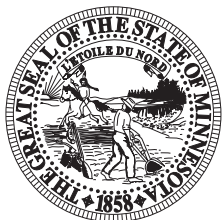




Northwest Minnesota
Economic and Business Conditions Report
Second Quarter 2014



OFFICE OF THE MINNESOTA
SECRETARY OF STATE



SCHOOL OF PUBLIC AFFAIRS
RESEARCH INSTITUTE
ST. CLOUD STATE UNIVERSITY.

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Executive Summary

Northwest Minnesota business conditions are expected to improve over the next several months according to the predictions of the St. Cloud State University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI).

The macroeconomic environment for rural America has improved and consumer sentiment has strengthened in recent months. A rise in new business formation along with an increase in residential building permits in Northwest Minnesota's two major metropolitan areas also helped drive the LEI higher in the second quarter. The SCSU Northwest Minnesota Index of Leading Economic Indicators is now 1.4 percent above its level one year ago as it approaches an all-time high.

There were 1,089 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the second quarter of 2014 — representing a 3.4 percent increase from one year ago. There were 124 new regional business incorporations in the first quarter, a 4.2 percent increase over year ago levels. Over the past 12 months, new limited liability company (LLC) filings in Northwest Minnesota were up 3.7 percent — increasing to 539 in the second quarter of 2014. New assumed names totaled 385 in this year's second quarter — a rise of 0.5 percent from the second quarter of 2014. There were 41 new filings for Northwest Minnesota nonprofits in the second quarter — 32.3 percent more filings than one year ago.

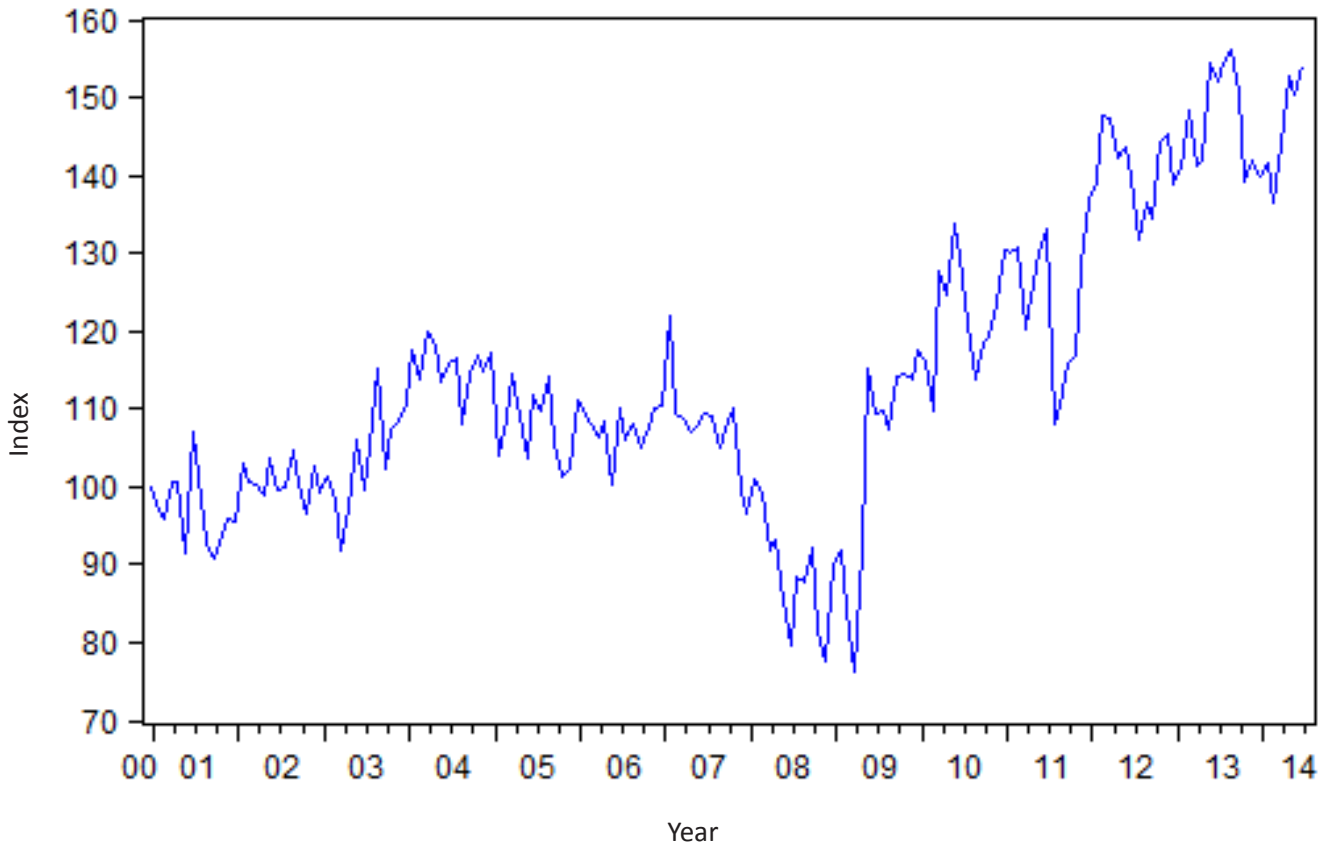
Employment of Northwest Minnesota residents increased by 1.1 percent over the year ending June 2014. The regional unemployment rate was 4.6 percent in June, an improvement on its 5.3 percent reading one year ago. Initial claims for unemployment insurance were 235 lower (a decrease of 13.5 percent) than in June 2013 and average weekly wages in the Northwest Minnesota planning area increased by 2 percent (to \$699) from the fourth quarter of 2012 to the fourth quarter of 2013.

The Fargo/Moorhead Metropolitan Statistical Area (MSA) grew very rapidly over the past quarter. This MSA tallied strong gains in employment, average hourly earnings and residential building permits. Lower initial jobless claims and a declining unemployment rate further highlight strong performance in the Fargo/Moorhead area. By comparison, economic performance in the Grand Forks/East Grand Forks MSA was much more moderate. Flat employment levels, a declining labor force, and a reduction in the average length of the workweek suggest a much slower pace of activity in this northern MSA. The Grand Forks/East Grand Forks area does report lower unemployment rates, increased hourly earnings, and substantially higher residential building permit valuation.

Northwest Minnesota Leading Economic Indicators Index

The SCSU Northwest Minnesota Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. After an uncertain beginning of the year, the area has rebounded with a 2.93 point increase in the LEI in the second quarter of 2014. The LEI for Northwest Minnesota is now a modest 1.4 percent higher than one year ago. As shown in the accompanying graph, the LEI has trended upward since the end of the Great Recession. The index is now approaching an all-time high, suggesting a favorable outlook for the Northwest Minnesota planning area over the next several months.

The SCSU Northwest Minnesota Leading Economic Indicators Index



Components of SCSU Northwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2014	Contribution to LEI, 1st quarter 2014
Rural Mainstreet Index	2.07	-2.91
Northwest Minnesota initial claims for unemployment insurance	-1.90	-2.46
Northwest Minnesota new filings of incorporation and LLCs	0.24	1.65
Fargo/Moorhead + Grand Forks/EGF MSA residential building permits	1.23	2.94
Consumer Sentiment, University of Michigan	1.29	-1.29
TOTAL CHANGE	2.93	-2.07

Because Northwest Minnesota exports many recreational vehicles, consumer sentiment is included as a proxy for demand for that industry. The University of Michigan’s Consumer Sentiment Index was a drag on the first quarter LEI, but improved to a positive reading in the second quarter. Residential building permits in the Fargo/Moorhead and Grand Forks/East Grand Forks area were up substantially in the second quarter, thus contributing favorably to the regional outlook. The Rural Mainstreet Index from Creighton University uses survey data from rural bankers and business leaders in towns averaging a population of 1,300 in 10 Midwestern states. This series is used as a proxy for economic activity in the rural areas in Northwest Minnesota. As can be seen in the accompanying table, this rural index rebounded from first quarter weakness and is now contributing positively to the LEI. New business formation in Northwest Minnesota also helped drive improvement in the LEI. The only indicator that serves as a drag on the Northwest Minnesota outlook is initial claims for unemployment insurance earlier in the year. However, as discussed later in this report, that series has also improved in recent months, so the outlook for Northwest Minnesota looks fairly strong through the end of 2014.

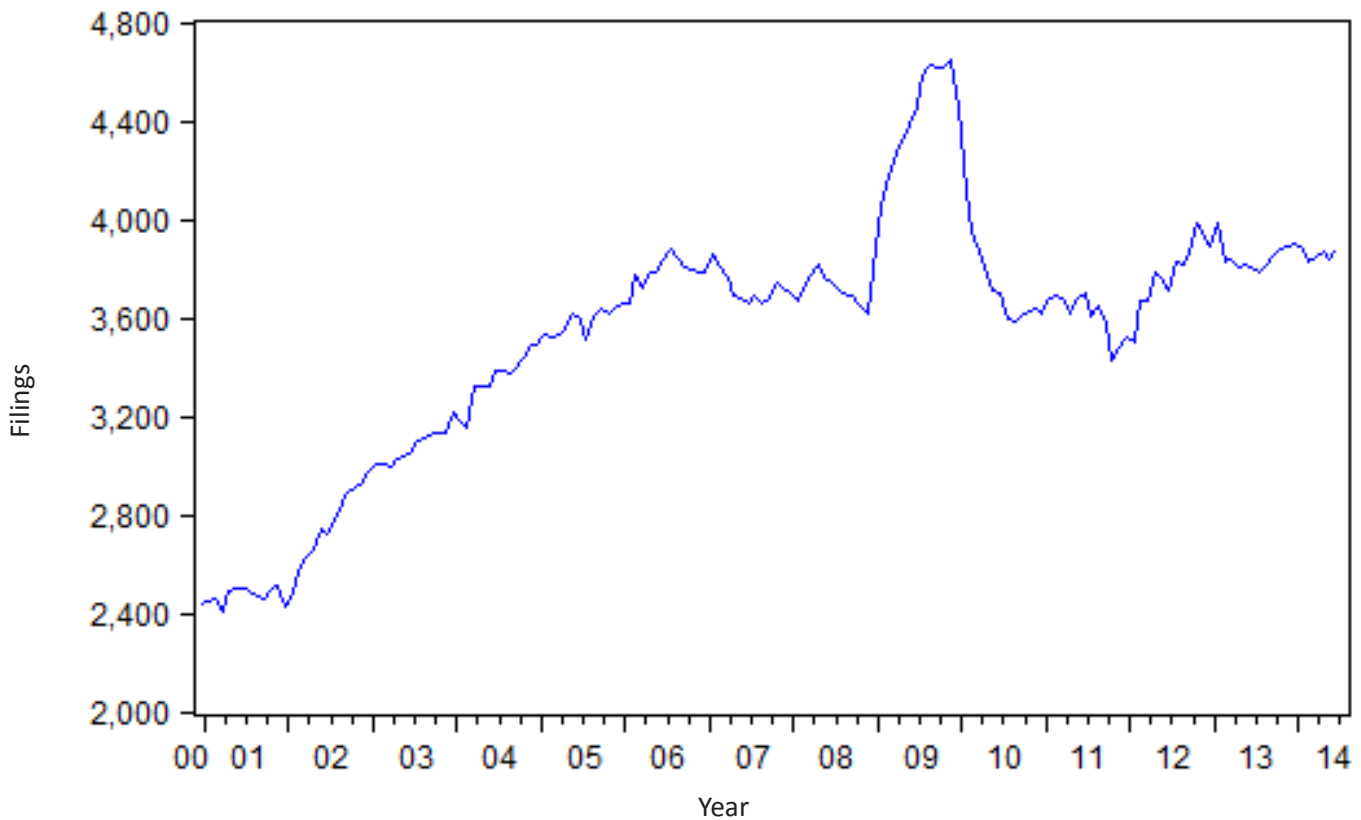
SCSU Northwest Minnesota Leading Economic Indicators Index	2014	2013	Percentage change
Rural Mainstreet Index, Creighton University, June	54.3	60.5	-10.2%
Northwest Minnesota initial claims for unemployment insurance, June	1,512	1,747	-13.5%
Northwest Minnesota new filings of incorporation and LLCs, Second Quarter	663	639	3.8%
Fargo/Moorhead and Grand Forks/EGF MSA single-family building permits, June	174	141	23.4%
Consumer Sentiment, University of Michigan, June	82.5	84.1	-1.9%
Northwest Minnesota Leading Economic Indicators Index June (December 1999 = 100)	153.9	151.8	1.4%

Northwest Minnesota Business Filings

Total new business filings in this region grew rapidly from 2000 to 2006, at which point they began to level off. The abrupt increase in new filings in the middle of 2008 is largely a result of increased new LLC filings. This outlier (resembling a shark fin) is related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota. As shown in the accompanying tables, second quarter new business filings increased by 3.4 percent from one year earlier as all categories of new business formation expanded in Northwest Minnesota.

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

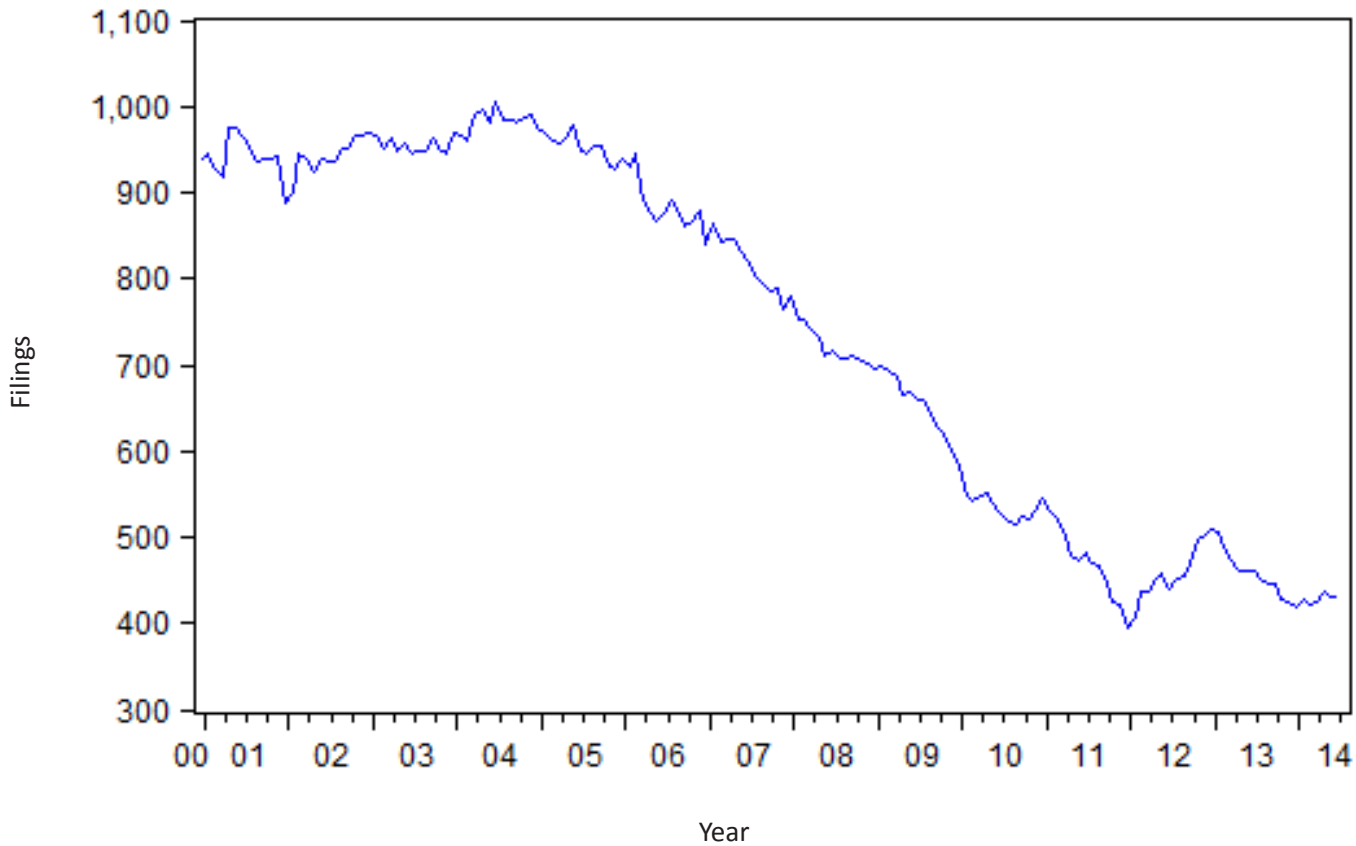
Total New Business Filings—Northwest Minnesota Planning Area
(12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northwest Minnesota Total New Business Filings	1,053	894	873	1,024	1,089	3.4%

New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, then rose in 2012, but declined again last year. New business incorporations have increased in the first half of 2014.

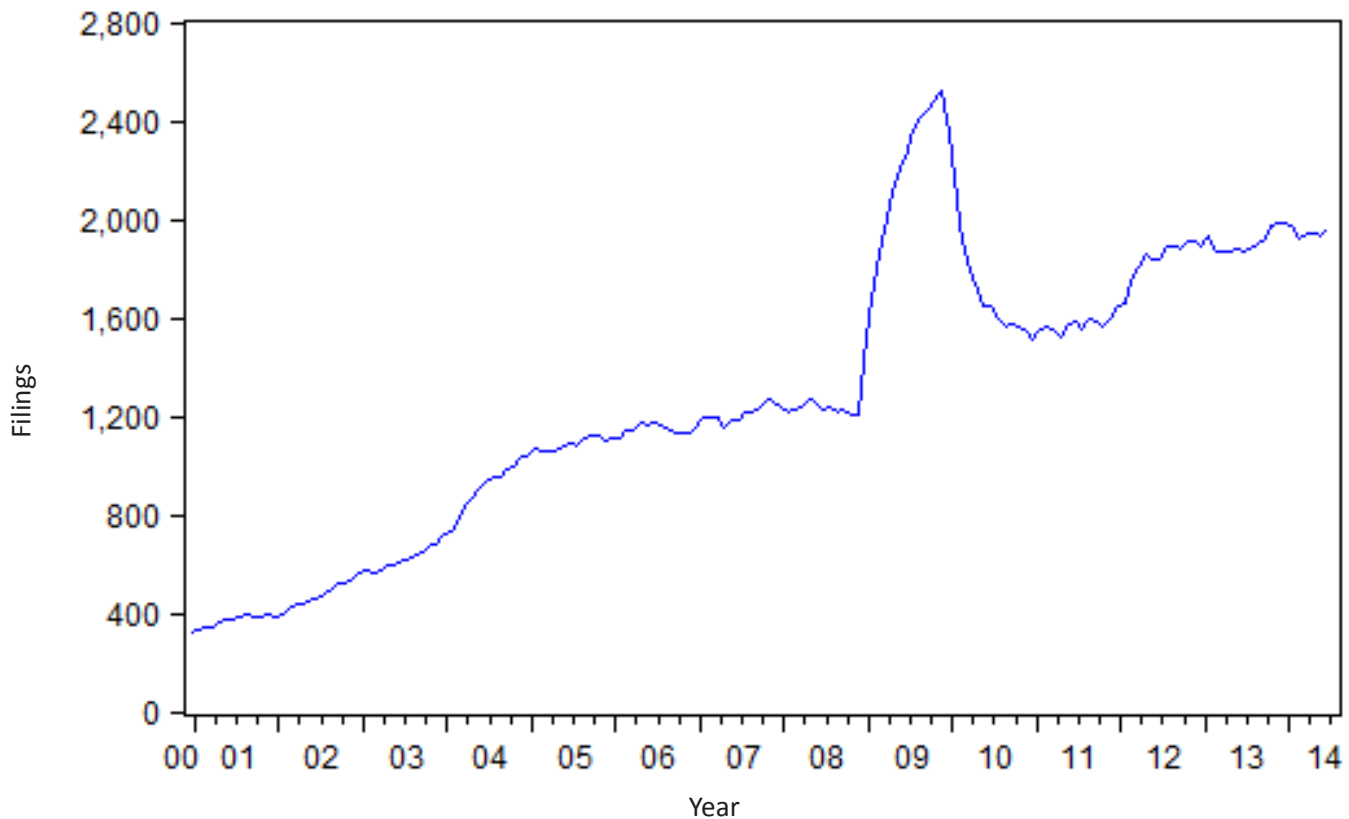
New Incorporations—Northwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northwest Minnesota New Business Incorporations	119	84	103	120	124	4.2%

There has been a move in Northwest Minnesota (and the rest of the state) away from the traditional incorporation form of business organization towards the LLC. While new business incorporations remain an important indicator of new business formation in Northwest Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northwest Minnesota. With the exception of the outlier period in 2008–2009, new LLC formation has shown a fairly steady rate of growth since 2000. Second quarter 2014 LLCs increased 3.7 percent from the same period in 2013.

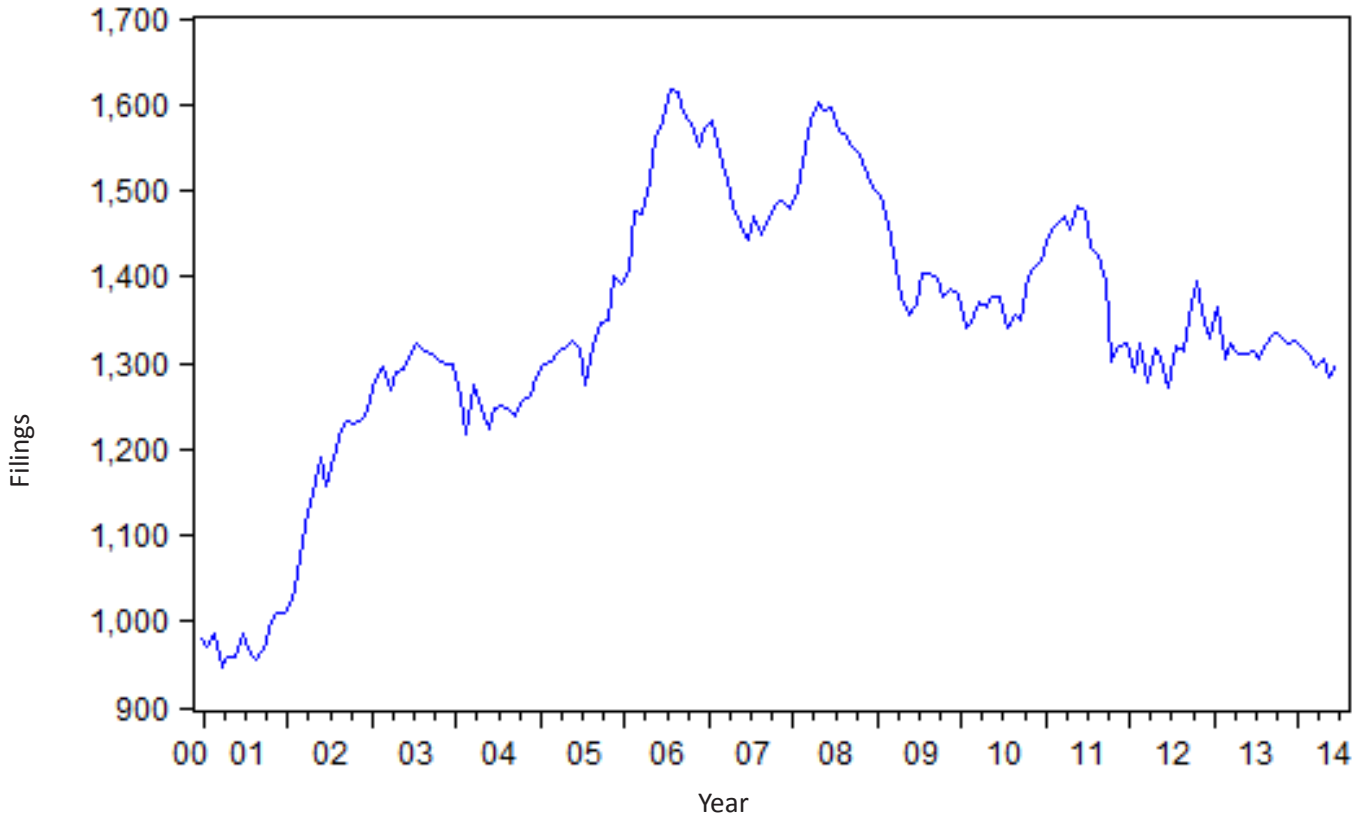
**New Limited Liability Companies—Northwest Minnesota Planning Area
(12-month moving total)**



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	520	445	467	514	539	3.7%

Assumed names, which include sole proprietors or organizations that do not have limited liability, increased slightly from the same period last year. This series has not yet recovered from its peak levels of 2006–2007.

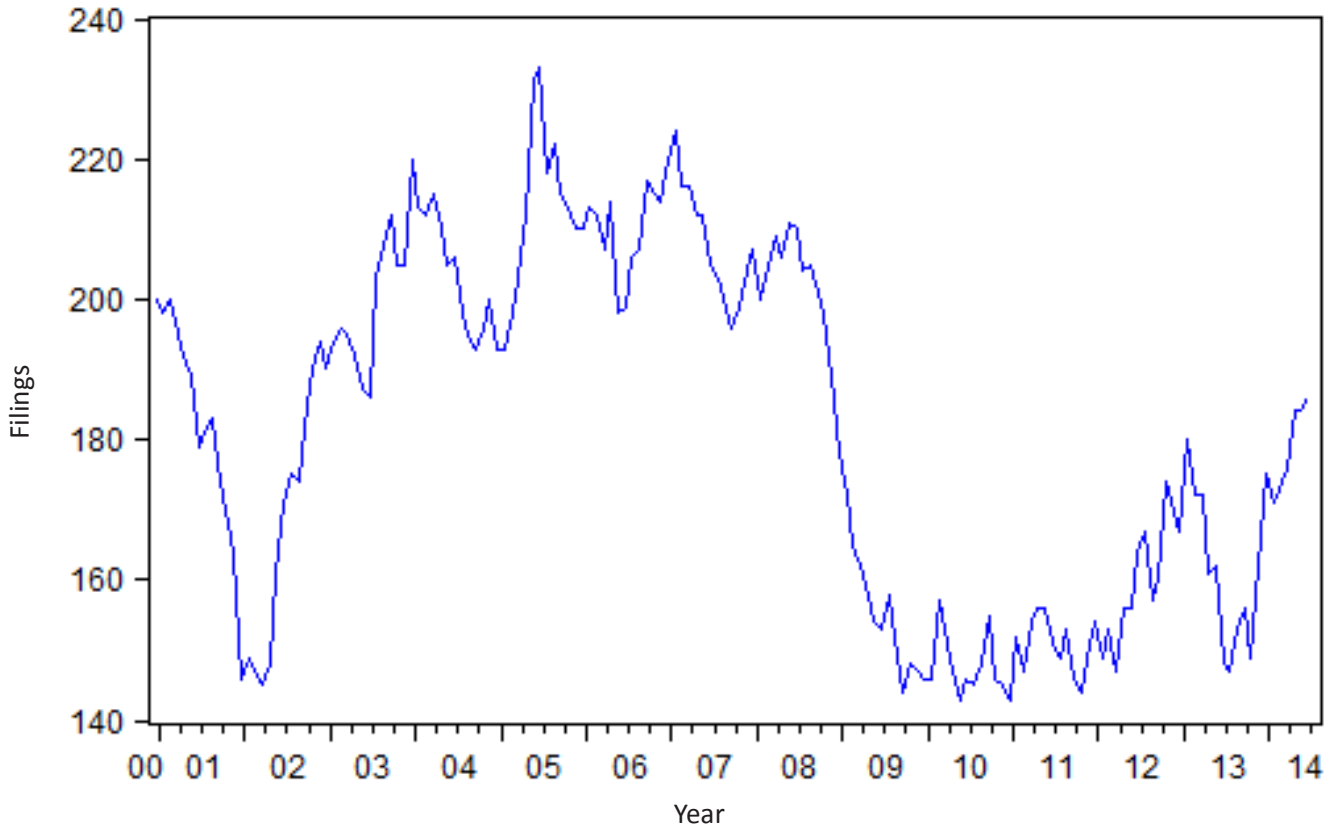
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northwest Minnesota New Assumed Names	383	325	243	345	385	0.5%

After bottoming out during 2009 to 2012, the number of new Northwest Minnesota nonprofits registered with the Office of the Minnesota Secretary of State increased, though still below the levels seen before the Great Recession. The number of newly formed nonprofits expanded from 31 one year ago to 41 in the 2014 second quarter — a 32.3 percent increase.

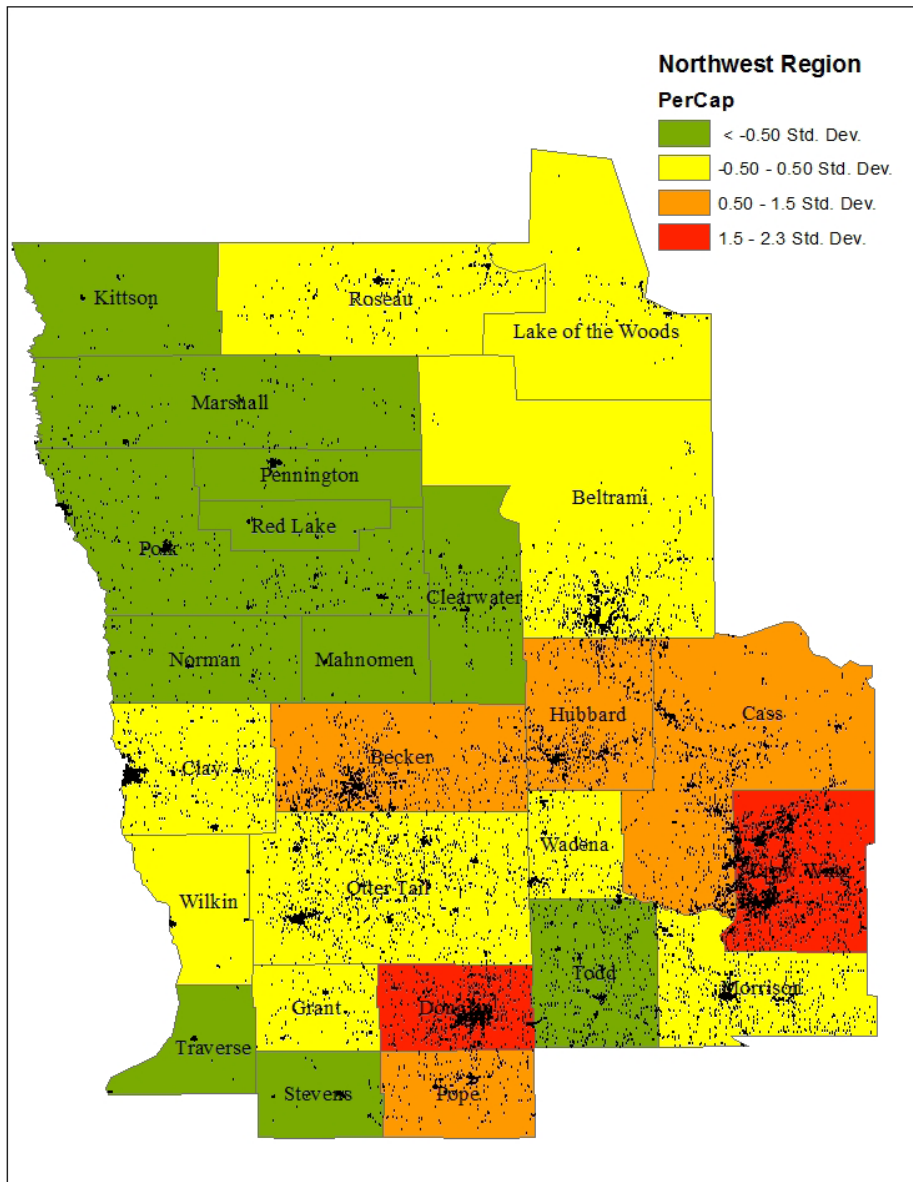
New Nonprofits—Northwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2013	III: 2013	IV: 2013	I: 2014	II: 2014	2014 Quarter 2: Percent change from prior year
Northwest Minnesota New Nonprofits	31	40	60	45	41	32.3%

The highlighted area in the map below is the 26-county Northwest Minnesota planning area, consisting of the following counties: Becker, Beltrami, Cass, Clay, Clearwater, Crow Wing, Douglas, Grant, Hubbard, Kittson, Lake of the Woods, Mahnommen, Marshall, Morrison, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd, Traverse, Wadena and Wilkin. Each dot within the area is a new business filing that was registered between April 2000 and April 2010. These dates were chosen to represent when data collection began for the decennial census in each of these years. Over this period, the population of the State of Minnesota increased by 7.8 percent. Six counties in the Northwest Minnesota planning area experienced population growth that was more rapid than the state as a whole over this period: Becker, Beltrami, Clay, Crow Wing, Douglas and Hubbard. Population grew at a lower rate than the state average in nine other counties (Cass, Clearwater, Mahnommen, Morrison, Otter Tail, Pennington, Polk, Todd and Wadena). Eleven Northwest Minnesota counties experienced declining populations from 2000 to 2010 (Grant, Kittson, Lake of the Woods, Marshall, Norman, Pope, Red Lake, Roseau, Stevens, Traverse and Wilkin).

Per Capita New Business Formation Between 2000 and 2010 — Northwest Minnesota Planning Region



The coloration of the map reflects deviations in new business formation per capita from the planning area average over the 10-year period ending in 2010. For example, while Clay County (colored yellow) enjoyed substantial numbers of newly formed businesses over the decade of the 2000s, it also experienced significant population growth. Compared to the overall planning area, Clay County's new business formation per capita was just average (within +/- 0.5 standard deviation) over this period. As shown on the accompanying map, there are several other Northwest Minnesota counties (those colored yellow) that experienced average per capita business formation in the 2000s. Note that eight counties (colored green) in the geographical northwest portion of the planning region all experienced relative declines in per capita business formation. None of these counties had population growth that exceeded the state average (and four of them — Kittson, Marshall, Norman and Red Lake — actually had declining populations). Several counties (colored orange and red) had relative gains in per capita business formation. Crow Wing and Douglas counties (colored red) stand out as particularly high growth per capita business formation areas. Becker, Cass, Hubbard and Pope counties also enjoyed a relative improvement in per capita business formation in the first decade of the 21st century. Note that these orange/red outliers tend to be clustered in the interior of the planning region, closer to the central part of the state.

For the Northwest Minnesota planning region, there appears to be a correlation between population growth and new business formation per capita. Those counties that experienced the most rapid population growth from 2000 to 2010 also appear to have experienced the greatest gains in per capita new business formation. This is particularly true of counties bordering on the Twin Cities planning region. Of course, what really matters is "net" business formation—a measure that would not only include business openings, but also business closings. Perhaps those counties that enjoy the greatest gains in newly formed businesses also experience the most closings. Data limitations currently constrain efforts to estimate net new business formation.

As noted in last quarter's report, one striking pattern of new business formation that emerges from this GIS mapping tool is the importance of roadways. In areas throughout the State of Minnesota, business formation tends to cluster around major roadways. This is evident in observing the pattern of dots in Northwest Minnesota that are clustered around U.S. Highways 2, 10, 59, 71 and Interstate 94.

Northwest Minnesota Labor Market Conditions

Employment in the Northwest Minnesota planning area grew 1.1 percent over the past year. The area has settled into a steady job growth rate after the decline of 2008 and upsurge in 2010. Note that Northwest (and Southwest) Minnesota employment did not decline during the Great Recession as much as was observed in other Minnesota planning areas. Given the predictions of the LEI, employment growth should continue to be steady in Northwest Minnesota in the second half of 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.

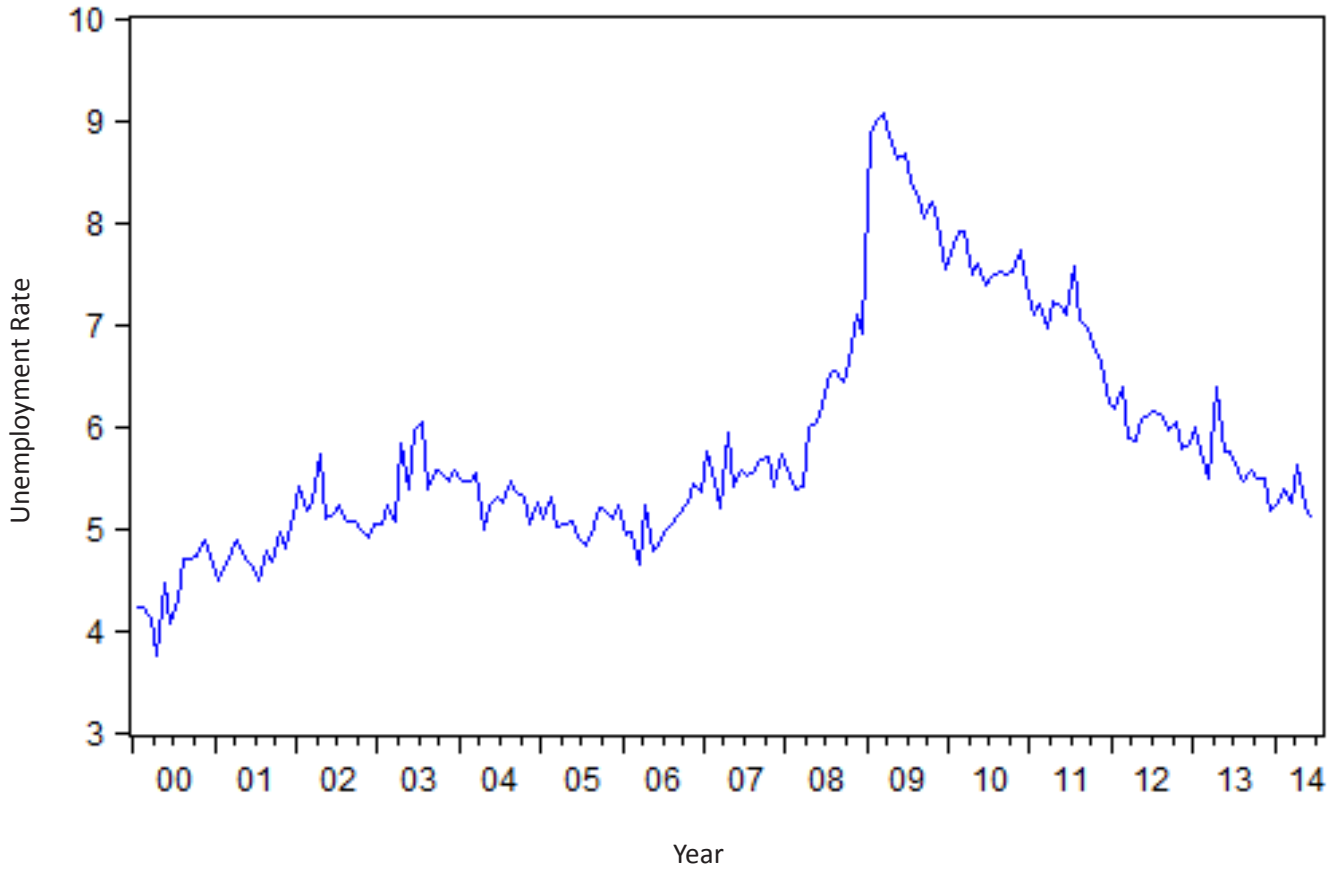
Employment—Northwest Minnesota Planning Area (12-month moving average)



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Employment (Not seasonally adjusted)	291,438	276,655	278,175	280,823	284,487	291,444	294,613

Seasonally adjusted unemployment rates continue to fall in Northwest Minnesota. The unemployment rate in this part of Minnesota has declined since peaking at the end of the Great Recession. The non-seasonally adjusted unemployment rate now stands at 4.6 percent, well below its 5.3 percent level in June 2013.

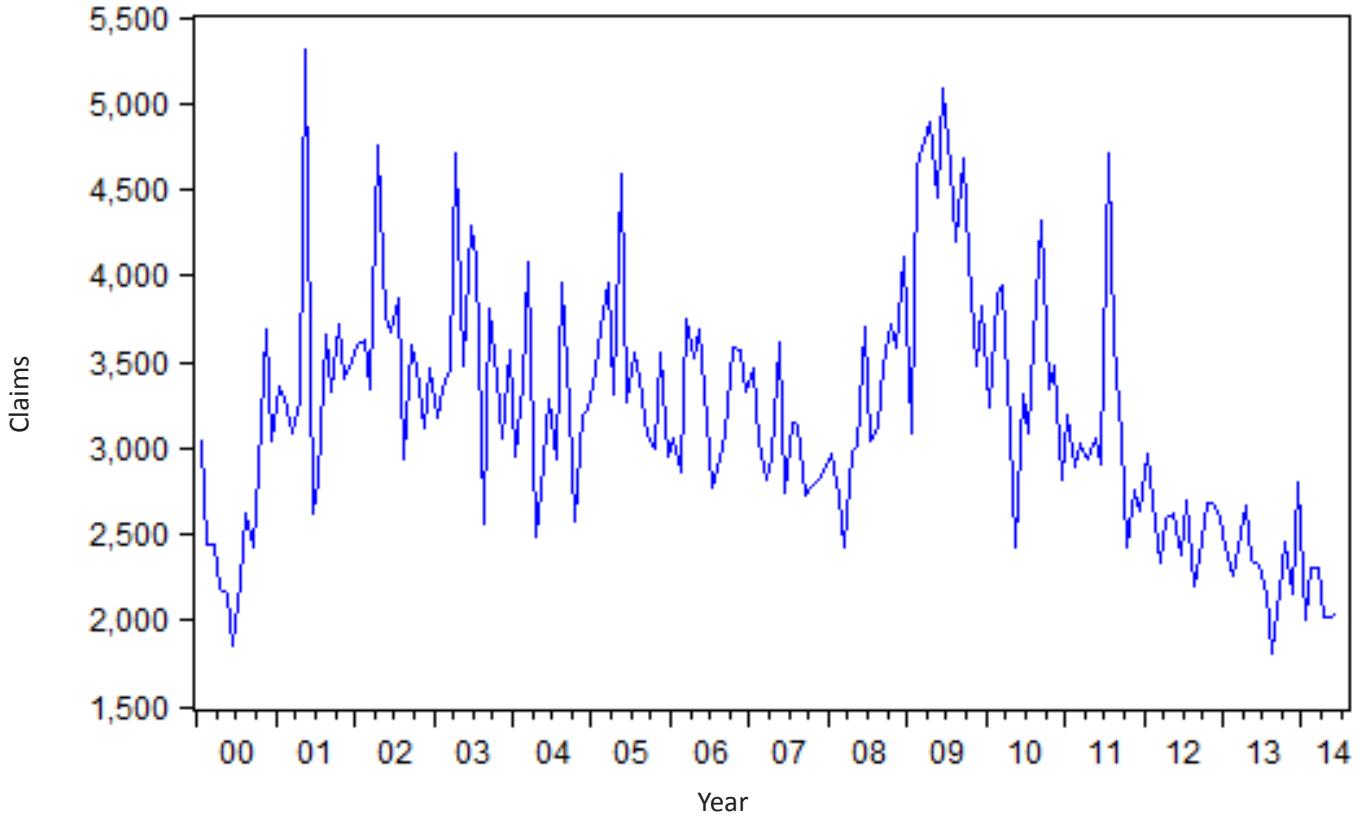
Unemployment Rate, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Unemployment Rate (Not seasonally adjusted)	5.3%	7.3%	7.0%	6.9%	5.6%	4.4%	4.6%

New claims for June 2014 unemployment insurance decreased from year-ago levels. They are now lower than one year ago by 235 (a 13.5 percent decline). Initial jobless claims are well below their heightened levels during the Great Recession.

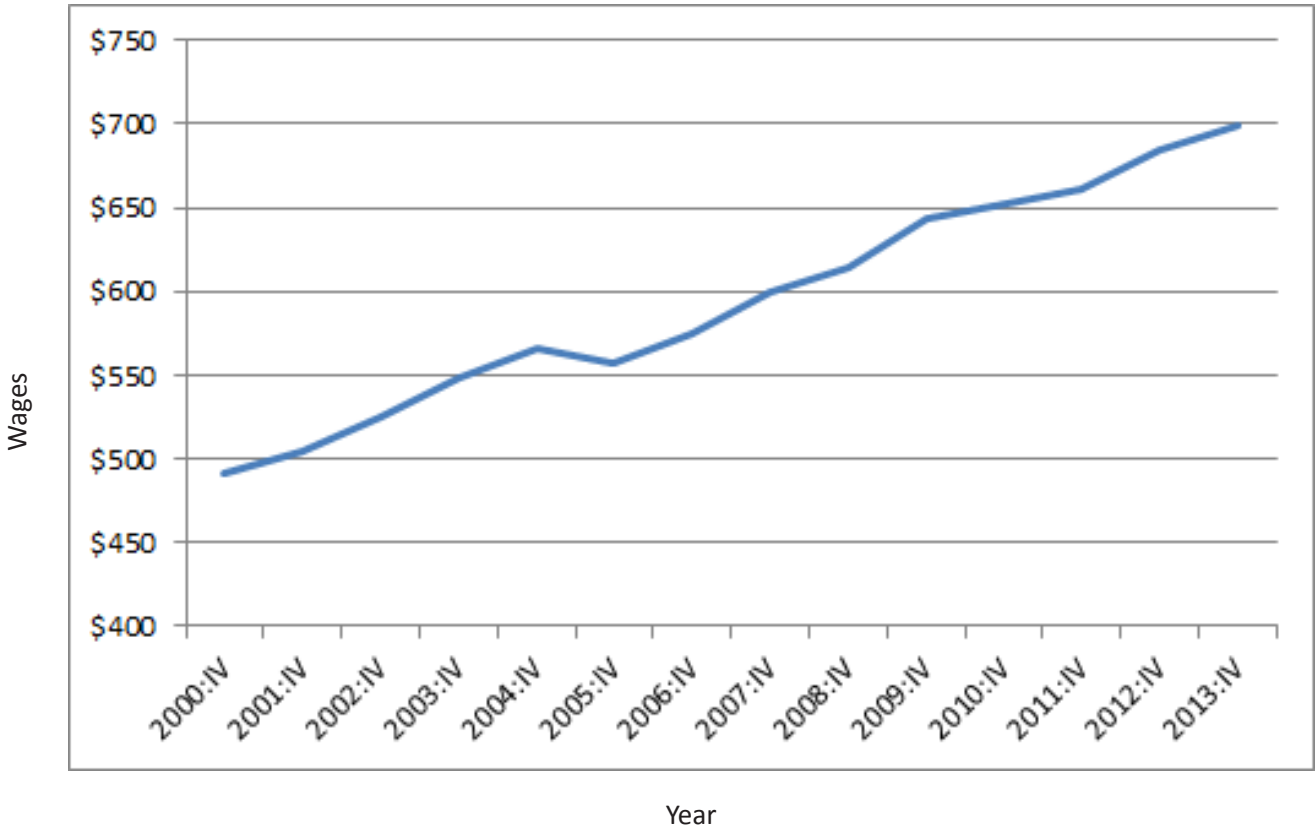
**Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—
Northwest Minnesota Planning Area**



Month	June 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Initial claims (Not seasonally adjusted)	1,747	2,569	1,812	1,975	1,540	1,454	1,512

The average weekly wage in Northwest Minnesota in the fourth quarter of 2013 (the most recently available data) was 2 percent higher than it was one year earlier. At \$699, the average weekly wage in Northwest Minnesota is the lowest of Minnesota’s six planning areas.

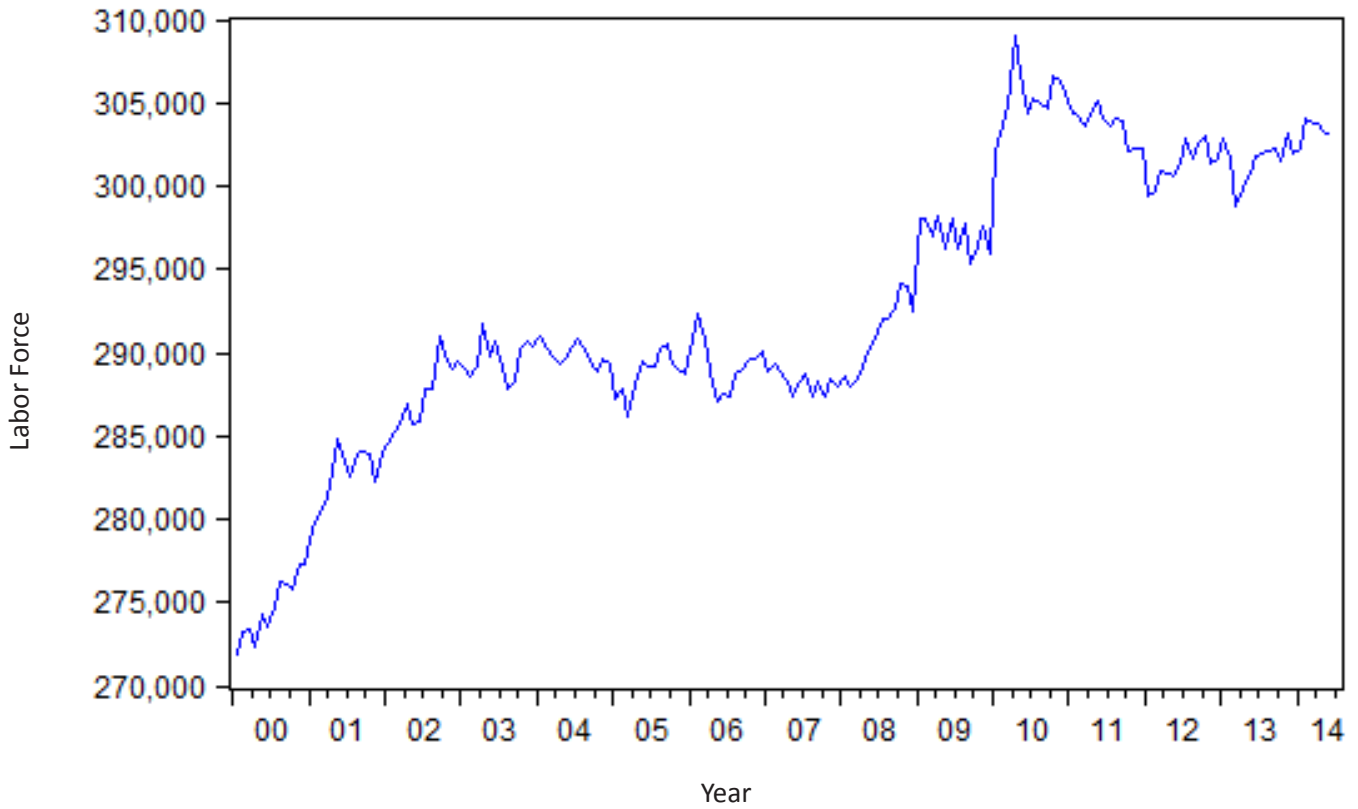
Average Weekly Wage —Northwest Minnesota Planning Area



Quarter	2008: 4th	2009: 4th	2010: 4th	2011: 4th	2012: 4th	2013: 4th
Average Weekly Wage	\$615	\$643	\$653	\$661	\$685	\$699

The size of the Northwest Minnesota labor force increased from one year ago, but is still lower than it was in June 2010. Since 2000, however, the labor force has experienced considerable growth in this part of the state. With more than 300,000 workers in the regional labor force, the Northwest Minnesota labor force has increased by 10.4 percent from its level in 2000.

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



Year (June)	2009	2010	2011	2012	2013	2014
Labor Force (Not seasonally adjusted)	304,485	310,796	310,249	307,270	307,640	308,892

Fargo / Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2014 (m)	138,200	132,400	4.4% ↑	2.1%
Manufacturing Employment	June 2014 (m)	10,200	10,100	1.0% ↑	1.6%
Mining, Logging, Construction Employment	June 2014 (m)	10,600	8,700	21.8% ↑	3.0%
Average Weekly Work Hours, Private Sector	June 2014 (m)	36.0	36.2	-0.6% ↓	33.6 (since 2007)
Average Earnings Per Hour, Private Sector	June 2014 (m)	\$23.59	\$22.03	7.1% ↑	3.9% (since 2007)
Unemployment Rate	June 2014 (m)	3.0%	3.5%	NA	3.4%
Labor Force	June 2014 (m)	125,545	122,515	2.5% ↑	1.1%
Initial Jobless Claims	June 2014 (m)	359	442	-18.8% ↓	NA
Fargo / Moorhead Residential Building Permit Valuation	June 2014 (m)	32,374	19,055	69.9% ↑	24,624
Fargo / Moorhead Cost of Living Index	First Quarter 2014	94.2	93.5	0.7% ↑	NA

Grand Forks / East Grand Forks MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2014 (m)	55,800	55,800	0.0% ↔	1.0%
Manufacturing Employment	June 2014 (m)	3,500	3,700	-5.4% ↓	-0.2%
Mining, Logging, Construction Employment	June 2014 (m)	3,600	3,300	8.0% ↑	0.6%
Average Weekly Work Hours, Private Sector	June 2014 (m)	34.3	35.6	-3.7% ↓	33.8 (since 2007)
Average Earnings Per Hour, Private Sector	June 2014 (m)	\$21.61	\$20.67	4.5% ↑	1.3% (since 2007)
Unemployment Rate	June 2014 (m)	3.9%	4.1%	NA	4.3%
Labor Force	June 2014 (m)	53,660	54,023	-0.7% ↓	0.0%
Initial Jobless Claims	June 2014 (m)	206	221	-6.8% ↓	NA
Grand Forks / East Grand Forks Residential Building Permit Valuation	June 2014 (m)	32,374	19,055	69.9% ↑	6,591

(m) represents a monthly series

The Bureau of Labor Statistics identifies two MSAs in Northwest Minnesota — each of which crosses the North Dakota/Minnesota border. While North Dakota business filing data are not incorporated in this report, a variety of economic measures can be analyzed. The data in the table show strong employment gains in the Fargo/Moorhead area (with an extremely large increase in mining/logging/construction employment) and a 7.1 percent increase in average hourly earnings. With a decrease in initial jobless claims, a rising labor force, lower unemployment rates, and a large increase in the valuation of residential building permits, the Fargo/Moorhead MSA had a very strong second quarter in 2014. This strong economic performance may be putting upward pressure on the area cost of living. While the cost of living in Fargo/Moorhead remains considerably lower than other metro areas around the country, the relative advantage deteriorated by 0.7 percent in the first quarter of 2014.

The Grand Forks/East Grand Forks MSA tallied considerably weaker results than their neighbor to the south. Grand Forks/East Grand Forks employment was flat with a rise in mining/logging/construction employment largely offset by declining manufacturing employment. Average hourly earnings increased, although the length of the workweek declined. This area suffers from a declining labor force, which perhaps explains the reduction in the area unemployment rate. Two bright spots for the Grand Forks/East Grand Forks area are declining initial jobless claims and an impressive increase in the value of residential building permits.

MINNESOTA Indicators	June 2014	March 2014	June 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,822,400	2,812,000	2,776,000	0.4%	1.7%
Average weekly hours worked, private sector	34.5	34.0	34.3	1.5%	0.6%
Unemployment rate, seasonally adjusted	4.5%	4.8%	5.1%	NA	NA
Earnings per hour, private sector	\$25.71	\$25.83	\$25.55	-0.5%	0.6%
Philadelphia Fed Coincident Indicator, MN	163.54	162.45	159.10	0.7%	2.8%
Philadelphia Fed Leading Indicator, MN	1.43	1.27	1.30	12.6%	10.0%
Minnesota Business Conditions Index	70.1	66.1	56.2	6.1%	24.7%
Price of milk received by farmers (cwt)	\$23.40	\$25.90	\$19.90	-9.7%	17.6%
Enplanements, MSP airport, thousands	1,609.6	1,615.7	1,561.1	-0.4%	3.1%

NATIONAL Indicators	June 2014	March 2014	June 2013	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	138,795	137,964	136,285	0.6%	1.8%
Industrial production, index, SA	103.9	103.2	99.6	0.7%	4.3%
Real retail sales, SA	185,067	184,187	181,193	0.5%	2.1%
Real personal Income less transfers	11,227	11,176	10,975	0.5%	2.3%
Real personal consumption expenditures	10,929	10,903	10,682	0.2%	2.3%
Unemployment rate	6.1%	6.7%	7.5%	NA	NA
New building permits, thousands	973	1,000	938	-2.7%	3.7%
Standard & Poor's 500 stock price index	1,947.09	1,863.52	1,618.77	4.5%	20.3%
Oil, price per barrel in Cushing, OK	\$105.79	\$100.8	\$95.77	5.0%	10.5%

Across the state there was growth in payrolls and a decline in the unemployment rate from one year ago. Average weekly hours worked and earnings per hour in the private sector each rose 0.6 percent over the past year. Broader indicators suggest strength in the state economy. Milk prices are lower than last quarter but remain 17.6 percent higher than one year ago — an important favorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul Airport increased by 3.1 percent over the last 12 months.

National output growth in the second quarter was strong, suggesting the national economy has overcome the weather-induced weakness of the first quarter. Compared to year earlier levels, stock prices, industrial production, retail sales, real income, real consumption expenditures, payroll employment and the unemployment rate all look strong. Oil prices have increased over the past year, taking some discretionary income out of consumers' hands. While geopolitical uncertainties have the potential to derail continued economic progress, it looks like the end of 2014 will look considerably better than its beginning.

The Northwest Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Northwest Minnesota Planning Area consists of 26 counties: Becker, Beltrami, Cass, Clay, Clearwater, Crow Wing, Douglas, Grant, Hubbard, Kittson, Lake of the Woods, Mahnommen, Marshall, Morrison, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd, Traverse, Wadena and Wilkin.

Reports on third quarter 2014 business and economic conditions in each of the six planning areas will be available in December 2014.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Joseph Kucan. Our thanks to Professor David Wall of the SCSU Geography Department for GIS assistance.

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Metropolitan Airports Commission: MSP Enplanements.

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Office of the Minnesota Secretary of State: Assumed Names, Business Incorporations, Limited Liability Companies, Nonprofits.

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U.S. Bureau of Census: Residential Building Permits, Retail Sales.

U.S. Department of Agriculture: Milk Prices.

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