Northeast Minnesota
Economic and Business Conditions Report
Third Quarter 2017

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
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EXECUTIVE SUMMARY

Steady economic growth in Northeast Minnesota is expected over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). Two of the five components of the LEI increased as the overall index rose 2.59 points in the third quarter. An improvement in a supply managers' survey and lower initial jobless claims in the region helped lift this quarter's index.

There were 491 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the third quarter of 2017 — representing a 2.5 percent increase from one year earlier. Forty-nine new regional business incorporations were filed in the third quarter—2.1 percent more than in the same period of 2016. New limited liability company (LLC) filings in Northeast Minnesota rose 1.5 percent to a level of 275. New assumed name filings increased 6.7 percent and there were two fewer non-profits filings compared to one year earlier.

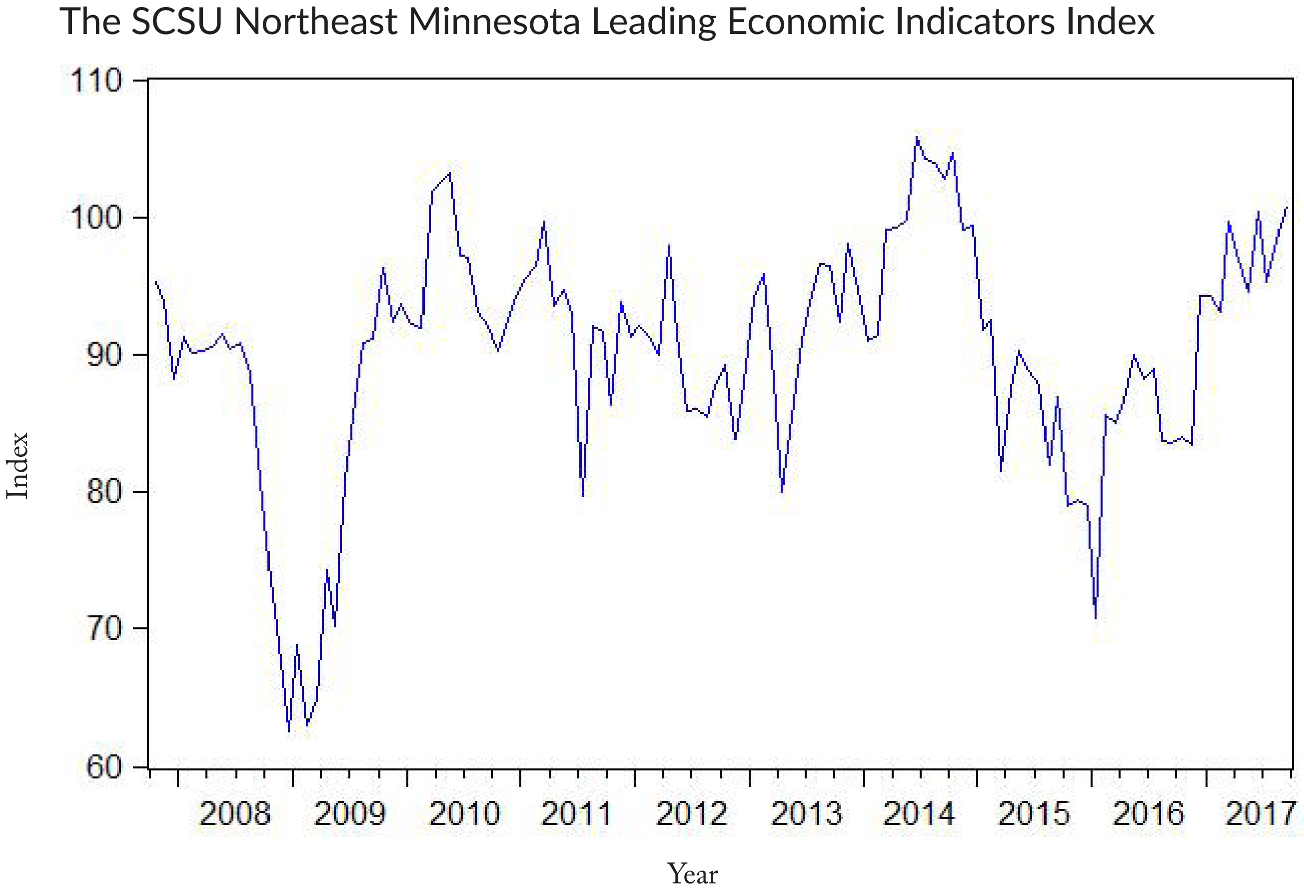
Sixty-seven percent of new business filers in the Northeast Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's third quarter. Results of this voluntary survey indicate that 2.7 percent of new filers come from communities of color, while 7.6 percent of new filings come from veterans. About 1.5 percent of new filers come from the disability community and less than 1 percent of new filings are made by the immigrant community. Forty-three percent of new business filings in Northeast Minnesota in this year's third quarter were initiated by women. MBS results also show that most new business filers in Northeast Minnesota have between 0 and $10,000 in annual gross revenues (although 30 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Northeast Minnesota are construction, retail trade, other services, real estate/rental/leasing and arts/entertainment/recreation. Employment levels at most new firms are between 0 and 5 workers, and nearly half of those starting a new business consider this a part-time activity.

Northeast Minnesota employment was 2.7 percent higher than year ago levels in September. The regional unemployment rate was 3.8% (considerably lower than one year ago) and the labor force rose by 1.1% from one year earlier. September 2017 initial claims for unemployment insurance were nearly 21.9 percent lower than the same month last year. The region's job vacancy ratio surged in the second quarter of 2017. Annual bankruptcies in Northeast Minnesota have started to inch up.

Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was mixed. Northeast Minnesota's largest market experienced a 1.3 percent increase in overall employment over the year ending September 2017, but education/health and manufacturing sector employment fell. The area unemployment rate fell to 3.7 percent, and the labor force rose 1.2 percent. Average weekly work hours fell 2.1 percent and average hourly earnings declined. The value of residential building permits jumped 57.1 percent compared to September 2016.

NORTHEAST MINNESOTA LEADING ECONOMIC INDICATORS INDEX

The SCSU Northeast Minnesota Leading Economic Indicators Index (LEI) is designed to predict performance of the regional economy with a four-to-six month lead time. After a nearly flat performance in this year's second quarter, this quarter's LEI rose 2.59 points. The LEI is now 20.7 percent above its September 2016 level. As can be seen in the accompanying figure, the LEI has generally drifted upward since the beginning of 2016.



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2017	Contribution to LEI, 2nd quarter 2017
Minnesota Business Conditions Index	-0.94	1.99
Northeast Minnesota initial claims for unemployment insurance	1.53	0.72
Northeast Minnesota new filings of incorporation	-0.17	0.38
Duluth Superior MSA residential building permits	-0.37	-2.83
Institute of Supply Management Purchasing Managers Index for manufacturing	2.54	0.52
TOTAL CHANGE	**2.59**	**0.78**

Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This indicator improved in the third quarter. Lower regional initial jobless claims also helped lift this quarter's leading index. Weaker performance of the Minnesota Business Conditions Index (which is used as an indicator of general statewide business conditions), slightly lower new business incorporations and a lower number of new residential building permits in the Duluth/Superior MSA each had a negative impact on the third quarter LEI.

SCSU Northeast Minnesota Leading Economic Indicators Index

	2017	2016	Percentage change
Minnesota Business Conditions Index September	59.4	48.4	22.7%
Northeast Minnesota initial claims for unemployment insurance, September	1,122	1,041	7.8%
Northeast Minnesota new filings of incorporation Third Quarter	49	49	0.0%
Duluth-Superior MSA single-family building permits September	11	8	37.5%
Institute for Supply Management Purchasing Managers' Index, manufacturing sector, September	60.8	51.5	18.1%
Northeast Minnesota Leading Economic Indicators Index September (December 1999 = 100)	100.8	83.5	20.7%

NORTHEAST MINNESOTA BUSINESS FILINGS

Total new business filings rose by 2.5 percent compared to last year's third quarter. After trending upward since the end of 2011, the 12-month moving total of this series had flattened out in 2016. However, the upward trend has once again returned in 2017.

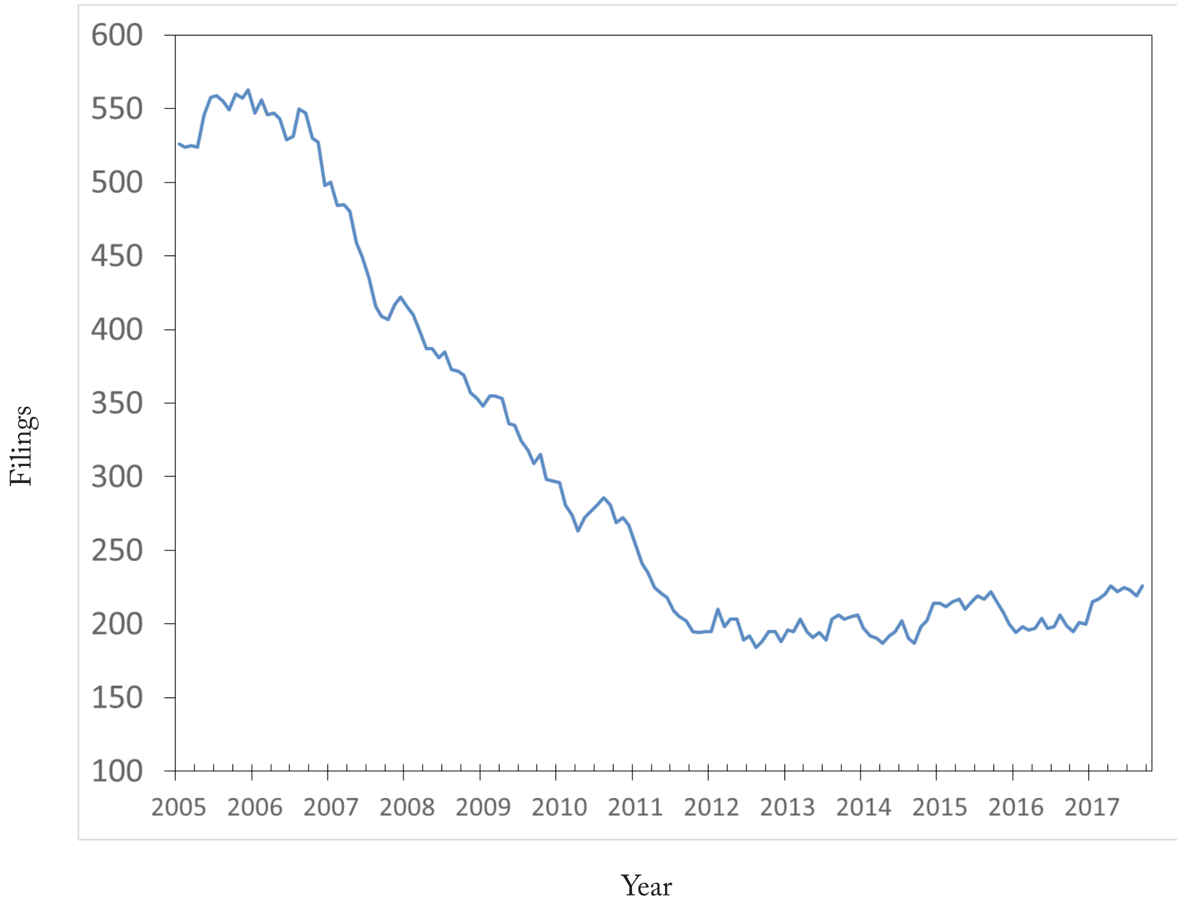
Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data.

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

Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Northeast Minnesota Total New Business Filings	479	496	626	653	491	2.5%

Compared to the third quarter of 2016, new filings of incorporation in Northeast Minnesota were 2.1 percent higher. As can be seen in the graph, the 12 month moving total of Northeast Minnesota new business incorporations has been mostly flat for the past several years.

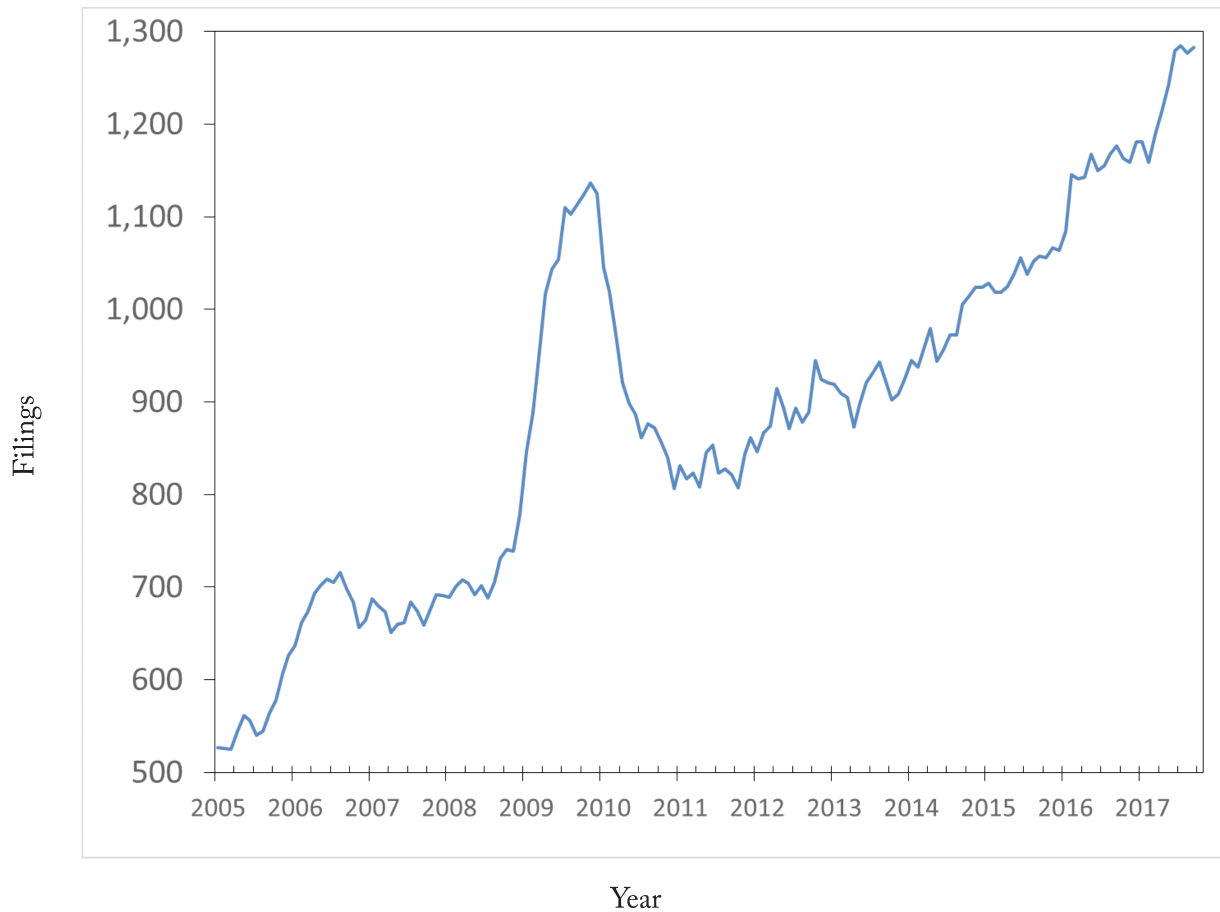
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Northeast Minnesota New Business Incorporations	48	48	71	58	49	2.1%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. This trend continued in the third quarter as new LLC filings rose by 1.5 percent compared to the same period one year earlier. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was 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.

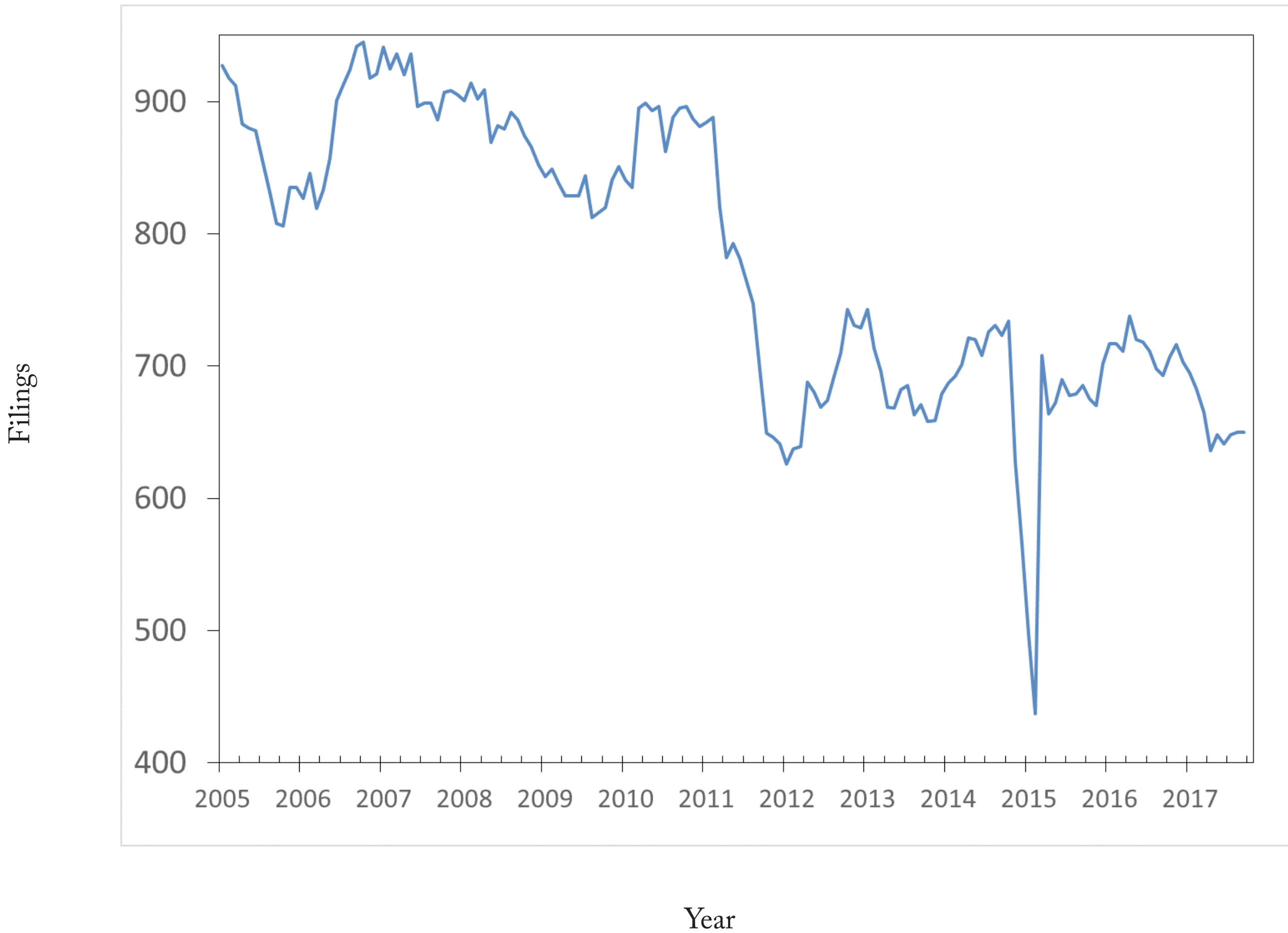
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	271	271	345	392	275	1.5%

Compared to the third quarter of 2016, assumed names rose by 6.7 percent in Northeast Minnesota. After leveling out from 2011 to 2014, new assumed names filings in Northeast Minnesota declined precipitously in 2014. The moving total of this series has been trending downward for the past several quarters, although this quarter's increase appears to have slowed this recent trend. New filings for assumed name still remain well below their level of the mid-2000s.

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



Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Northeast Minnesota New Assumed Names	134	155	177	175	143	6.7%

There were 24 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the third quarter of 2017, two fewer than were recorded one year ago.

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

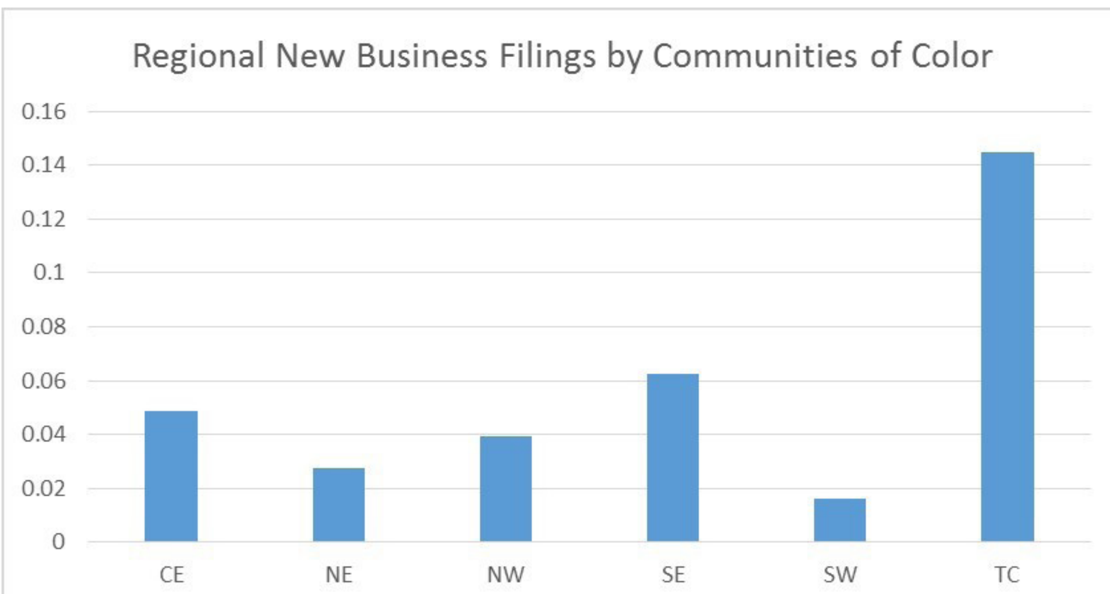
Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Northeast Minnesota New Non-Profits	26	22	33	28	24	-7.7%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

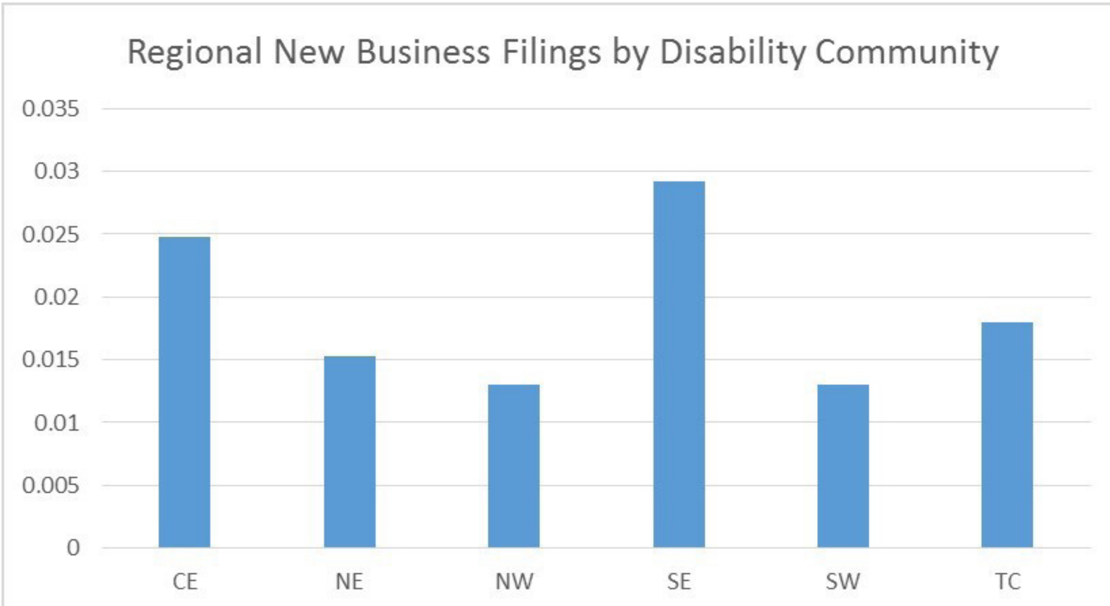
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, employment levels and annual revenue of the filer, and whether the business is a full- or part-time activity for the filing entity. While a comprehensive analysis of this promising new data set is the beyond the scope of this regional economic and business conditions report, the survey results do provide useful additional background information to complement the business filing data.

To match up the Minnesota Business Snapshot (MBS) information with the data analyzed in this report, only surveys accompanying new filings in the third quarter of 2017 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 61 percent. This yields thousands of self-reported records in this emerging data set. For Northeast Minnesota, about 67 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

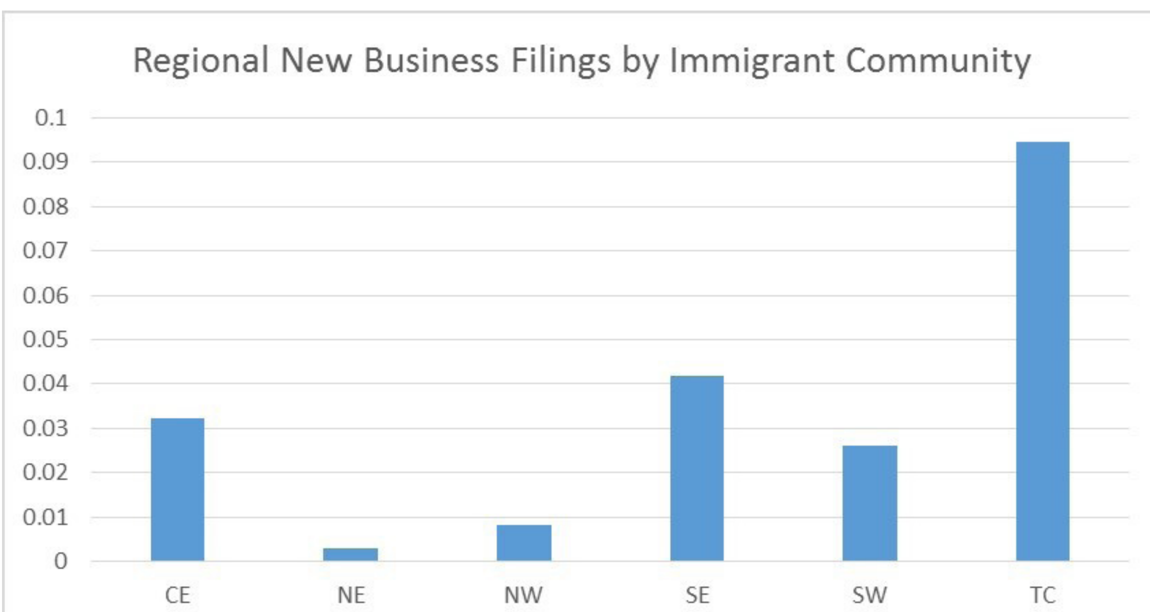
Approximately 2.7 percent of those new filers completing the MBS from the Northeast Minnesota planning area report being from a community of color. This is the second lowest percentage of Minnesota's six planning areas. Only the Southwest region has a lower percentage of new filers from communities of color.



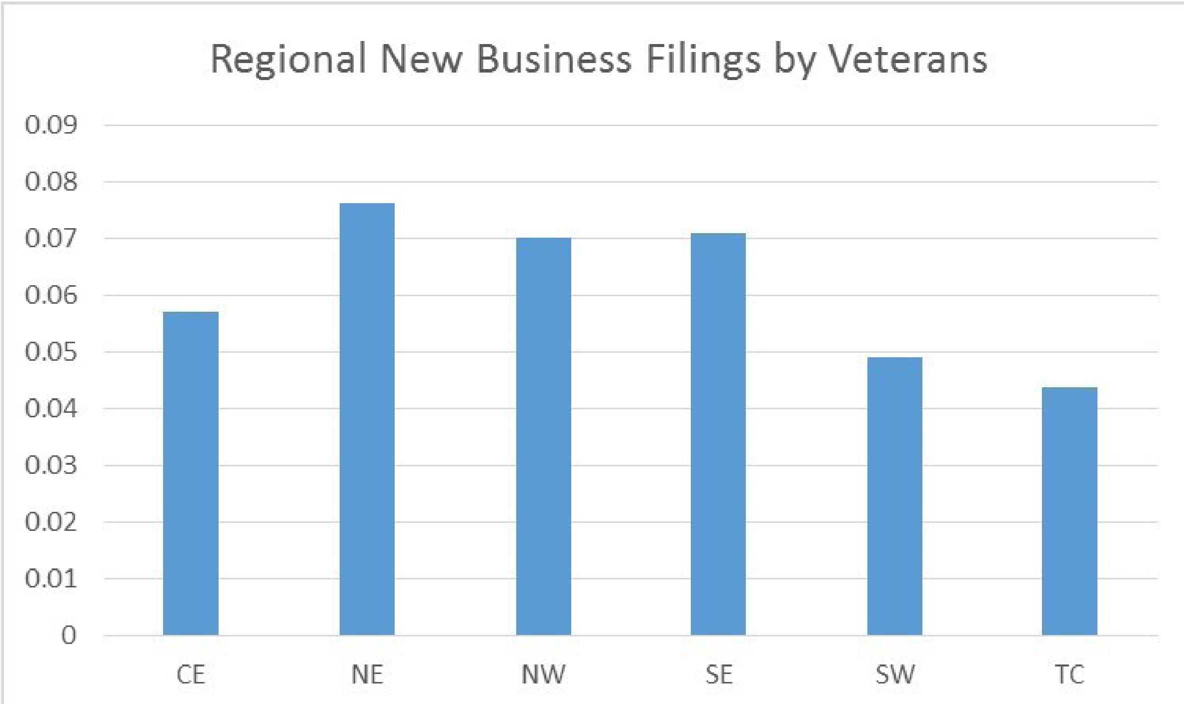
About 1.5 percent of Northeast Minnesota's new filers are from the disability community.



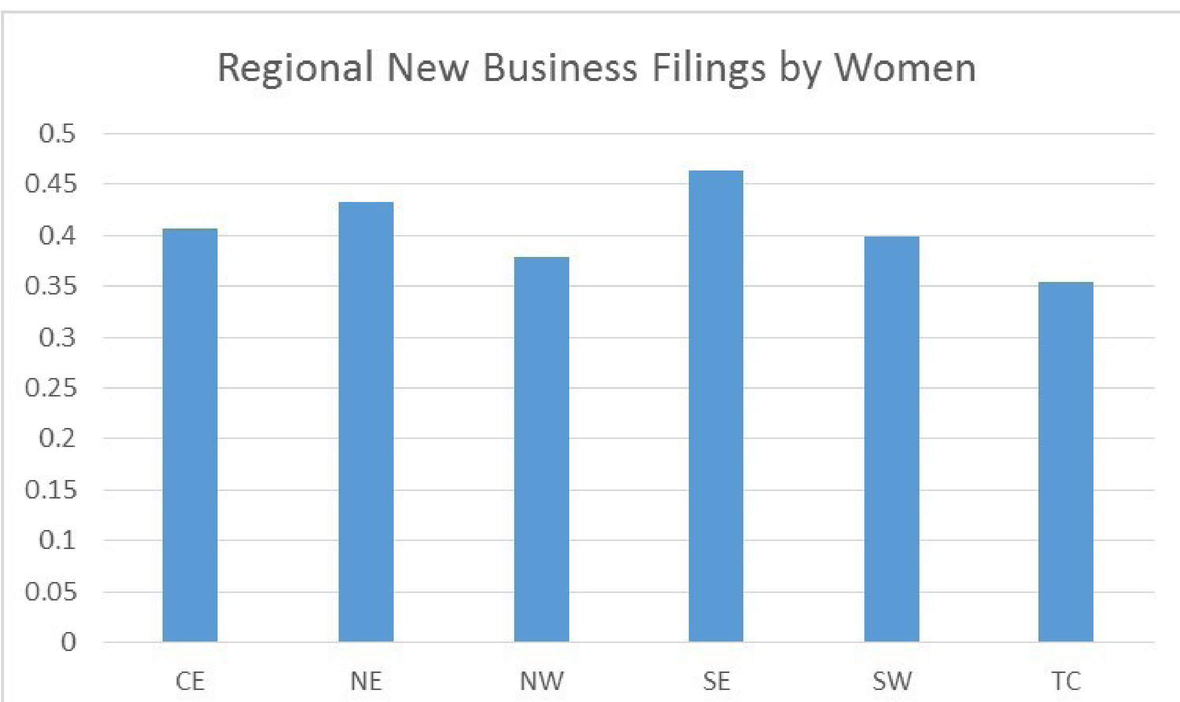
Very few new business filings in Northeast Minnesota come from the immigrant community. The percentages of immigrant new business filings in the northeast and northwest portions of the state are well below what is seen in the other planning areas.



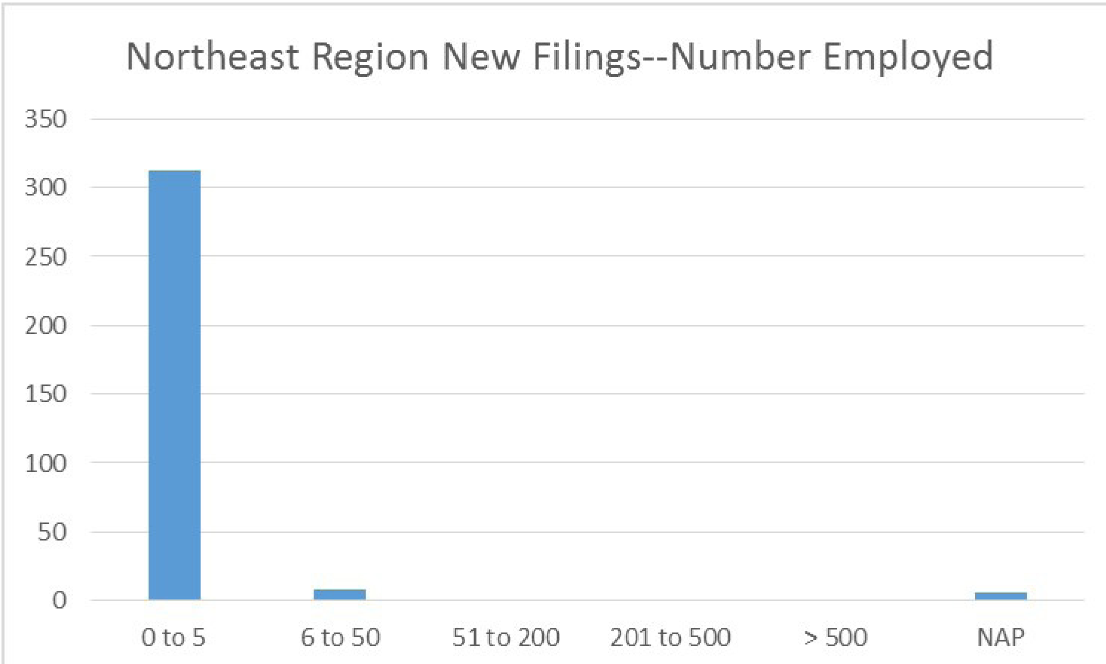
Approximately 7.6 percent of all new filings in Northeast Minnesota came from military veterans in the third quarter of 2017. As has been seen in previous quarterly reports, this is higher than in any of Minnesota's other planning areas.



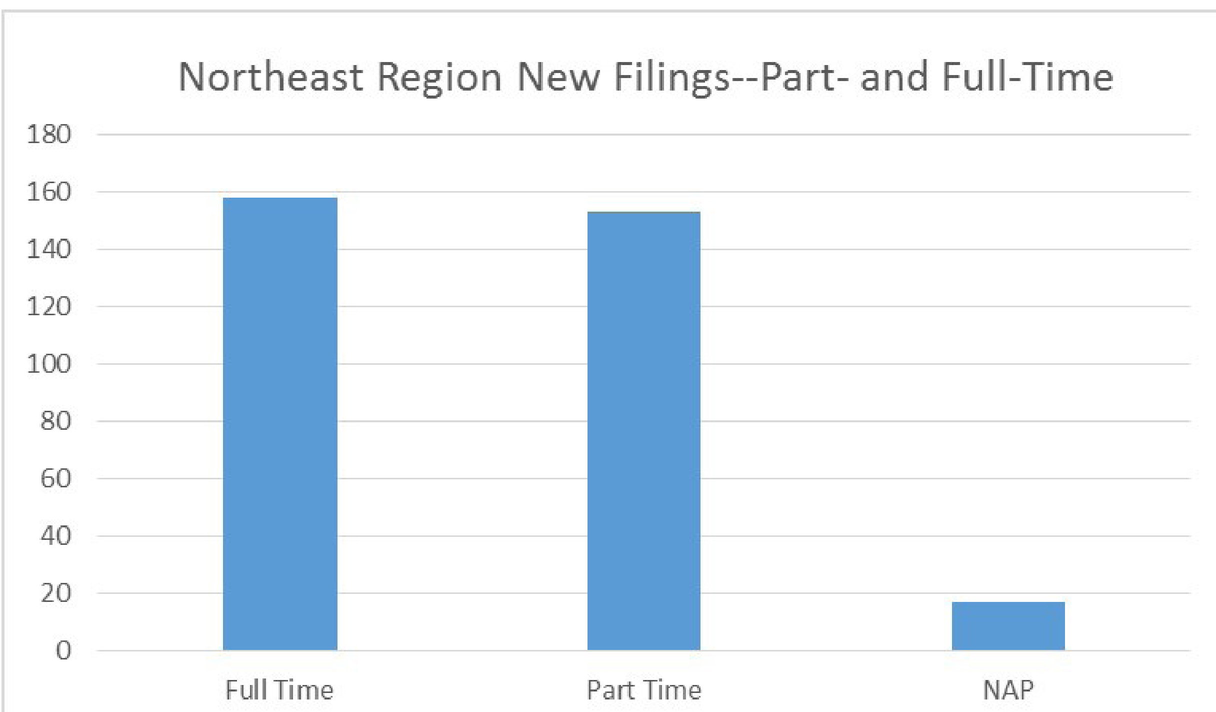
Woman owners represented approximately 43 percent of the new business filings in Northeast Minnesota in the third quarter of 2017.



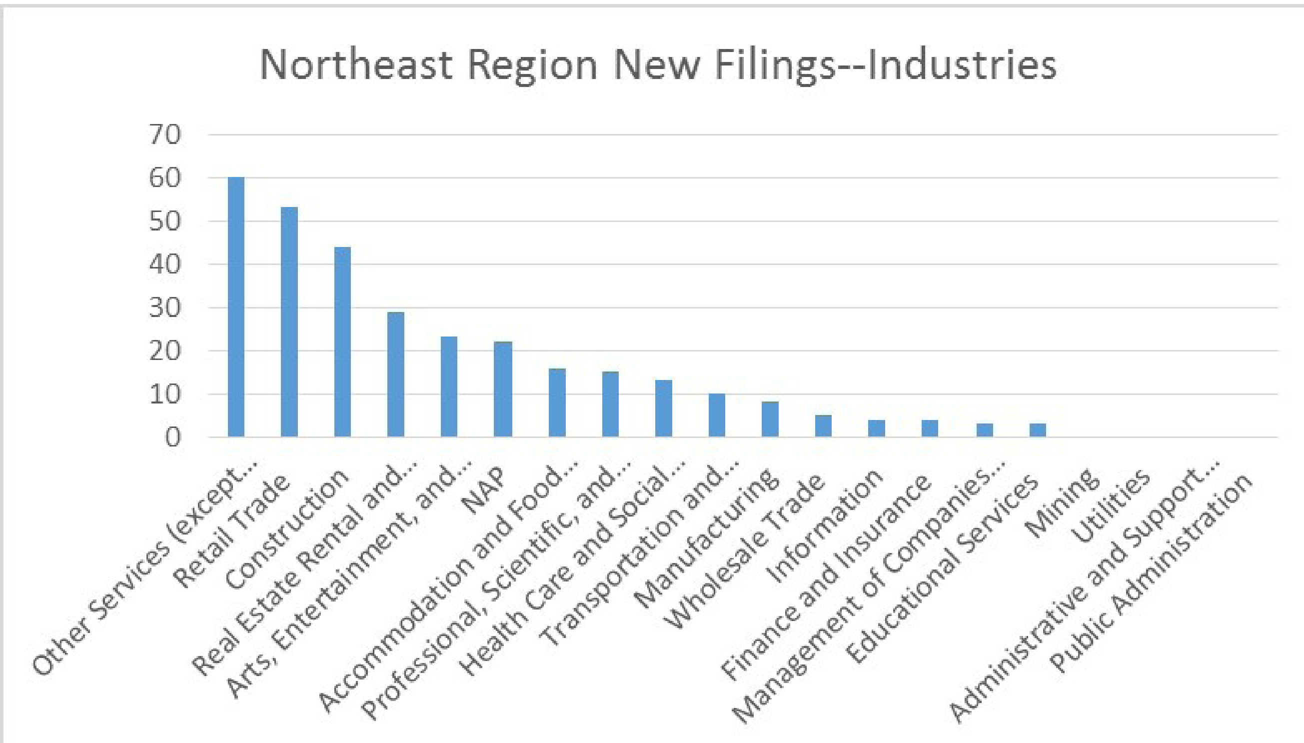
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by "NAP"—no answer provided), 322 responses were tallied to a question asking the new business filer to indicate the range of employment at the business. As expected, most new businesses start small—employment at most companies submitting a new filing ranges from 0-5 employees.



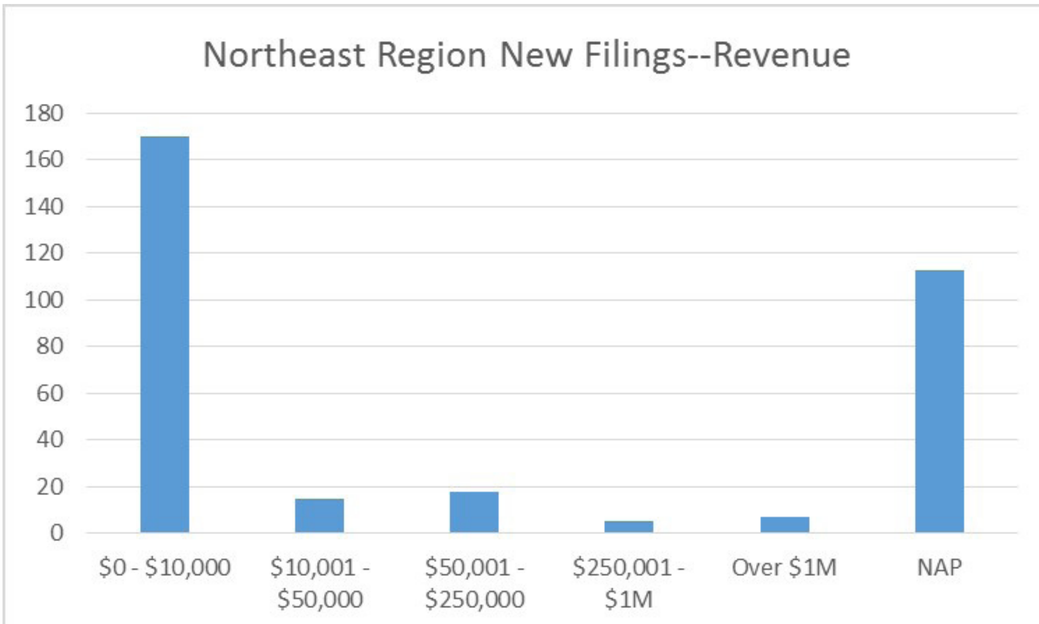
Nearly half of those submitting a new business filing in Northeast Minnesota are part-time ventures.



Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, retail trade, construction, real estate/rental/leasing, arts/entertainment/recreation and "other services" lead the way. Since businesses are often unsure of their industrial classification, the "other services" category is likely to represent a "catch-all" category for service-related businesses who were unable to specify their industry. Twenty-two new firms did not provide an answer to this survey item (see "NAP")



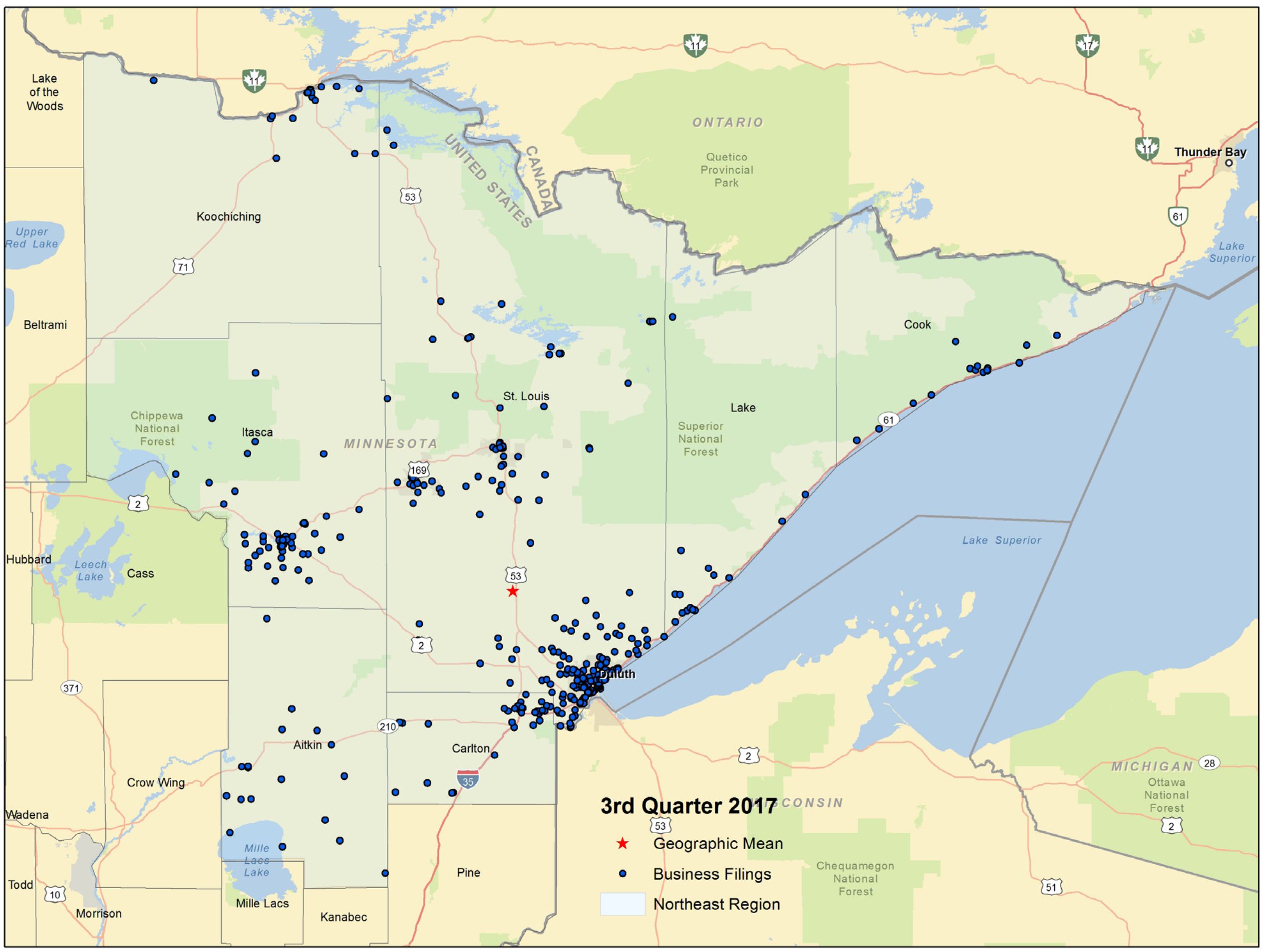
More than 100 new business filers in Northeast Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues of less than $10,000. Thirty new firms report revenues in excess of $50,000.



MAPS

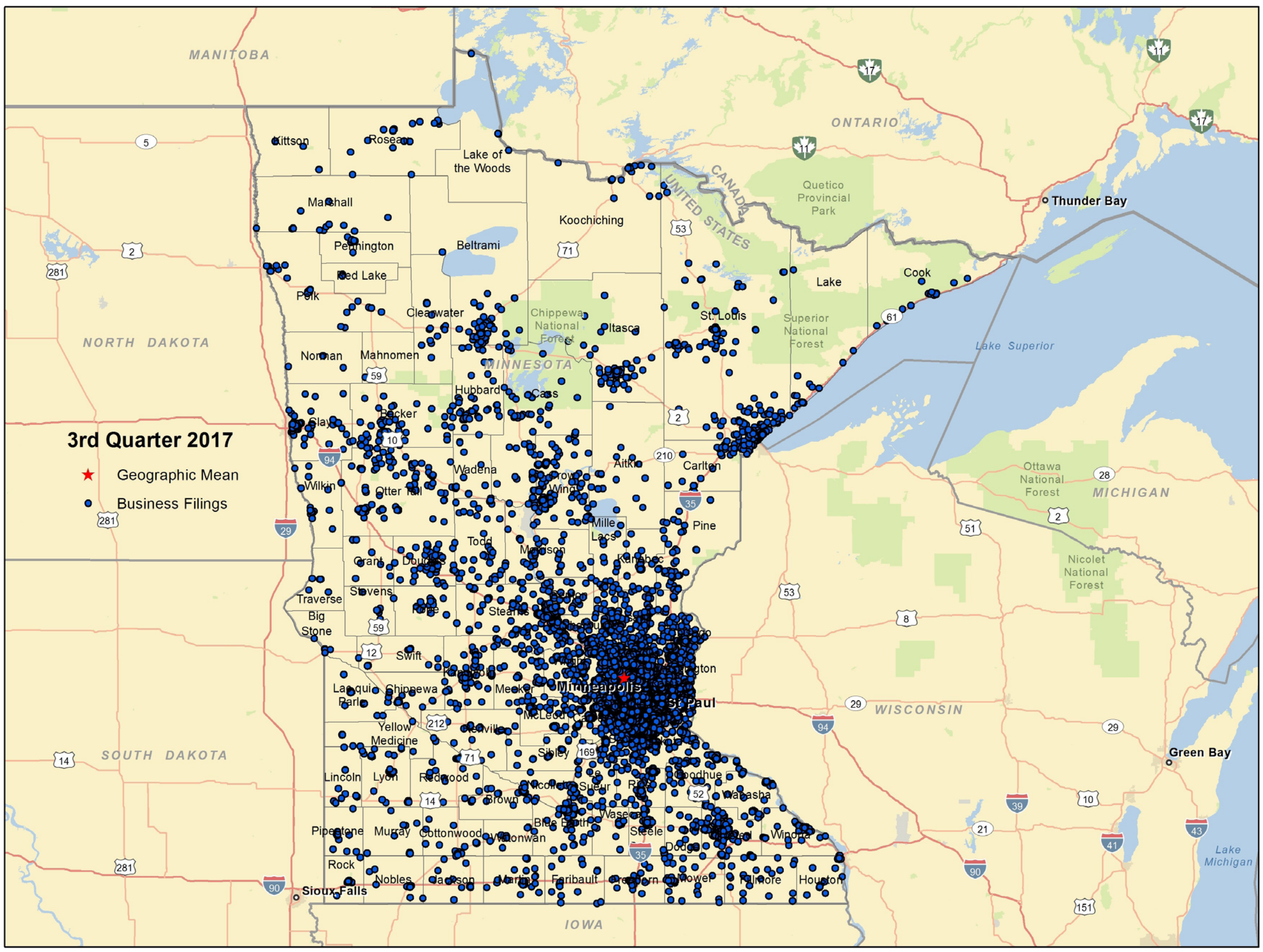
The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in the third quarter of 2017. The densest areas of new business formation are in the Duluth metro as well as along the region's well-traveled roadways. There was a noticeable cluster of new business formation along Highway 169 (in the Virginia-Hibbing-Grand Rapids corridor) as well as along Highway 61 and on the Canadian border in International Falls.

Northeast Minnesota Planning Area--New Business Formation--Quarter 3: 2017



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. The importance of Interstates 90 and 35 as well as US-10 and MN 61 (along the North Shore) in new business filings is also easily seen in this map.

Minnesota--New Business Formation--Quarter 3: 2017

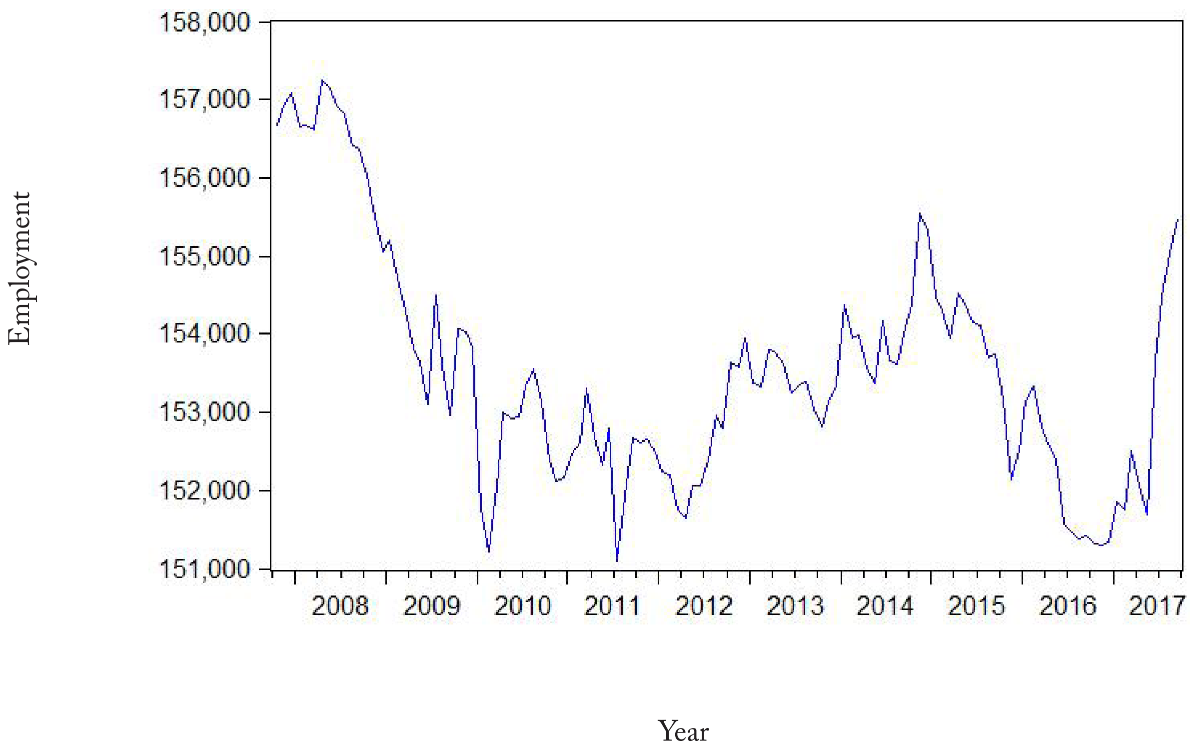


NORTHEAST MINNESOTA LABOR MARKET CONDITIONS

September 2017 employment in the Northeast Minnesota planning area was 2.7 percent higher than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment has been rising rapidly over the past three 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.

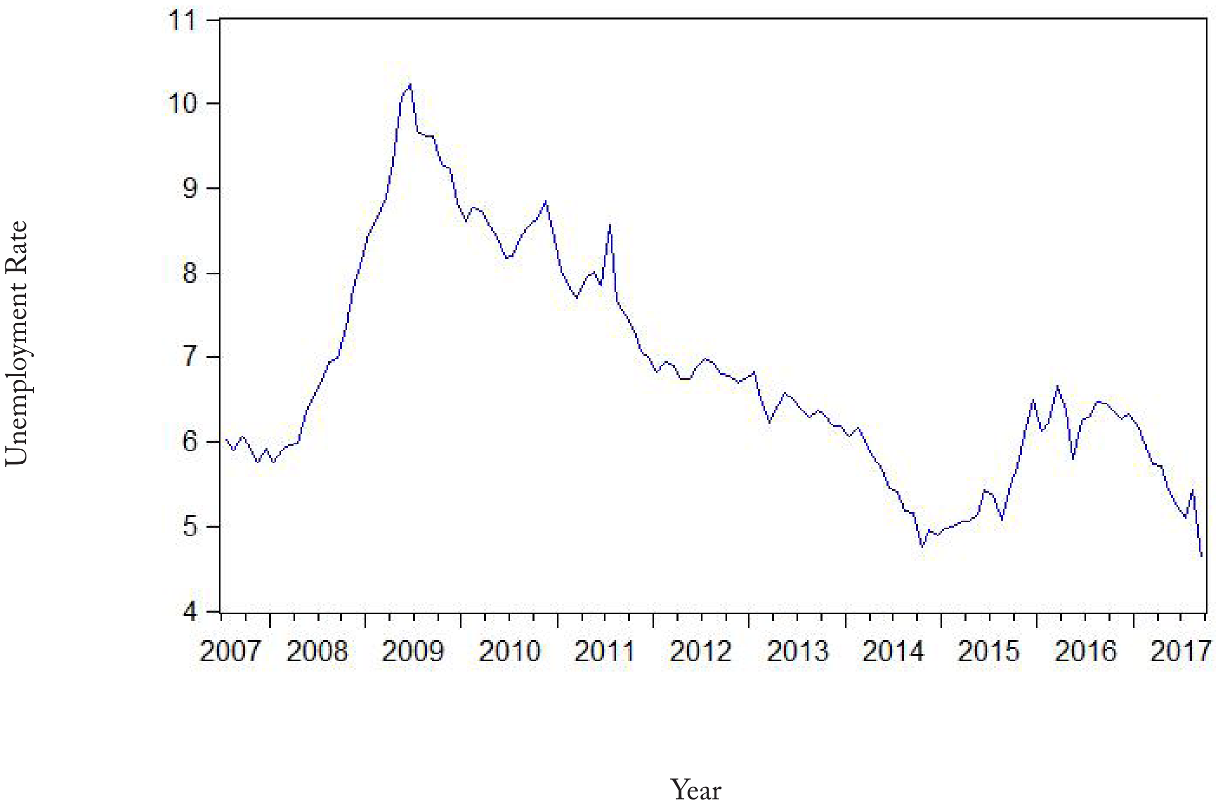
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	September 2016	April 2017	May 2017	June 2017	July 2017	August 2017	September 2017
Employment (Not seasonally adjusted)	153,139	150,947	152,627	155,413	156,965	156,433	157,270

The seasonally adjusted unemployment rate in Northeast Minnesota had been trending upward since the end of 2014. However, this series has been declining in recent quarters. At 3.8 percent, the non-seasonally adjusted rate is considerably lower than one year earlier. However, the unemployment rate in Northeast Minnesota remains higher than in any of Minnesota's other five planning areas.

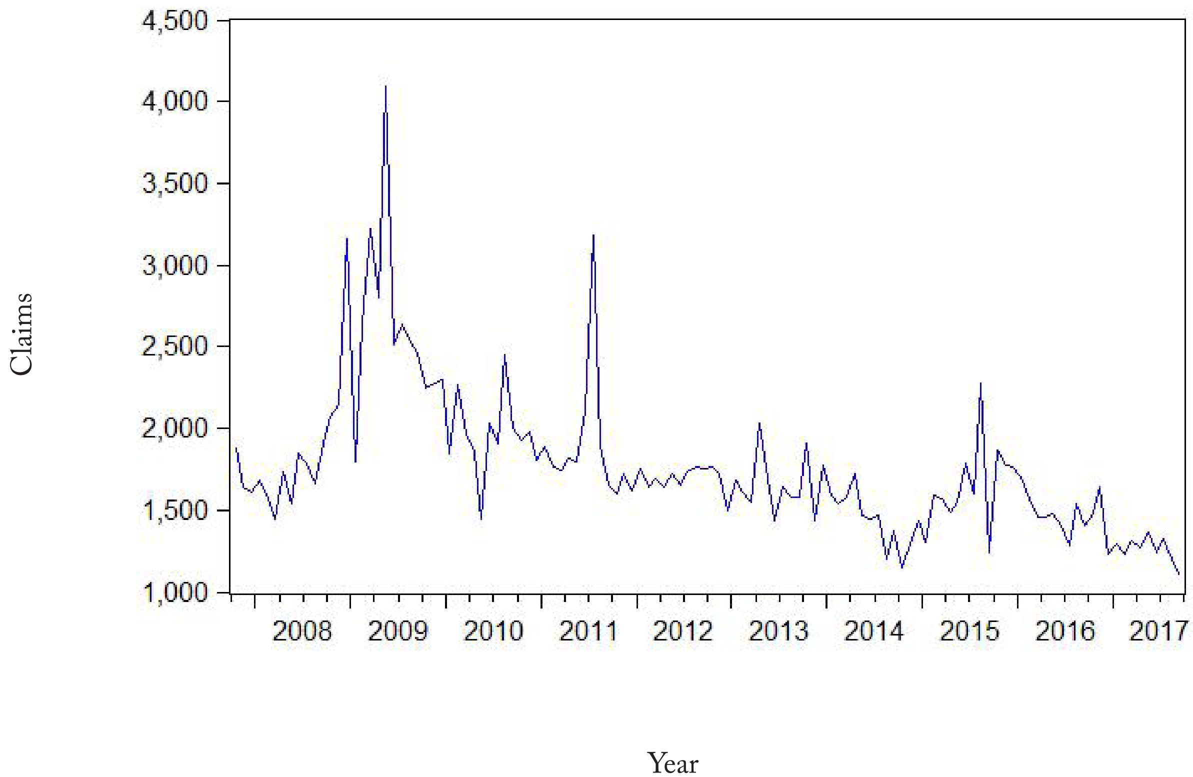
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	September 2016	April 2017	May 2017	June 2017	July 2017	August 2017	September 2017
Unemployment Rate (Not seasonally adjusted)	5.4%	6.1%	5.1%	5.2%	4.8%	5.0%	3.8%

On a seasonally adjusted basis, initial jobless claims in the Northeast region have slowly declined since the end of 2015. This quarter's initial jobless claims fell by 21.9% compared to one year earlier.

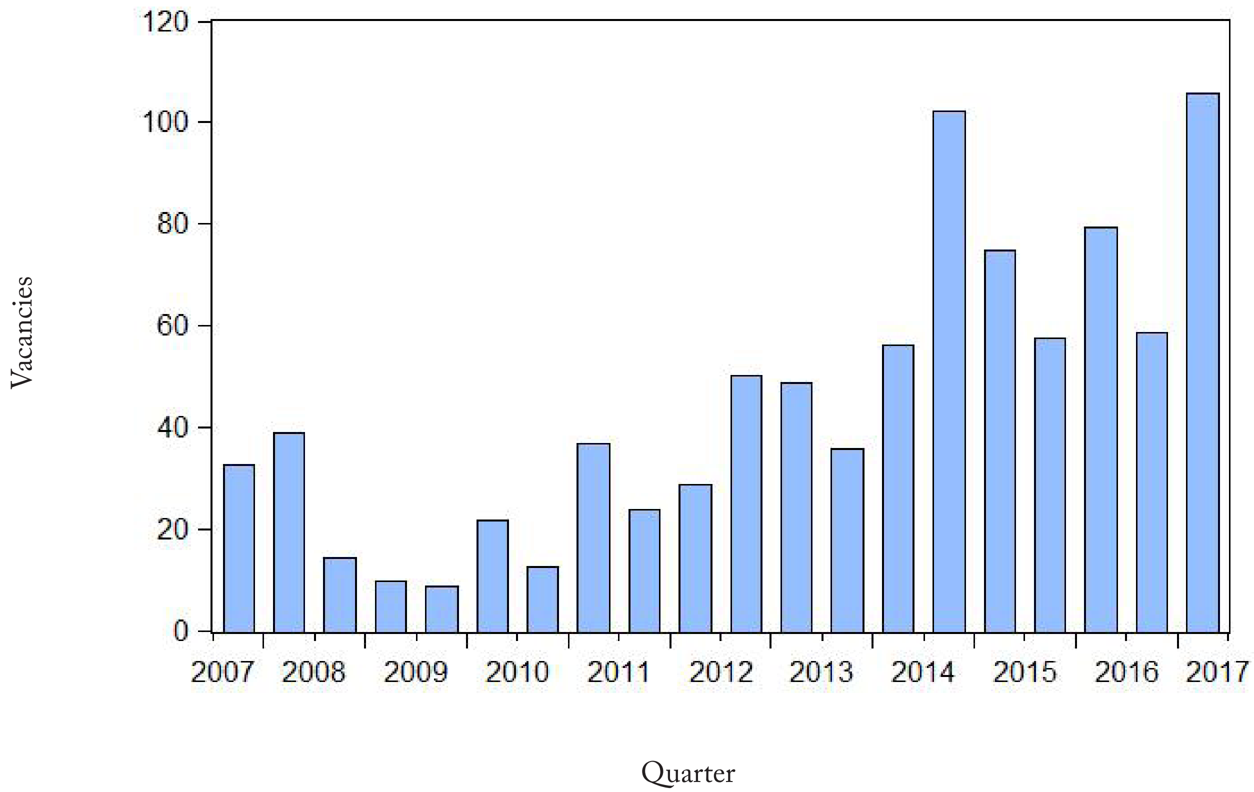
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Period	September 2016	April 2017	May 2017	June 2017	July 2017	August 2017	September 2017
Initial claims (Not seasonally adjusted)	1,041	1,032	1,180	1,041	951	823	813

The ratio of job vacancies per 100 unemployed surged in Northeast Minnesota in the second quarter of this year. While a rising labor force in the region may be helping to relieve some of the strain on area employers who are looking for qualified workers, this ratio is more than 100 job vacancies per 100 unemployed. It is worth noting that all of Minnesota's regions are experiencing high job vacancy ratios. In fact, the rate of job vacancies in Northeast Minnesota is the third highest of Minnesota's six planning areas. The Southwest and Twin Cities regions also have job vacancy ratios in excess of 100, suggesting that even if those on unemployment rolls were a match with available jobs, employers would still be unable to fill all of their job vacancies in these regions.

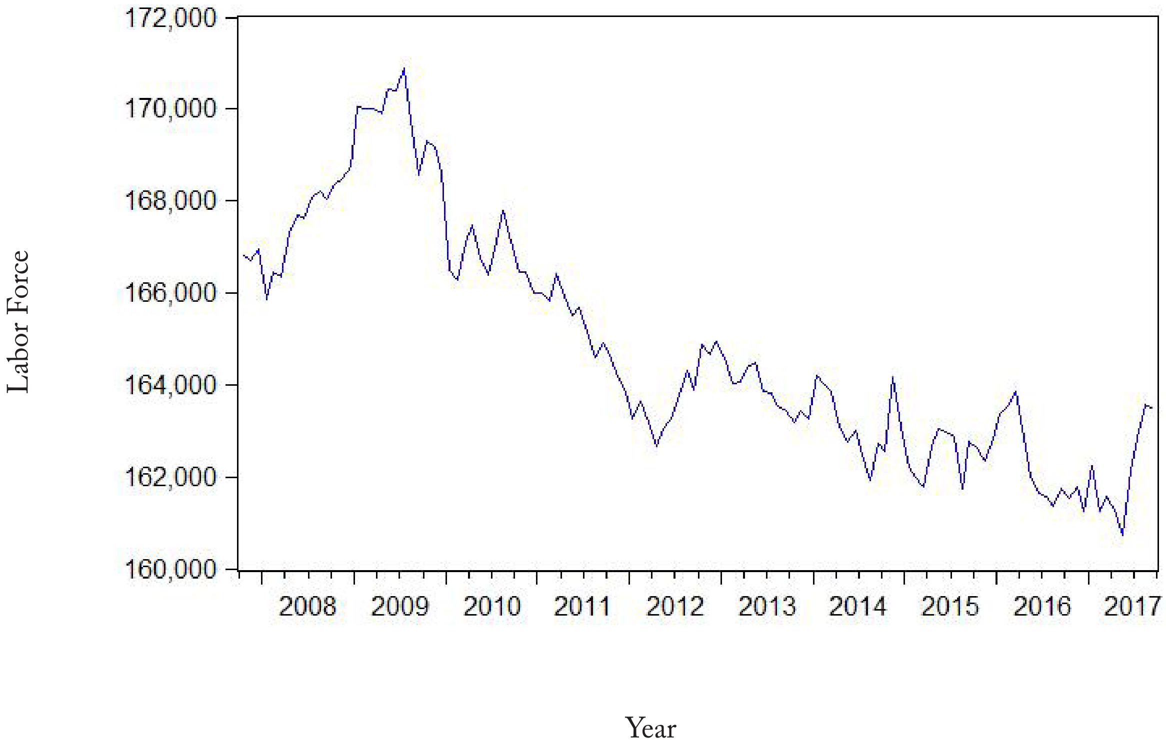
Job Vacancies per 100 Unemployed---Northeast Minnesota Planning Area



Quarter	2014:IV	2015:II	2015:IV	2016:II	2016:IV	2017:II
Job Vacancies per 100 Unemployed	116.6	73.18	59	80.62	64.64	110.53

The Northeast Minnesota labor force rose by 1.1 percent over the past year. Using a 12-month moving average to account for seasonality, the regional labor force numbers appear to have bottomed out earlier in 2017. Note that all of Minnesota's planning areas are now seeing increases in their workforce on a year-over-year basis.

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

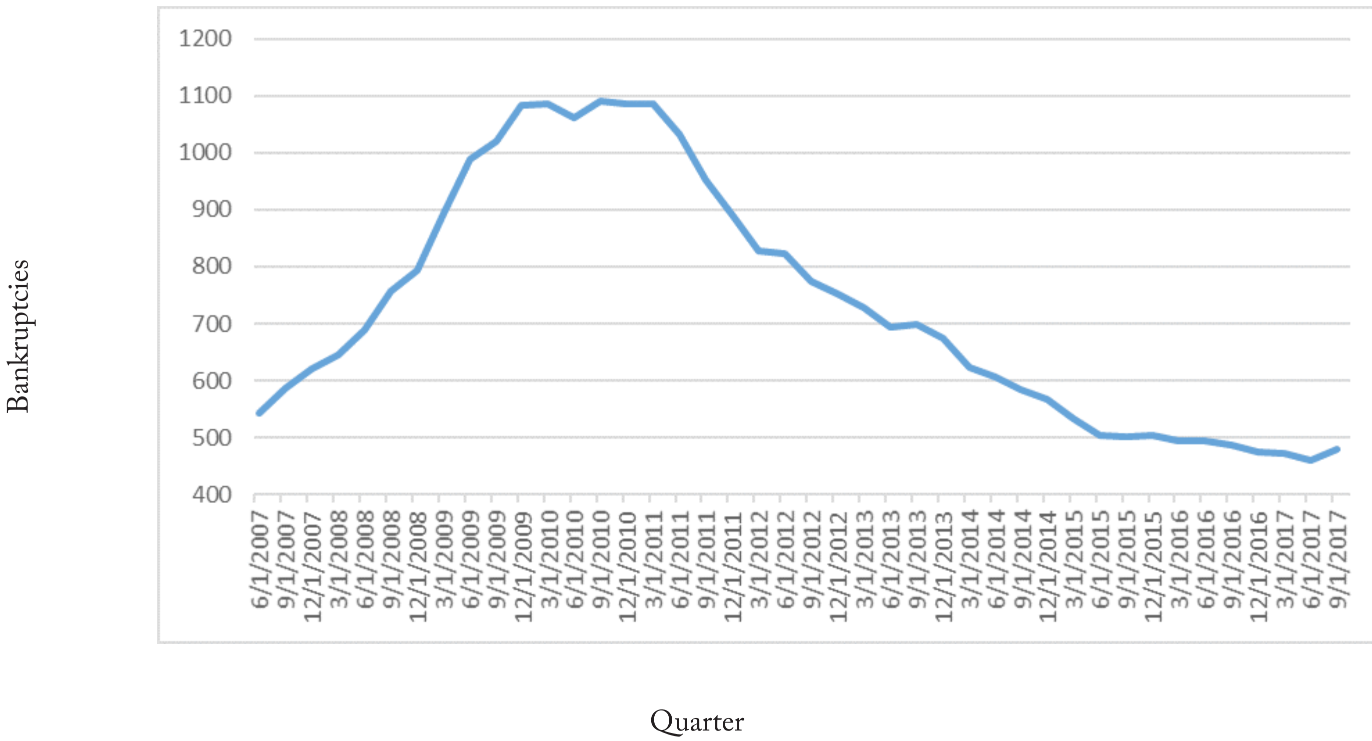


Year (September)	2012	2013	2014	2015	2016	2017
Labor Force (Not seasonally adjusted)	164,179	163,624	162,848	162,847	161,828	163,563

NORTHEAST MINNESOTA BANKRUPTCIES

The figure below shows the 12-month moving total for Northeast 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 until the third quarter of 2009, then leveled out for a few quarters. The series has gradually declined since the beginning of 2011, although it has begun to inch up in recent quarters.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (Third Quarter)	2012	2013	2014	2015	2016	2017
Annual Bankruptcies (Not seasonally adjusted)	774	699	585	501	486	479

ECONOMIC INDICATORS

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change		Long-Term Average (since 1999, unless noted)
Employment	September 2017 (m)	138,328	136,489	1.3%	↑	0.3%
Manufacturing Employment	September 2017 (m)	7,352	7,357	-0.1%	↓	-1.7%
Educational and Health Sector Employment	September 2017 (m)	31,703	31,751	-0.2%	↓	2.6%
Average Weekly Work Hours-Private Sector	September 2017 (m)	33.0	33.7	-2.1%	↓	32.8 (since 2007)
Average Earnings Per Hour-Private Sector	September 2017 (m)	$24.05	$24.73	-2.7%	↓	2.6% (since 2007)
Unemployment Rate	September 2017 (m)	3.7%	5.0%	NA	↓	5.1%
Labor Force	September 2017 (m)	143,767	141,995	1.2%	↑	0.1%
Duluth-Superior Residential Building Permit Valuation, in thousands	September 2017 (m)	3,478	2,214	57.1%	↑	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mixed in the recent quarter. Overall employment rose by 1.3 percent over the year ending September 2017, but employment in the education/health and manufacturing sectors declined. Average weekly work hours and average hourly earnings each fell. The area unemployment rate decreased and the MSA's labor force rose by 1.2 percent. The value of residential building permits in the Duluth/Superior MSA increased by 57.1 percent.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Sep 2017	Jun 2017	Sep 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,955,300	2,952,100	2,903,100	0.1%	1.8%
Average weekly hours worked, private sector	34.1	34.2	34.1	-0.3%	0.0%
Unemployment rate, seasonally adjusted	3.7%	3.7%	4.0%	NA	NA
Earnings per hour, private sector	$28.59	$27.94	$27.32	2.3%	4.6%
Philadelphia Fed Coincident Indicator, MN	199.61	198.65	192.95	0.5%	3.5%
Philadelphia Fed Leading Indicator, MN	1.76	1.66	0.86	6.0 %	104.7%
Minnesota Business Conditions Index	59.4	68.0	48.4	-12.6%	22.7%
Price of milk received by farmers (cwt)	$17.90	$17.50	$17.90	2.3%	0%
Enplanements, MSP airport, thousands	1,522.7	1,738.8	1,536.1	-12.4%	-0.9%
NATIONAL Indicators	Sep 2017	Jun 2017	Sep 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	146,749	146,385	144,882	0.2%	1.3%
Industrial production, index, SA	104.6	105.2	103.0	-0.6%	1.6%
Real retail sales, SA ($)	196,407	194,630	192,238	0.9%	2.2%
Real personal income less transfers, billions	12,096.5	12,062.7	11,922.9	0.3%	1.5%
Real personal consumption expenditures, bill.	11,969.8	11,871.6	11,656.3	0.8%	2.7%
Unemployment rate, SA	4.2%	4.4%	4.9%	NA	NA
New building permits, SA, thousands	20,470	25,160	20,857	-18.6%	-1.9%
Standard & Poor's 500 stock price index	2,492.8	2,434.0	2,157.7	2.4%	15.5%
Oil, price per barrel in Cushing, OK	$49.82	$45.18	$45.18	10.3%	10.3%

For the state as a whole, most categories of economic performance found in the State and National Indicators table are favorable. There was growth in payrolls, higher earnings per hour, and a lower seasonally adjusted unemployment rate compared to last quarter as well as one year ago. Coincident and leading indicators from the Federal Reserve Bank of Philadelphia are each higher than last quarter and last year, but the Minnesota Business Conditions index slipped in the last quarter (but is still well above its level from one year ago). Milk prices were flat over the past year, although they did increase 2.3 percent in the past quarter. Enplanements at the Minneapolis-St. Paul airport were lower over the past year. Average weekly work hours were lower than three months ago and were unchanged from September 2016.

The national economic indicators found in the table are also generally favorable. Over the past quarter as well as the past year, stock prices rose, employment increased, real income and consumer expenditures expanded, and retail sales picked up. The national unemployment rate also fell. Industrial production rose over the past year, but declined from one quarter ago. National building permits were lower than in September 2016. Consumers also saw higher oil prices last quarter. Oil prices are now 10.3 percent higher than they were one year ago.

The Northeast 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.

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Sources

Council for Community and Economic Research: Cost of Living Index.

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Federal Reserve Bank of Philadelphia: Minnesota Coincident Indicator Index, Minnesota Leading Indicators Index.

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.

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.