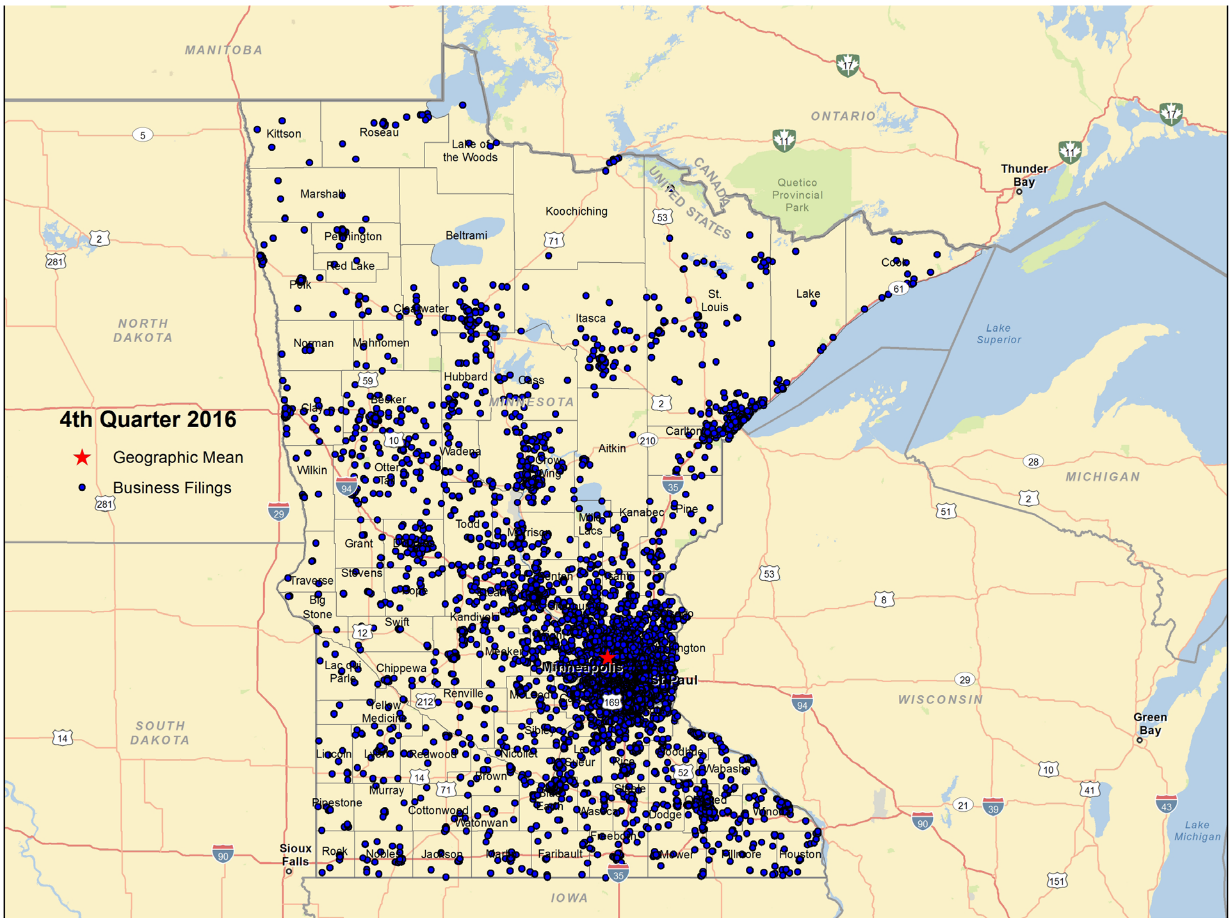
The first map shown below is a visual representation of new business formation around the Northwest Minnesota planning area in the fourth quarter of 2016. The densest areas of new business formation are in the Alexandria, Brainerd, Bemidji, Fergus Falls, and Moorhead areas. The map demonstrates that most of the new business formation in this region occurs in the southern half of the planning area. Well-traveled roadways are also a predictor of new business formation in Northwest Minnesota.

## Northwest Minnesota Planning Area--New Business Formation--Quarter 4: 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. St. Cloud now appears to be integrated into the Twin Cities metro as the I-94/US-10 corridor continues to be a magnet for new business formation.

## Minnesota--New Business Formation--Quarter 4: 2016

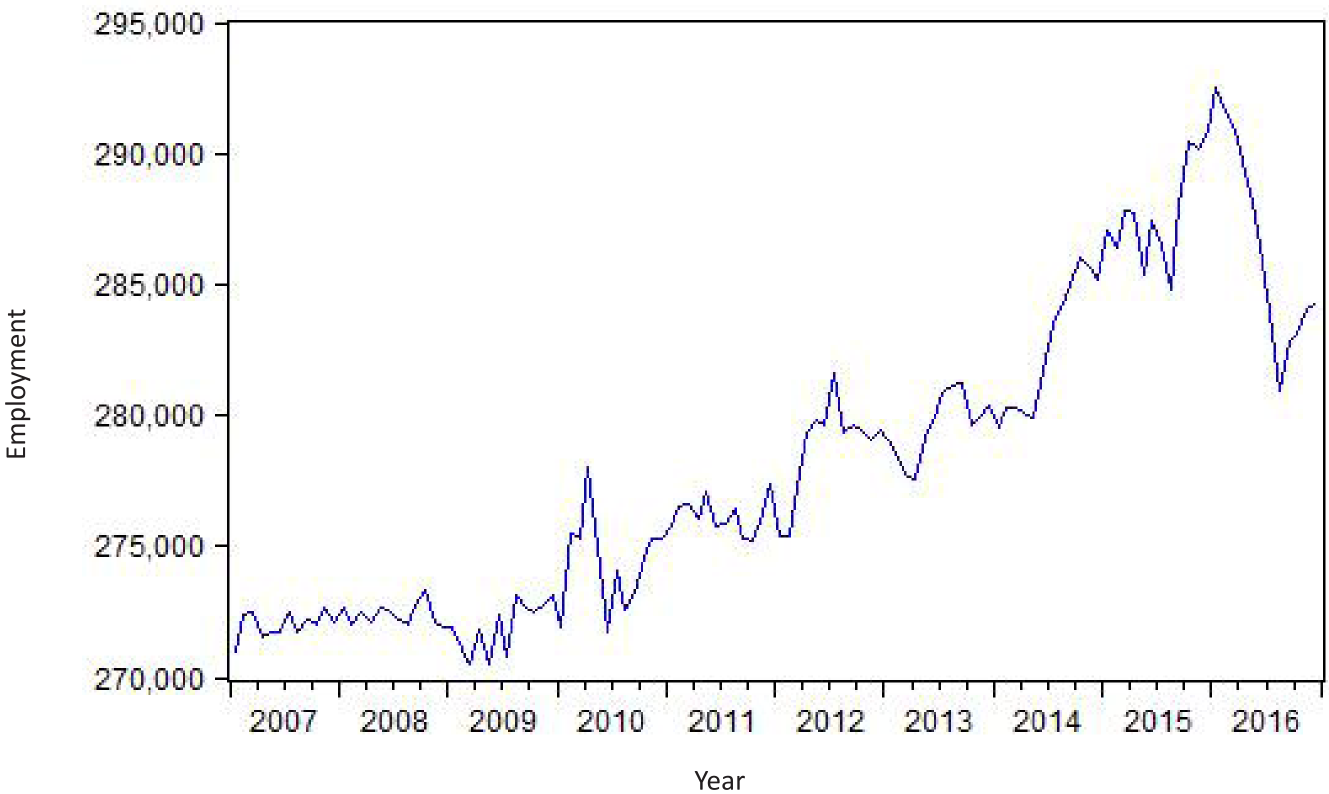


## Northwest Minnesota Labor Market Conditions

Employment in the Northwest Minnesota planning area fell by 2.3 percent over the year ending December 2016. As can be seen in the accompanying graph, the 12-month moving average of total employment in the Northwest Minnesota planning area seems to have peaked at the end of 2015. Regional labor market data will soon undergo benchmark revisions, so it is possible the employment patterns found in some of the tables and charts in this section will be altered.

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




| Month | December 2015 | July 2016 | August 2016 | September 2016 | October 2016 | November 2016 | December 2016 |
|---|---|---|---|---|---|---|---|
| Employment (Not seasonally adjusted) | 287,815 | 289,195 | 286,088 | 283,986 | 286,149 | 284,121 | 281,217 |

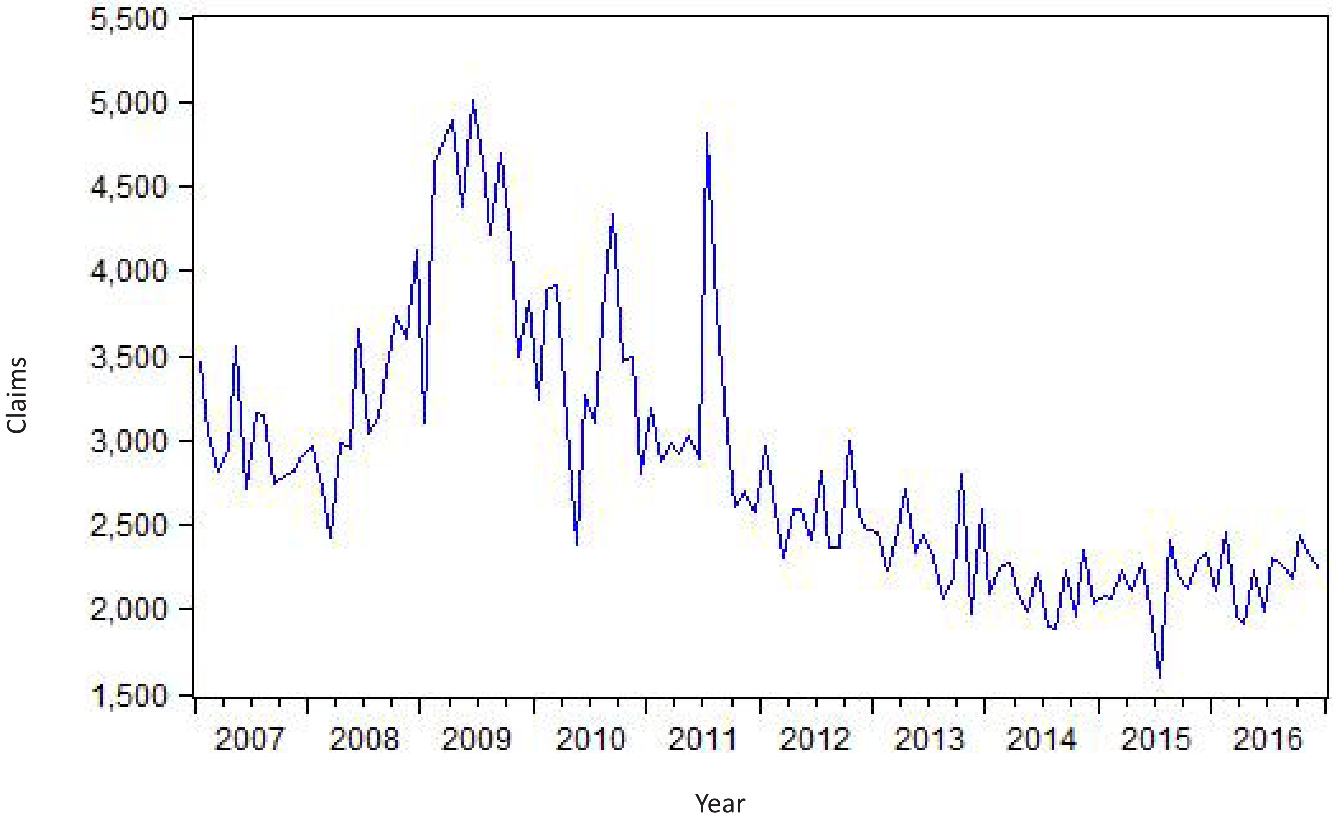
After bottoming out in the third quarter of 2014, the seasonally adjusted unemployment rate in the region had leveled out until rising in recent quarters. At 5.8 percent, the non-seasonally adjusted unemployment rate is now considerably higher than it was in December 2015.

## Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area


| Month | December 2015 | July 2016 | August 2016 | September 2016 | October 2016 | November 2016 | December 2016 |
|---|---|---|---|---|---|---|---|
| Unemployment Rate (Not seasonally adjusted) | 5.3% | 4.2% | 4.2% | 3.6% | 3.4% | 4.1% | 5.8% |

New claims for December 2016 unemployment insurance were 4.5 percent lower than one year earlier. Seasonally adjusted jobless claims appear to have leveled out over the past couple of years.

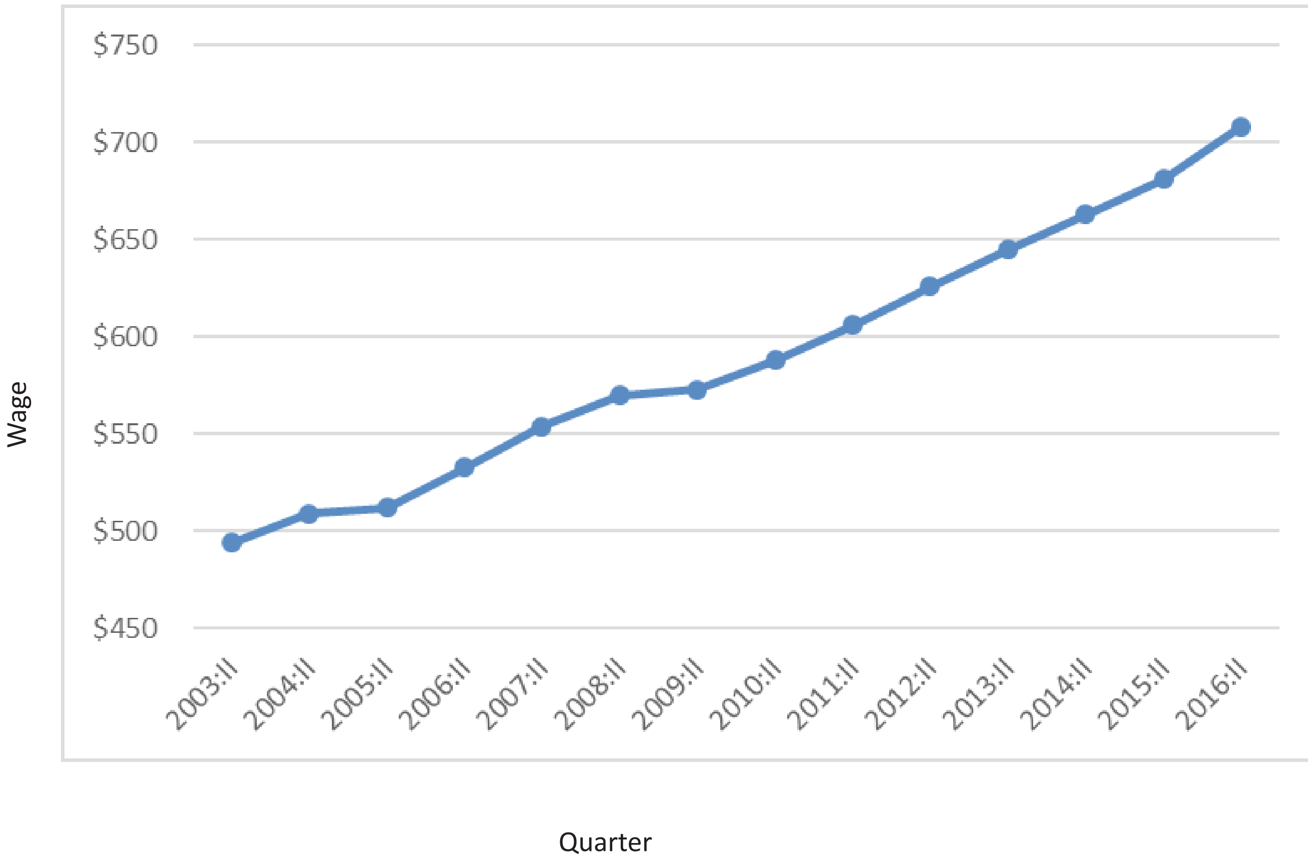
## Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area




| Period | December 2015 | July 2016 | August 2016 | September 2016 | October 2016 | November 2016 | December 2016 |
|---|---|---|---|---|---|---|---|
| Initial claims (Not seasonally adjusted) | 5,523 | 1,677 | 1,048 | 1,051 | 1,983 | 5,124 | 5,273 |

The average weekly wage in the Northwest Minnesota planning area continues to rise. At $708, this average wage is now $102 (representing a 16.8 percent increase) higher than it was in 2011. However, the average weekly wage in this region is the lowest of Minnesota's six planning areas. Southwest Minnesota is the next closest area with an average weekly wage of $725. By comparison, the average weekly wage in the Twin Cities is $1,117 and is $872 in Southeast Minnesota.

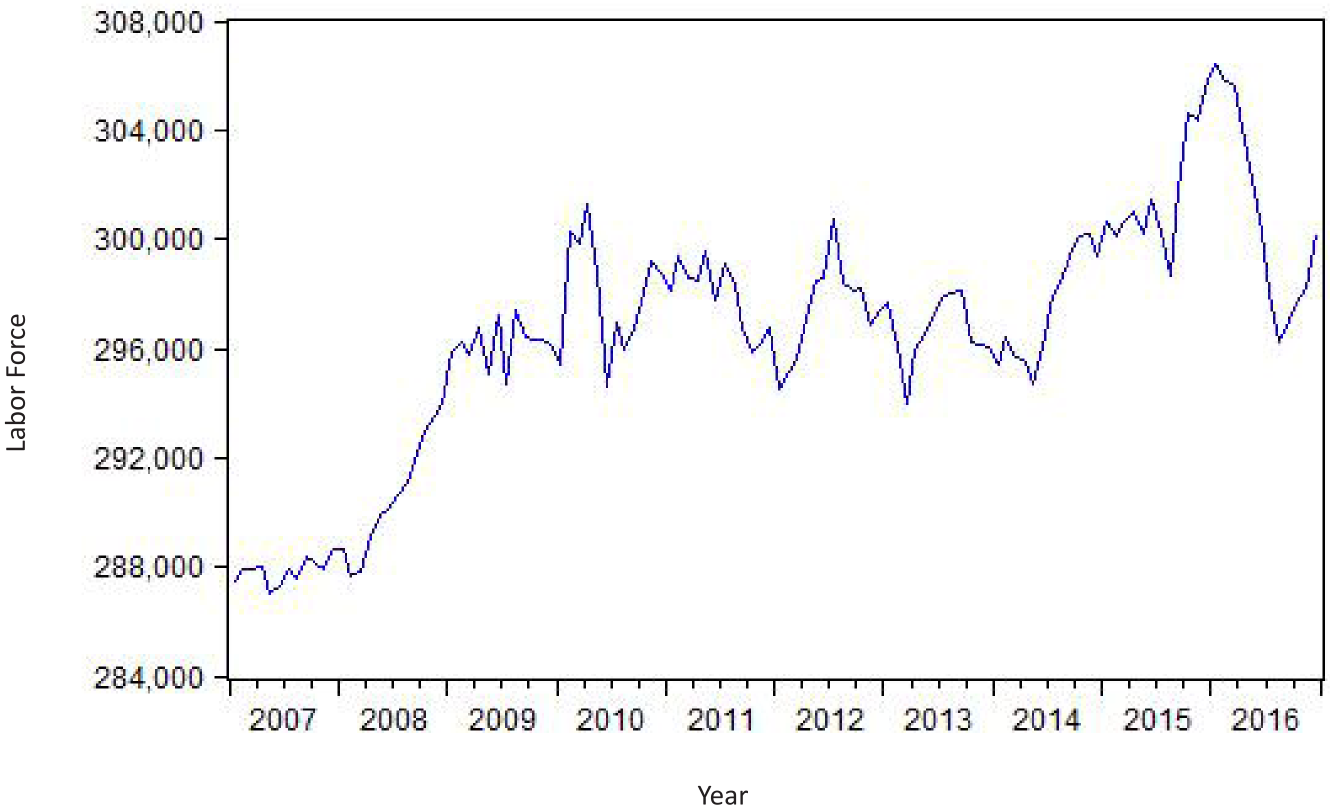
## Average Weekly Wage---Northwest Minnesota Planning Area




| Quarter | 2011:II | 2012:II | 2013:II | 2014:II | 2015:II | 2016:II |
|---|---|---|---|---|---|---|
| Average Weekly Wage | $606 | $626 | $645 | $663 | $681 | $708 |

The Northwest Minnesota labor force contracted over the year ending December 2016. At 298,599 the regional labor force is now 5,411 smaller (representing a 1.8 percent decrease) than one year earlier.

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

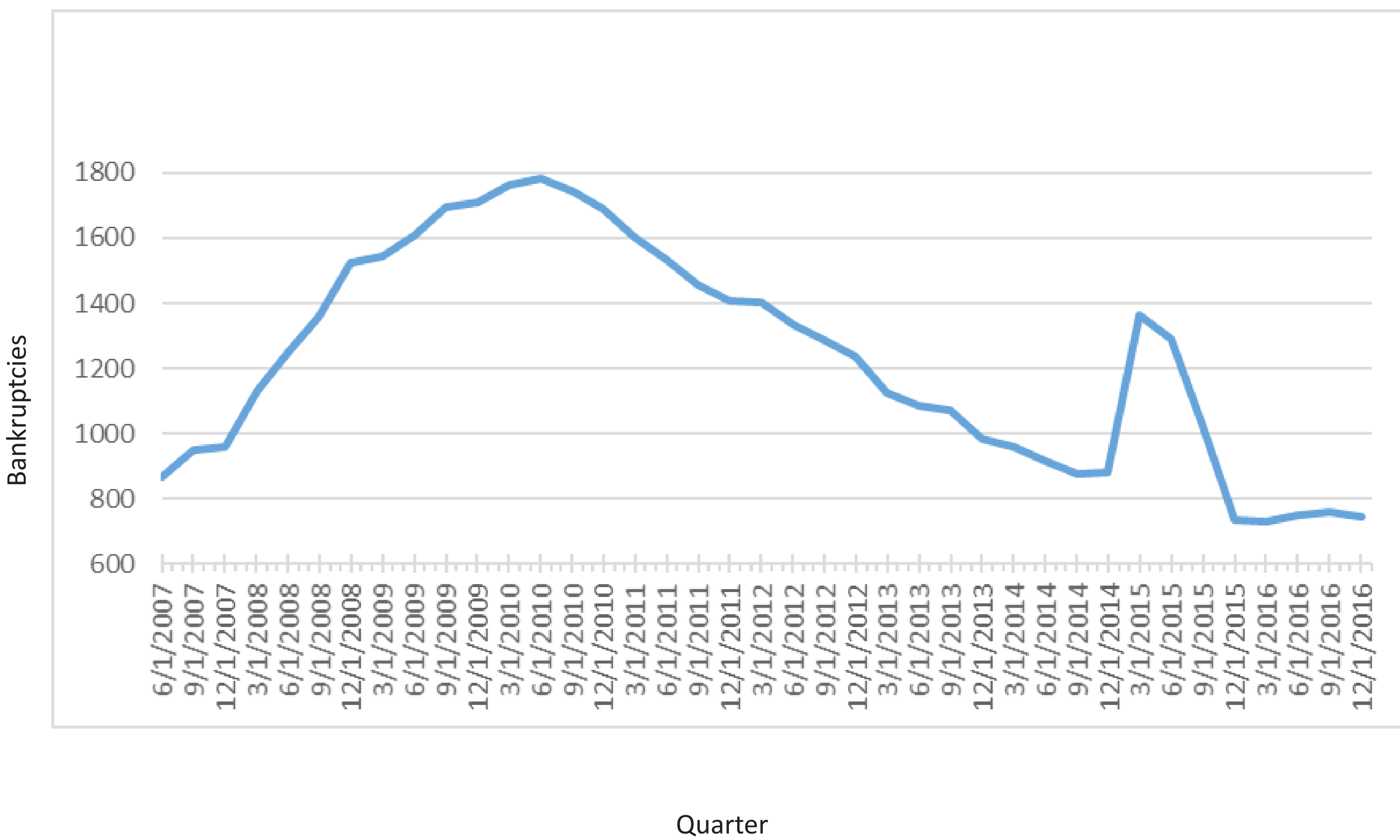



| Year (December) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Labor Force (not seasonally adjusted) | 294,240 | 295,218 | 294,071 | 297,624 | 304,010 | 298,599 |

## Northwest Minnesota Bankruptcies

The figure below shows the 12-month moving total for Northwest 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 then declined steadily until the end of 2015 However, the series began to rise in the first quarter of 2015. A closer inspection of the Northwest Minnesota bankruptcy data suggests a disproportionately large number of bankruptcies came from Polk, Becker, and Clay counties at the beginning of 2015. This is the only one of Minnesota's six planning areas to see a rise in this series at that time, so we took a closer look at the bankruptcy data set received from the US Bankruptcy Courts. The jump in bankruptcies in these three counties is in non-business bankruptcy filings (for example, personal bankruptcies). Since these three counties are close to the North Dakota border, one might imagine that an abrupt increase in non-business bankruptcies in the first quarter of 2015 would be seen in North Dakota's Clay and Grand Forks counties, but bankruptcy filings in these counties did not jump like they did in the three Minnesota counties. These data points may simply have been an aberration. This interpretation seems to be confirmed by recent data readings. After leveling out for the past several quarters, this series is now starting to slowly rise.

Northwest Minnesota Bankruptcies (12-month moving total)




| Year (Fourth Quarter) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Annual Bankruptcies (not seasonally adjusted) | 1,456 | 1,239 | 982 | 880 | 734 | 747 |

## Economic Indicators

| Fargo-Moorhead MSA Indicators | Period Covered | Current Period | Prior Year | Annual Percent Change | Long-Term Average (since 1999, unless noted) |
|---|---|---|---|---|---|
| Employment | December 2016 (m) | 142,700 | 142,100 | 0.4% ↑ | 1.9% |
| Manufacturing Employment | December 2016 (m) | 9,900 | 10,000 | -1.0% ↓ | 1.4% |
| Mining, Logging, Construction Employment | December 2016 (m) | 9,200 | 8,900 | 3.4% ↑ | 2.9% |
| Average Weekly Work Hours, Private Sector | December 2016 (m) | NA | NA | NA | NA |
| Average Earnings Per Hour, Private Sector | December 2016 (m) | NA | NA | NA | NA |
| Unemployment Rate | December 2016 (m) | 2.7% | 2.3% | NA ↑ | NA |
| Labor Force | December 2016 (m) | 140,051 | 133,287 | 5.1% ↑ | 1.8% |
| Initial Jobless Claims | December 2016 (m) | 1,220 | 1,284 | -5.0% ↓ | NA |
| Fargo-Moorhead Residential Building Permit Valuation, in thousands | December 2016 (m) | 6,249 | 7,955 | -21.4% ↓ | NA |
| Fargo-Moorhead Cost of Living Index | Third Quarter 2016 (q) | 98.4 | 101.9 | -3.4% ↓ | 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 | December 2016 (m) | 57,600 | 57,400 | 0.3% ↑ | 0.8% |
| Maufacturing Employment | December 2016 (m) | 4,400 | 4,000 | 10.0% ↑ | 1.0% |
| Mining, Logging, Construction Employment | December 2016 (m) | 3,400 | 3,400 | 0.0% ↔ | 1.1% |
| Average Weekly Work Hours, Private Sector | December 2016 (m) | NA | NA | NA | NA |
| Average Earnings Per Hour, Private Sector | December 2016 (m) | NA | NA | NA ↑ | NA |
| Unemployment Rate | December 2016 (m) | 3.0% | 2.8% | NA ↑ | NA |
| Labor Force | December 2016 (m) | 57,591 | 55,217 | 4.3% ↑ | 0.5% |
| Initial Jobless Claims | December 2016 (m) | 462 | 497 | -7.0% ↓ | NA |
| Grand Forks-East Grand Forks Residential Building Permit Valuation, in thousands | December 2016 (m) | 0 | 267 | -100.0% ↓ | NA |
| Grand Forks Cost of Living Index | Third Quarter 2016 (q) | 96.0 | NA | NA | NA |

(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 employment gains in the Fargo/Moorhead area (but declining employment in the manufacturing sector), lower initial jobless claims, a rising labor force, and a declining relative cost of living in the region. An increased unemployment rate (which is probably a result of the expanded regional work force) and a falling valuation of area building permits were among the weaker indicators in Fargo/Moorhead in the fourth quarter.

Grand Forks/East Grand Forks MSA economic activity was mostly favorable in the fourth quarter. MSA overall employment rose (as did employment in the manufacturing sector), the labor force expanded and initial jobless claims fell. However, the value of residential building permits in the Grand Forks/East Grand Forks area declined and the unemployment rate increased.

## State and National Indicators

| MINNESOTA Indicators | Dec 2016 | Sep 2015 | Dec 2015 | Change from one quarter ago | Annual Change |
|---|---|---|---|---|---|
| Nonfarm payroll employment, SA | 2,919,300 | 2,905,600 | 2,875,700 | 0.5% | 1.0% |
| Average weekly hours worked, private sector | 33.9 | 34.1 | 33.7 | -0.6% | 0.6% |
| Unemployment rate, seasonally adjusted | 3.9% | 4.0% | 3.7% | NA | NA |
| Earnings per hour, private sector | $27.87 | $27.33 | $26.36 | 2.0% | 5.7% |
| Philadelphia Fed Coincident Indicator, MN | 181.73 | 180.23 | 176.73 | 0.8% | 2.8% |
| Philadelphia Fed Leading Indicator, MN | 2.01 | 1.19 | 1.23 | 68.9% | 63.4% |
| Minnesota Business Conditions Index | 52.3 | 48.4 | 39.4 | 8.1% | 32.7% |
| Price of milk received by farmers (cwt) | $19.70 | $17.90 | $17.00 | 10.1% | 15.9% |
| Enplanements, MSP airport, thousands | 1,456.8 | 1,536.1 | 1,429.0 | -5.2% | 1.9% |

| NATIONAL Indicators | Dec 2016 | Sep 2015 | Dec 2015 | Change from one quarter ago | Annual Change |
|---|---|---|---|---|---|
| Nonfarm payroll employment, SA, thousands | 145,303 | 144,808 | 143,146 | 0.3% | 1.5% |
| Industrial production, index, SA | 104.6 | 104.2 | 104.0 | 0.4% | 0.6% |
| Real retail sales, SA ($) | 193,017 | 191,817 | 189,246 | 0.6% | 2% |
| Real personal income less transfers ($, bill.) | 12,074.8 | 12,022.9 | 11,848.2 | 0.4% | 1.9% |
| Real personal consumption expenditures ($, bill.) | 11,672.4 | 11,603.3 | 11,351.5 | 0.6% | 2.8% |
| Unemployment rate, SA | 4.7% | 4.9% | 5.0% | NA | NA |
| New building permits, SA, thousands | 17,581 | 20,857 | 17,620 | -15.7% | -0.2% |
| Standard & Poor's 500 stock price index | 2,246.6 | 2,157.7 | 2,054.1 | 4.1% | 9.4% |
| Oil, price per barrel in Cushing, OK | $51.97 | $45.18 | $37.19 | 15.0% | 39.7% |

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. The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia are favorable—current conditions are stronger and the future conditions index surged compared to one year earlier. The Minnesota Business Conditions index also turned positive this quarter. Milk prices have finally started to rise and enplanements at the Minneapolis-St. Paul airport increased by 1.9 percent over the last twelve months.

The national economic indicators reported in the table are also largely favorable. Over the past twelve months, stock prices rose, employment increased, and real income and consumer expenditures expanded. The national unemployment rate fell and retail sales improved. Industrial production picked up. National building permits were nearly unchanged from one year earlier and oil prices have begun to rise. While rising oil prices will adversely impact the discretionary income of households, it will also improve the economic well-being of those employed in the energy sector (which has been struggling over the last two years).

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.

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

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*Metropolitan Airports Commission: MSP Enplanements.*

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

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

*Thomson Reuters and University of Michigan, Index of Consumer Sentiment*

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

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