Executive Summary

Southwest Minnesota business conditions are expected to soften over the next several months according to the predictions of the St. Cloud State University (SCSU) Southwest Minnesota Index of Leading Economic Indicators (LEI). A reduction in Mankato area single family residential building permits and considerably higher initial jobless claims in the region helped drive this quarter’s leading index lower. A weakening in the rural outlook also made a negative contribution to the LEI this quarter. Increased new filings for incorporation and limited liability company (LLC) earlier in the year was the only component making a positive contribution to the index in the third quarter. The leading index has shown considerable volatility from one quarter to the next, so the third quarter’s negative reading (the LEI fell by 15.24 points) could easily be reversed in coming quarters.

There were 518 new business filings with the Office of the Minnesota Secretary of State in Southwest Minnesota in the third quarter of 2015 — representing 8.3 percent fewer new filings than one year ago. There were 34 new regional business incorporations in the third quarter, a 27.7 percent decrease from one year ago. New LLC filings in Southwest Minnesota rose by 3.9 percent—increasing to 321 in the third quarter of 2015. New assumed names totaled 132 in this year’s third quarter—28.3 percent fewer filings than last year. There were thirty-one new filings for Southwest Minnesota non-profits in the third quarter—six more than one year ago.

Employment of Southwest Minnesota residents expanded by 1.4 percent over the year ending September 2015. 3,046 more Southwest Minnesota residents have jobs than did one year ago. The regional unemployment rate was 3.0 percent in September, an improvement on its 3.2 percent reading in September 2014. Initial claims for unemployment insurance rose by 339 from year-ago levels—a 31.6 percent increase. The Southwest Minnesota labor force rose by 2,738 (a 1.3 percent increase) over the year ending September 2015. The job vacancy rate fell in the second quarter of 2015, but remains elevated at 85.59 vacancies per 100 unemployed.

There was mixed economic performance in the Mankato/North Mankato Metropolitan Statistical Area (MSA)—the largest market in Southwest Minnesota. On the positive side, the workweek expanded, the unemployment rate fell, the value of residential building permits (these were primarily multi-unit permits) jumped, and the relative cost of living went down. However, this was offset by flat overall employment, a decline in average hourly earnings, a reduced labor force, higher initial jobless claims, and lower new business filings.
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 contracted by 15.24 points in the third quarter and is now 3.8 percent lower than one year ago. As can be seen in the accompanying graph, the LEI in Southwest Minnesota has been highly variable for several years (for example, the index rose 8.41 points last quarter), so the current weakness in the leading index could easily be reversed in coming quarters.

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

Components of SCSU Southwest Minnesota Leading Economic Indicators Index

<table>
<thead>
<tr>
<th>Component of Index</th>
<th>Contribution to LEI, 3rd quarter 2015</th>
<th>Contribution to LEI, 2nd quarter 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Mainstreet Index</td>
<td>-2.19</td>
<td>-0.95</td>
</tr>
<tr>
<td>Southwest Minnesota initial claims for unemployment insurance</td>
<td>-8.97</td>
<td>3.32</td>
</tr>
<tr>
<td>Southwest Minnesota new filings of incorporation and LLCs</td>
<td>3.48</td>
<td>2.66</td>
</tr>
<tr>
<td>Mankato MSA single-family building permits</td>
<td>-7.56</td>
<td>3.38</td>
</tr>
<tr>
<td>TOTAL CHANGE</td>
<td>-15.24</td>
<td>8.41</td>
</tr>
</tbody>
</table>
The Southwest Minnesota LEI has four components, three of which declined in the third quarter. An increase in new business filings for incorporation and LLC earlier in the year was the one favorable component of this quarter’s LEI. Lower Mankato/North Mankato Metropolitan Statistical Area (MSA) single family residential building permits had a negative effect on the LEI in the third quarter as did a substantial increase in the number of initial jobless claims. 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. This index also had an unfavorable impact on the LEI in the most recent quarter.

<table>
<thead>
<tr>
<th>SCSU Southwest Minnesota Leading Economic Indicators Index</th>
<th>2015</th>
<th>2014</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Mainstreet Index, Creighton University September</td>
<td>49.2</td>
<td>50.9</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Southwest Minnesota initial claims for unemployment insurance September</td>
<td>1,413</td>
<td>1,074</td>
<td>31.6%</td>
</tr>
<tr>
<td>Southwest Minnesota new filings of incorporation and LLCs Third Quarter</td>
<td>355</td>
<td>356</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Mankato MSA single-family building permits September</td>
<td>3</td>
<td>12</td>
<td>-75.0%</td>
</tr>
<tr>
<td>Southwest Minnesota Leading Economic Indicators Index September (December 1999 = 100)</td>
<td>193.3</td>
<td>201.0</td>
<td>-3.8%</td>
</tr>
</tbody>
</table>
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 fell by 8.8 percent from year earlier levels in the third quarter of this year. 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). With the exception of a dip in 2013, the 12-month moving total of new business filings in Southwest Minnesota has steadily increased since the middle of 2011.

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

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Southwest Minnesota Total New Business Filings</td>
<td>565</td>
<td>563</td>
<td>690</td>
<td>646</td>
<td>518</td>
<td>-8.8%</td>
</tr>
</tbody>
</table>
New business incorporations trended downward in Southwest Minnesota from 2005 to 2011, then levelled off until 2013. Since that time, the downward trend has resumed. New regional incorporations totaled 34 in the third quarter of this year—a 27.7 percent reduction from last year.

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Southwest Minnesota New Business Incorporations</td>
<td>47</td>
<td>47</td>
<td>62</td>
<td>59</td>
<td>34</td>
<td>-27.7%</td>
</tr>
</tbody>
</table>
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 considerable upward trend in LLCs in Southwest Minnesota since 2005. New LLC filings rose by 3.9 percent compared to one year earlier in the most recent quarter.

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

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Southwest Minnesota New Limited Liability Companies</td>
<td>309</td>
<td>319</td>
<td>405</td>
<td>359</td>
<td>321</td>
<td>3.9%</td>
</tr>
</tbody>
</table>
Third quarter assumed names fell by 28.3 percent compared to the same period in 2014. 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)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Southwest Minnesota New Assumed Names</td>
<td>184</td>
<td>177</td>
<td>194</td>
<td>200</td>
<td>132</td>
<td>-28.3%</td>
</tr>
</tbody>
</table>
There were 31 newly registered non-profits in the third quarter. This is six more than one year ago. As can be seen in the graph below, the non-profits series has increased considerably since the beginning of 2014.

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

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2014 Q3</th>
<th>2014 Q4</th>
<th>2015 Q1</th>
<th>2015 Q2</th>
<th>2015 Q3</th>
<th>2015 Q3: Percent change from prior year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southwest Minnesota New Non-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24%</td>
</tr>
<tr>
<td>Profits</td>
<td>25</td>
<td>20</td>
<td>29</td>
<td>28</td>
<td>31</td>
<td></td>
</tr>
</tbody>
</table>
The first map shown below is a visual representation of new business formation around the Southwest Minnesota planning area in this year’s third quarter. The densest areas of new business formation are in the Mankato metro, and the geometric mean of new filings is not far west of Mankato (near Sleepy Eye). Well-traveled roadways are also a predictor of new business formation in Southwest Minnesota.

Southwest Minnesota Planning Area -- New Business Formation -- Quarter 3: 2015
The second map shows new business formation around the entire State of Minnesota in the most recent quarter. Note the dominance of the Twin Cities metropolitan area in statewide new business formation. This also reinforces the importance of roadways (and the Mississippi River) in new business filing locations. Also noteworthy is the extent to which the spread of new businesses extends both Northwest (towards St. Cloud) and South (towards Rochester and Mankato).

Southwest Minnesota Labor Market Conditions

Employment of residents of the Southwest Minnesota planning area grew 1.4 percent over the past year. As can be seen in the accompanying graph, the 12-month moving employment average had increased substantially in 2014, but 2015 has been a different story. The moving average has experienced a net decline over the first three quarters of the year. Using non-seasonally adjusted data, Southwest Minnesota planning area employment in September 2015 (see accompanying table) was 213,635, a 1.4 percent increase over September 2014.

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. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, soparesearch@stcloudstate.edu.

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

|------------|----------------|------------|----------|-----------|-----------|-------------|----------------|
The seasonally adjusted unemployment rate in Southwest Minnesota had started to inch up over the last three quarters, but that trend was reversed in the current quarter. The non-seasonally adjusted unemployment rate now stands at 3.0 percent — an improvement on the 3.2 percent rate recorded in September 2014.

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

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</tr>
</thead>
<tbody>
<tr>
<td>Job Vacancies per 100 Unemployed</td>
<td>3.2%</td>
<td>3.7%</td>
<td>3.6%</td>
<td>3.9%</td>
<td>3.7%</td>
<td>3.3%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>
New claims for unemployment insurance in September 2015 were sharply higher than one year earlier. There were 1,413 initial claims for unemployment benefits in this most recent month, 339 more than one year ago — a 31.6 percent increase. The accompanying graph shows a seasonally adjusted series of initial unemployment claims. This series had drifted downward since the end of the Great Recession, but 2015 has seen a reversal of this trend.

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

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Initial claims (Not seasonally adjusted)</td>
<td>1,074</td>
<td>1,298</td>
<td>1,332</td>
<td>1,224</td>
<td>1,100</td>
<td>1,253</td>
<td>1,413</td>
</tr>
</tbody>
</table>
Southwest Minnesota job vacancies declined in this year’s second quarter (this is the most recently available data). Despite this, the rate of regional job vacancies per 100 unemployed is still higher than most other planning areas in Minnesota (only the Southeast and Twin Cities planning areas report higher job vacancy rates). For every 100 unemployed workers in Southwest Minnesota, there are more than 85 available jobs.

### Job Vacancies per 100 Unemployed -- Southwest Minnesota Planning Area

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Average Weekly Wage</td>
<td>36.33</td>
<td>44.92</td>
<td>53.66</td>
<td>68.24</td>
<td>101.99</td>
<td>85.59</td>
</tr>
</tbody>
</table>
Labor Market Conditions

The Southwest Minnesota labor force increased by 2,738—a 1.3 percent annual increase—over the year ending September 2015. As can be seen in the accompanying figure, recent increases in this planning area’s labor force appeared to have reversed a five year slide that had begun in 2009. However, the series has now been trending downward over the last three quarters.

<table>
<thead>
<tr>
<th>Year (September)</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Not seasonally adjusted)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
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 has steadily declined since that time. With 463 bankruptcies over the past twelve months, the level of bankruptcies in Southwest Minnesota are now the lowest observed over the past eight years.

Southwest Minnesota Bankruptcies (12-month moving total)

<table>
<thead>
<tr>
<th>Year (Third Quarter)</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Bankruptcies (Not seasonally adjusted)</td>
<td>1,037</td>
<td>875</td>
<td>796</td>
<td>691</td>
<td>584</td>
<td>463</td>
</tr>
</tbody>
</table>
## Economic Indicators

### Mankato-North Mankato MSA Indicators

<table>
<thead>
<tr>
<th>Period Covered</th>
<th>Current Period</th>
<th>Prior Year</th>
<th>Annual Percent Change</th>
<th>Long-Term Average (since 1999, unless noted)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor Market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>September 2015 (m)</td>
<td>55,388</td>
<td>55,405</td>
<td>0.0% ↔</td>
</tr>
<tr>
<td>Goods-Producing Employment</td>
<td>September 2015 (m)</td>
<td>10,439</td>
<td>10,239</td>
<td>2.0% ↑</td>
</tr>
<tr>
<td>Average Weekly Work Hours - Private Sector</td>
<td>September 2015 (m)</td>
<td>32.3</td>
<td>30.1</td>
<td>7.3% ↑</td>
</tr>
<tr>
<td>Average Earnings Per Hour - Private Sector</td>
<td>September 2015 (m)</td>
<td>$21.95</td>
<td>$22.28</td>
<td>-1.5% ↓</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>September 2015 (m)</td>
<td>2.6%</td>
<td>2.8%</td>
<td>NA ↓</td>
</tr>
<tr>
<td>Labor Force</td>
<td>September 2015 (m)</td>
<td>57,849</td>
<td>58,188</td>
<td>-0.6% ↓</td>
</tr>
<tr>
<td>Initial Jobless Claims</td>
<td>September 2015 (m)</td>
<td>269</td>
<td>144</td>
<td>86.8% ↑</td>
</tr>
<tr>
<td><strong>Business Formation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total New Business Filings</td>
<td>Third Quarter 2015</td>
<td>150</td>
<td>164</td>
<td>-8.5% ↓</td>
</tr>
<tr>
<td>New Business Incorporations</td>
<td>Third Quarter 2015</td>
<td>9</td>
<td>13</td>
<td>-30.8% ↓</td>
</tr>
<tr>
<td>New Limited Liability Companies</td>
<td>Third Quarter 2015</td>
<td>97</td>
<td>95</td>
<td>2.1% ↑</td>
</tr>
<tr>
<td>New Assumed Names</td>
<td>Third Quarter 2015</td>
<td>39</td>
<td>48</td>
<td>-18.8% ↓</td>
</tr>
<tr>
<td>New Non-profits</td>
<td>Third Quarter 2015</td>
<td>5</td>
<td>8</td>
<td>-37.5% ↓</td>
</tr>
<tr>
<td>Mankato / North Mankato Residential Building Permit Valuation, in thousands</td>
<td>September 2015 (m)</td>
<td>16,004</td>
<td>4,534</td>
<td>253.0% ↑</td>
</tr>
<tr>
<td>Mankato / North Mankato Cost of Living Index</td>
<td>Second Quarter 2015</td>
<td>94.5</td>
<td>95.6</td>
<td>-1.2% ↓</td>
</tr>
</tbody>
</table>

(m) represents a monthly 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 was flat over the year ending September 2015—although the goods-producing sector created jobs at a 2 percent rate. The unemployment rate fell, the length of the workweek rose, but the labor force contracted. All categories of new business filings declined with the exception of new LLCs, which rose 2.1 percent for the year. Initial jobless claims jumped 86.8 percent from September 2014 and average hourly earnings fell. The relative cost of living in Mankato declined in the second quarter and the value of residential building permits (these are primarily multi-unit permits) increased 253 percent over the same period last year.
Economic Indicators

State and National Indicators

<table>
<thead>
<tr>
<th>MINNESOTA Indicators</th>
<th>Sep 2015</th>
<th>Jun 2015</th>
<th>Sep 2014</th>
<th>Change from one quarter ago</th>
<th>Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonfarm payroll employment, SA</td>
<td>2,855,200</td>
<td>2,857,200</td>
<td>2,819,200</td>
<td>-0.1%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Average weekly hours worked, private sector</td>
<td>33.9</td>
<td>34.1</td>
<td>34.1</td>
<td>-0.6%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Unemployment rate, seasonally adjusted</td>
<td>3.8%</td>
<td>3.9%</td>
<td>3.7%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Earnings per hour, private sector</td>
<td>$26.00</td>
<td>$25.70</td>
<td>$25.75</td>
<td>1.2%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Philadelphia Fed Coincident Indicator, MN</td>
<td>176.38</td>
<td>175.11</td>
<td>171.14</td>
<td>0.7%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Philadelphia Fed Leading Indicator, MN</td>
<td>2.17</td>
<td>1.28</td>
<td>1.21</td>
<td>69.5%</td>
<td>79.3%</td>
</tr>
<tr>
<td>Minnesota Business Conditions Index</td>
<td>53.0</td>
<td>54.3</td>
<td>66.3</td>
<td>-2.4%</td>
<td>-20.1%</td>
</tr>
<tr>
<td>Price of milk received by farmers (cwt)</td>
<td>$17.80</td>
<td>$17.90</td>
<td>$27.10</td>
<td>-0.6%</td>
<td>-34.3%</td>
</tr>
<tr>
<td>Enplanements, MSP airport, thousands</td>
<td>1,506.7</td>
<td>1,680.9</td>
<td>1,411.3</td>
<td>-10.4%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NATIONAL Indicators</th>
<th>Sep-15</th>
<th>Jun-15</th>
<th>Sep-14</th>
<th>Change from one quarter ago</th>
<th>Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonfarm payroll employment, SA, thousands</td>
<td>142,383</td>
<td>141,870</td>
<td>139,619</td>
<td>0.4%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Industrial production, index, SA</td>
<td>107.4</td>
<td>106.7</td>
<td>106.7</td>
<td>0.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Real retail sales, SA</td>
<td>188,171</td>
<td>186,611</td>
<td>184,083</td>
<td>0.8%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Real personal Income less transfers</td>
<td>11,618.2</td>
<td>11,512.5</td>
<td>11,190.5</td>
<td>0.9%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Real personal consumption expenditures</td>
<td>11,298.0</td>
<td>11,205.1</td>
<td>10,948.6</td>
<td>0.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Unemployment rate, SA</td>
<td>5.1%</td>
<td>5.3%</td>
<td>5.9%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>New building permits, SA, thousands</td>
<td>1,848</td>
<td>2,419</td>
<td>1,638</td>
<td>-23.6%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Standard &amp; Poor’s 500 stock price index</td>
<td>1,944.4</td>
<td>2099.28</td>
<td>1993.23</td>
<td>-7.4%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Oil, price per barrel in Cushing, OK</td>
<td>$45.48</td>
<td>$59.82</td>
<td>$93.21</td>
<td>-24.0%</td>
<td>-51.2%</td>
</tr>
</tbody>
</table>

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate was slightly higher and average weekly hours worked in the private sector were lower. Two of three broader indicators suggest improvement in the state economy in the third quarter. Milk prices were 34.3 percent lower than one year ago in September. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 6.8 percent over the last twelve months.

The national economic indicators reported in the table suggest strong economic performance at the national level. Compared to year earlier levels, industrial production, retail sales, real income, real consumption expenditures, payroll employment, building permits and the unemployment rate are all improved. Oil prices have declined significantly over the past year. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. Stock prices were the only indicator that declined on a year-over-year basis in September 2015. These prices have since rebounded from these temporarily low readings.
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.

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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