Northeast Minnesota
Economic and Business Conditions Report
Fourth 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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TABLE OF CONTENTS

Executive Summary

A steady pace of 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 was basically flat in the fourth quarter. A surge in Duluth metropolitan area residential building permits and lower initial jobless claims in the region contributed favorably to this quarter's outlook, while weakness in a general measure of statewide business conditions, a lower reading on a supply manager's index, and declining new business incorporations weighed on the leading index.

There were 507 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the fourth quarter of 2017 — representing a 2.2 percent increase from one year earlier. Forty-two new regional business incorporations were filed in the fourth quarter—12.5 percent fewer than in the same period of 2016. New limited liability company (LLC) filings in Northeast Minnesota rose 10.7 percent to a level of 300. New assumed name filings decreased 7.7 percent and there were 22 new filings for non-profit—no change compared to one year earlier.

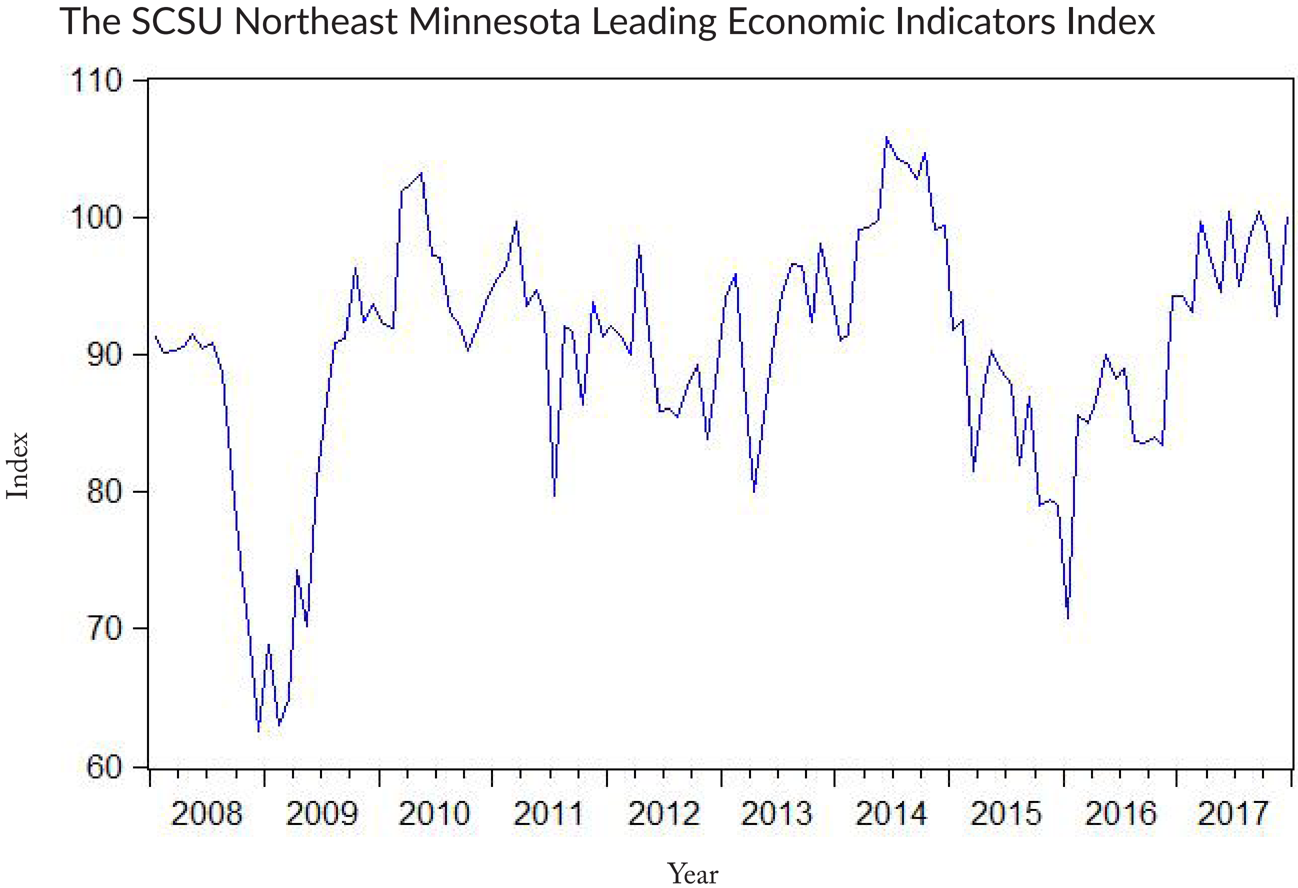
Sixty-six percent of new business filers in the Northeast Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's fourth quarter. Results of this voluntary survey indicate that 3 percent of new filers come from communities of color, while 7.8 percent of new filings come from veterans. Three percent of new filers come from the disability community and less than 1 percent of new filings are made by the immigrant community. Forty-four percent of new business filings in Northeast Minnesota in this year's fourth 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 35 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Northeast Minnesota are construction, retail trade, professional/scientific/technical, real estate/rental/leasing, arts/entertainment/recreation, and other services. Employment levels at most new firms are between 0 and 5 workers, and more than half of those starting a new business consider this a part-time activity.

Northeast Minnesota employment was 2.9 percent higher than year ago levels in December. The regional unemployment rate was 5.0% (considerably lower than one year ago) and the labor force rose by 1.5% from one year earlier. December 2017 initial claims for unemployment insurance were nearly 18.2 percent lower than the same month last year. Due to a statistical anomaly, the region's average weekly wages fell in the third quarter of 2017 compared to one year earlier. Annual bankruptcies in Northeast Minnesota continue to inch up.

Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was mostly favorable. Northeast Minnesota's largest market experienced a 2.1 percent increase in overall employment over the year ending December 2017, and education/health and manufacturing sector employment also rose. The area unemployment rate fell to 4.3 percent and the labor force rose 2.2 percent. Average weekly work hours fell 1.2 percent and average hourly earnings declined. The value of residential building permits jumped 94.7 percent compared to December 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 2.59 point increase in the third quarter, this quarter's LEI flattened out—declining by 0.3 points. The LEI is now 0.3 percent below its December 2016 level. As can be seen in the accompanying figure, the LEI has shown a lot of variability in 2017, but is mostly unchanged from where it was at the end of 2016.



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 4th quarter 2017	Contribution to LEI, 3rd quarter 2017
Minnesota Business Conditions Index	-0.93	-0.94
Northeast Minnesota initial claims for unemployment insurance	1.05	1.53
Northeast Minnesota new filings of incorporation	-1.45	-0.17
Duluth Superior MSA residential building permits	2.29	-0.37
Institute of Supply Management Purchasing Managers Index for manufacturing	-1.26	2.54
TOTAL CHANGE	**-0.30**	**2.59**

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 declined in the fourth quarter. Lower regional initial jobless claims 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) and lower new business incorporations also weighed on this quarter's LEI. A surge in the number of new residential building permits in the Duluth/Superior MSA had a positive impact on the fourth quarter LEI.

SCSU Northeast Minnesota Leading Economic Indicators Index

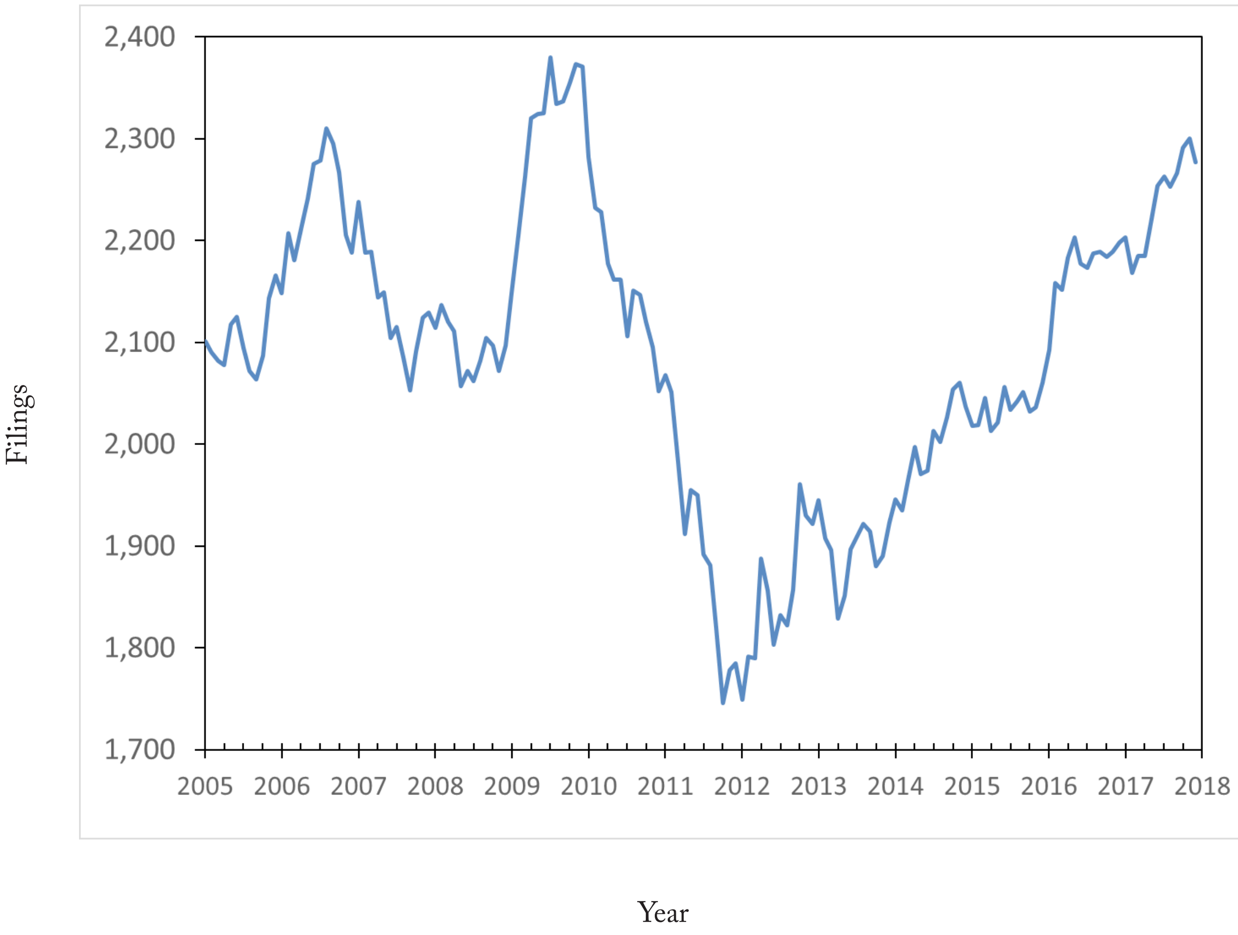
	2017	2016	Percentage change
Minnesota Business Conditions Index December	56.8	52.3	8.6%
Northeast Minnesota initial claims for unemployment insurance, December	1,672	2,043	-18.2%
Northeast Minnesota new filings of incorporation Fourth Quarter	42	48	-12.5%
Duluth-Superior MSA single-family building permits December	6	6	0.0%
Institute for Supply Management Purchasing Managers' Index, manufacturing sector, December	59.3	60.8	-2.5%
Northeast Minnesota Leading Economic Indicators Index December (December 1999 = 100)	100.1	100.4	-0.3%

NORTHEAST MINNESOTA BUSINESS FILINGS

Total new business filings rose by 2.2 percent compared to last year's fourth 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 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.

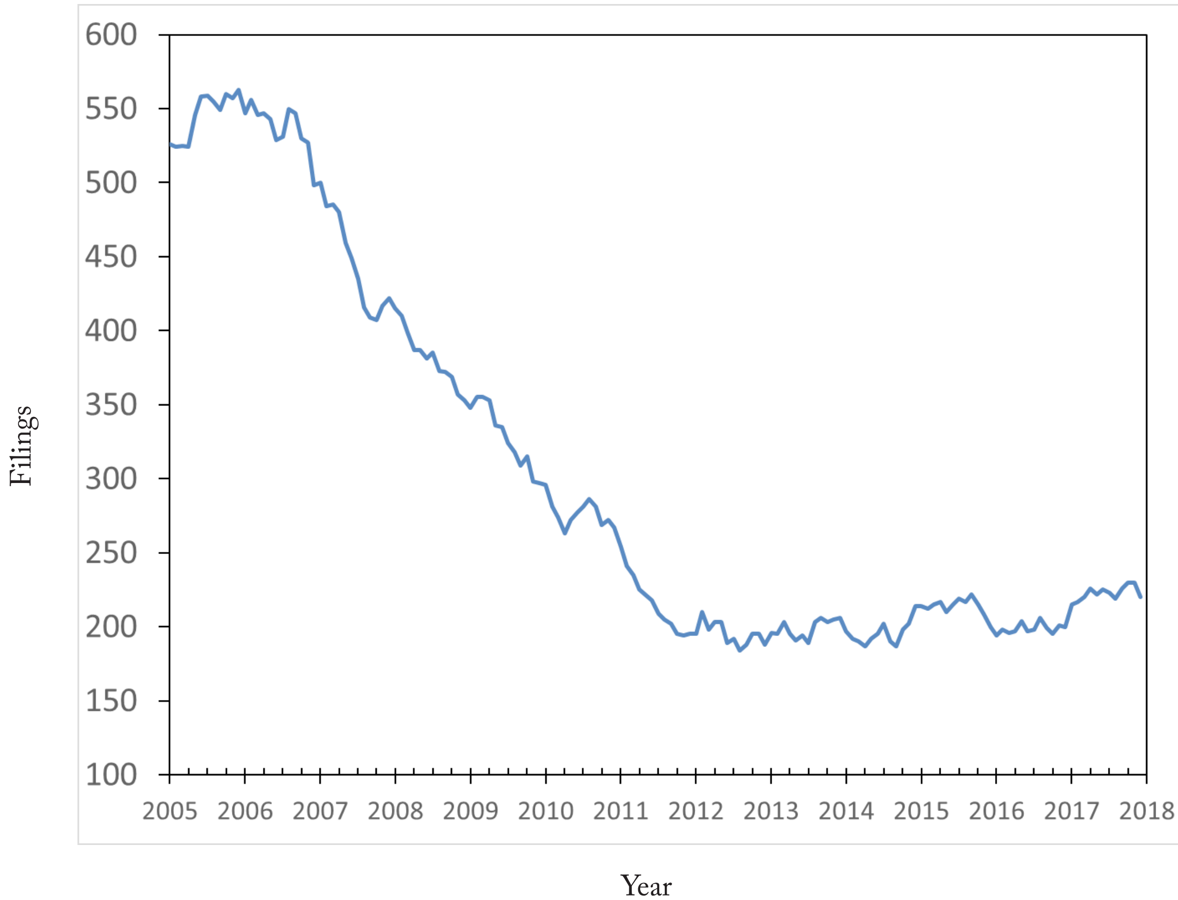
Total New Business Filings—Northeast Minnesota Planning Area
(12-month moving total)



Quarter	IV: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Northeast Minnesota Total New Business Filings	496	626	653	491	507	2.2%

Compared to the fourth quarter of 2016, new filings of incorporation in Northeast Minnesota were 12.5 percent lower. 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.

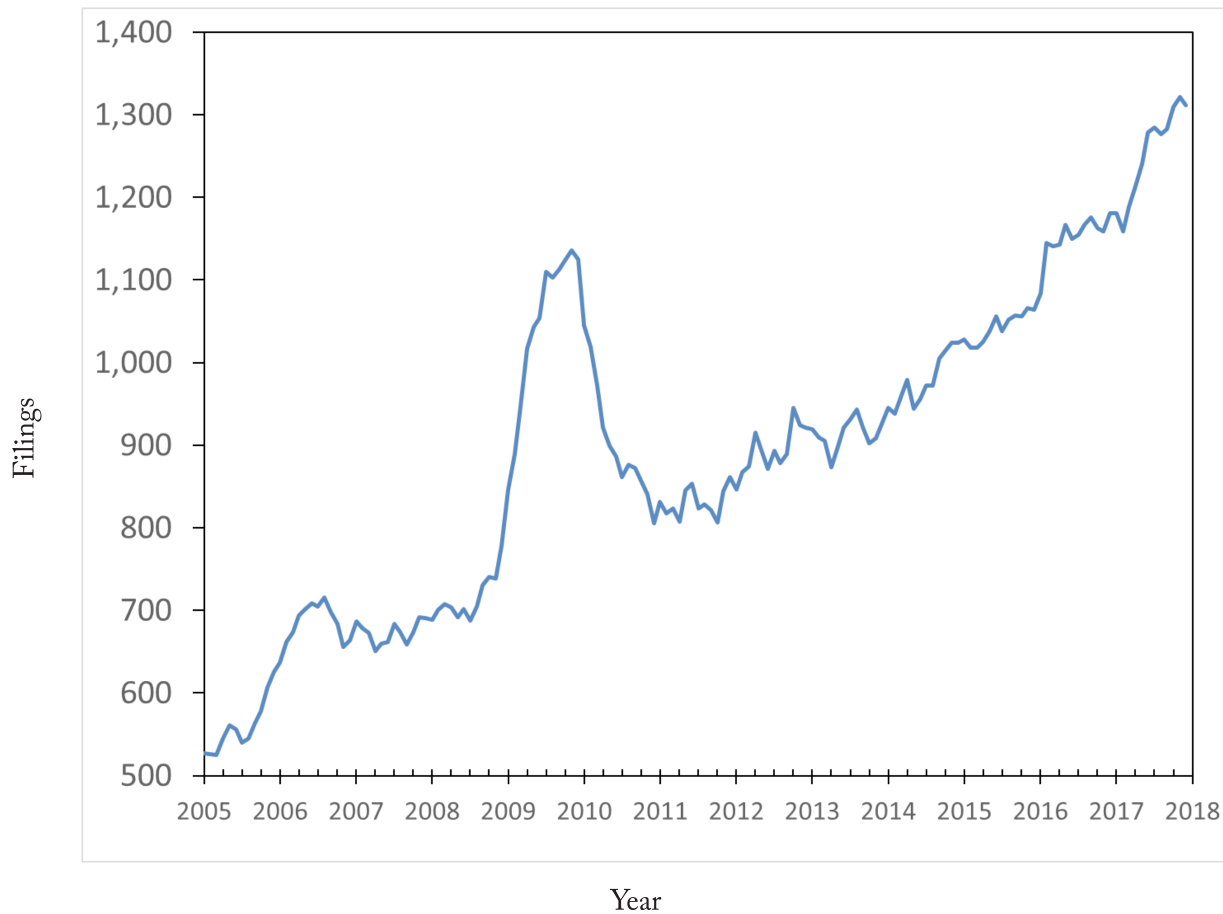
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Northeast Minnesota New Business Incorporations	48	71	58	49	42	-12.5%

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 fourth quarter as new LLC filings rose by 10.7 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.

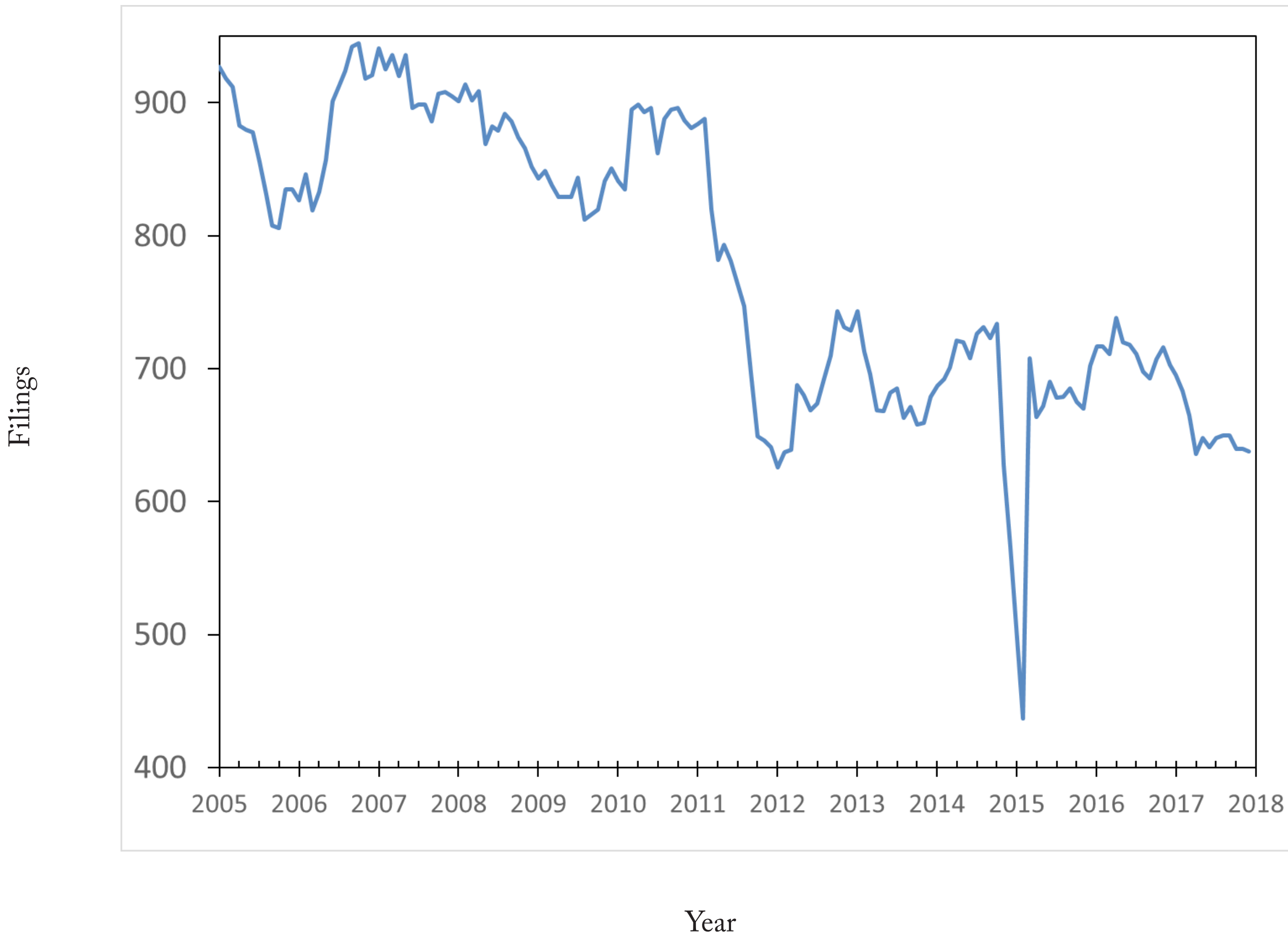
New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	271	345	392	275	300	10.7%

Compared to the fourth quarter of 2016, assumed names fell by 7.7 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 the series has recently levelled out. New filings for assumed name still remain well below their level of the mid-2000s.

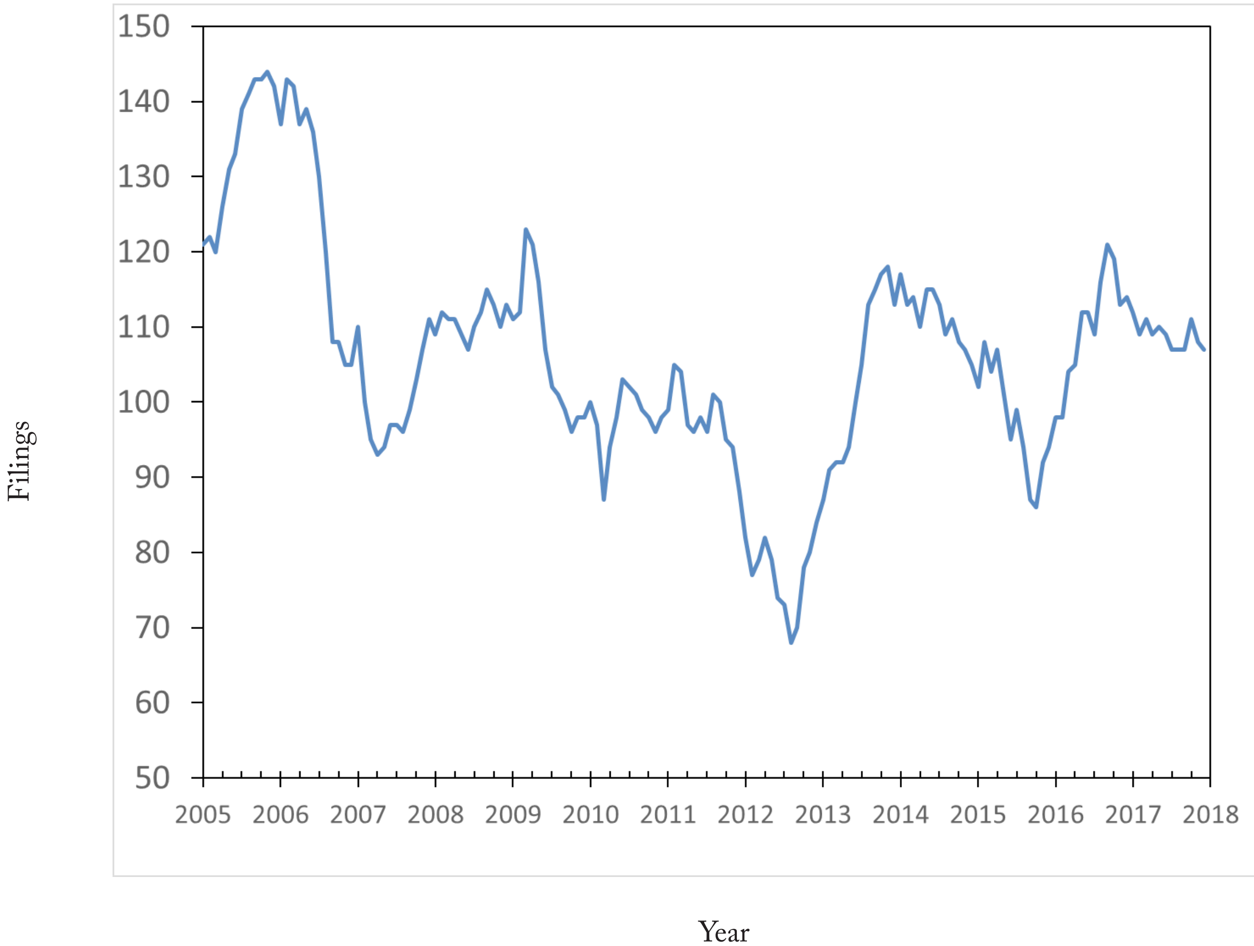
New Assumed Names—Northeast Minnesota Planning Area (12-month moving total)



Quarter	IV: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Northeast Minnesota New Assumed Names	155	177	175	143	143	-7.7%

There were 22 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the fourth quarter of 2017. This is unchanged from one year earlier.

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



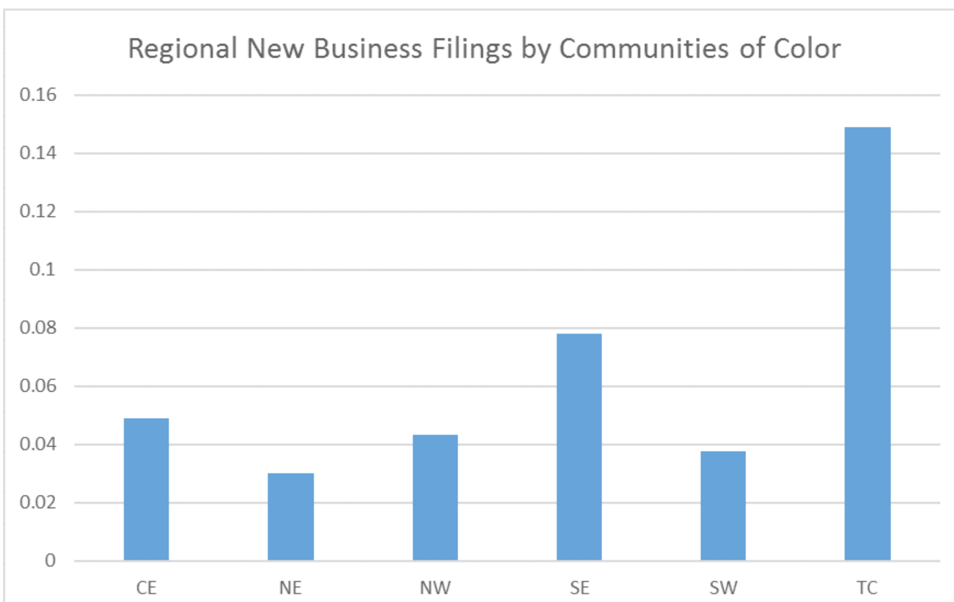
Quarter	IV: 2016	I: 2017	II: 2017	III: 2017	IV: 2017	2017 Quarter IV: Percent change from prior year
Northeast Minnesota New Non-Profits	22	33	28	24	22	0%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

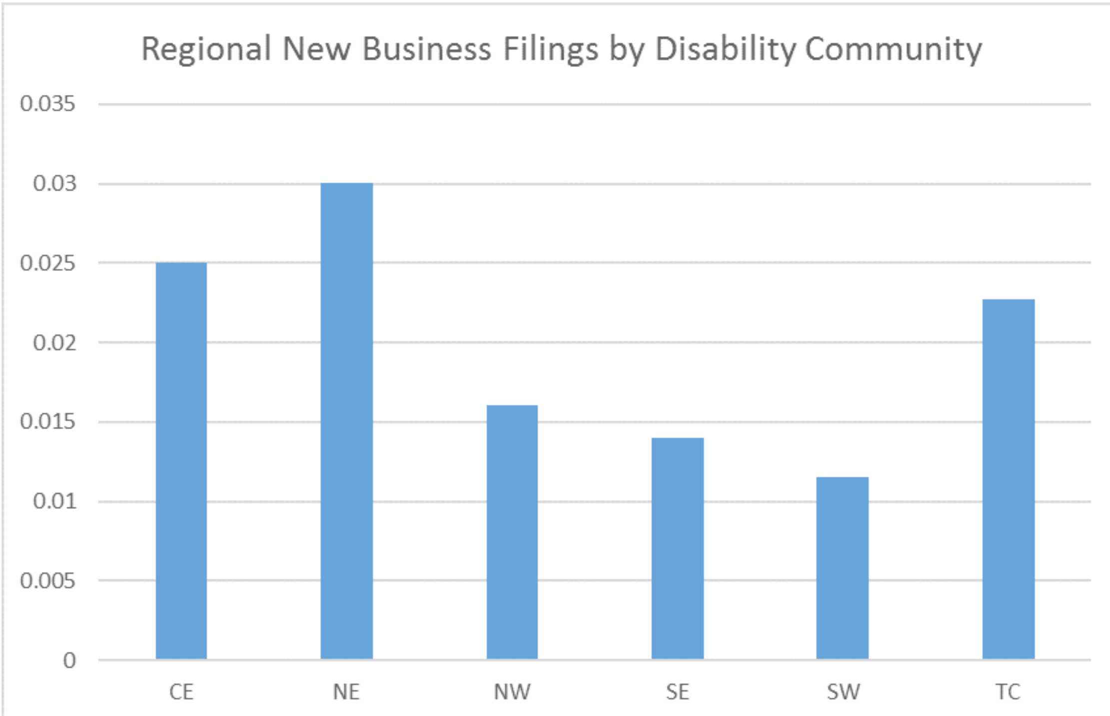
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 fourth quarter of 2017 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 59 percent. This yields thousands of self-reported records in this emerging data set. For Northeast Minnesota, about 66 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section. `

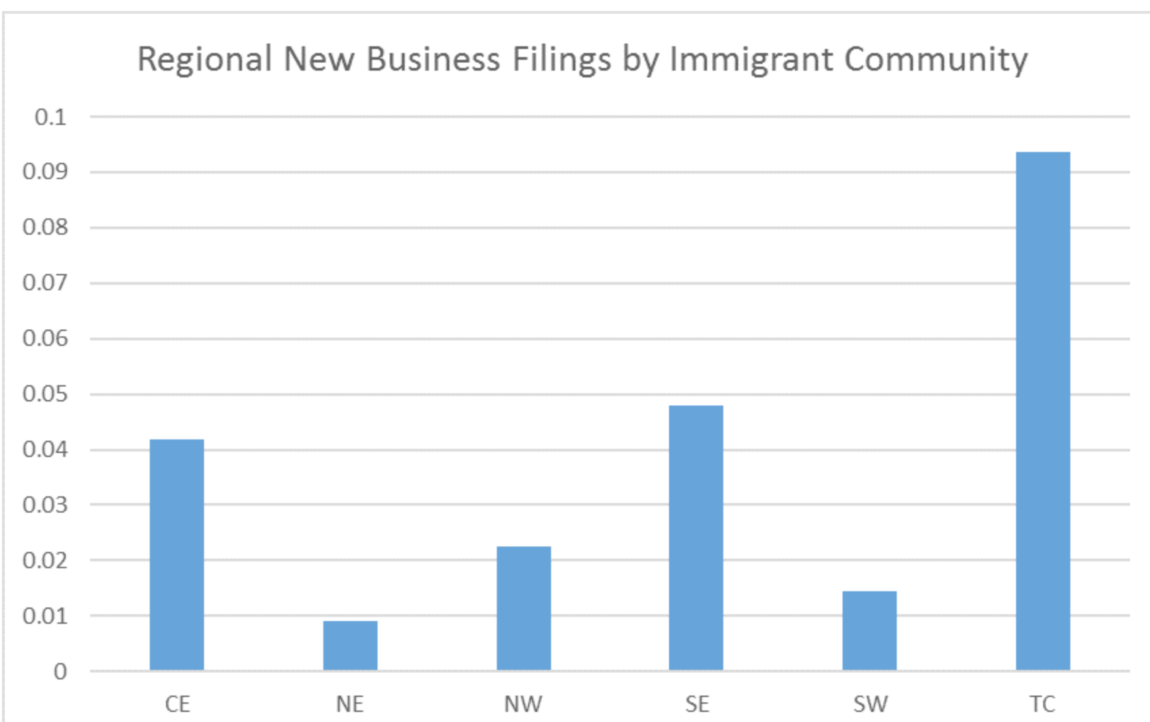
Three percent of those new filers completing the MBS from the Northeast Minnesota planning area report being from a community of color. This is the lowest percentage of Minnesota's six planning areas.



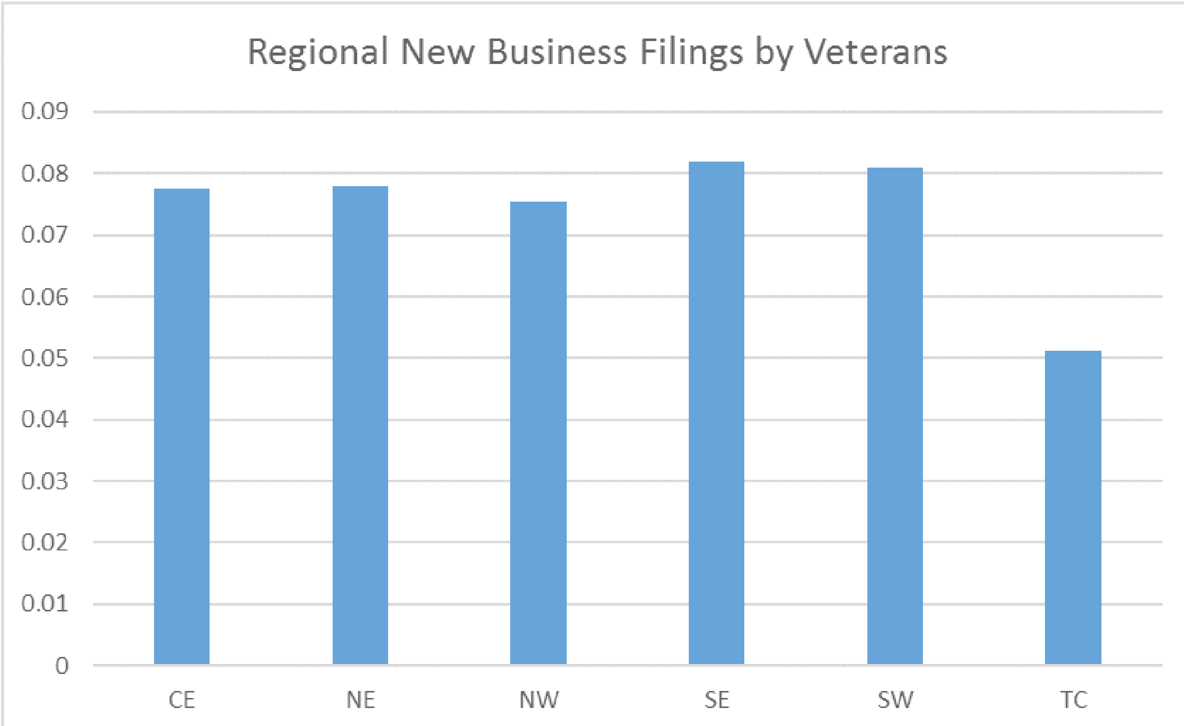
About 3 percent of Northeast Minnesota's new filers are from the disability community. This is the highest percentage of any of Minnesota's six planning areas.



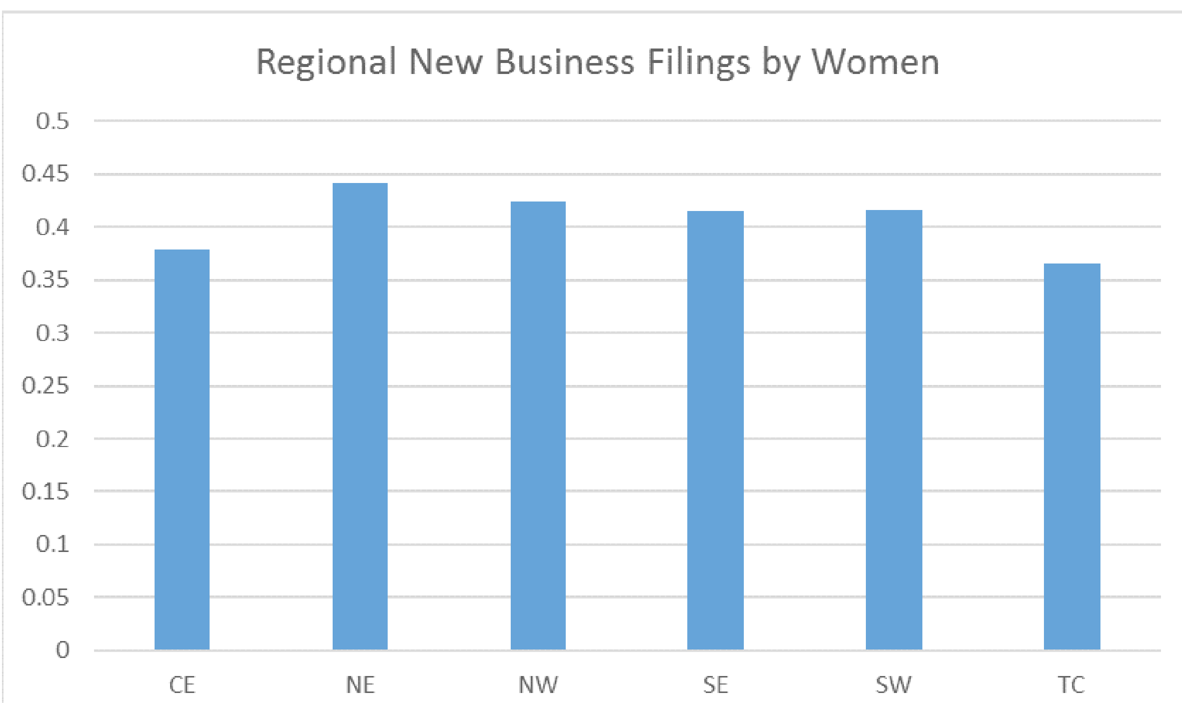
Very few new business filings in Northeast Minnesota come from the immigrant community. The percentage of immigrant new business filings in the northeast portion of the state is well below what is seen in the other planning areas.



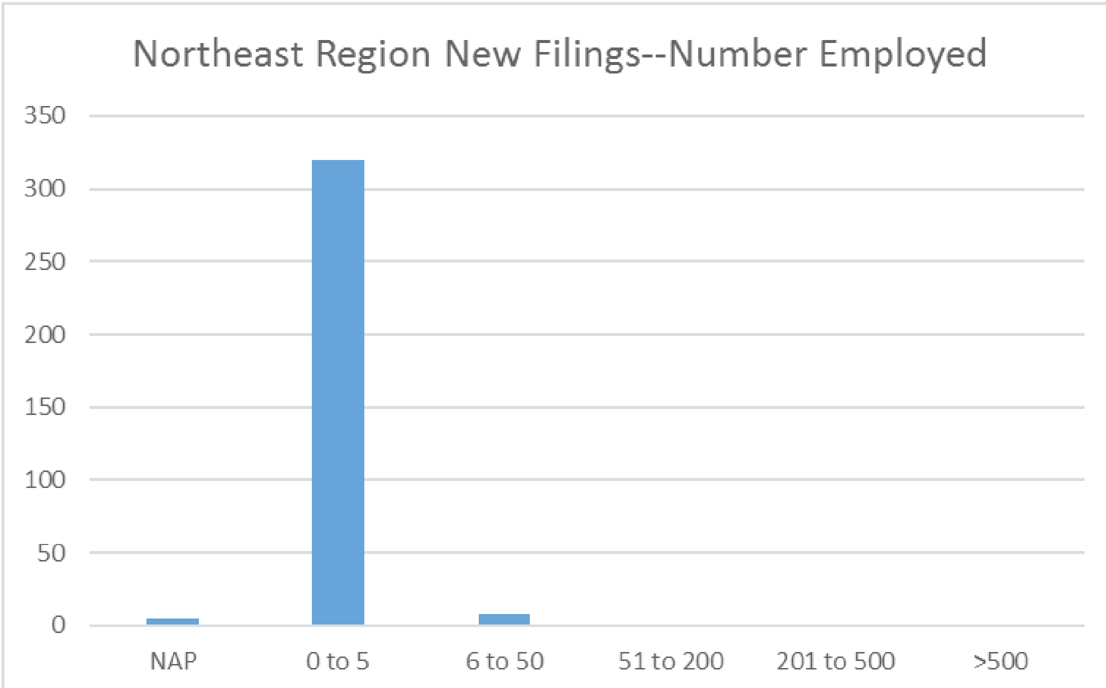
Approximately 7.8 percent of all new filings in Northeast Minnesota came from military veterans in the fourth quarter of 2017.



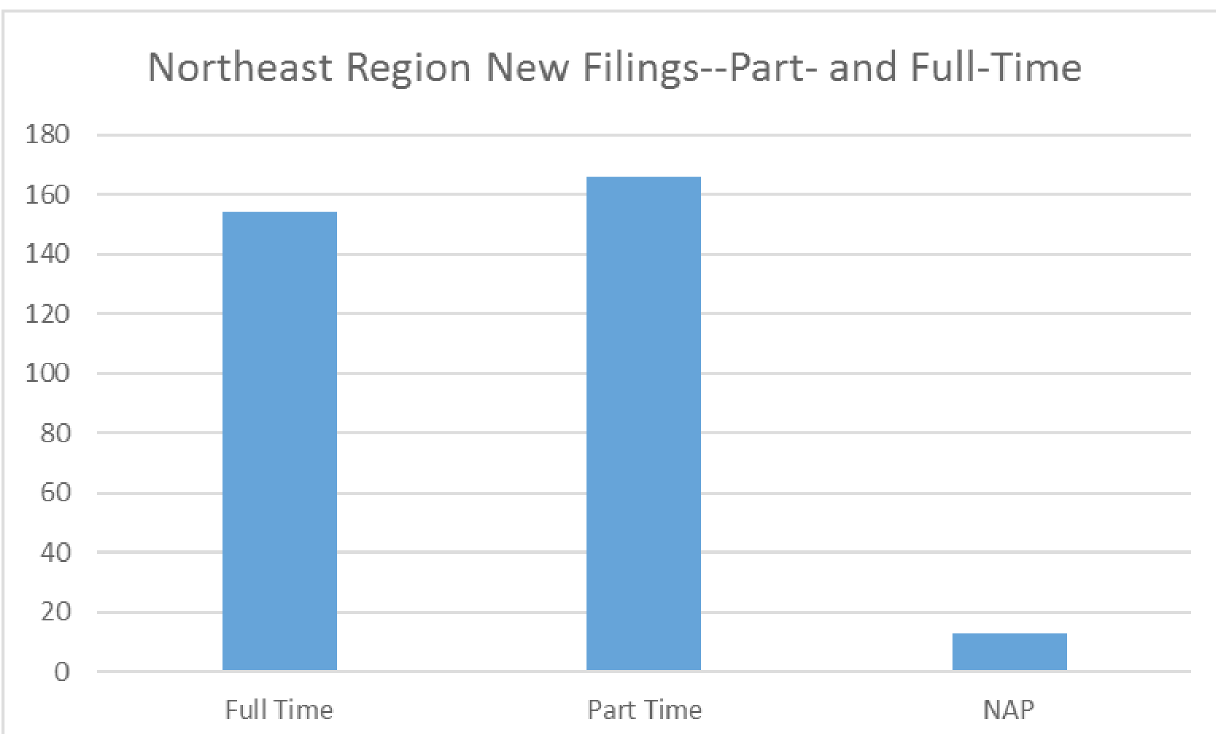
Woman owners represented a little over 44 percent of the new business filings in Northeast Minnesota in the fourth quarter of 2017. This is the highest percentage of any of Minnesota's six planning areas.



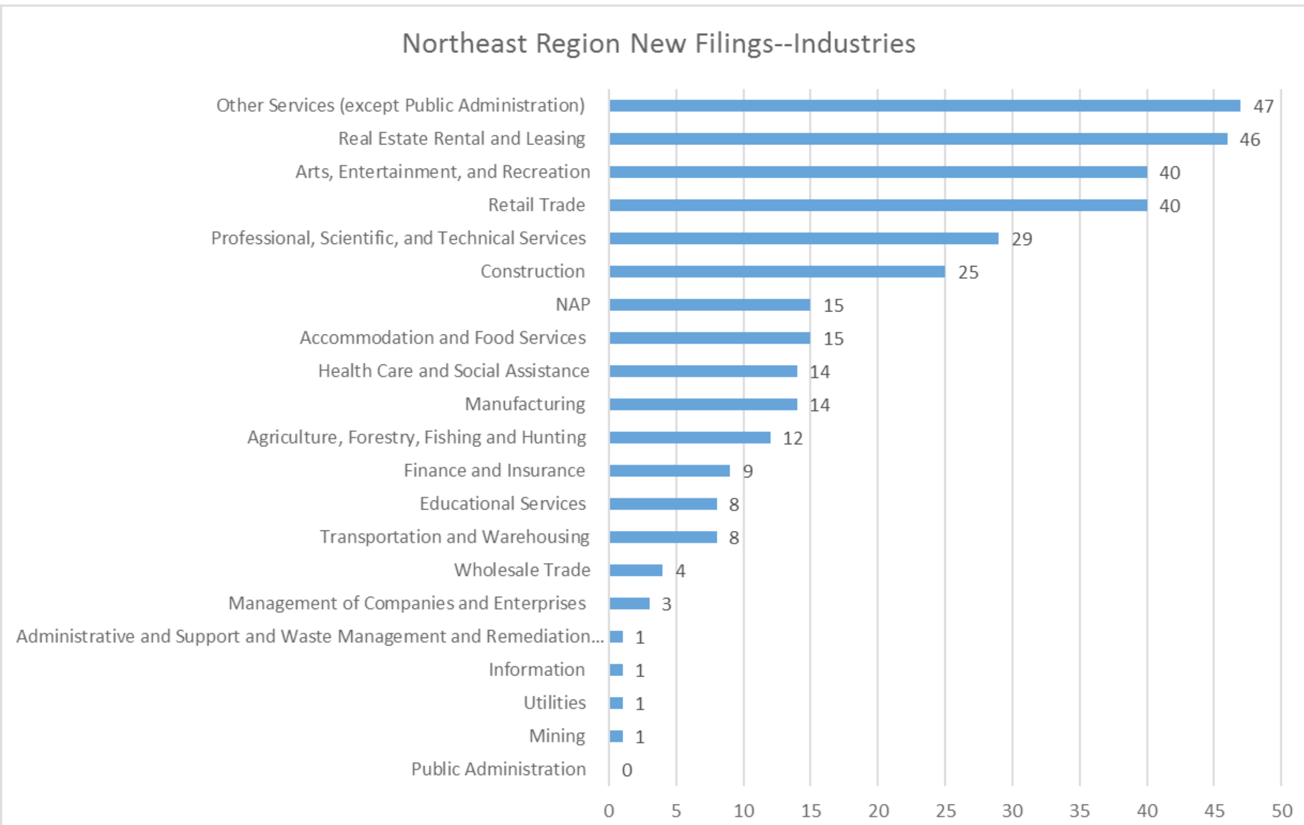
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by "NAP"—no answer provided), 328 responses were tallied to a question asking the new business filer to indicate 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.



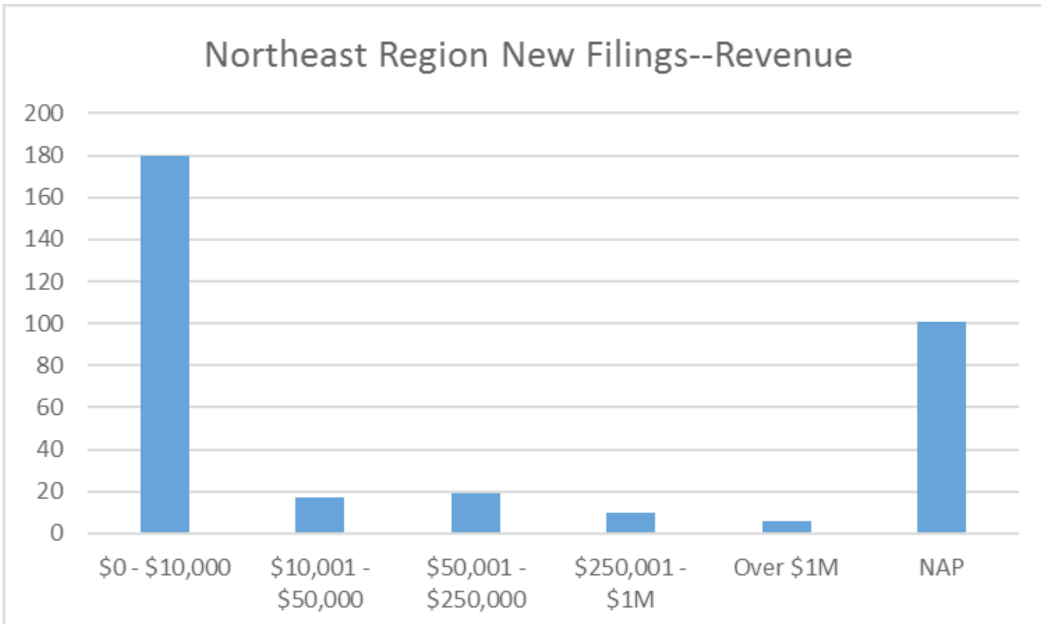
More than half of those submitting a new business filing in Northeast Minnesota are part-time ventures.



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, real estate/rental/leasing, arts/entertainment/recreation, retail trade, professional/scientific/technical, 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. Fifteen new firms did not provide an answer to this survey item (see "NAP")



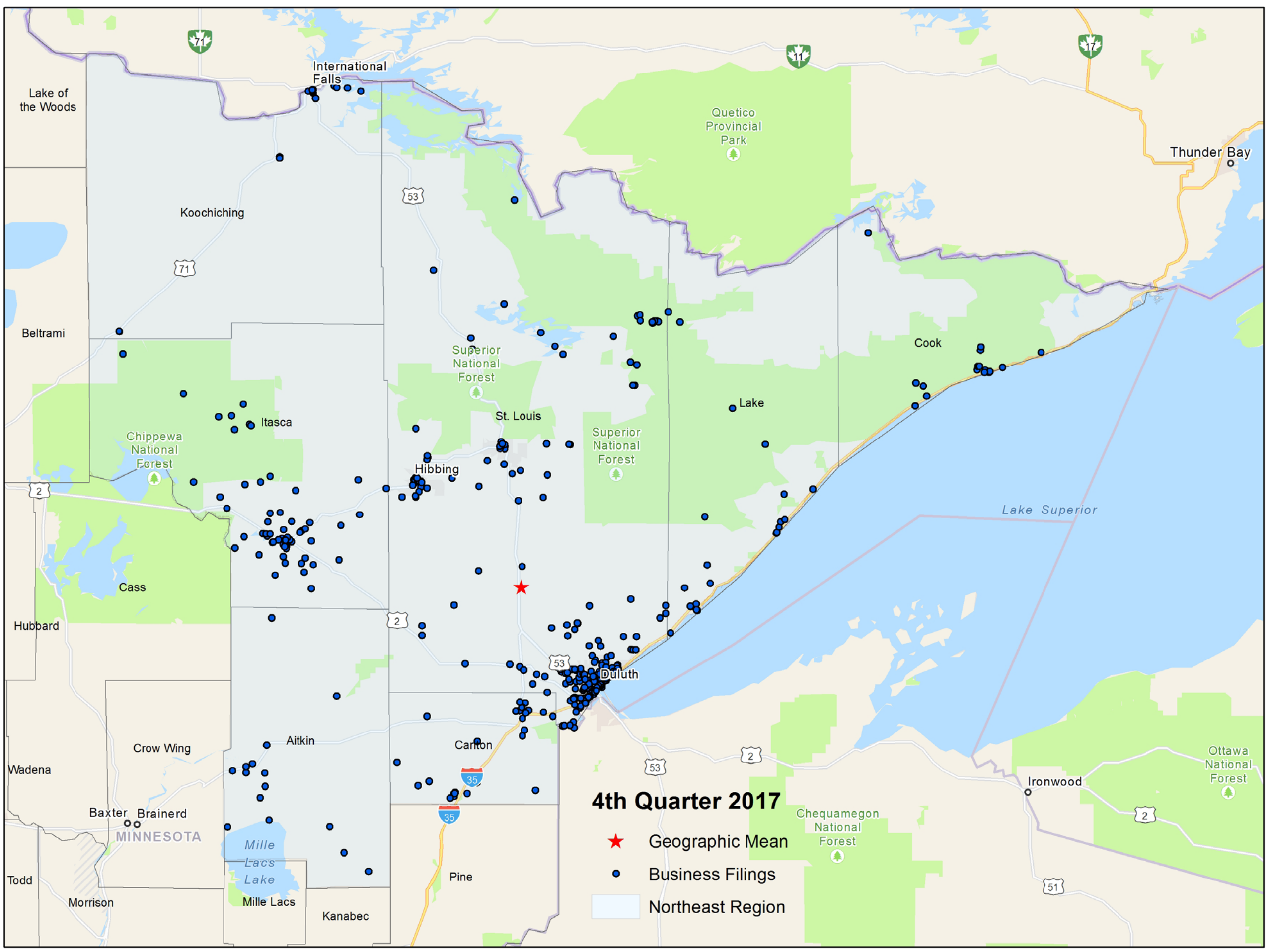
More than 100 new business filers in Northeast Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues of less than $10,000. Thirty-five new firms report revenues in excess of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



MAPS

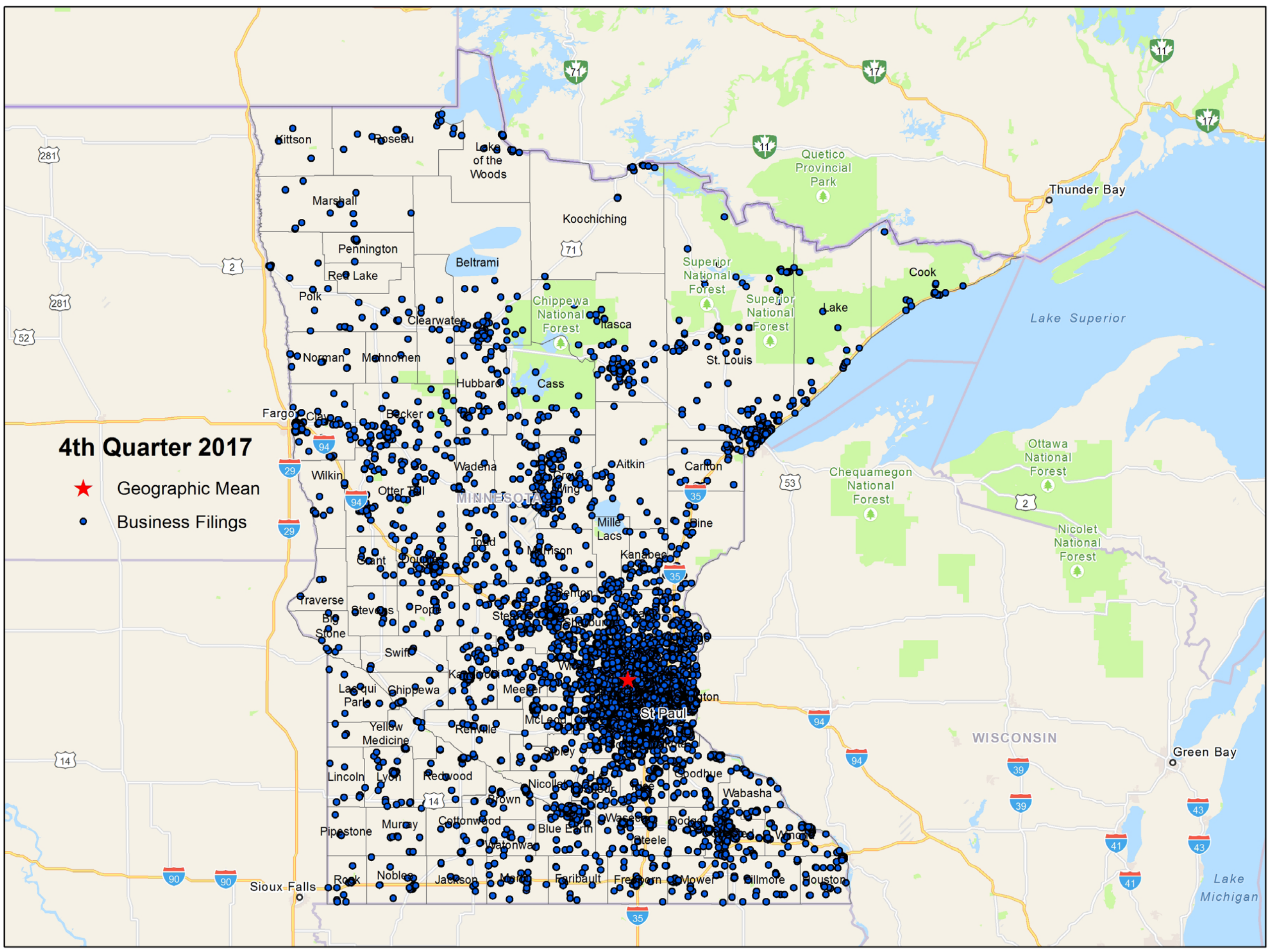
The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in the fourth quarter of 2017. The densest areas of new business formation are in the Duluth metro as well as along the region's well-traveled roadways. There was a noticeable cluster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

Northeast Minnesota Planning Area--New Business Formation--Quarter 4: 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. There is also considerable new business formation in the southern part of the state, particularly in Rochester and between the Twin Cities and Mankato. 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 4: 2017

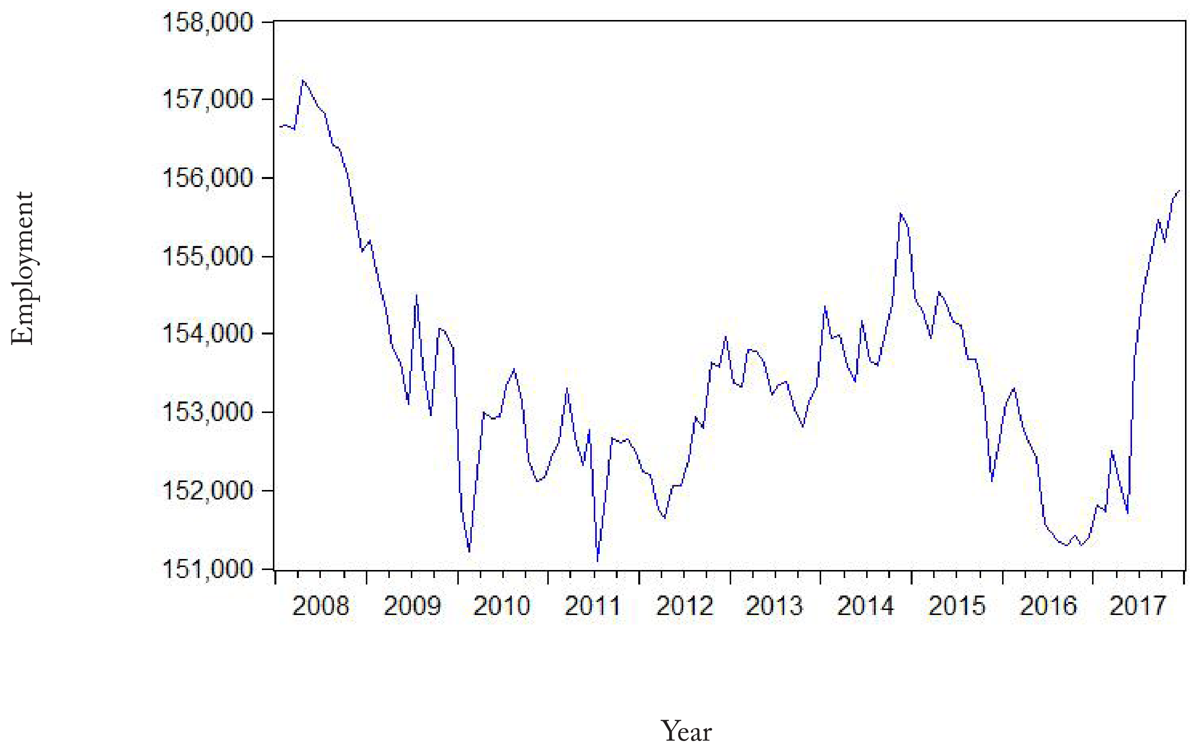


NORTHEAST MINNESOTA LABOR MARKET CONDITIONS

December 2017 employment in the Northeast Minnesota planning area was 2.9 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 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.

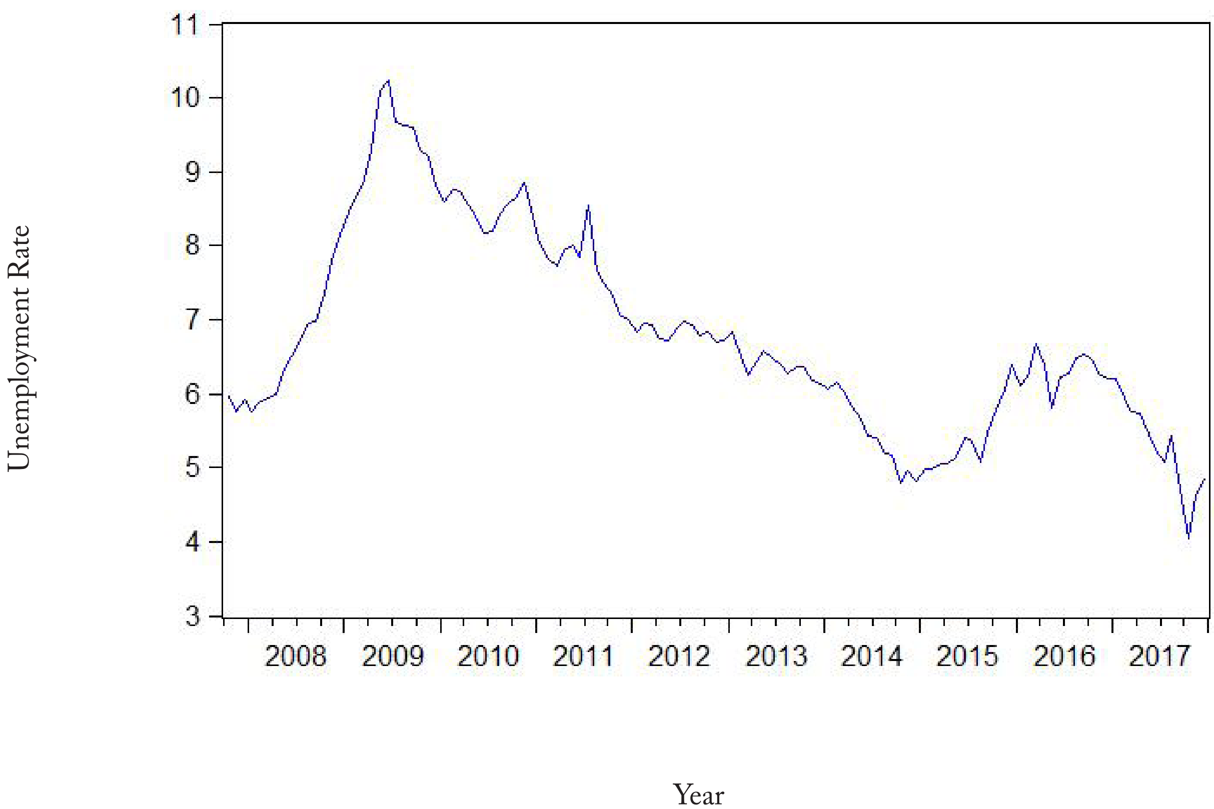
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	December 2016	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017
Employment (Not seasonally adjusted)	150,024	156,965	156,433	157,394	156,173	156,025	154,387

The seasonally adjusted unemployment rate in Northeast Minnesota had been trending downward since the third quarter of 2016, however, as shown in the accompanying graph, this seasonally adjusted series rose in the past quarter. Note, however, that at 5.0 percent, the non-seasonally adjusted rate is still considerably lower than one year earlier. The unemployment rate in Northeast Minnesota is tied with the Northwest Minnesota planning area for the highest regional unemployment rate in Minnesota.

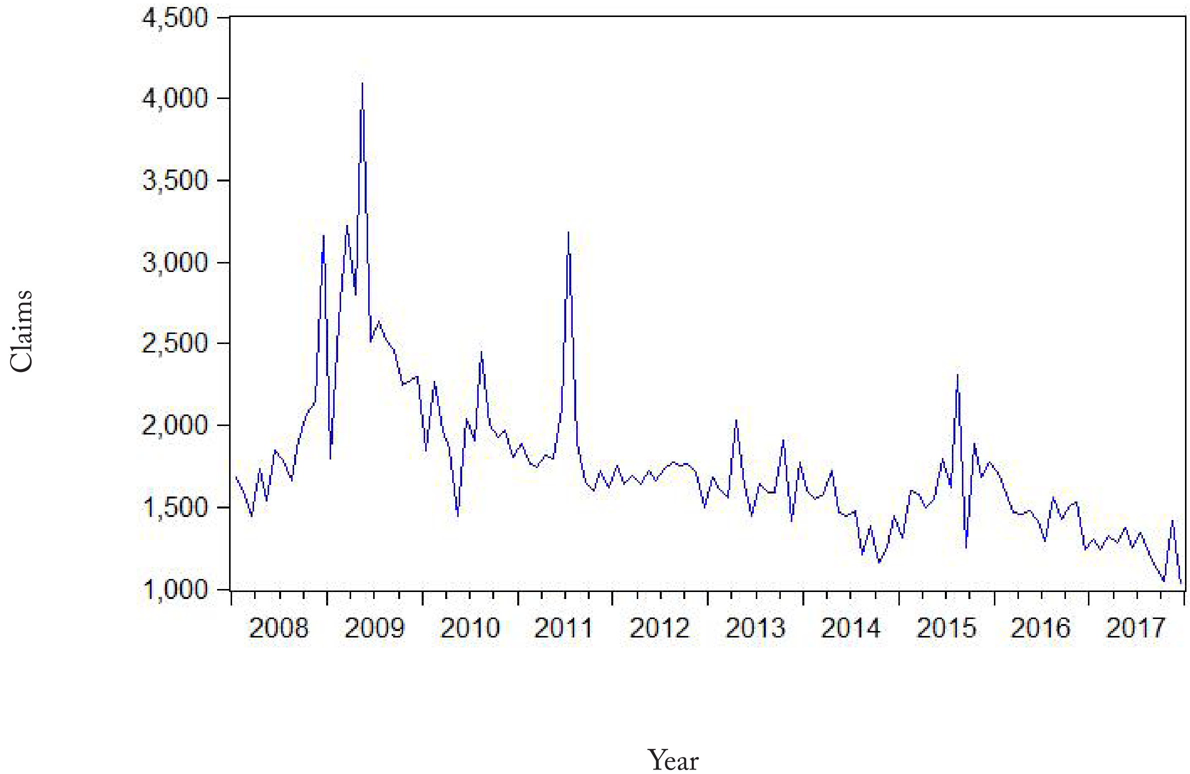
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	December 2016	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017
Unemployment Rate (Not seasonally adjusted)	6.4%	4.8%	5.0%	3.8%	3.2%	4.3%	5.0%

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 18.2% compared to one year earlier.

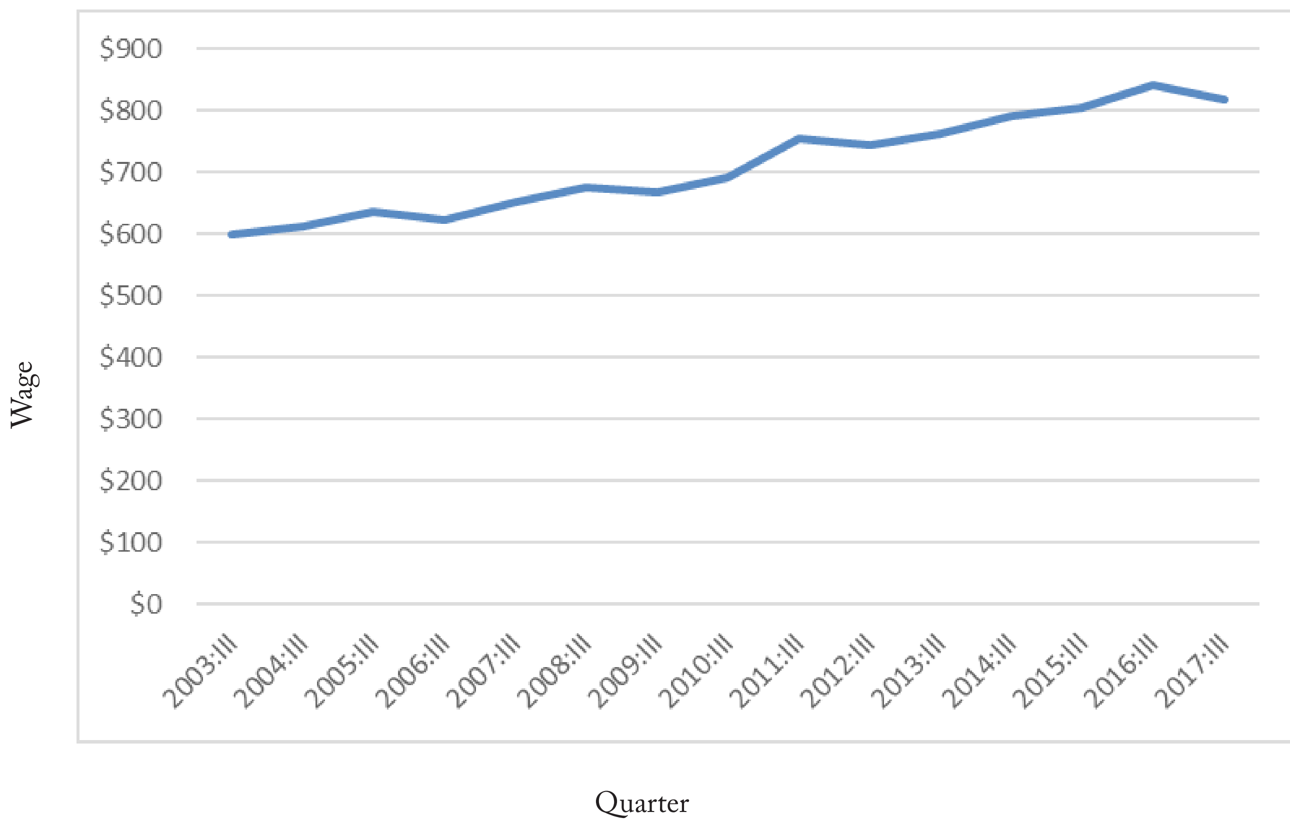
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Period	December 2016	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017
Initial claims (Not seasonally adjusted)	2,043	951	823	813	1,122	2,459	1,672

Average weekly wages in Northeast Minnesota were lower in the third quarter of 2017 than they were one year earlier. This same data pattern is observed in all of Minnesota's other regions, except the Southeast Minnesota planning area. This reported decline in average weekly wages across the state appears to be related to a different pattern of data collection in 2016 (when there were 14 payment periods in the third quarter) compared to 2017 (when there were only thirteen payment periods). This statistical anomaly runs counter to what is seen in most other regional wage data in Minnesota—earnings appear to be rising across the state.

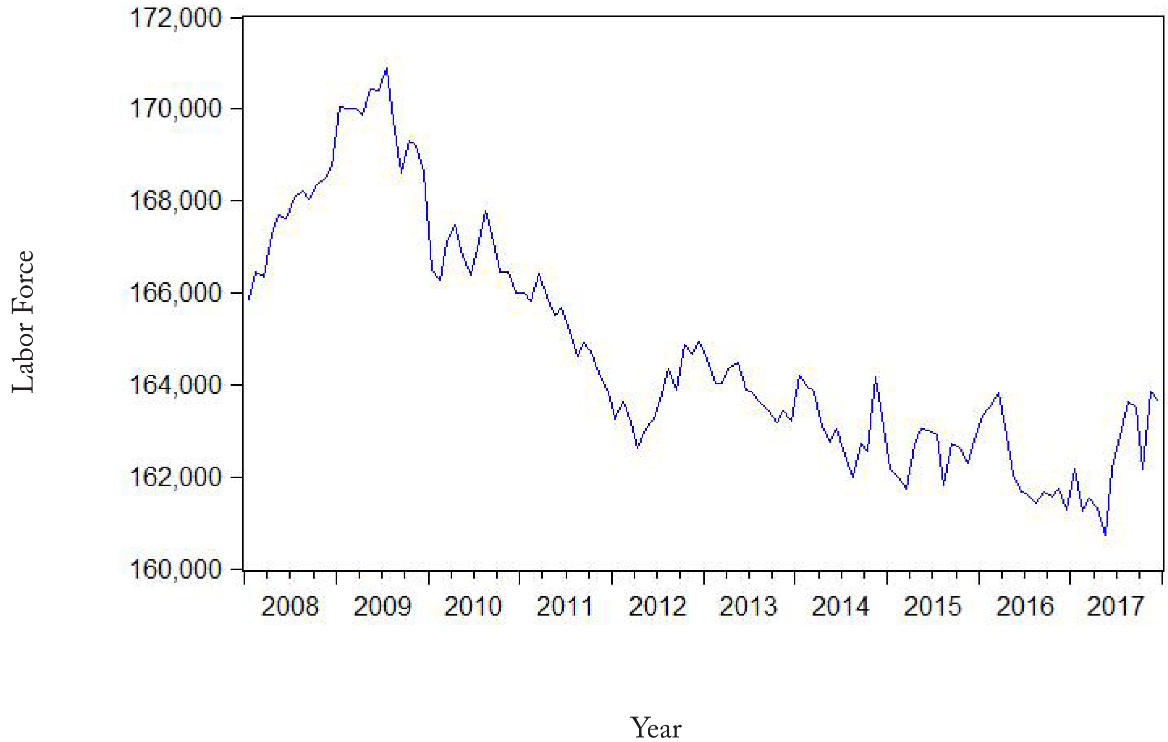
Average Weekly Wages---Northeast Minnesota Planning Area



Quarter	2012:III	2013:III	2014:III	2015:III	2016:III	2017:III
Average Weekly Wage	$745	$764	$791	$806	$843	$819

The Northeast Minnesota labor force rose by 1.5 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)

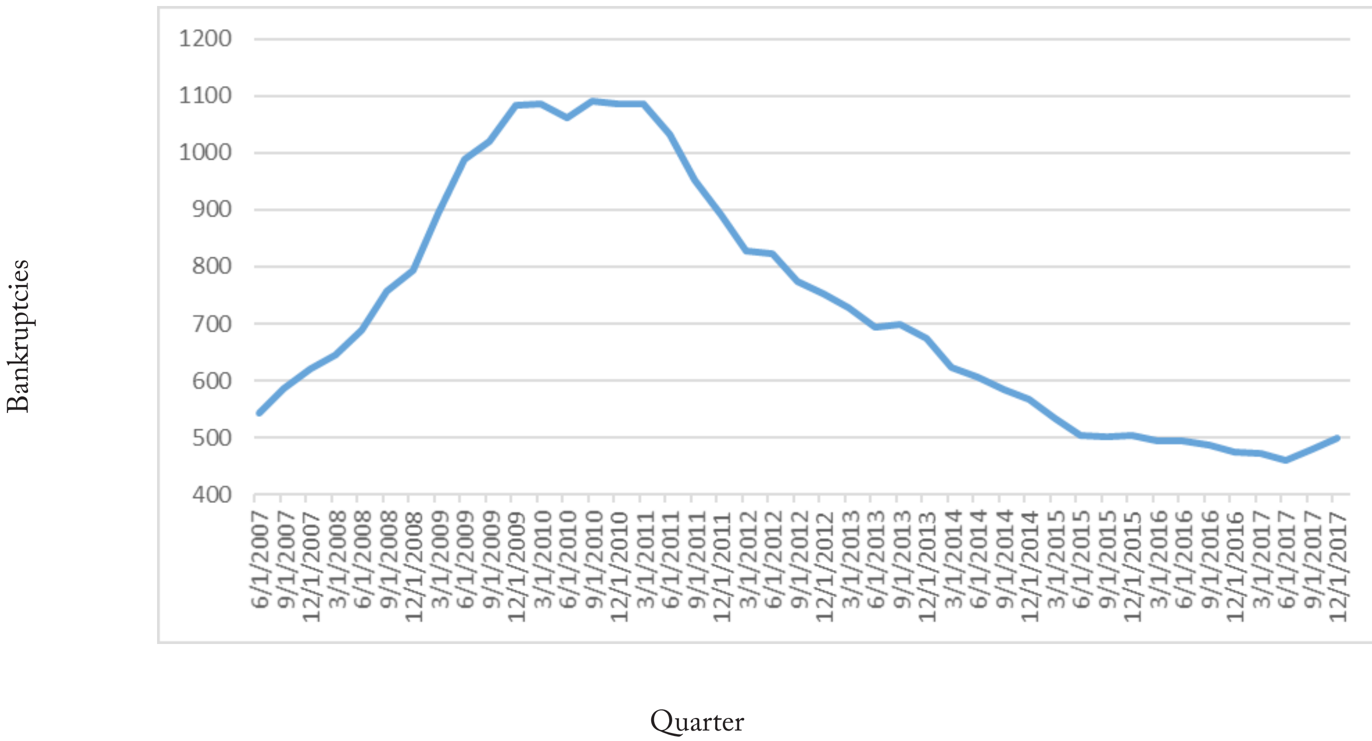


Year (December)	2012	2013	2014	2015	2016	2017
Labor Force (Not seasonally adjusted)	163,805	162,196	162,030	161,752	160,203	162,531

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 (Fourth Quarter)	2012	2013	2014	2015	2016	2017
Annual Bankruptcies (Not seasonally adjusted)	752	674	567	504	475	499

ECONOMIC INDICATORS

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	December 2017 (m)	138,401	135,533	2.1% ↑	0.2%
Manufacturing Employment	December 2017 (m)	7,333	7,279	0.7% ↑	-1.8%
Educational and Health Sector Employment	December 2017 (m)	32,241	31,898	1.1% ↑	2.4%
Average Weekly Work Hours-Private Sector	December 2017 (m)	32.5	32.9	-1.2% ↓	32.3 (since 2006)
Average Earnings Per Hour-Private Sector	December 2017 (m)	$24.46	$24.92	-1.8% ↓	1.9% (since 2006)
Unemployment Rate	December 2017 (m)	4.3%	5.5%	NA ↓	5.7%
Labor Force	December 2017 (m)	144,118	141,000	2.2% ↑	0.0%
Duluth-Superior Residential Building Permit Valuation, in thousands	December 2017 (m)	2,258	1,160	94.7% ↑	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mostly favorable in the recent quarter. Overall employment rose by 2.1 percent over the year ending December 2017 and employment also increased in the education/health and manufacturing sectors. However, average weekly work hours and average hourly earnings each fell. The area unemployment rate decreased and the MSA's labor force rose by 2.2 percent. The value of residential building permits in the Duluth/Superior MSA surged by 94.7 percent.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Dec 2017	Sep 2017	Dec 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,958,700	2,955,500	2,921,400	0.1%	1.3%
Average weekly hours worked, private sector	33.9	34.1	33.9	-0.6%	0.0%
Unemployment rate, seasonally adjusted	3.1%	3.7%	4.0%	NA	NA
Earnings per hour, private sector	$28.59	$28.58	$27.85	0%	2.7%
Philadelphia Fed Coincident Indicator, MN	203.74	199.43	194.23	2.2%	4.9%
Philadelphia Fed Leading Indicator, MN	2.68	1.91	1.44	40.3 %	86.1%
Minnesota Business Conditions Index	56.8	59.4	52.3	-4.4%	8.6%
Price of milk received by farmers (cwt)	$17.10	$17.90	$19.60	-4.5%	-12.8%
Enplanements, MSP airport, thousands	1,471.6	1,522.7	1,456.8	-3.4%	1.0%
NATIONAL Indicators	Dec 2017	Sep 2017	Dec 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	147,610	146,963	145,437	0.4%	1.5%
Industrial production, index, SA	107.5	104.8	103.8	2.6%	3.6%
Real retail sales, SA ($)	199,780	197,348	193,475	1.2%	3.3%
Real personal income less transfers, billions	12,153.6	12,066.3	11,840.1	0.7%	2.6%
Real personal consumption expenditures, bill.	12,071.4	11,962.1	11,740.1	0.9%	2.8%
Unemployment rate, SA	4.1%	4.2%	4.7%	NA	NA
New building permits, SA, thousands	18,355	20,470	17,581	-10.3%	4.4%
Standard & Poor's 500 stock price index	2,664.3	2,492.8	2,246.6	6.9%	18.6%
Oil, price per barrel in Cushing, OK	$57.88	$49.82	$51.97	16.2%	11.4%

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, and the Minnesota Business Conditions index is higher than one year ago. Enplanements at the Minneapolis-St. Paul airport increased over the past year. However, average weekly work hours were unchanged from December 2016 and milk prices continue to fall.

The national economic indicators found in the table are also highly favorable. Over the past quarter as well as the past year, stock prices rose (recent declines in the stock market are not reflected in this table), employment increased, real income and consumer expenditures expanded, and retail sales picked up. The national unemployment rate also fell. Industrial production also rose. National building permits were lower than in September 2017 but were higher than one year earlier. Consumers also saw higher oil prices last quarter. Oil prices are now 11.4 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

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