Southwest 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 Southwest Minnesota Planning Area consists of 23 counties: Big Stone; Blue Earth; Brown; Chippewa; Cottonwood; Faribault; Jackson; Lac qui Parle; Le Sueur; Lincoln; Lyon; Martin; Murray; Nicollet; Nobles; Pipestone; Redwood; Rock; Sibley; Swift; Waseca; Watonwan; and Yellow Medicine.

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EXECUTIVE SUMMARY

Steady economic growth in Southwest Minnesota is expected over the next several months according to the predictions of the St. Cloud State University Southwest Minnesota Index of Leading Economic Indicators (LEI). Two of four LEI components were positive in the third quarter. An increase in residential building permits in the Mankato MSA and lower jobless claims in Southwest Minnesota contributed favorably to the LEI in the third quarter. A decrease in new business filings of incorporation and LLC and a weaker rural Minnesota economic outlook weighed on the leading index in the current quarter. After falling by a revised 4.82 points in this year's second quarter, the Southwest Minnesota LEI rose by 4.64 points in the current quarter.

There were 556 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the third quarter of 2017 — representing 2.2 percent more new filings than one year ago. There were 36 new regional business incorporation filings in the third quarter, a 10 percent decrease from last year's third quarter. New LLC filings in Southwest Minnesota rose 1.6 percent from one year earlier and new assumed names climbed to 174—a 6.7 percent increase compared to September 2016. There were 24 new filings for Southwest Minnesota non-profit in the third quarter—the same number of filings as one year earlier.

Fifty-five percent of new business filers in the Southwest Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's third quarter. Results of this voluntary survey indicate that 1.6 percent of new filers come from communities of color. Approximately 4.9 percent of new business filings are from veterans. A little over 1.3 percent of new filers come from the disability community and 2.6 percent of new filings are made by the immigrant community. Forty percent of new business filings in Southwest Minnesota in this year's third quarter were initiated by women. MBS results also show that most new business filers in Southwest Minnesota have between 0 and $10,000 in annual gross revenues (although 31 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Southwest Minnesota are construction, retail trade, and other services. Employment levels at most new firms are between 0 and 5 workers, and 57 percent of those starting a new business consider this a part-time activity.

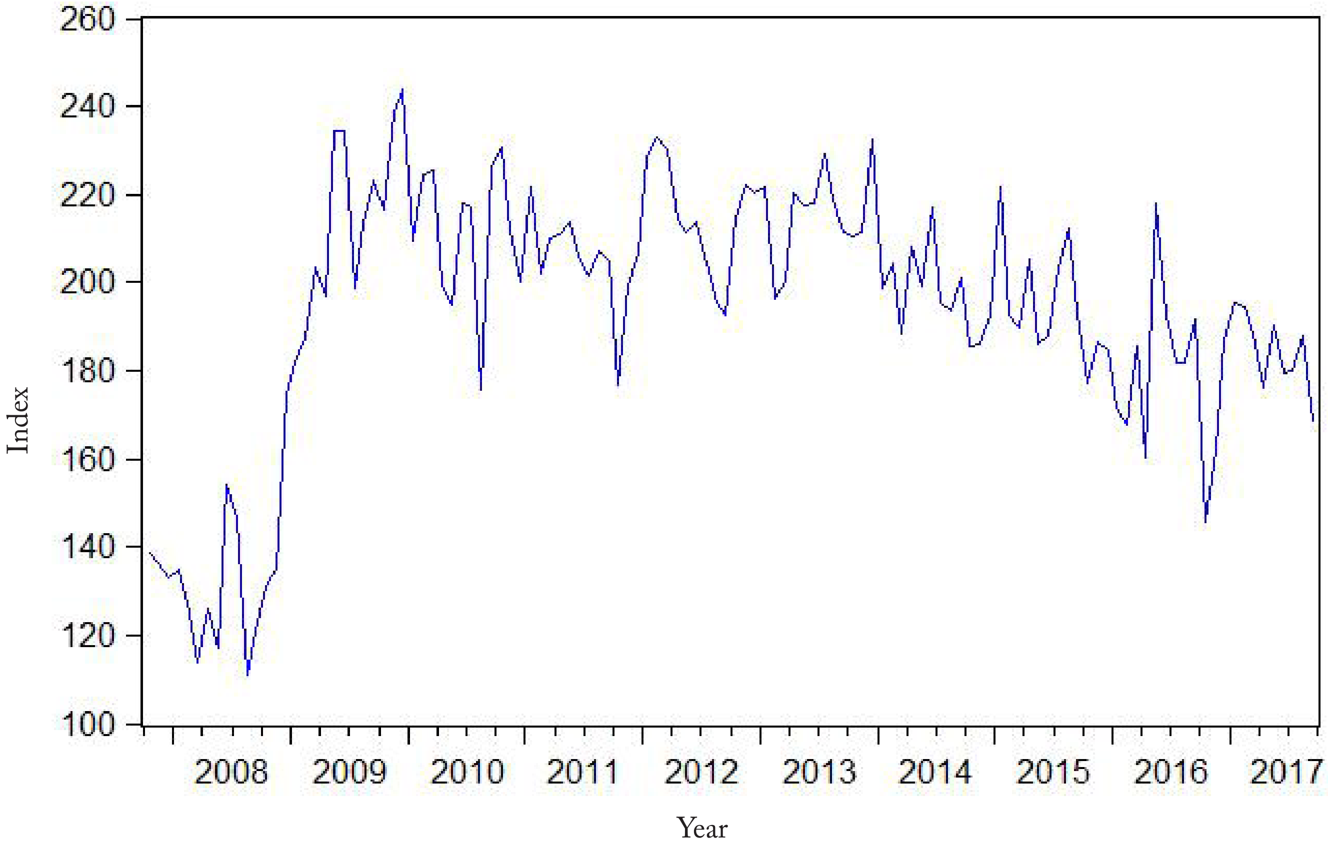
Employment of Southwest Minnesota residents increased by 2.1 percent over the year ending September 2017. The regional unemployment rate was 2.9 percent in September, a decrease from a 3.5 percent reading in September 2016. More than 400 fewer initial claims for unemployment insurance were reported compared to year-ago levels in September--a 36 percent decrease. The job vacancy rate in Southwest Minnesota surged even though the regional labor force grew by 1.5 percent over the year ending September 2017. Bankruptcies fell over the recent twelve month period in Southwest Minnesota.

Economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota—was generally favorable in the most recent quarter. Initial jobless claims fell, employment rose, the unemployment rate was lower, average hourly earnings rose, the size of the labor force expanded, the value of residential building permits increased, and new business filings were higher. The only negative factors were a decline in average weekly work hours and an increase in the relative cost of living in Mankato/North Mankato.

SOUTHWEST MINNESOTA LEADING ECONOMIC INDICATORS INDEX

The SCSU Southwest 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 4.64 points in the third quarter after falling by a revised 4.82 points in this year's second quarter. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has been highly variable since the end of the Great Recession but had slowly drifted downward since the end of 2013. The midpoint of the leading index now appears to have flattened out in recent quarters.

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



Components of SCSU Southwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 3rd quarter 2017	Contribution to LEI, 2nd quarter 2017
Rural Mainstreet Index	-0.96	3.76
Southwest Minnesota initial claims for unemployment insurance	5.58	-4.78
Southwest Minnesota new filings of incorporation and LLCs	-0.27	-2.70
Mankato MSA single-family building permits	0.29	-1.10
TOTAL CHANGE	**4.64**	**-4.82**

The Southwest Minnesota LEI has four components, two of which increased in the third quarter. Lower initial jobless claims in the region had a major favorable impact on the regional outlook and increased residential building permits in the Mankato/North Mankato MSA also helped lift the index. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns with average population of 1,300 in ten Midwestern states. This index is used as a proxy for economic performance in the rural counties of Southwest Minnesota. It had a negative impact on the LEI in the most recent quarter. Lower new business filings of incorporation and LLC also weighed on this quarter's leading index.

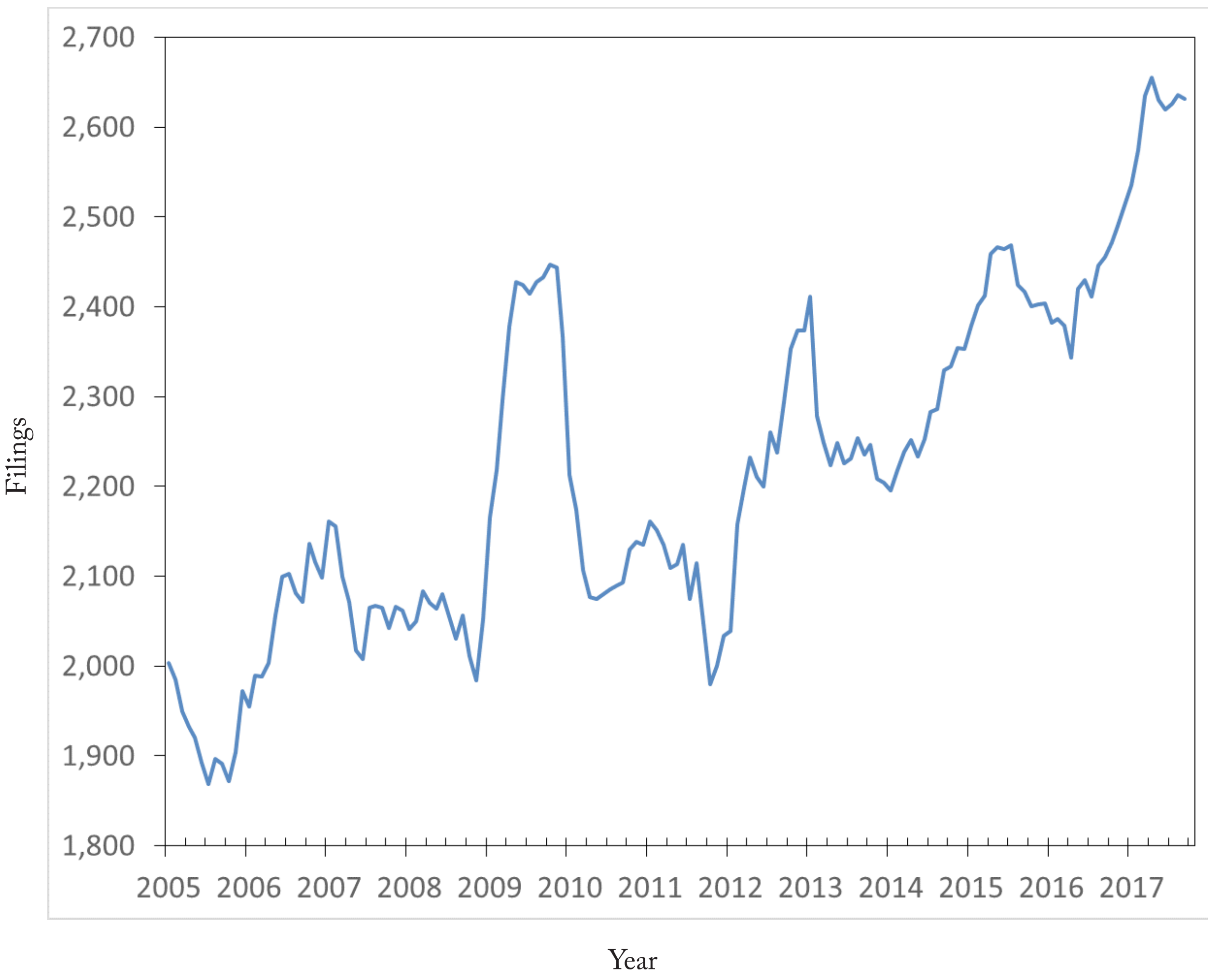
SCSU Southwest Minnesota Leading Economic Indicators Index

	2017	2016	Percentage Change
Rural Mainstreet Index, Creighton University September	50.2	39	28.7%
Southwest Minnesota initial claims for unemployment insurance September	837	1,113	-24.8%
Southwest Minnesota new filings of incorporation and LLCs Third Quarter	358	357	0.3%
Mankato MSA single-family building permits September	11	19	-42.1%
Southwest Minnesota Leading Economic Indicators Index September (December 1999 = 100)	168.2	191.6	-12.2%

SOUTHWEST MINNESOTA BUSINESS FILINGS

The graphs in this section show the 12-month moving total for the various new business filings in Southwest Minnesota that are registered with the Office of the Minnesota Secretary of State. Total new business filings rose by 2.2 percent from year earlier levels in the third quarter. As seen in the accompanying figure, the 12-month moving total of this series has been trending upward since the end of 2011. Note that the abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier 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 (although less so in the southwest region).

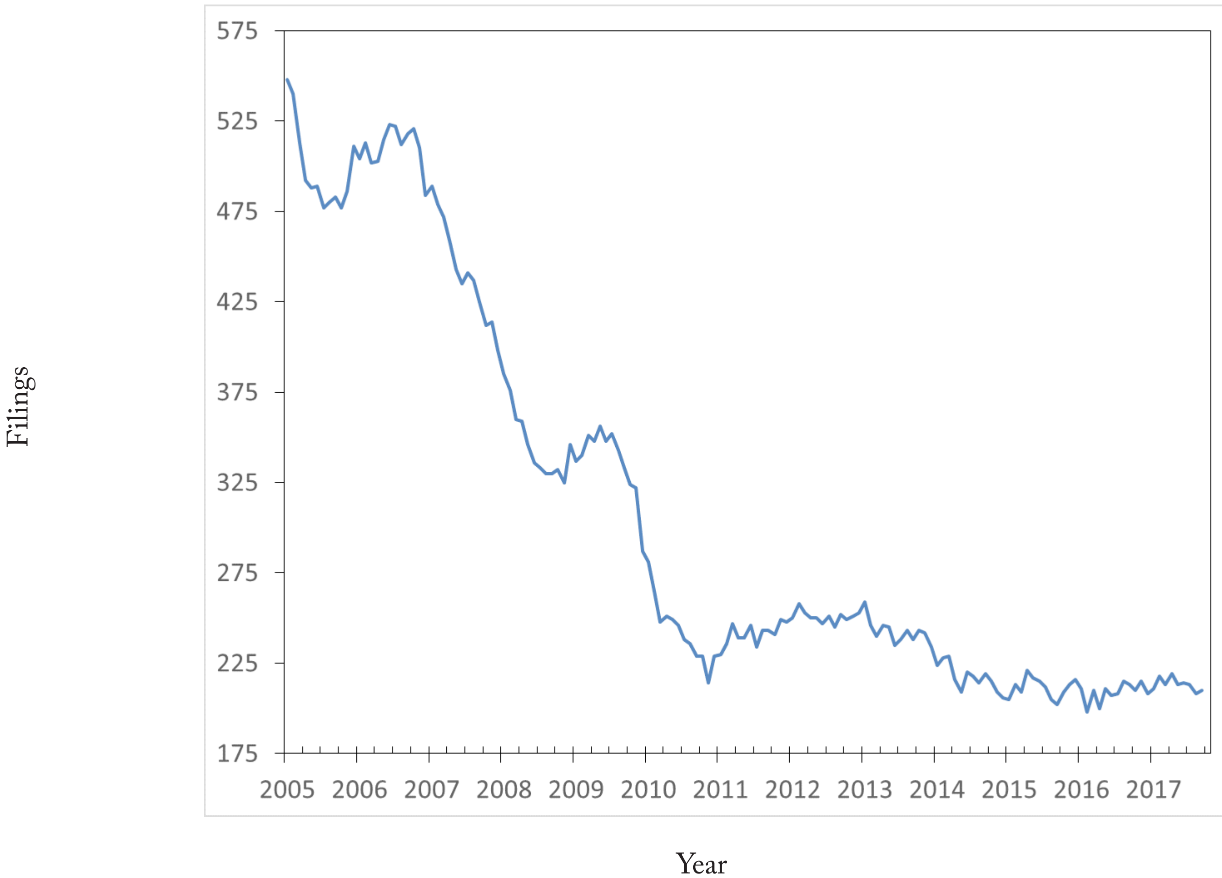
Total New Business Filings—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Southwest Minnesota Total New Business Filings	544	607	787	681	556	2.2%

New business incorporations trended downward sharply in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend has resumed until flattening out over the past several quarters. Third quarter 2017 new regional incorporations decreased by 10 percent compared to the same quarter in 2016.

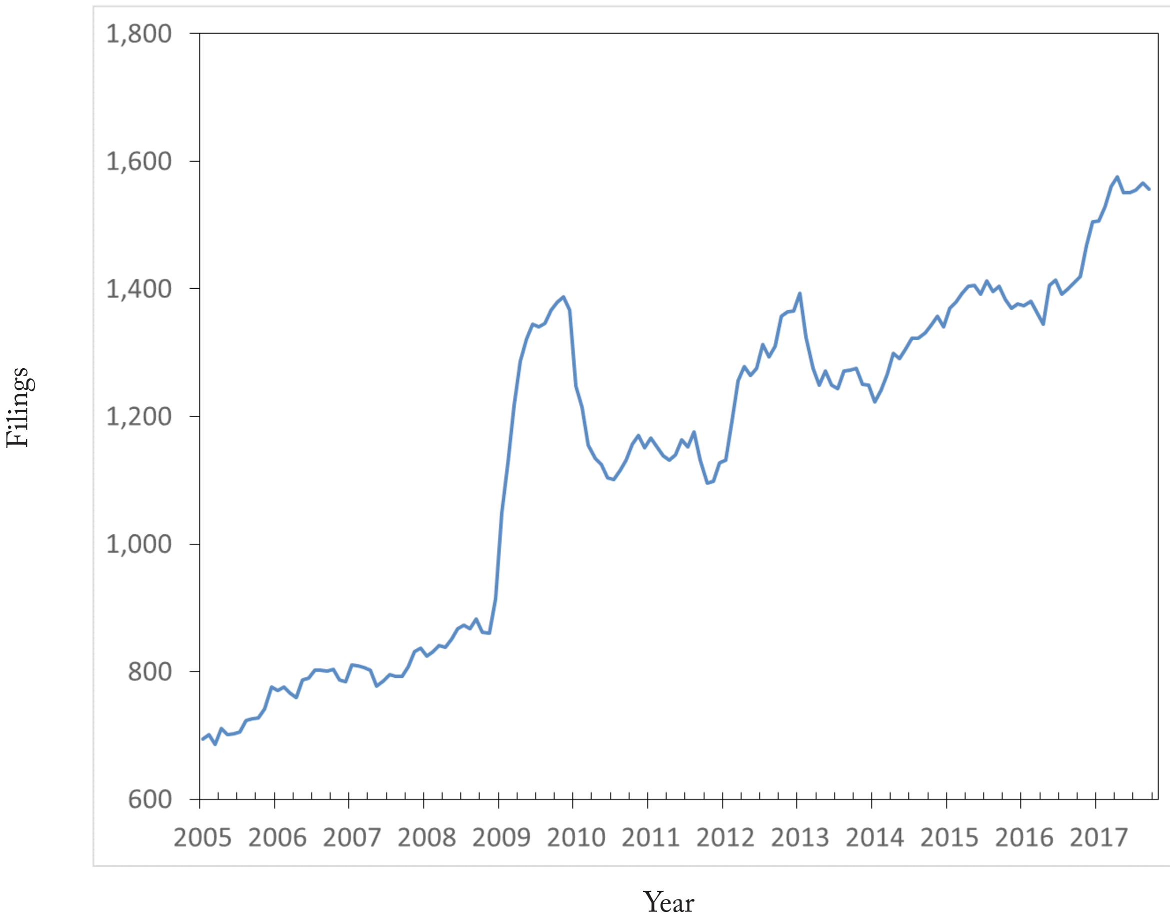
New Incorporations—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Southwest Minnesota New Business Incorporations	40	56	61	57	36	-10.0%

There has been a move in Southwest Minnesota, as in the rest of the state, away from traditional incorporation and towards the limited liability company (LLC). While new business incorporations remain an important indicator of new business formation in Southwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southwest Minnesota. New LLC filings increased by 1.6 percent over one year earlier in the third quarter.

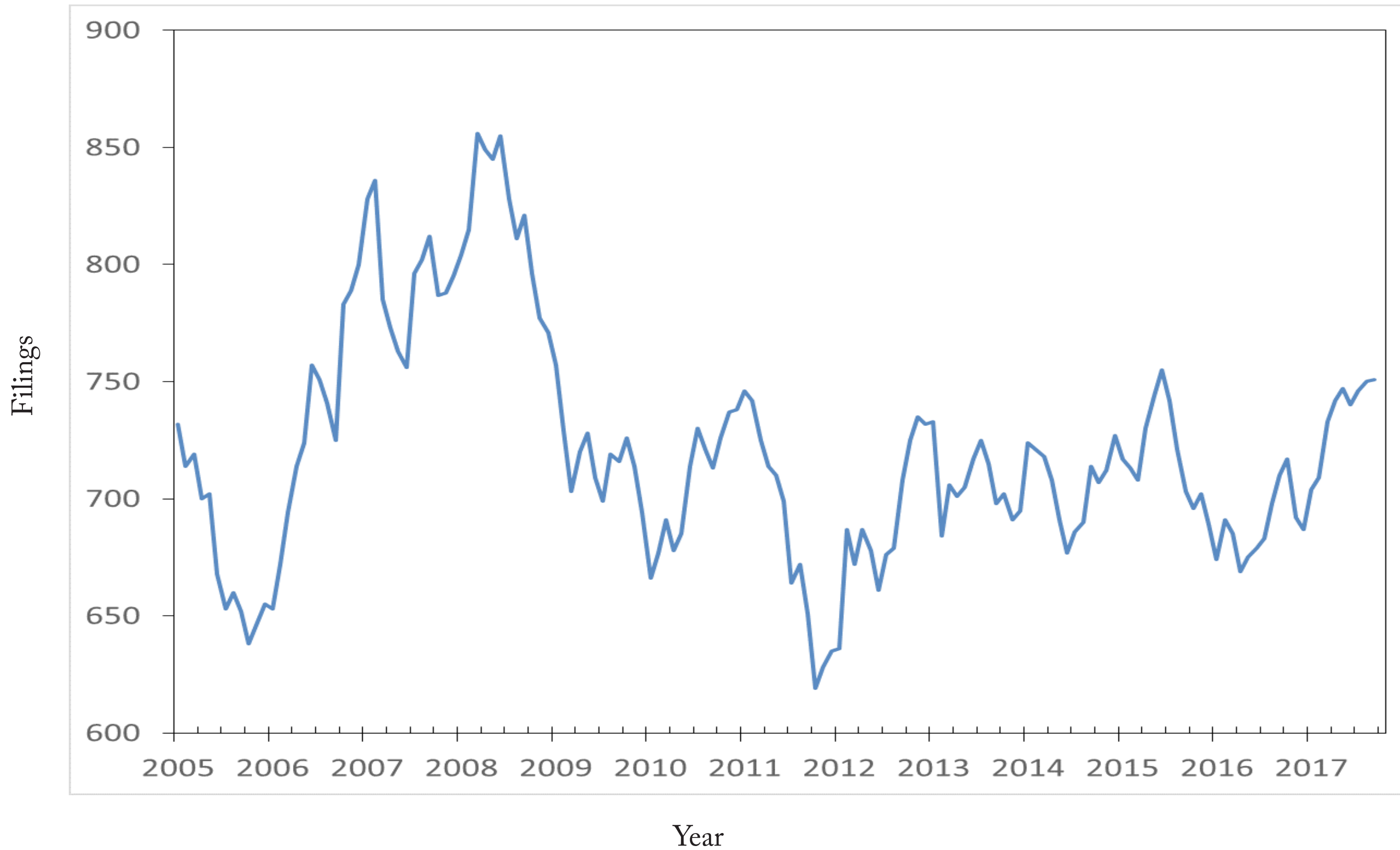
New Limited Liability Companies—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Southwest Minnesota New Limited Liability Companies	317	386	446	402	322	1.6%

Third quarter assumed names rose 6.7% compared to the same period in 2016. As can be seen in the accompanying figure, while this series has been very volatile in recent years, new assumed names are little changed since the beginning of 2013.

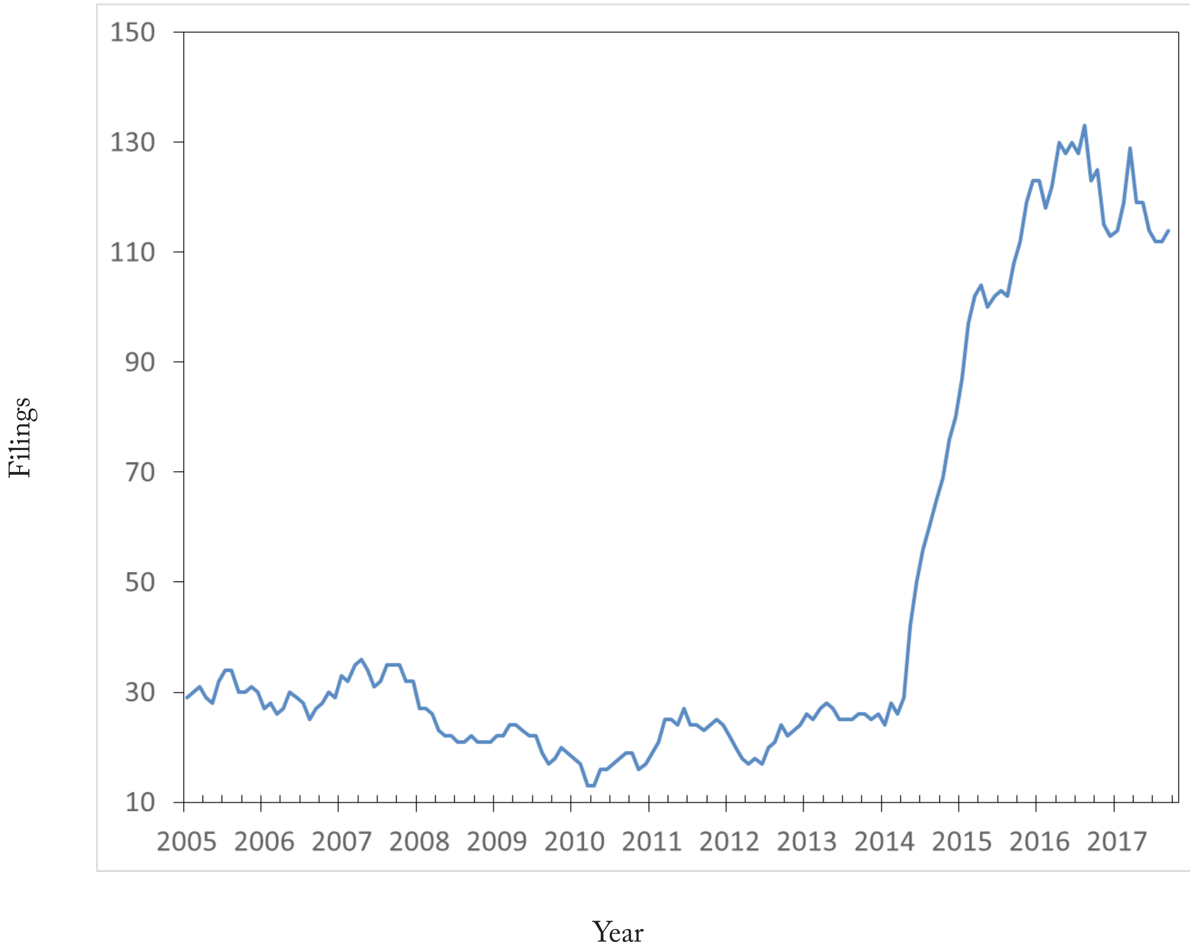
New Assumed Names—Southwest Minnesota Planning Area (12-month moving total)



Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Southwest Minnesota New Assumed Names	163	140	236	201	174	6.7%

There were 24 newly registered non-profits in the third quarter. This is the same number as one year ago. As can be seen in the graph below, the non-profits series has now levelled out after a considerable increase over the previous two years.

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



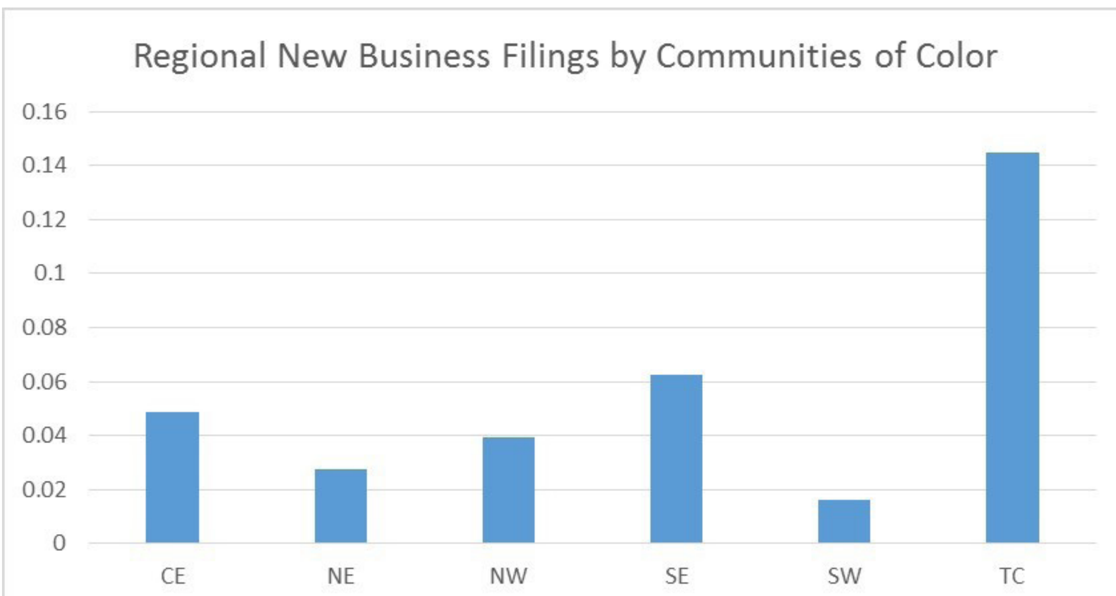
Quarter	III: 2016	IV: 2016	I: 2017	II: 2017	III: 2017	2017 Quarter III: Percent change from prior year
Southwest Minnesota New Non-Profits	24	25	44	21	24	0%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

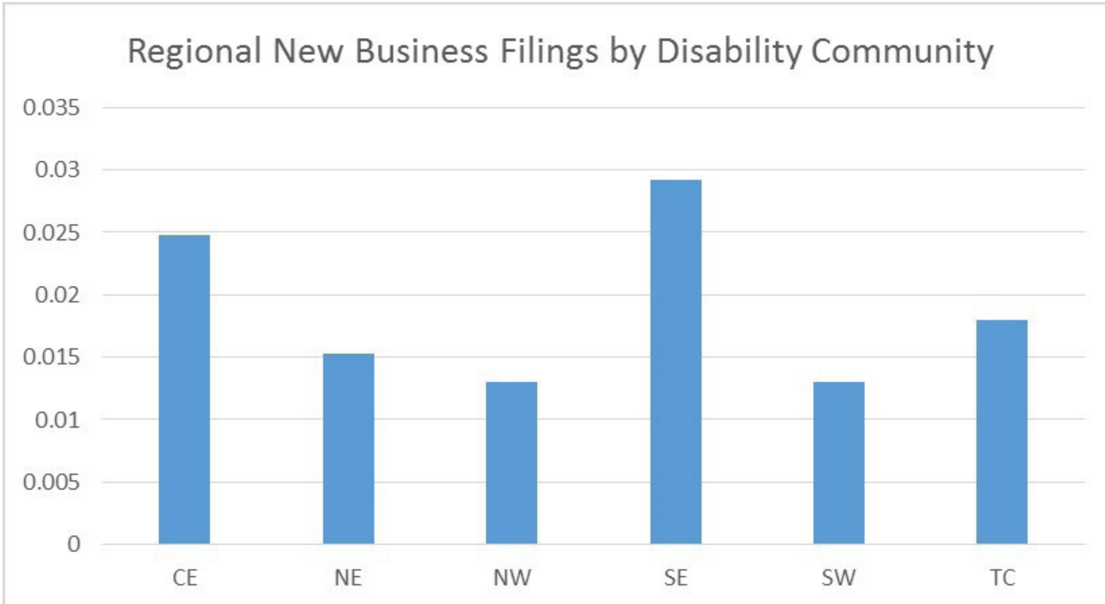
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 Southwest Minnesota, a little over 55 percent (this is the lowest response rate of any of Minnesota's six planning areas) of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

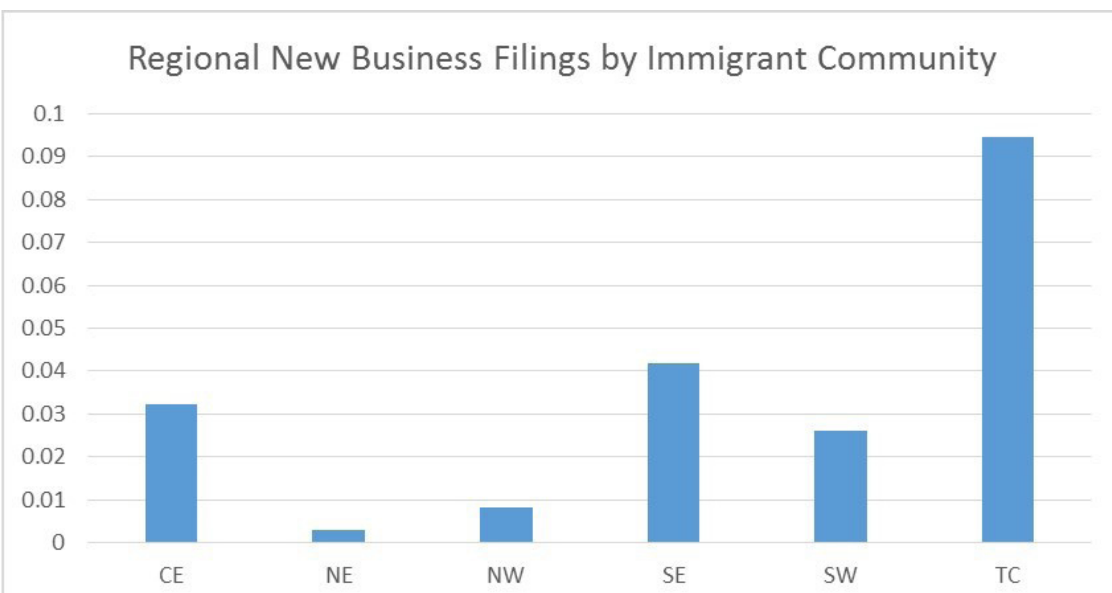
Only 1.6 percent of those new filers completing the MBS from the Southwest Minnesota planning area report being from a community of color. This is the lowest percentage of Minnesota's six planning areas.



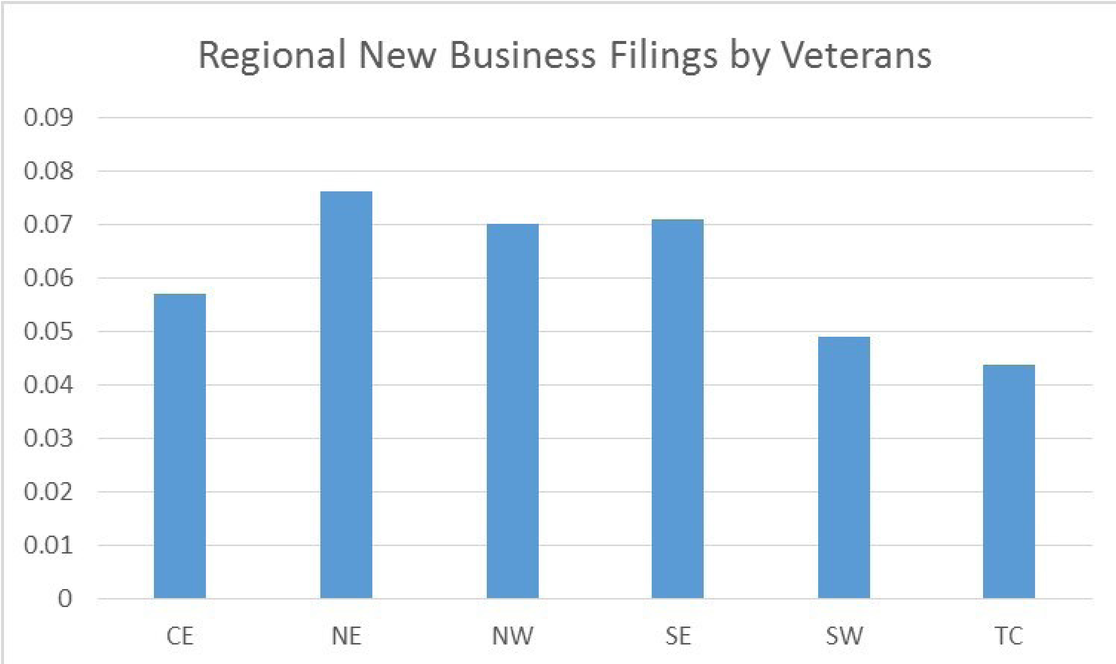
About 1.3 percent of Southwest Minnesota's new filers are from the disability community.



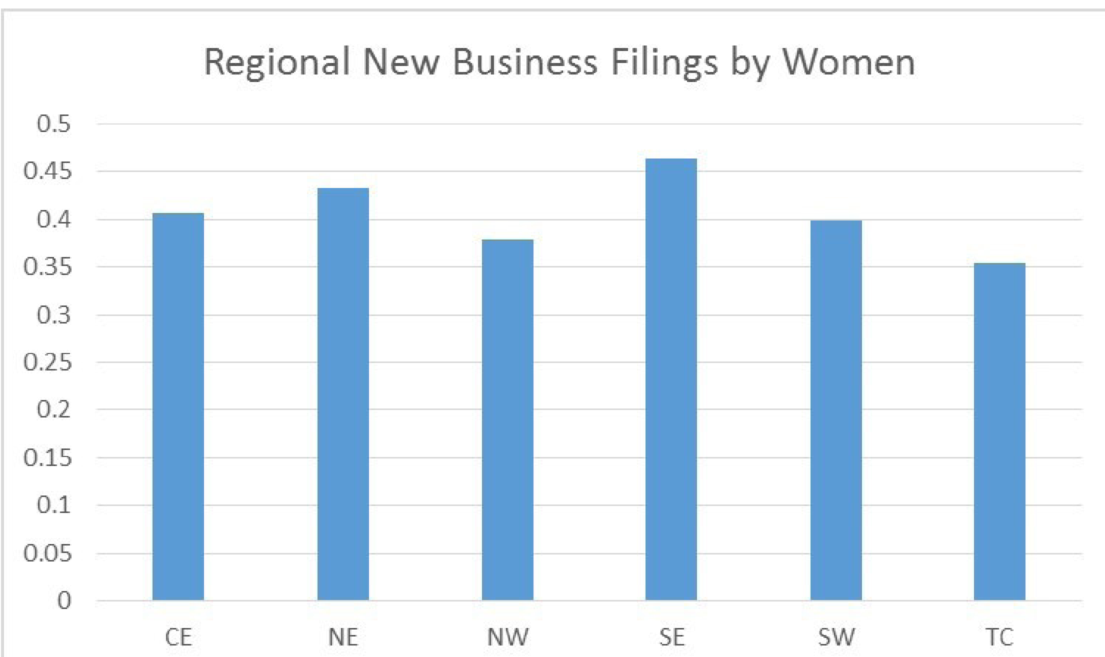
About 2.6 percent of new business filings in Southwest Minnesota come from the immigrant community.



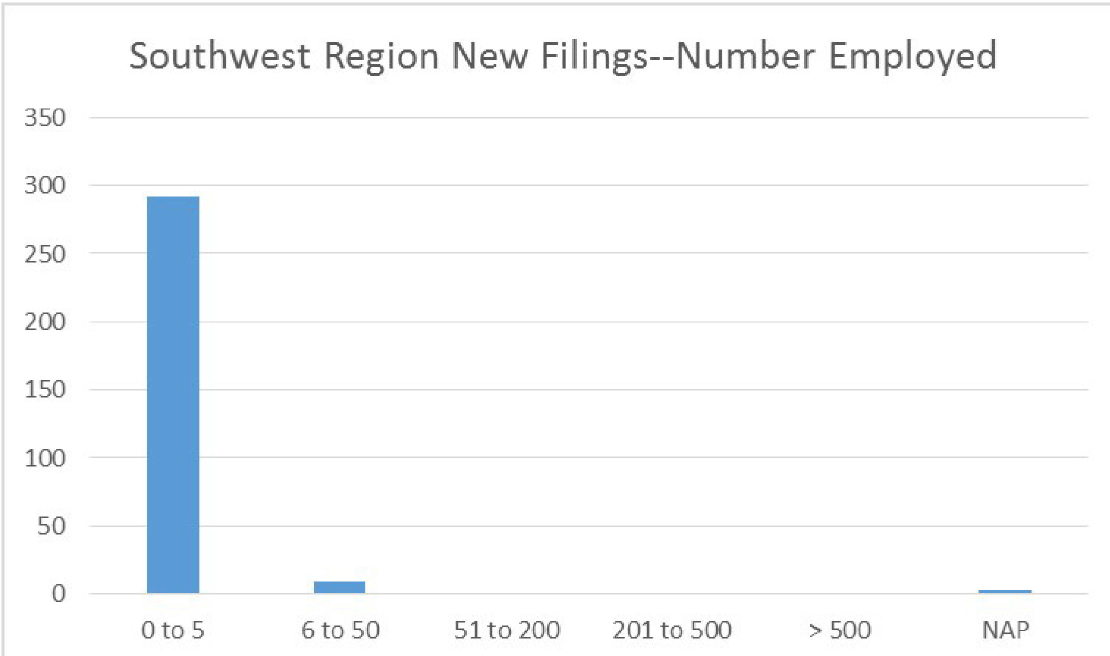
A little under 5 percent of new filings in Southwest Minnesota come from military veterans.



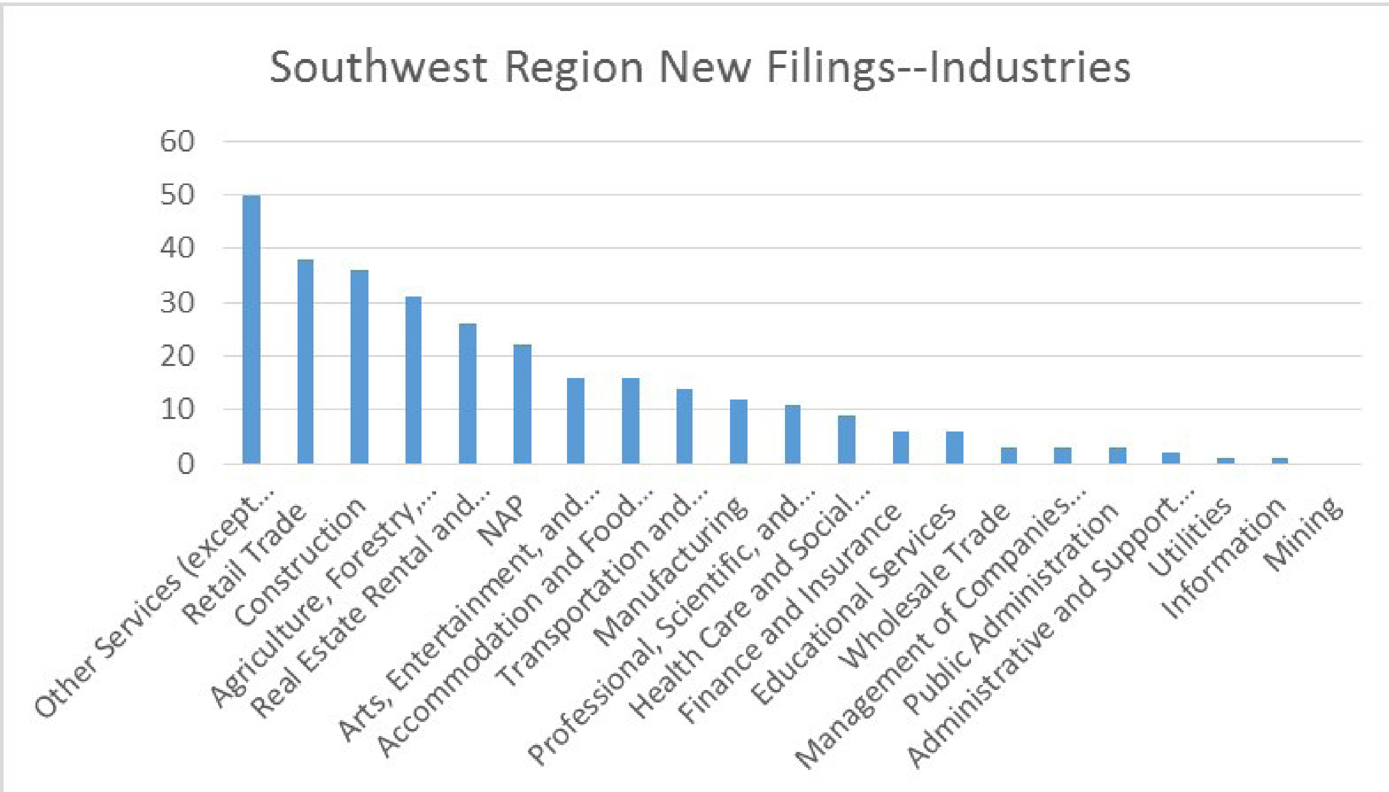
Woman owners represented nearly 40 percent of the new business filings in Southwest Minnesota in the third quarter of 2017.



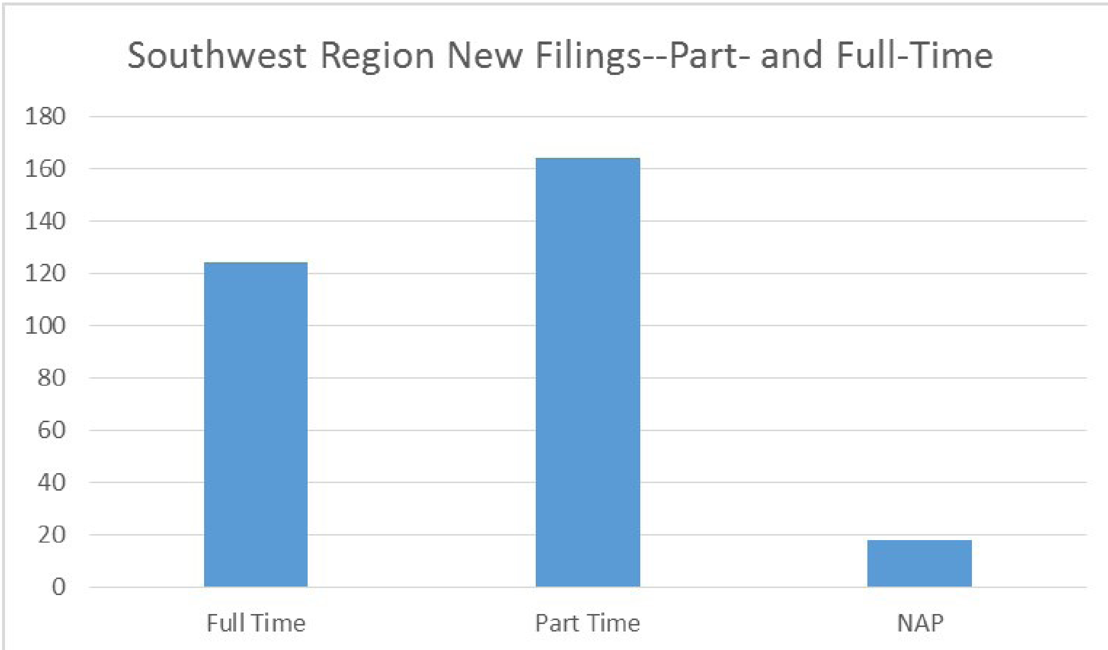
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by "NAP"—no answer provided), 303 responses were tallied to a question asking the new business filer to indicate 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.



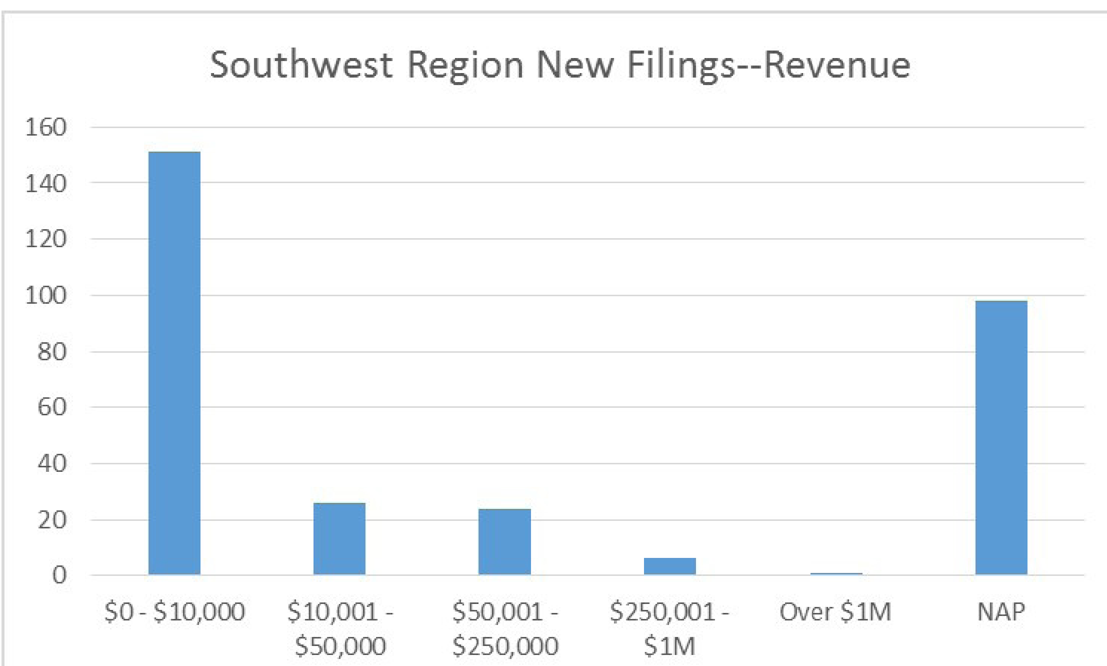
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, retail trade, construction, and "other services" lead the way. Since businesses are often 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. The Agriculture/Forestry/Fishing/Hunting and Real Estate/Rental/Leasing sectors are also well represented in the sample. Twenty-two new firms did not provide an answer to this survey item (see "NAP")



Fifty-seven percent of those submitting a new business filing in Southwest Minnesota in the third quarter of 2017 are part-time ventures.



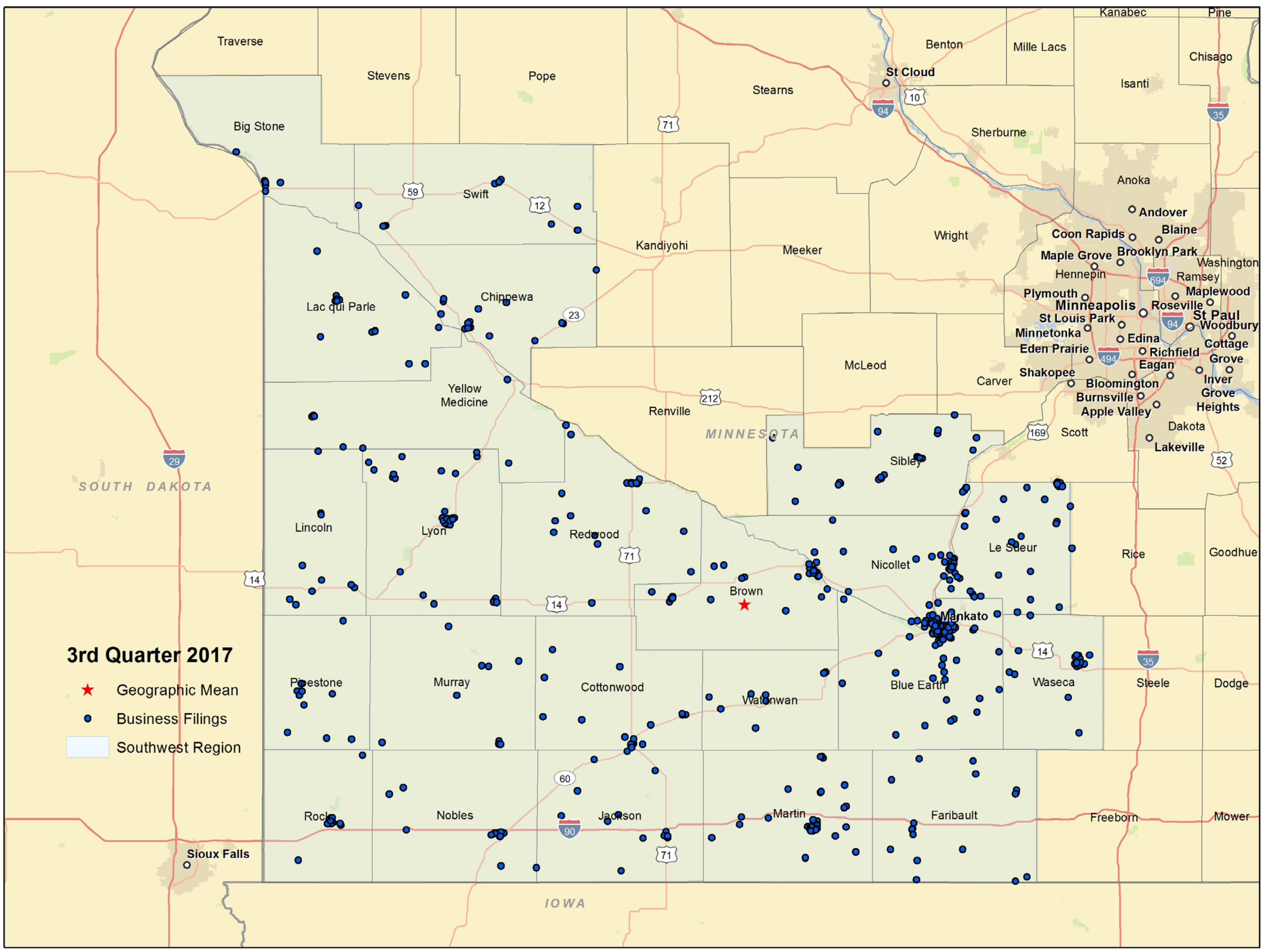
Ninety-eight new filers in Southwest Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues less than $10,000. Thirty-one firms report annual revenues in excess of $50,000.



MAPS

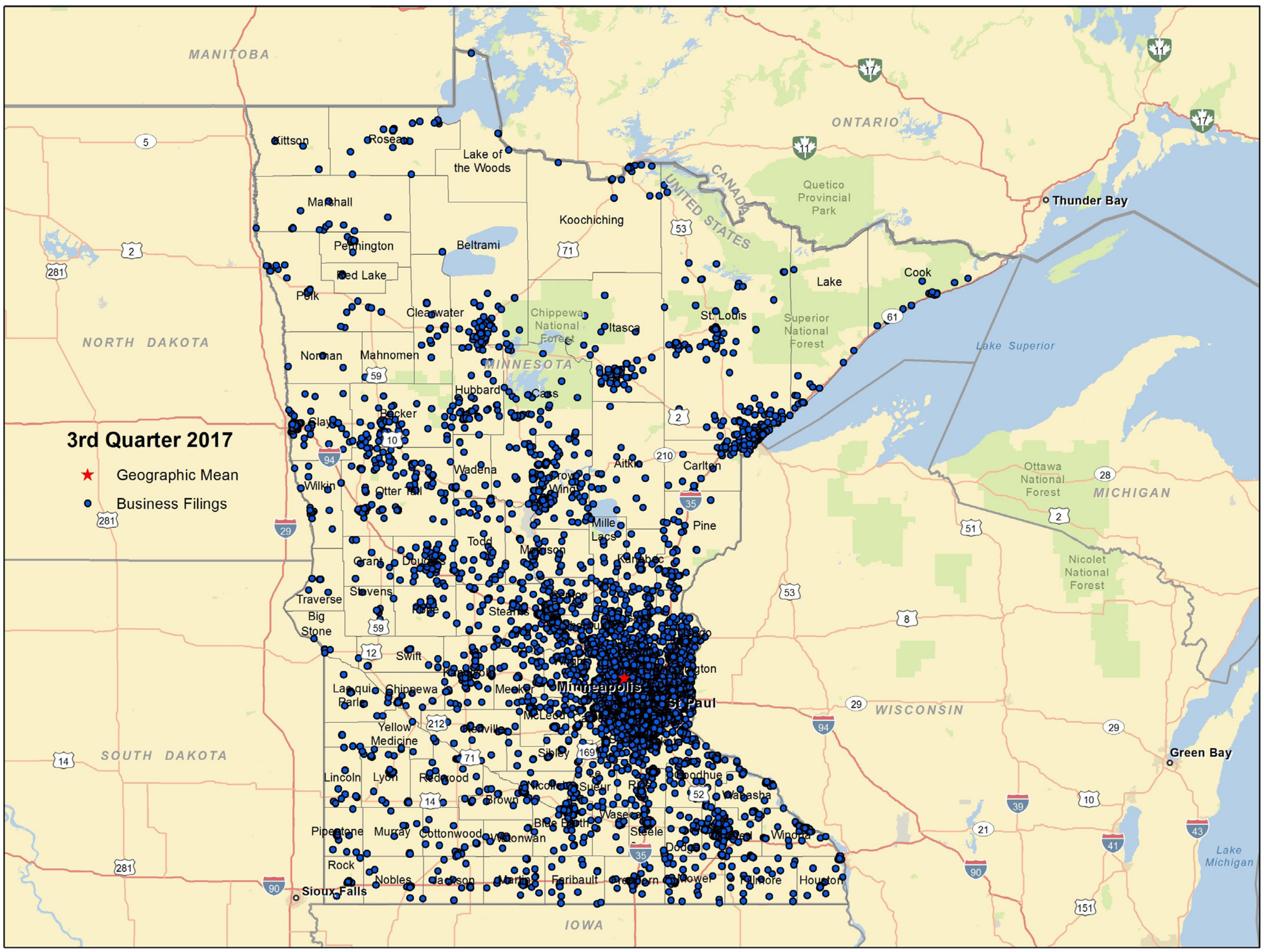
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in the third quarter of 2017. The densest areas of new business formation are in the Mankato metro. Little pockets of new business formation can also be found in Marshall, New Ulm, St Peter, and several cities along I-90. As has been noted in previous editions of this report, well-traveled roadways are a predictor of new business formation in Southwest Minnesota.

Southwest 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

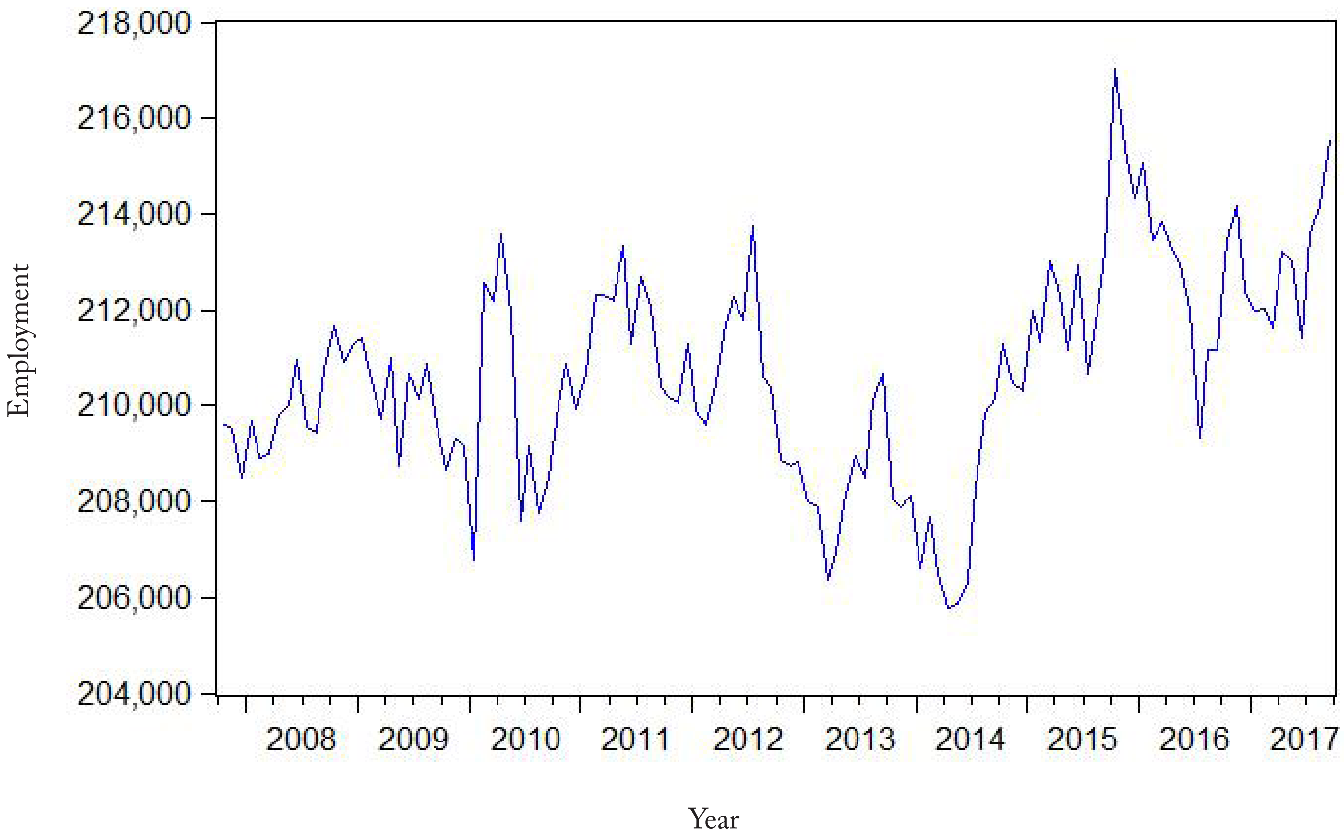


SOUTHWEST MINNESOTA LABOR MARKET CONDITIONS

Employment of residents of the Southwest Minnesota planning area rose by 2.1 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average trended upward from the middle of 2014 until the end of 2015, but then declined precipitously. It rebounded in mid-2016, but the trend line has now flattened out in 2017.

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—Southwest 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)	210,055	213,391	212,959	212,870	214,262	212,257	214,422

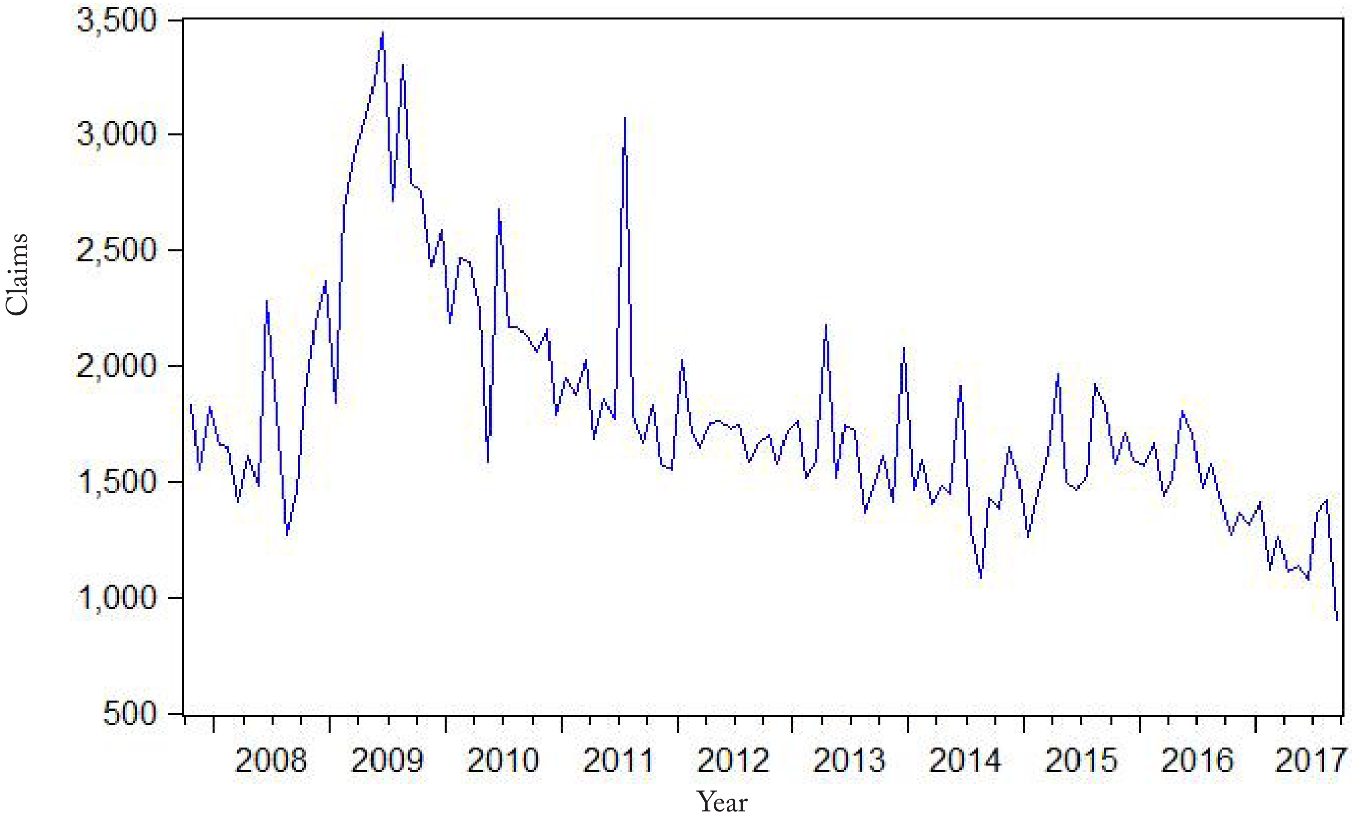
The seasonally adjusted unemployment rate in Southwest Minnesota has declined in 2017 and is now near a 10-year low. The non-seasonally adjusted measure now stands at 2.9 percent — a considerable decrease from the 3.5 percent rate recorded in September 2016.

Unemployment Rate, seasonally adjusted—Southwest Minnesota Planning Area

Month	September 2016	April 2017	May 2017	June 2017	July 2017	August 2017	September 2017
Unemployment rate (not seasonally adjusted)	3.5%	3.7%	3.2%	3.5%	3.3%	3.6%	2.9%

New claims for unemployment insurance in September 2017 were 36.1 percent lower than one year earlier. The accompanying graph shows a seasonally adjusted series of initial jobless claims. This series drifted upward for several quarters beginning in the middle months of 2014, but it has declined since that time.

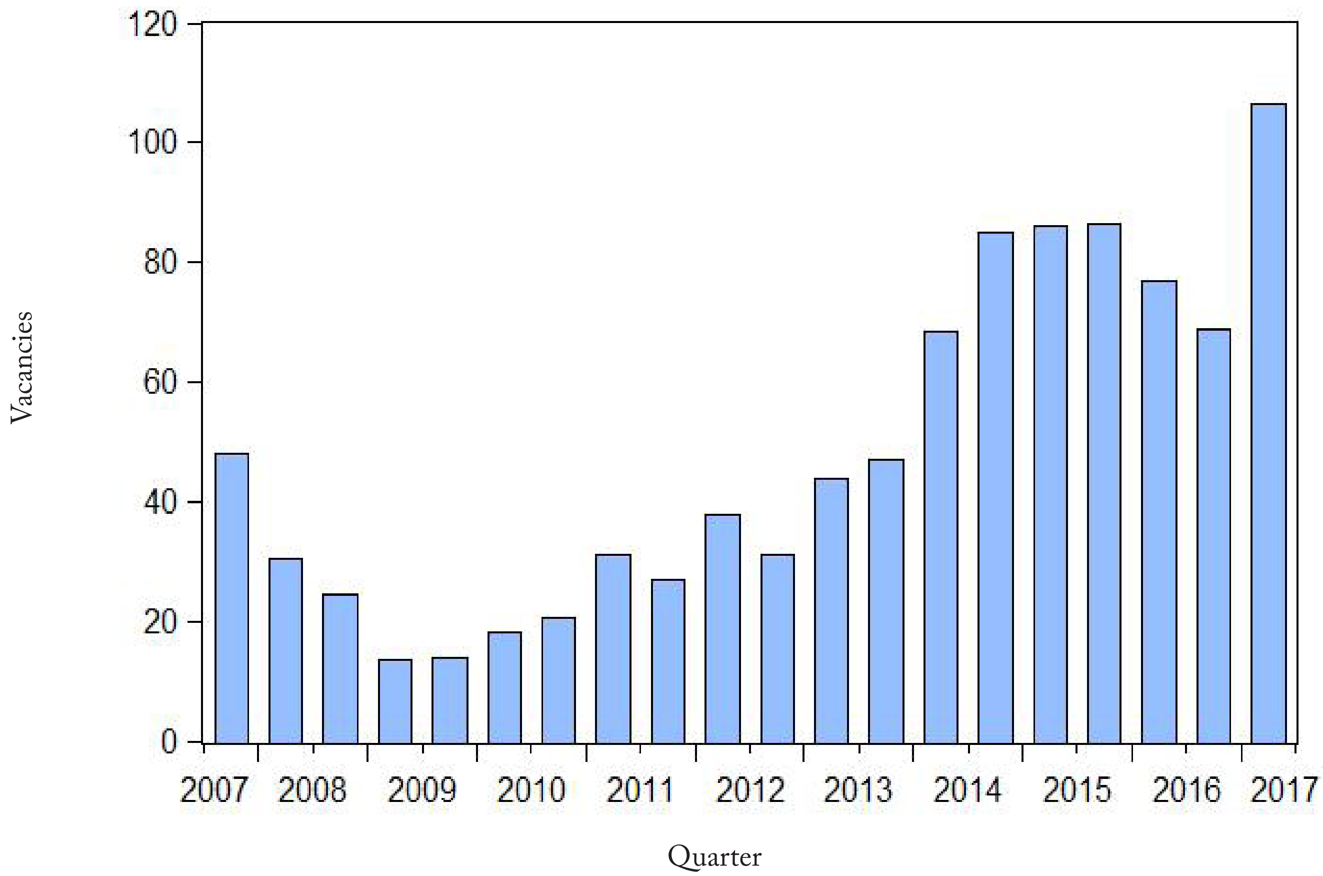
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Southwest Minnesota Planning Area



Period	September 2016	April 2017	May 2017	June 2017	July 2017	August 2017	September 2017
Initial claims (Not seasonally adjusted)	1,113	713	1,036	866	980	990	711

The ratio of job vacancies per 100 unemployed surged in Southwest 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 now 117.11 job vacancies per 100 unemployed. It is worth noting that all of Minnesota's regions are experiencing high job vacancy ratios. In addition to the Southwest region, the Twin Cities and Northeast planning areas 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.

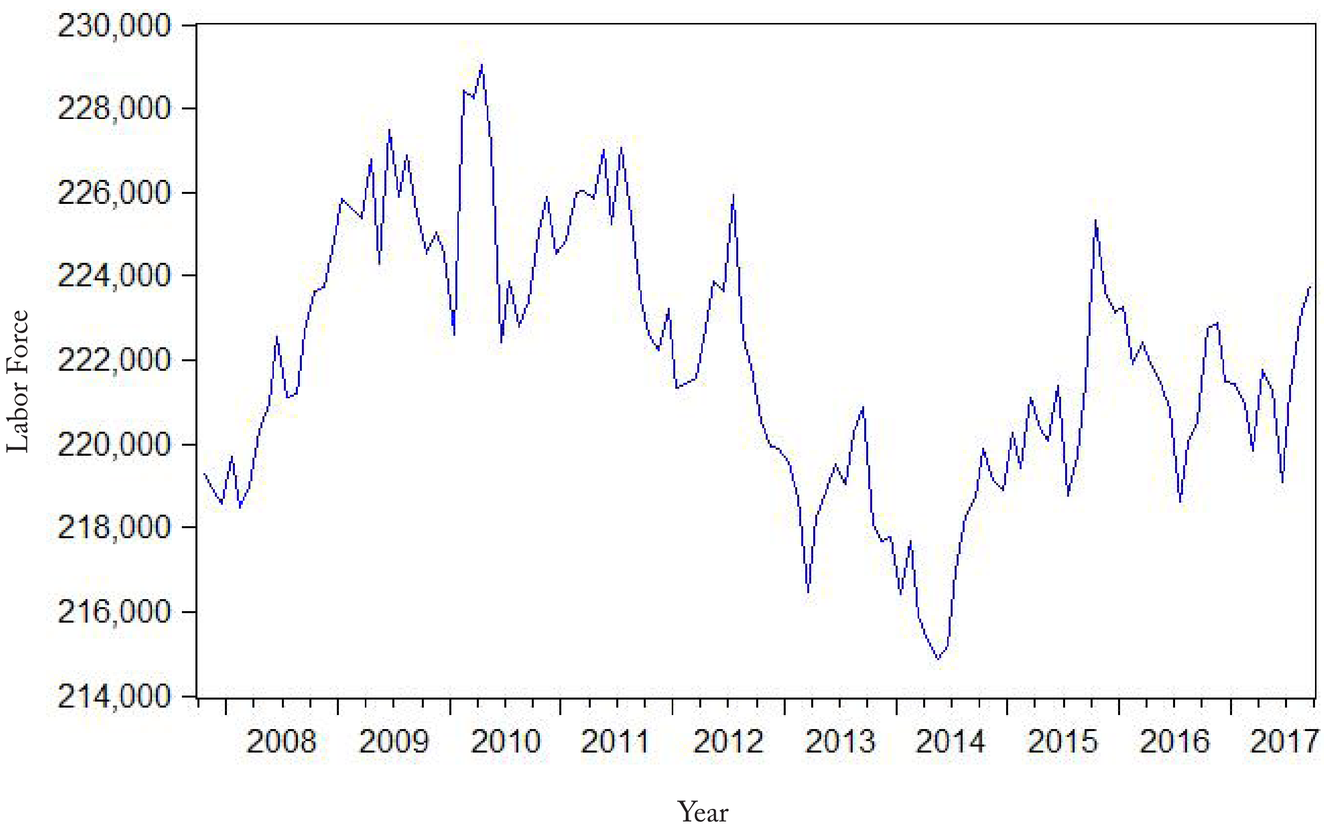
Job Vacancies per 100 Unemployed— Southwest Minnesota Planning Area



Quarter	2014:IV	2015:II	2015:IV	2016:II	2016:IV	2017:II
Job Vacancies per 100 Unemployed	97.74	90.10	96.27	80.73	79.36	117.11

The Southwest Minnesota labor force expanded by 1.5 percent over the year ending September 2017. As can be seen in the accompanying figure, the 12-month moving average of the planning area's labor force has fluctuated in recent quarters but the trend has been relatively flat since the end of 2015.

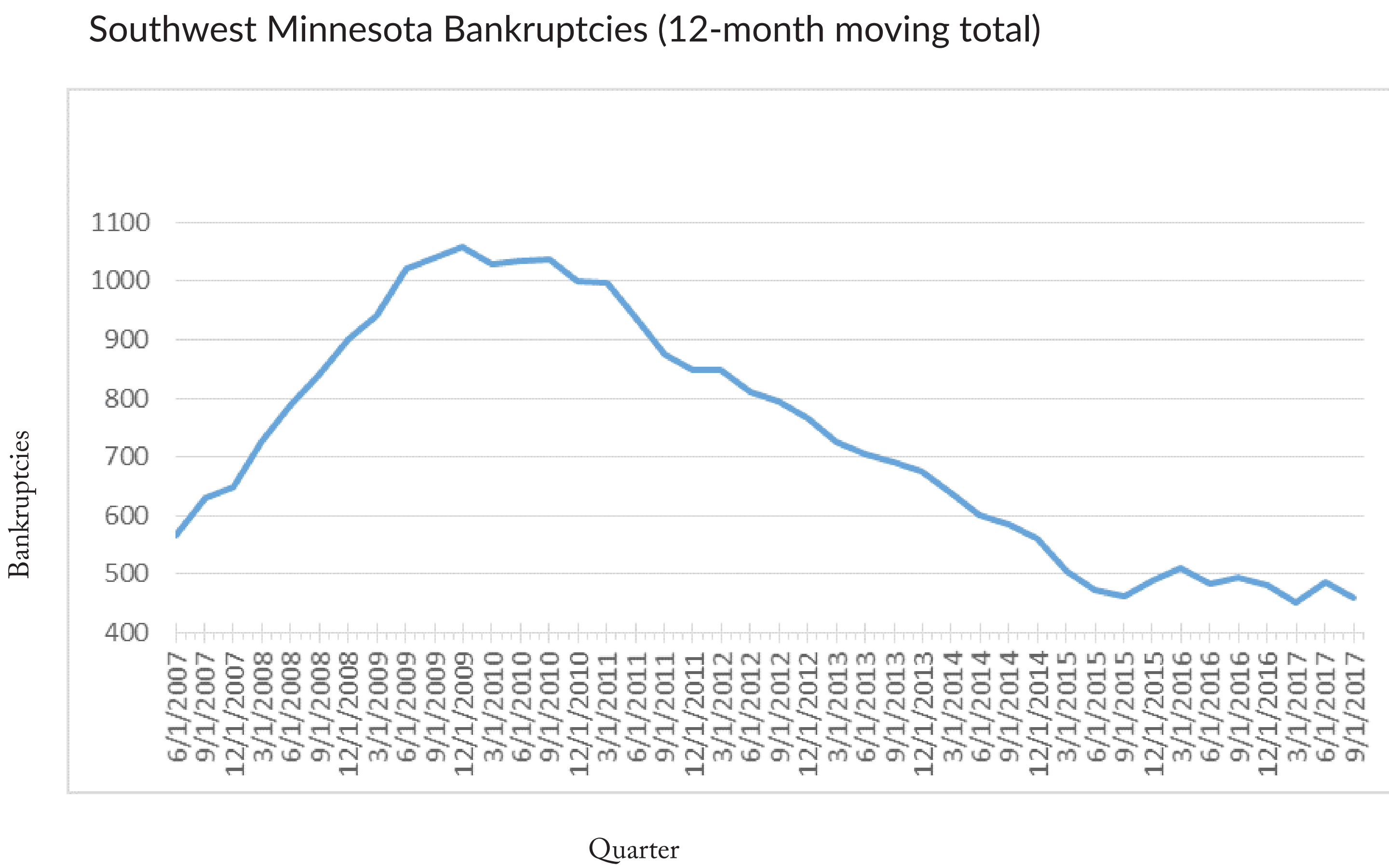
Labor Force—Southwest Minnesota Planning Area (12-month moving average)



Year (September)	2012	2013	2014	2015	2016	2017
Labor Force (not seasonally adjusted)	218,572	217,687	215,751	218,526	217,684	220,910

SOUTHWEST MINNESOTA BANKRUPTCIES

The figure below shows the 12-month moving total for Southwest 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 end of 2009, and steadily declined until flattening out toward the end of 2015. With 461 bankruptcies over the past twelve months, this series is little changed from its value two years ago.



Year (Third Quarter)	2012	2013	2014	2015	2016	2017
Annual Bankruptcies (Not seasonally adjusted)	796	691	584	463	495	461

ECONOMIC INDICATORS

Mankato-North Mankato MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	September 2017 (m)	58,344	57,519	1.4% ↑	1.0%
Goods-Producing Employment	September 2017 (m)	10,294	9,954	3.4% ↑	-0.5%
Average Weekly Work Hours--Private Sector	September 2017 (m)	30.3	31.4	-3.5% ↓	32.4 (since 2008)
Average Earnings Per Hour--Private Sector	September 2017 (m)	$25.03	$23.67	5.7% ↑	1.0% (since 2008)
Unemployment Rate	September 2017 (m)	2.4%	2.9%	NA ↓	3.7%
Labor Force	September 2017 (m)	60,495	59,315	2.0% ↑	1.0%
Initial Jobless Claims	September 2017 (m)	147	178	-17.4% ↓	NA
Business Formation					
Total New Business Filings	Third Quarter (q)	159	149	6.7% ↑	134 (since 2000)
New Business Incorporations	Third Quarter (q)	7	10	-30.0% ↓	18 (since 2000)
New Limited Liability Companies	Third Quarter (q)	101	89	13.5% ↑	63 (since 2000)
New Assumed Names	Third Quarter (q)	46	46	0.0% ↔	47 (since 2000)
New Non-Profits	Third Quarter (q)	5	4	25.0% ↑	7 (since 2000)
Mankato-North Mankato Residential Building Permit Valuation	September 2017 (m)	3,752	3,440	9.1% ↑	NA
Mankato-North Mankato Cost of Living Index	Second Quarter 2017 (q)	93.5	90.2	3.7% ↑	NA

(m) represents a monthly series

(q) represents a quarterly series

Southwest Minnesota contains the Mankato/North Mankato MSA, a region of diversified employment sectors with an economic foundation that is based on education, manufacturing, health services and agriculture. The Mankato area accounts for more than one-quarter of the planning area's employment, so performance in the entire region is greatly influenced by its largest city. As the accompanying table shows, Mankato employment increased and the labor force rose over the year ending September 2017. Other indicators of positive economic performance included lower initial jobless claims, a lower unemployment rate, higher average hourly earnings, increased valuation of residential building permits, and a rise in new business filings. However, average weekly work hours fell and the relative cost of living increased.

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 Southwest 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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