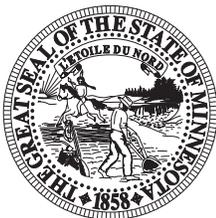


Southeast Minnesota Economic and Business Conditions Report First Quarter 2017

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities.

The Southeast Minnesota Planning Area consists of 11 counties:

Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona.



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TABLE OF CONTENTS

Executive Summary	1
Southeast Minnesota Leading Economic Indicators Index	2
Southeast Minnesota Business Filings.....	4
Minnesota Business Snapshot Survey Results.....	9
Maps.....	15
Southeast Minnesota Labor Market Conditions.....	17
Southeast Minnesota Bankruptcies.....	22
Economic Indicators	23
Sources	25

Executive Summary

Strong economic growth in Southeast Minnesota is expected to continue over the next several months according to the most recent prediction of the Southeast Minnesota Index of Leading Economic Indicators (LEI). After a quarter in which the LEI experienced a 4.04 point increase, the Southeast Minnesota leading index surged by 12.76 points in the first quarter of 2017. Four components of the LEI had positive readings in the first quarter. A decrease in initial claims for unemployment benefits, improvement in the Minnesota Business Conditions Index (which serves as a general measure of state business conditions), a larger number of residential building permits in Rochester, and increased new filings of incorporation and LLC in the Southeast Minnesota planning area all helped drive the LEI higher.

There were 932 new business filings with the Office of the Minnesota Secretary of State in Southeast Minnesota in the first quarter of 2017 — representing a 0.3 percent increase from one year ago. There were 70 new regional business incorporations in the first quarter, a 12.5 percent reduction from prior year levels. At a level of 585, first quarter new limited liability company (LLC) filings in Southeast Minnesota were 8.5 percent higher than the first quarter of 2016. With 246 filings, new assumed name activity was 8.9 percent lower than the same quarter last year. There were 9 fewer new filings for Southeast Minnesota non-profits over the last three months compared to one year earlier.

Sixty percent of new business filers in the Southeast Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year’s first quarter. Results of this voluntary survey indicate that more than five percent of new filers come from communities of color and nearly seven percent are veterans. Two percent of new filers come from the disability community and a similar percentage of new filings are made by the immigrant community. Thirty-six percent of new business filings in Southeast Minnesota in this year’s first quarter were initiated by women. MBS results also show that most new business filers in Southeast Minnesota have between 0 and \$10,000 in annual gross revenues (although 53 new filers have revenues in excess of \$50,000). The most popular industries for new businesses in Southeast Minnesota are construction, retail trade, and other services. Employment levels at most new firms are between 0 and 5 workers, and 43 percent of those starting a new business consider this a part-time activity.

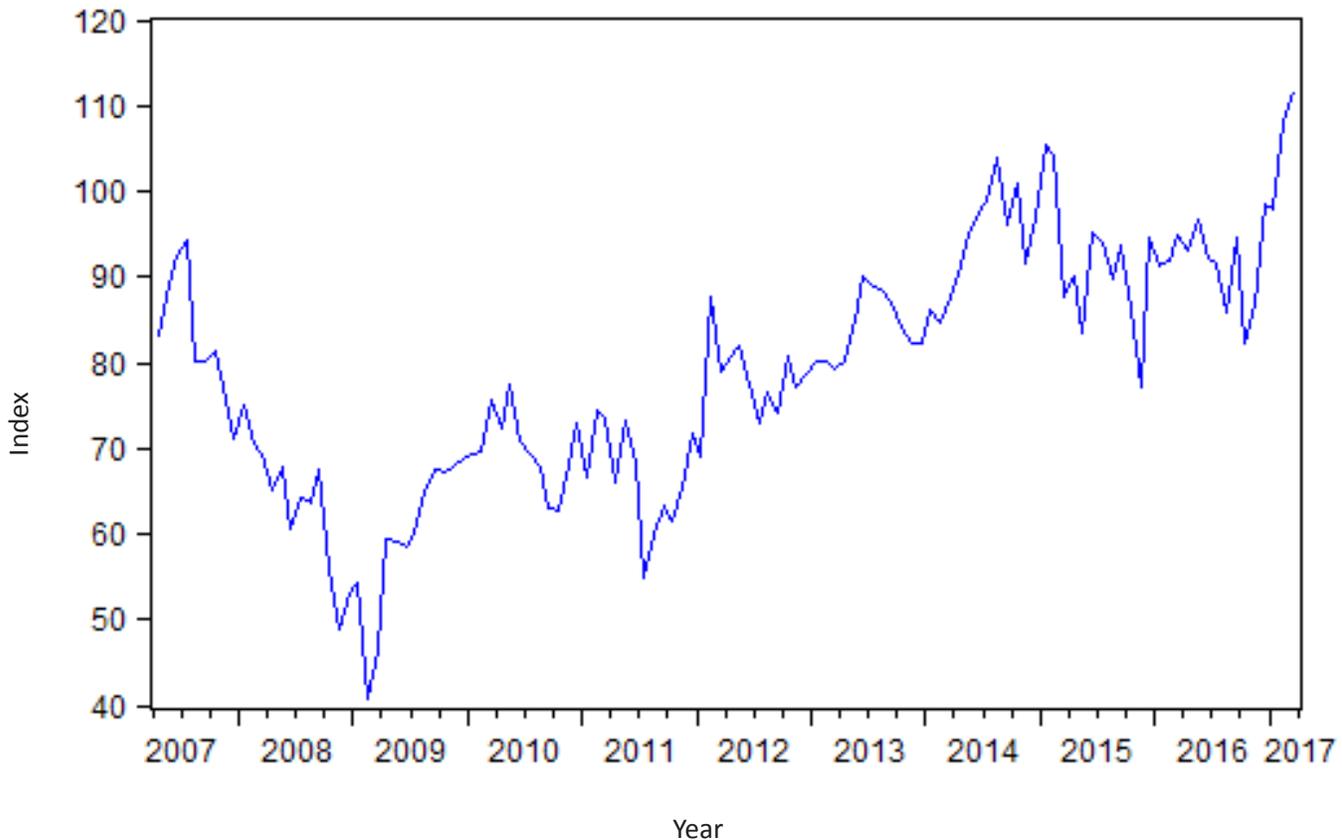
Employment of Southeast Minnesota residents fell by 0.1 percent over the year ending March 2017. The regional unemployment rate was 3.9 percent in March, lower than the 4.1 percent level recorded one year earlier. Initial claims for unemployment insurance in March 2017 were slightly higher than one year earlier and the Southeast Minnesota labor force contracted by 0.3 percent. Job vacancies in Southeast Minnesota remain elevated and the planning area’s bankruptcies fell.

Data from the Rochester area—the largest market in Southeast Minnesota—were mostly favorable, with an increase in overall employment (along with employment growth in the key health/education sector), higher new business filings, a rise in the value of residential building permits, a lower unemployment rate, and increased hourly earnings having a positive impact on the outlook. On the negative side was a smaller labor force and lower weekly work hours.

Southeast Minnesota Leading Economic Indicators Index

The SCSU Southeast 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 finished 12.76 points higher in the first quarter, and is now 17.8 percent above its level of one year earlier. As can be seen in the accompanying figure, the LEI has been on the rise in recent quarters.

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



Components of SCSU Southeast Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 1st quarter 2017	Contribution to LEI, 4th quarter 2016
Minnesota Business Conditions Index	6.01	2.79
Southeast Minnesota initial claims for unemployment insurance	2.30	3.45
Southeast Minnesota new filings of incorporation and LLCs	1.82	-2.46
Rochester MSA residential building permits	3.42	-4.12
Consumer Sentiment, University of Michigan	-0.79	4.38
TOTAL CHANGE	12.76	4.04

Four of five components of the LEI had a positive reading in the first quarter. Recent improvement in the Minnesota Business Conditions survey (conducted by Creighton University), which serves as a general measure of statewide business conditions, had a positive value in this quarter's index. Lower initial claims for unemployment insurance in recent months also helped boost the LEI in the first quarter. Increased new filings of incorporation and LLC in the Southeast Minnesota planning area and higher Rochester metro area residential building permits also helped lift the index. Softer consumer sentiment weighed on the index in the most recent quarter.

SCSU Southeast Minnesota

Leading Economic Indicators Index

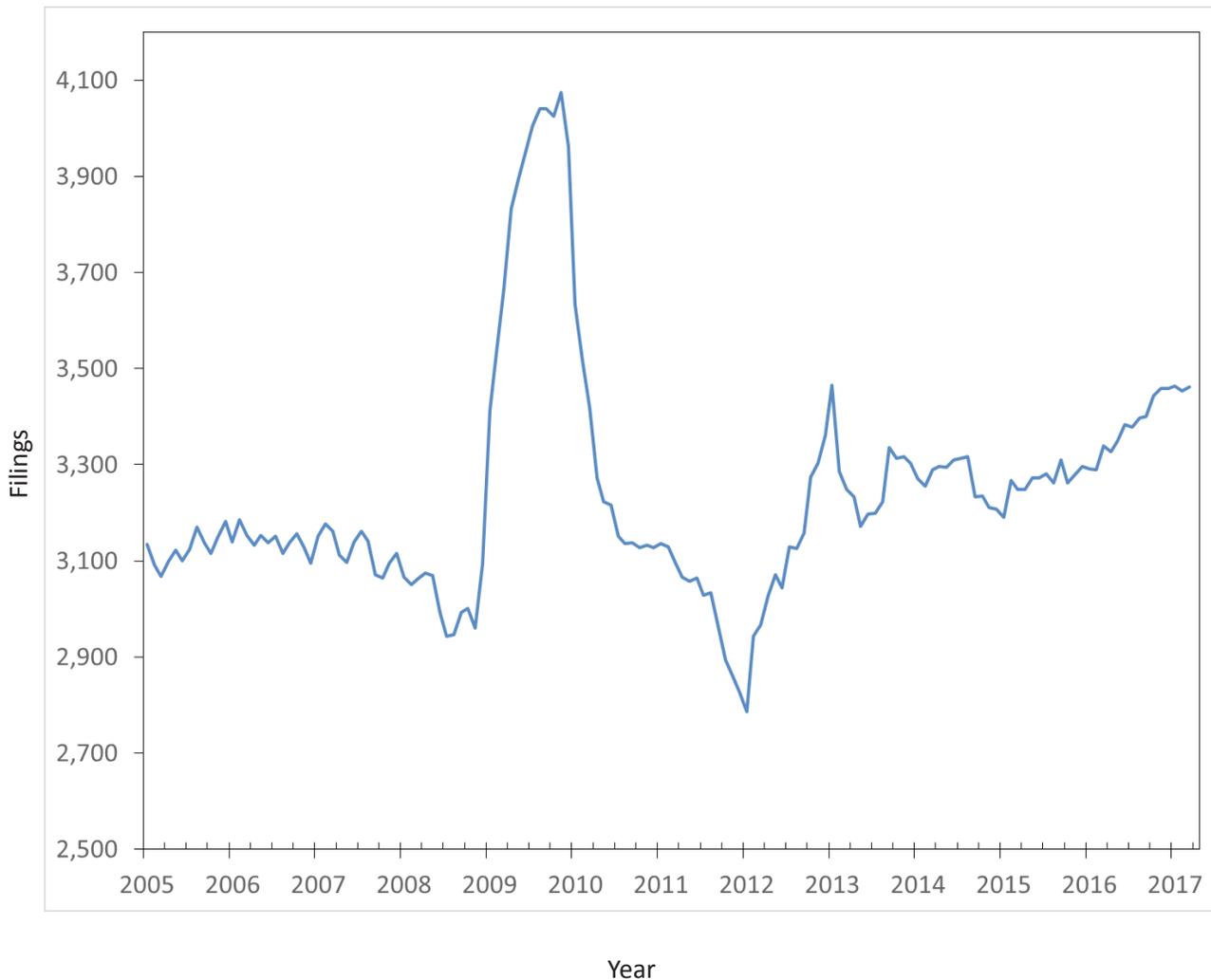
	2016	2015	Percentage change
Minnesota Business Conditions Index March	61.8	50.7	21.9%
Southeast Minnesota initial claims for unemployment insurance March	1,086	1,070	1.5%
Southeast Minnesota new filings of incorporation and LLCs First Quarter	655	619	5.8%
Rochester MSA single-family building permits March	52	34	52.9%
Consumer Sentiment, University of Michigan March	96.9	91.0	6.5%
Southeast Minnesota Leading Economic Indicators Index March (December 1999 = 100)	111.8	94.9	17.8%

Southeast Minnesota Business Filings

First quarter new business filings rose 0.3 percent to a level of 932. As can be seen in the accompanying graph, the 12-month moving total of new business filings in Southeast Minnesota has trended upward since the end of 2014. 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 due to legal and regulatory issues and appears to be a one-time transitory event seen in the data in all regions of Minnesota.

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

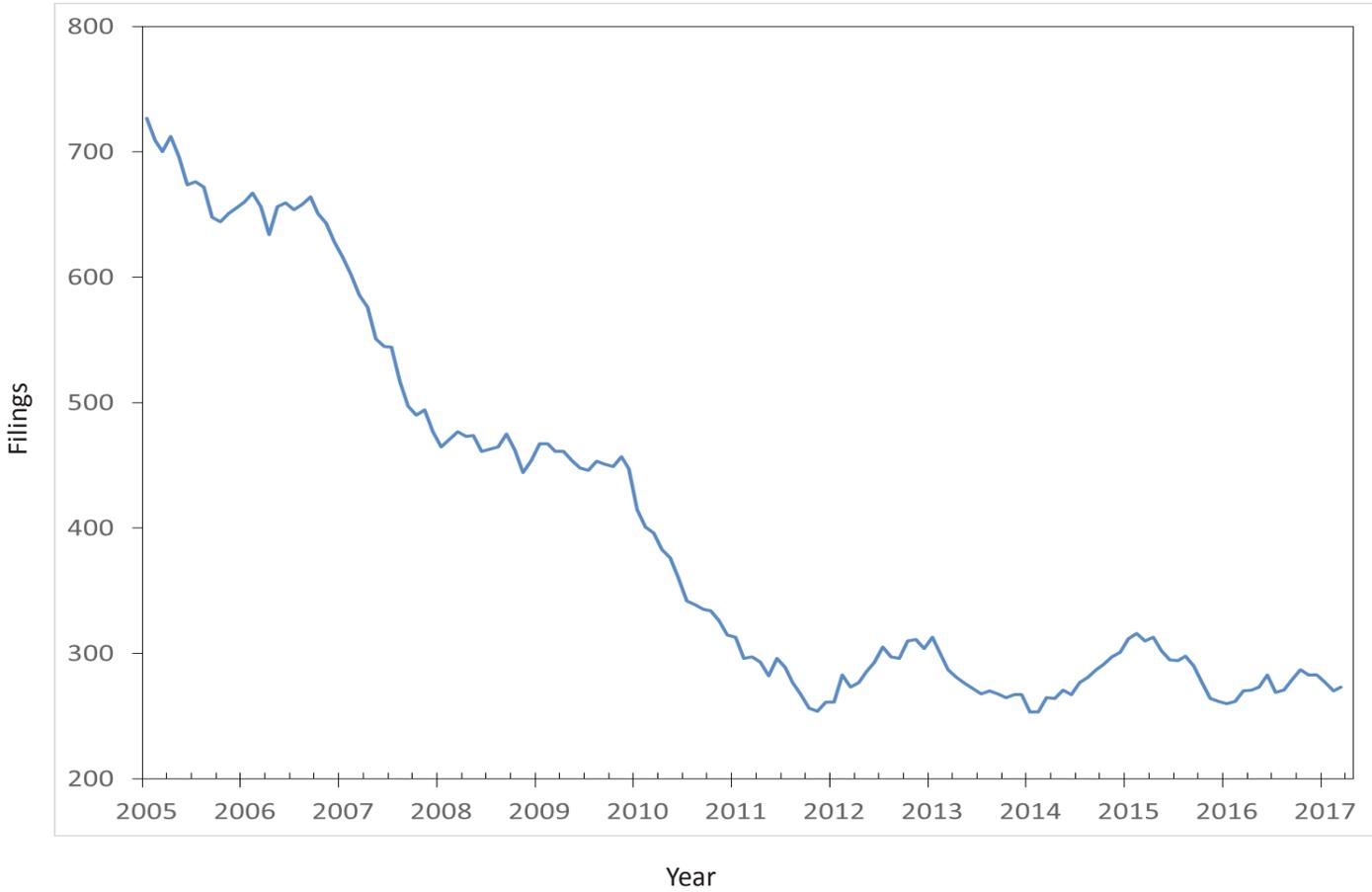
Total New Business Filings—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southeast Minnesota Total New Business Filings	929	911	821	798	932	0.3%

New business incorporations trended downward in Southeast Minnesota from 2005 to 2012, but have fluctuated around a fairly constant trend in recent years. New incorporations fell 12.5 percent from year earlier levels in the most recent quarter.

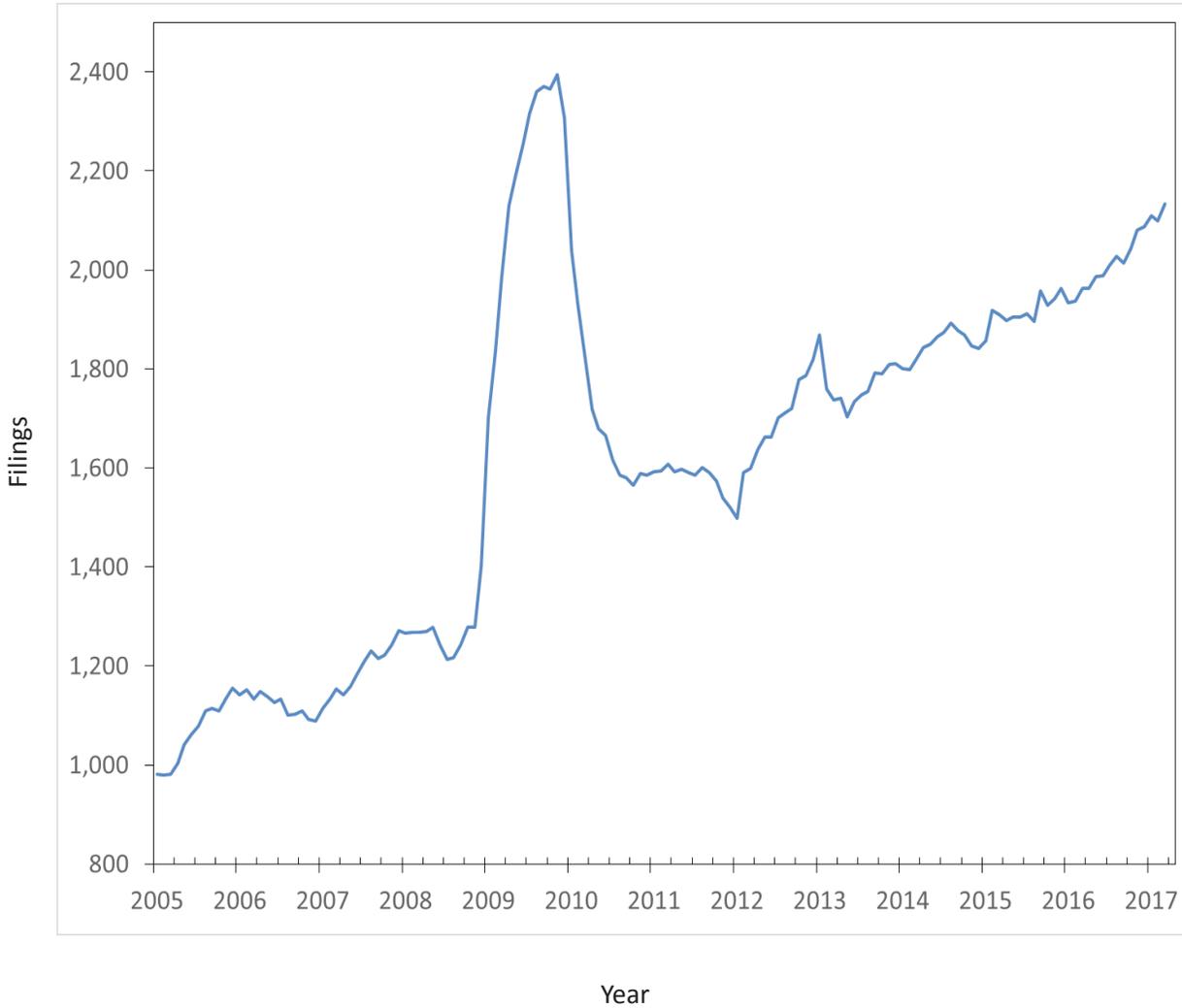
New Incorporations—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southeast Minnesota New Business Incorporations	80	73	65	65	70	-12.5%

There has been a move in Southeast Minnesota, as in all 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 Southeast Minnesota, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Southeast Minnesota. Apart from the outlier period in 2008-2009, new LLC formation has shown a steady rate of growth since 2005. First quarter LLC filings rose by 8.5 percent over their year earlier level.

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



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southeast Minnesota New Limited Liability Companies	539	536	519	493	585	8.5%

On a year over year basis, assumed names, which include sole proprietors or organizations that do not have limited liability, declined in Southeast Minnesota in the first quarter. As can be seen in the accompanying graph, after increasing in 2012, this series moved downward until the beginning of 2015, at which time it began to slowly trend upward. However, the series has now begun to trend downward in recent quarters.

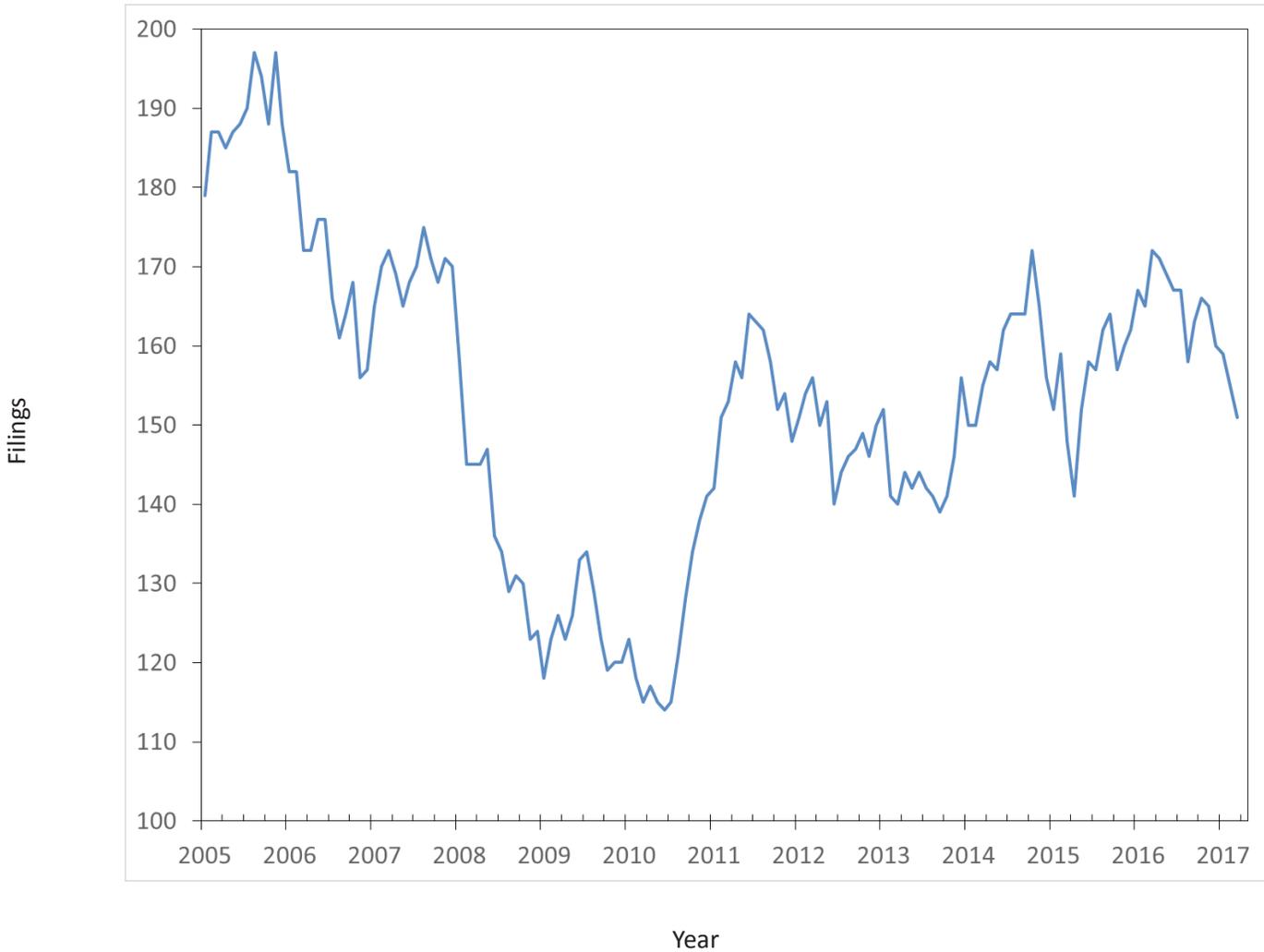
New Assumed Names—Southeast Minnesota Planning Area (12-month moving total)



Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southeast Minnesota New Assumed Names	270	256	198	205	246	-8.9%

The moving total of new Southeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State has been volatile over the past several years. As can be seen in the accompanying graph, this series has turned downward since the beginning of 2016. The number of newly formed non-profits totaled 31 in the recent quarter (a 22.5 percent reduction from the first quarter of 2016).

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



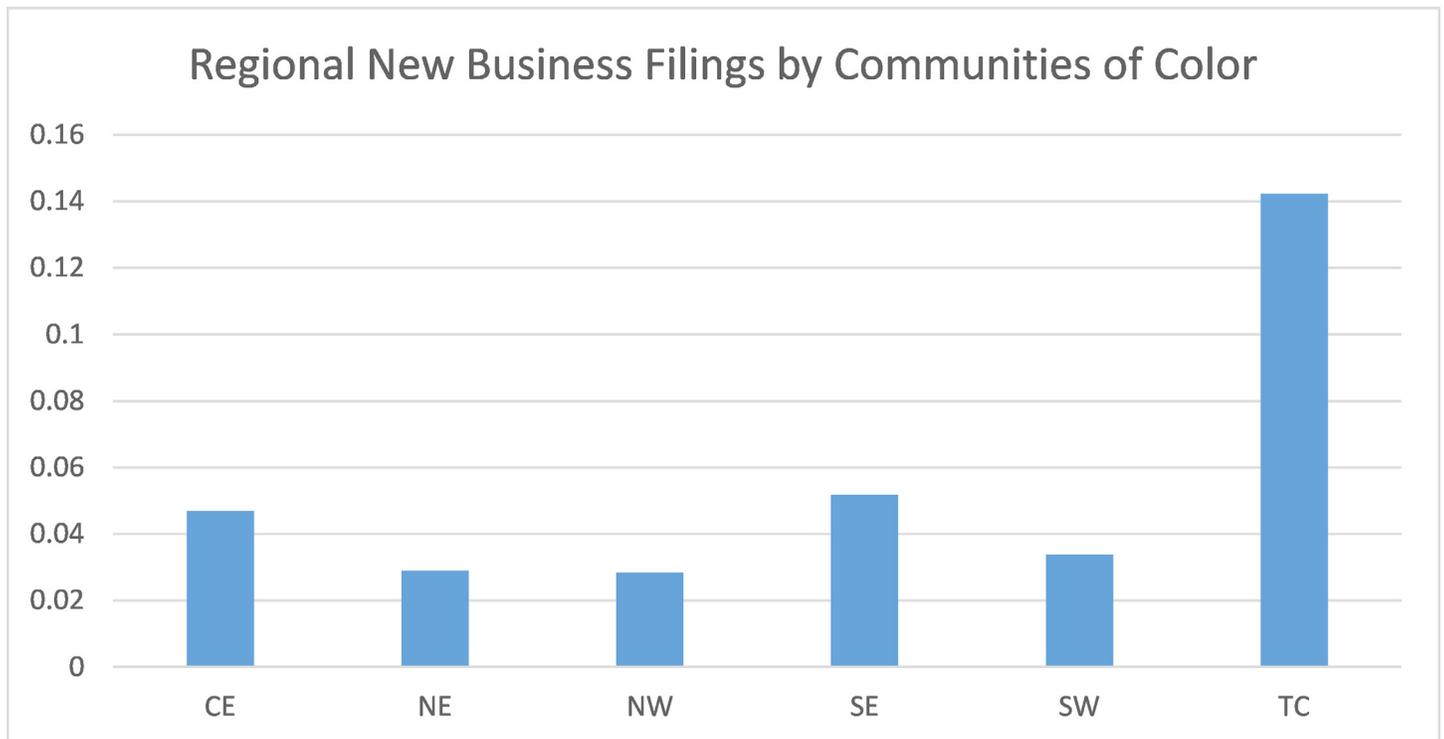
Quarter	I: 2016	II: 2016	III: 2016	IV: 2016	I: 2017	2017 Quarter I: Percent change from prior year
Southeast Minnesota New Non-Profits	40	46	39	35	31	-22.5%

Minnesota Business Snapshot Survey Results

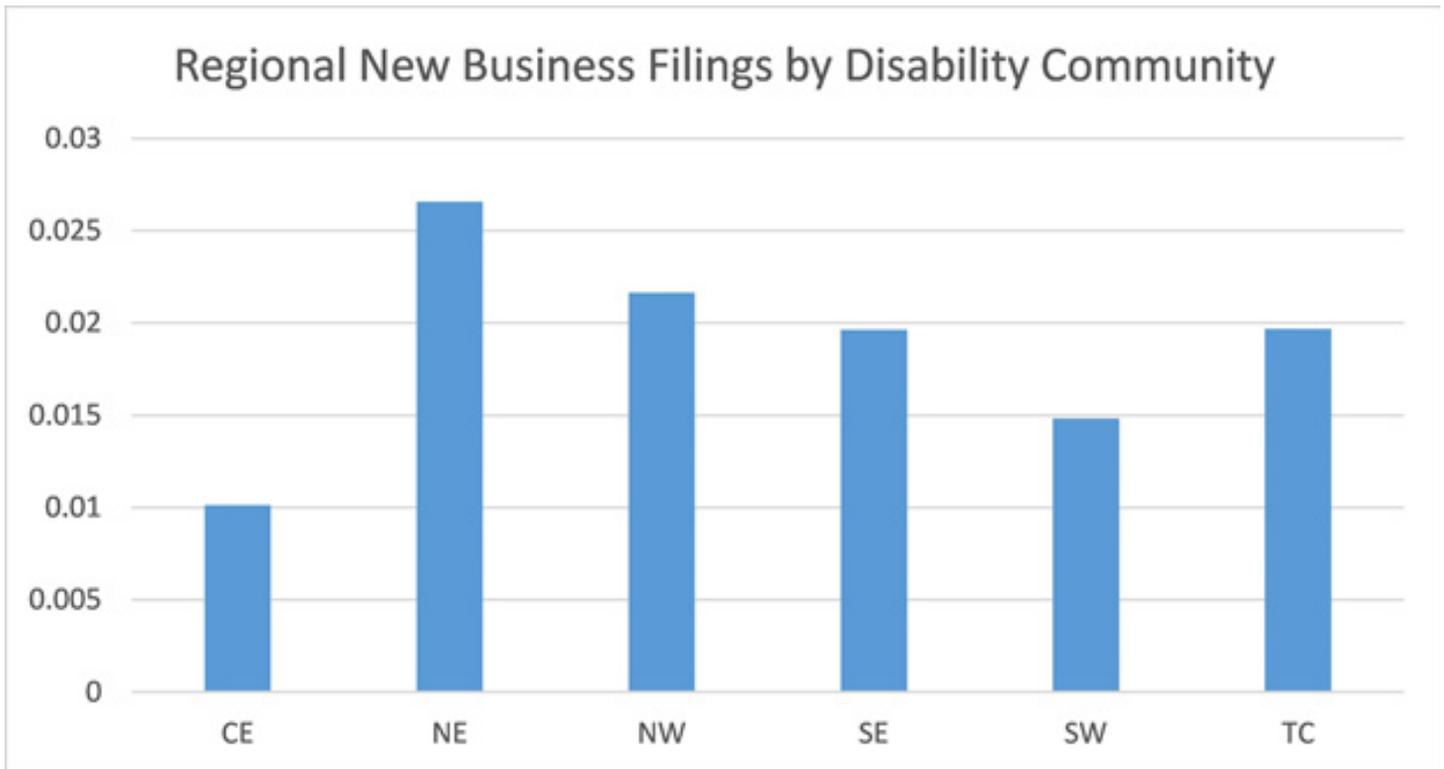
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot or MBS) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 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 MBS information with the data analyzed in this report, only surveys accompanying new filings in the first quarter of 2017 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 60 percent. This yields thousands of self-reported records in this emerging data set. For Southeast Minnesota, slightly less than 60 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

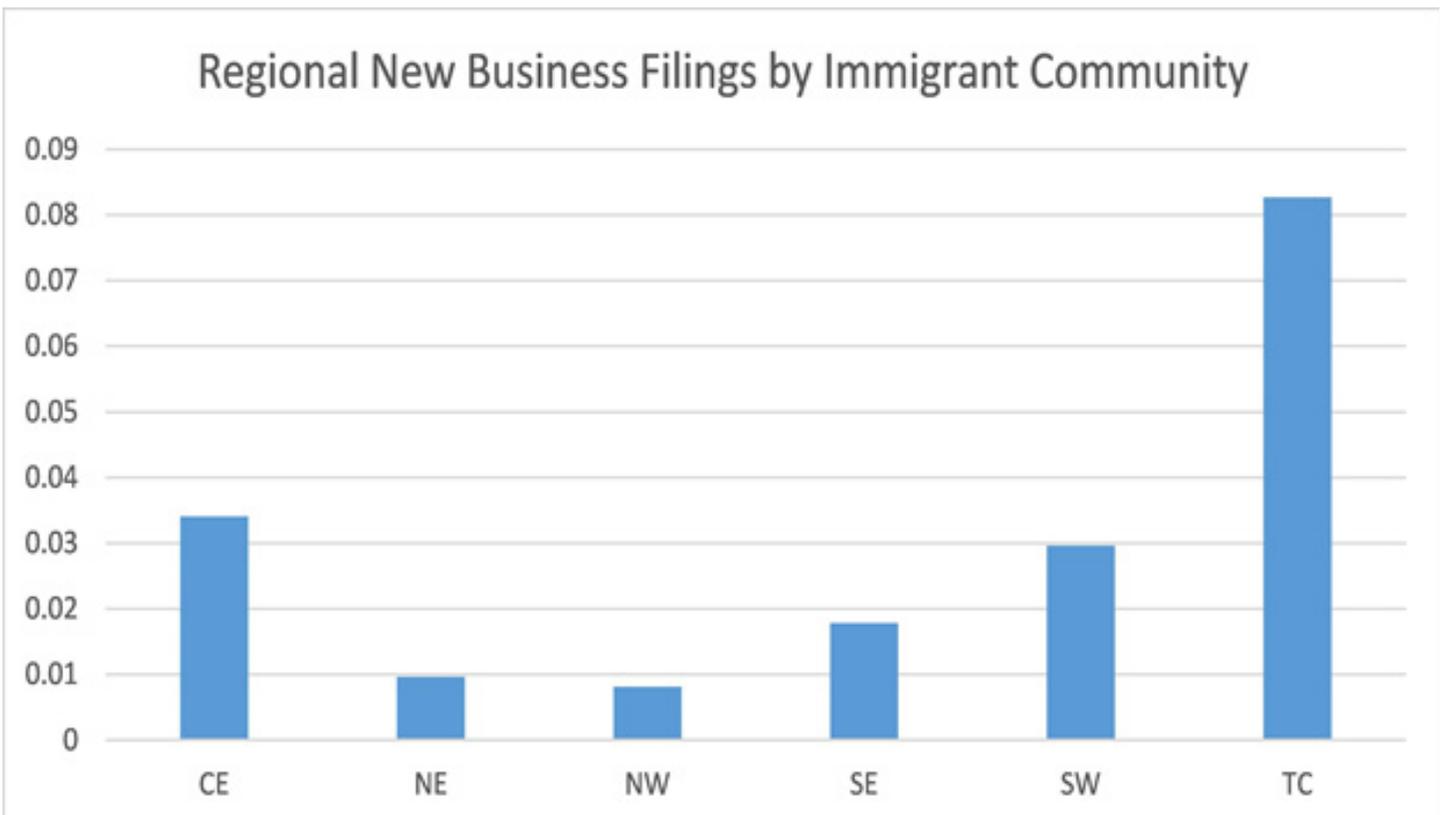
More than 5 percent of those new filers completing the MBS from the Southeast Minnesota planning area report being from a community of color. This is a considerably lower percentage than in the Twin Cities, but is higher than all other outstate regions of Minnesota.



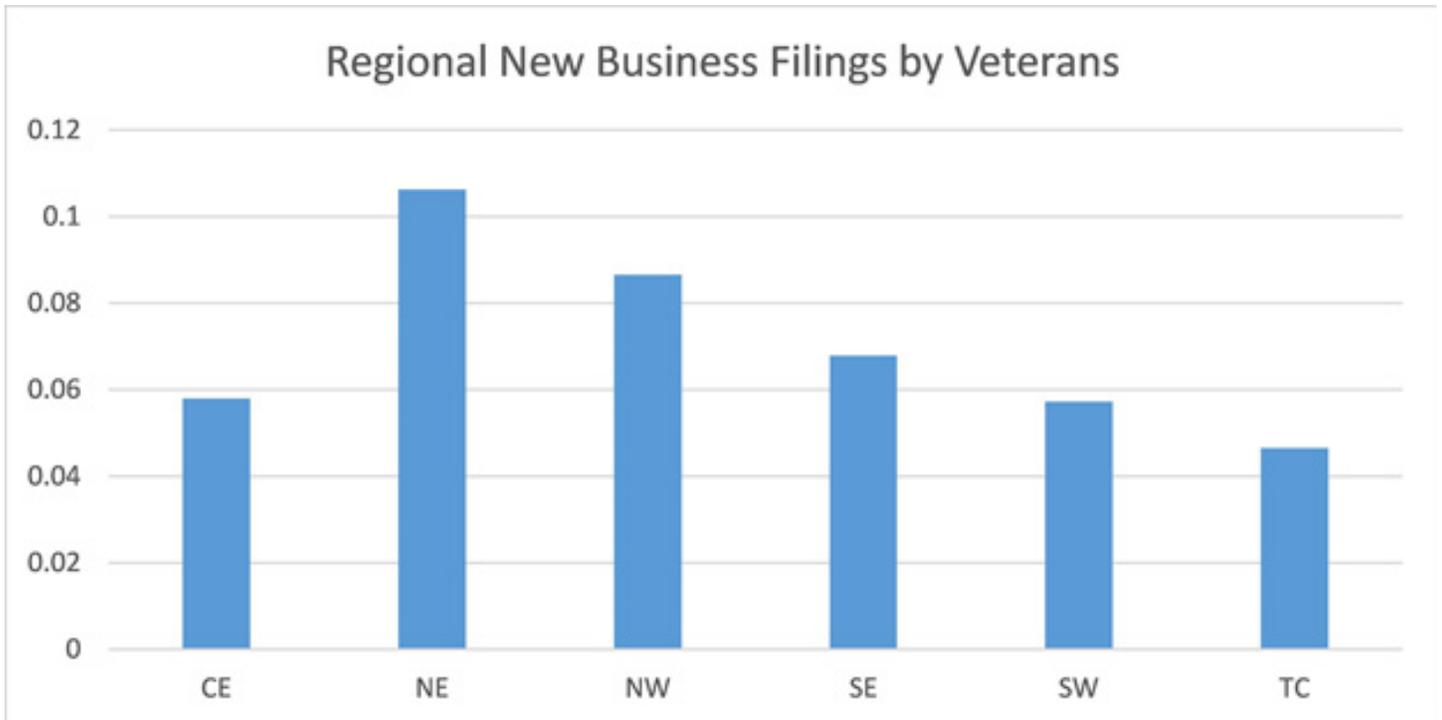
Nearly 2 percent of Southeast Minnesota's new filers are from the disability community.



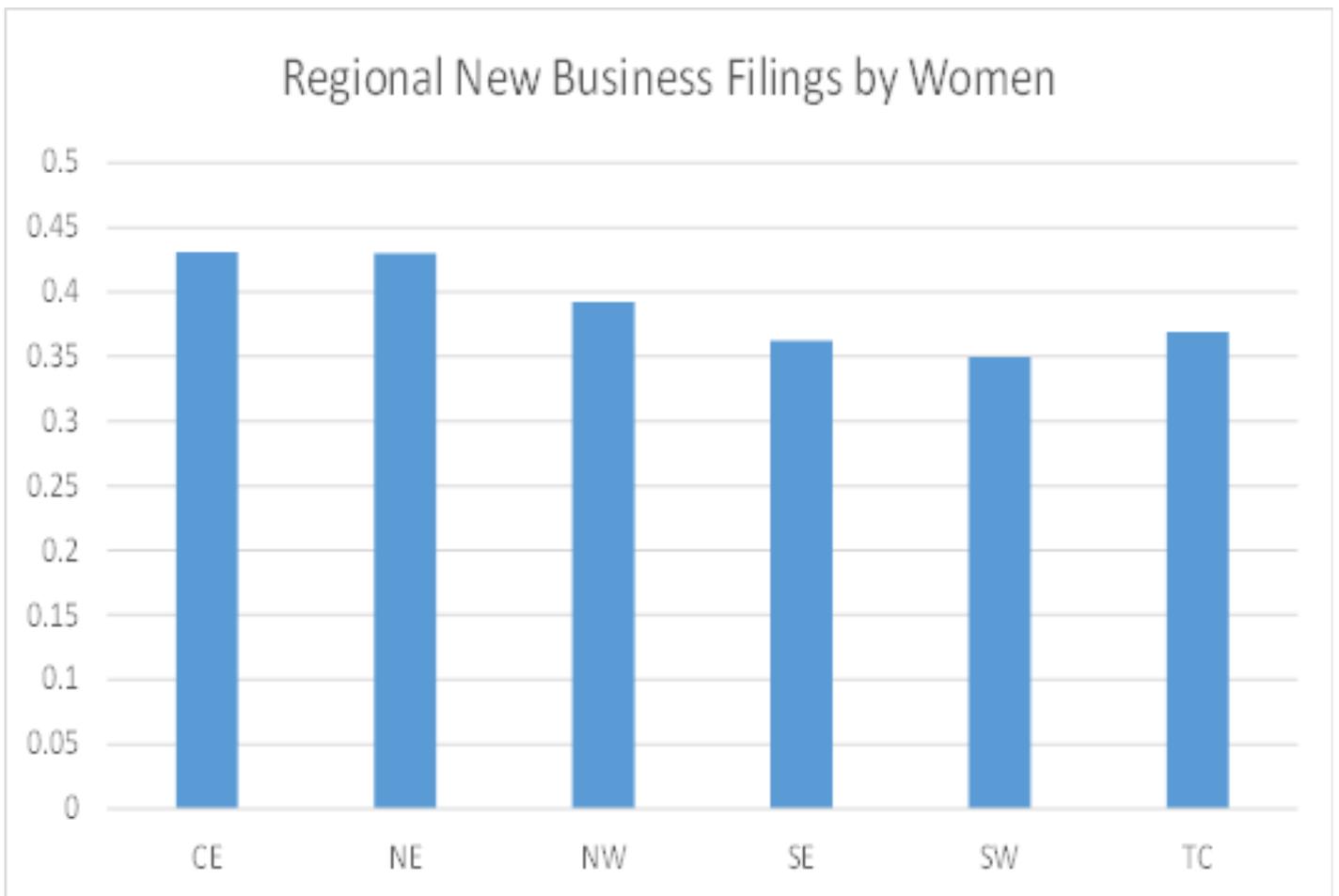
Less than 2 percent of new business filings in Southeast Minnesota come from the immigrant community. This is a much lower percentage than in the Twin Cities.



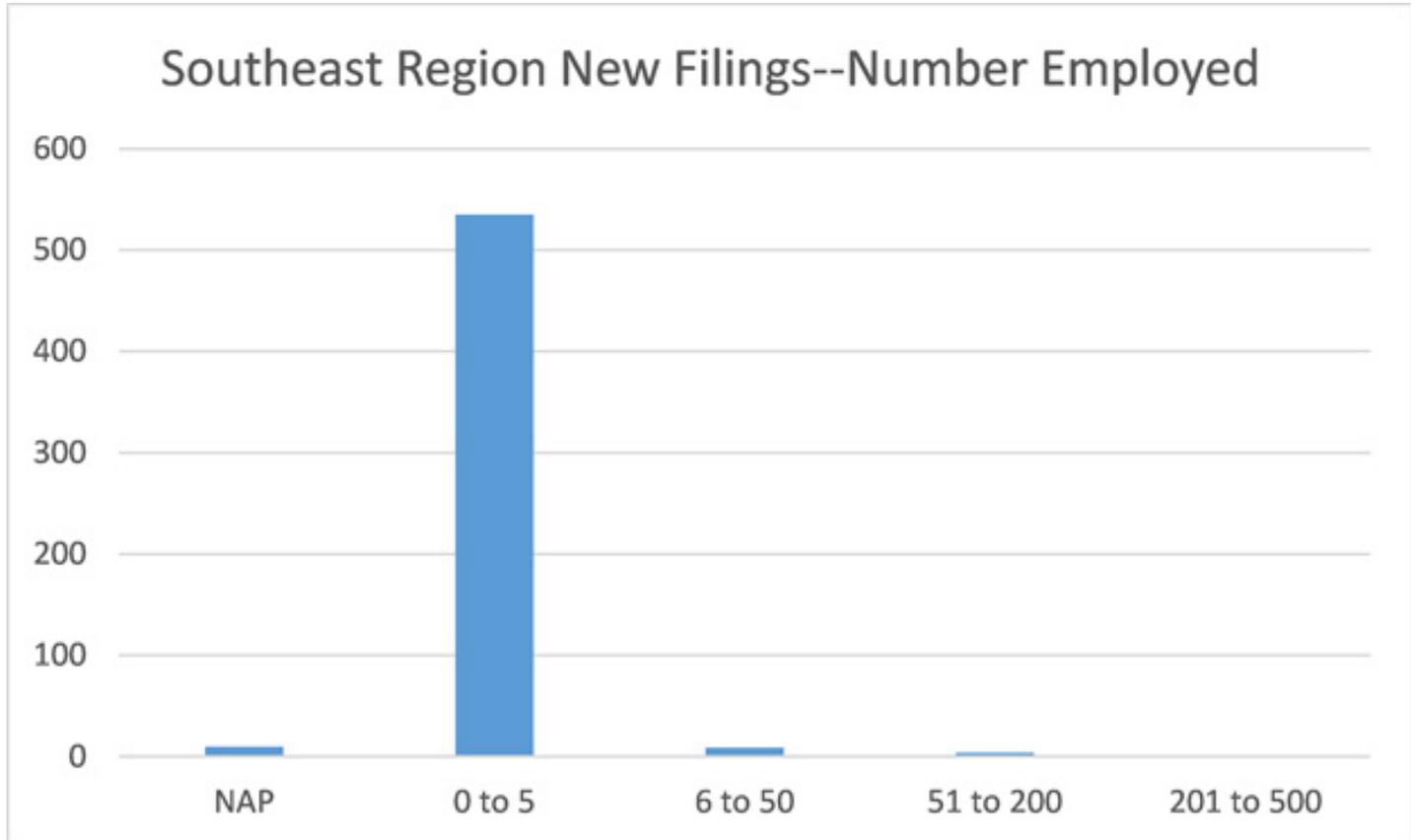
Almost 7 percent of new filings in Southeast Minnesota come from military veterans.



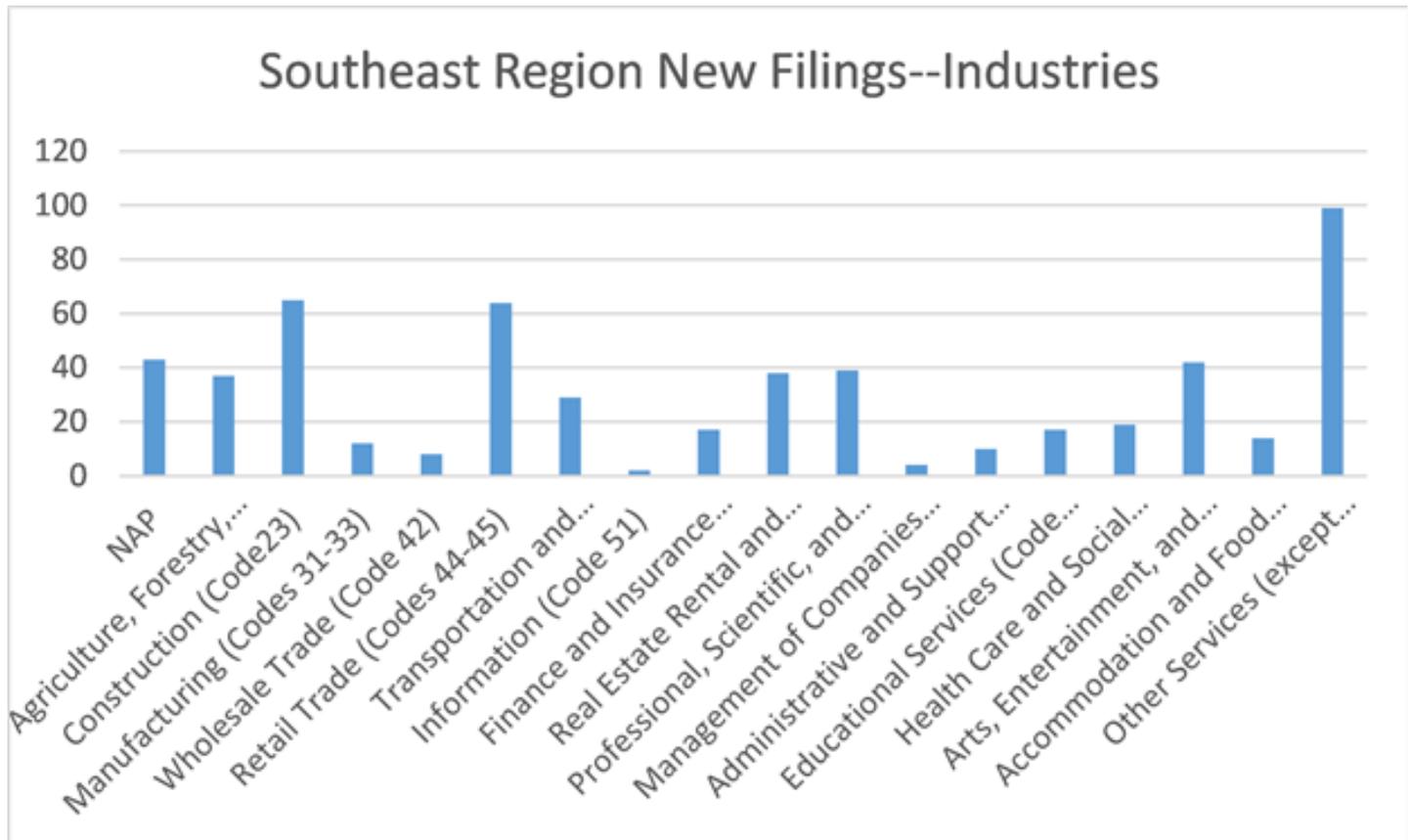
Woman owners represented 36 percent of the new business filings in Southeast Minnesota in the first quarter of 2017.



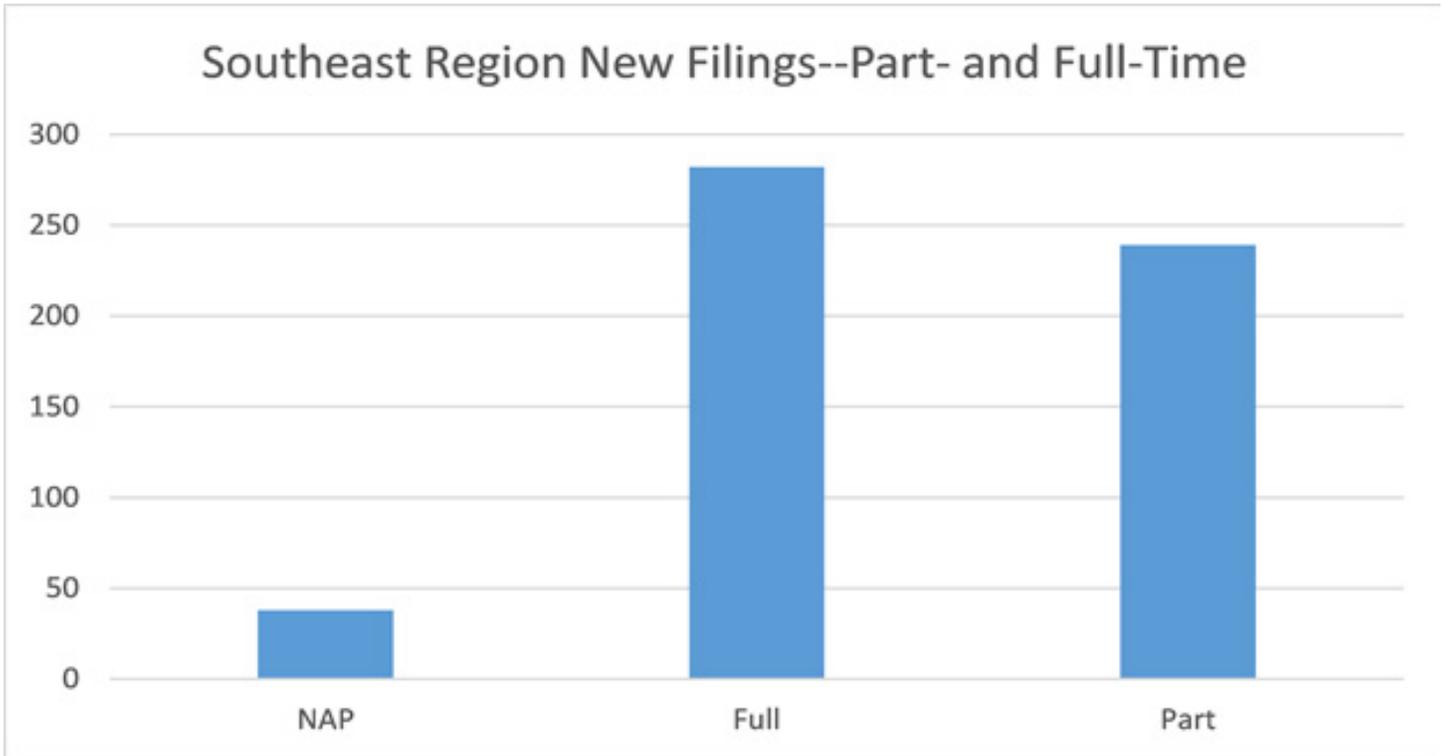
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to an individual question are represented in this section by “NAP”—no answer provided), 549 responses were tallied to a question asking the new business filer to indicate 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.



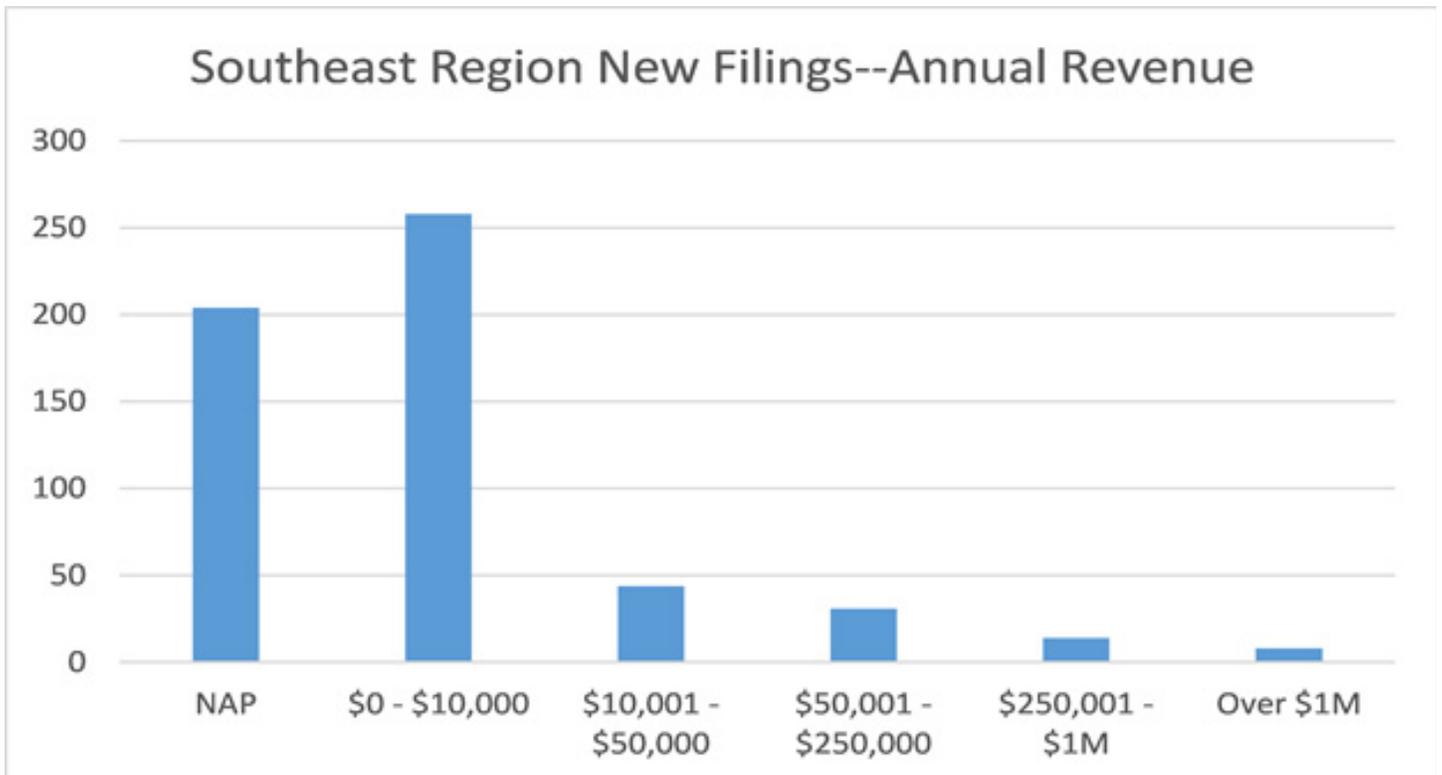
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, construction, retail trade, and “other services” lead the way. Agriculture, transportation/warehousing, real estate/rental/leasing, professional/scientific/technical, and arts/entertainment/recreation are also well represented in the sample. Relatively few new businesses in Southeast Minnesota are entering the high employment health care sector.



Forty-three percent of those submitting a new business filing in Southeast Minnesota in the first quarter of 2017 are part-time ventures.

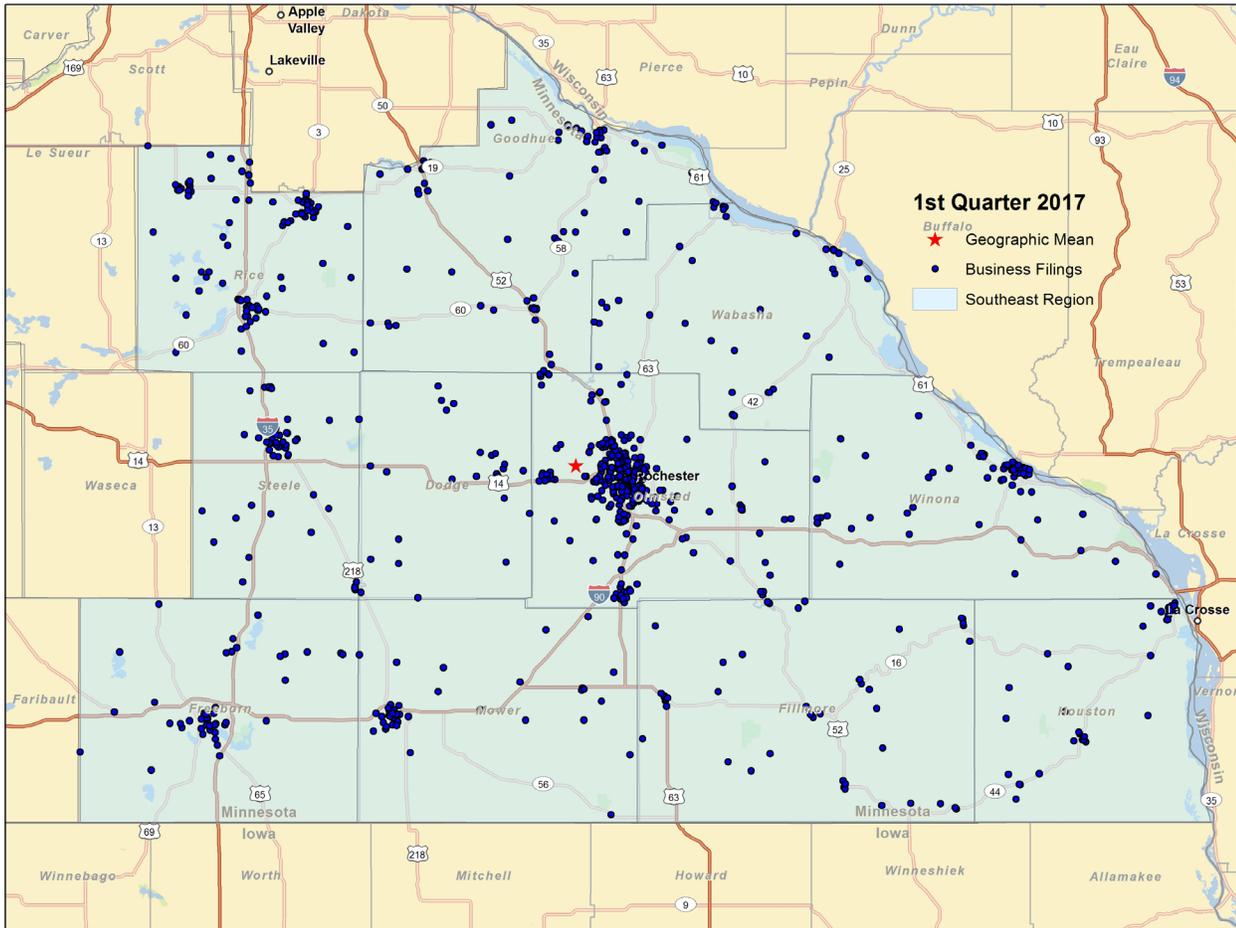


More than 200 new filers in Southeast Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues less than \$10,000. Fifty-three firms report annual revenues more than \$50,000.



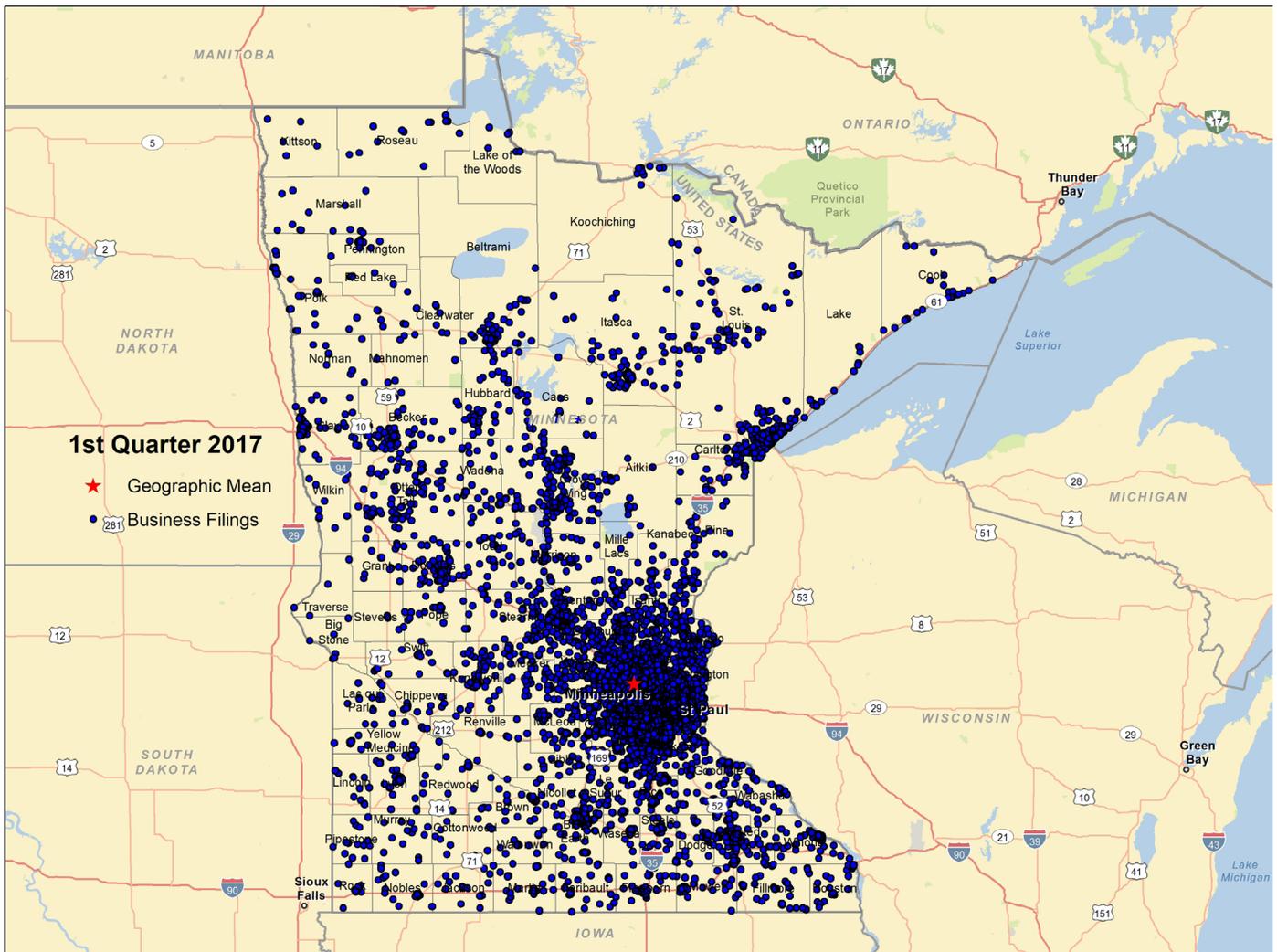
The first map shown below is a visual representation of new business filings around the Southeast Minnesota planning area in the first quarter of 2017. The densest areas of new business formation are in the Rochester metro. Owatonna, Faribault, Northfield, Albert Lea, Austin, and the river cities of Winona and Red Wing also generated multiple new business filings. Well-traveled roadways are also a predictor of new business formation in Southeast Minnesota.

Southeast Minnesota Planning Area--New Business Formation--Quarter 1: 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 1: 2017

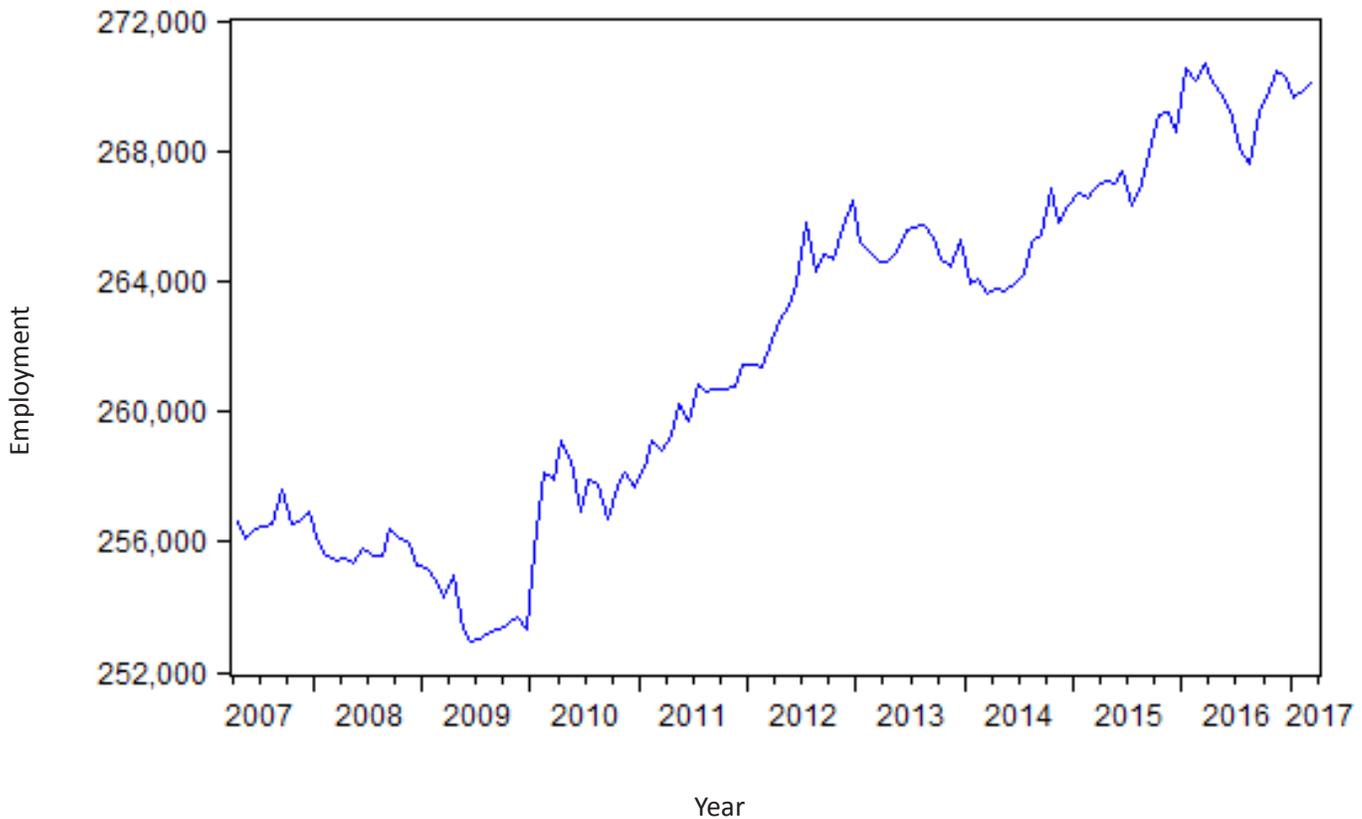


Southeast Minnesota Labor Market Conditions

Employment of those living in the Southeast Minnesota planning area fell by 0.1 percent over the past year. As shown in the accompanying graph, the 12-month moving average of total employment had been trending upward since the end of the Great Recession. But this trend appears to have moderated since the beginning of 2016.

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.

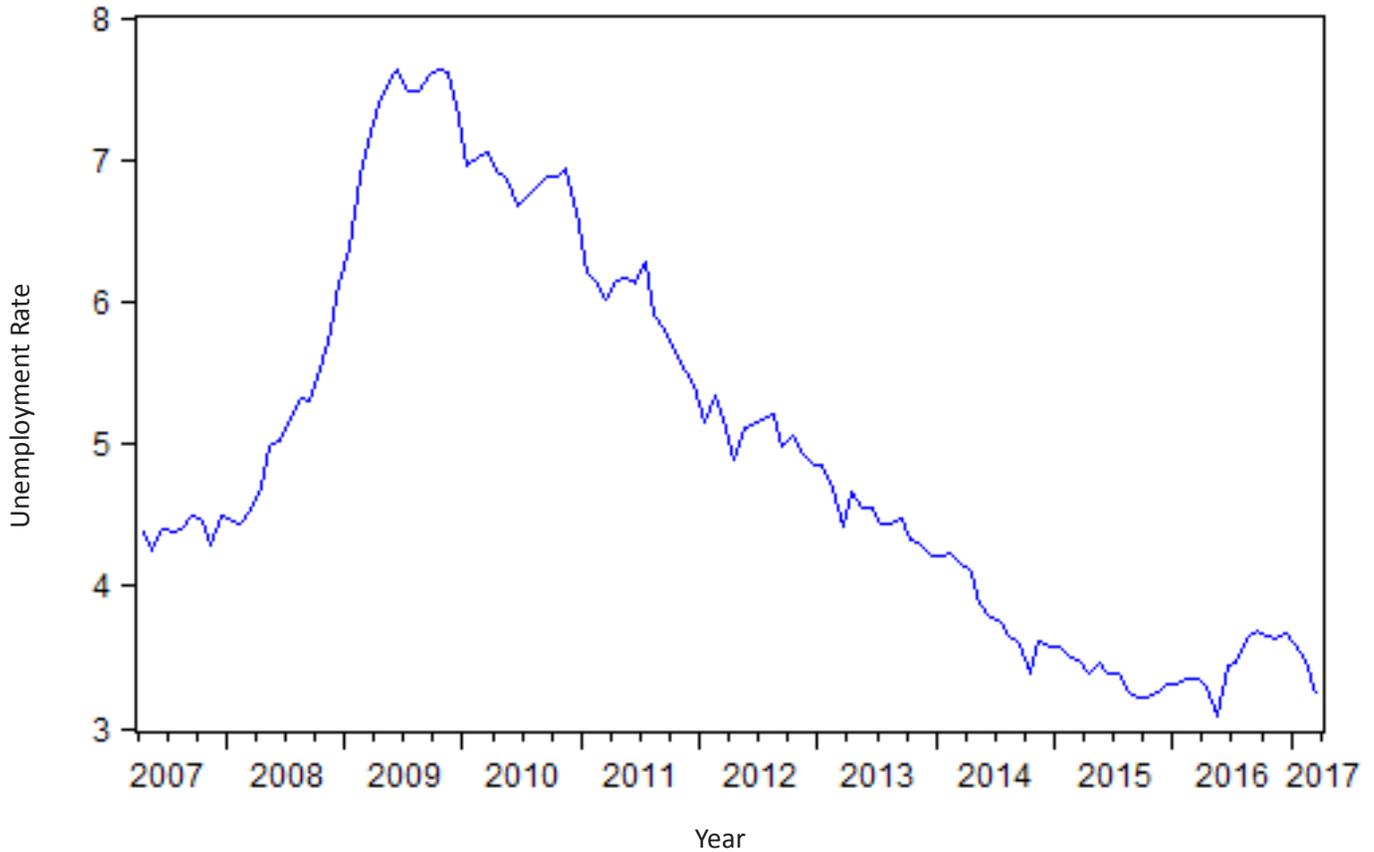
Employment—Southeast Minnesota Planning Area (12-month moving average)



Month	March 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Employment (Not seasonally adjusted)	268,851	271,919	271,913	269,393	266,494	266,280	268,463

The seasonally adjusted unemployment rate in Southeast Minnesota has levelled out in recent quarters. The non-seasonally adjusted unemployment rate stands at 3.9 percent, lower than the 4.1 percent rate observed one year ago.

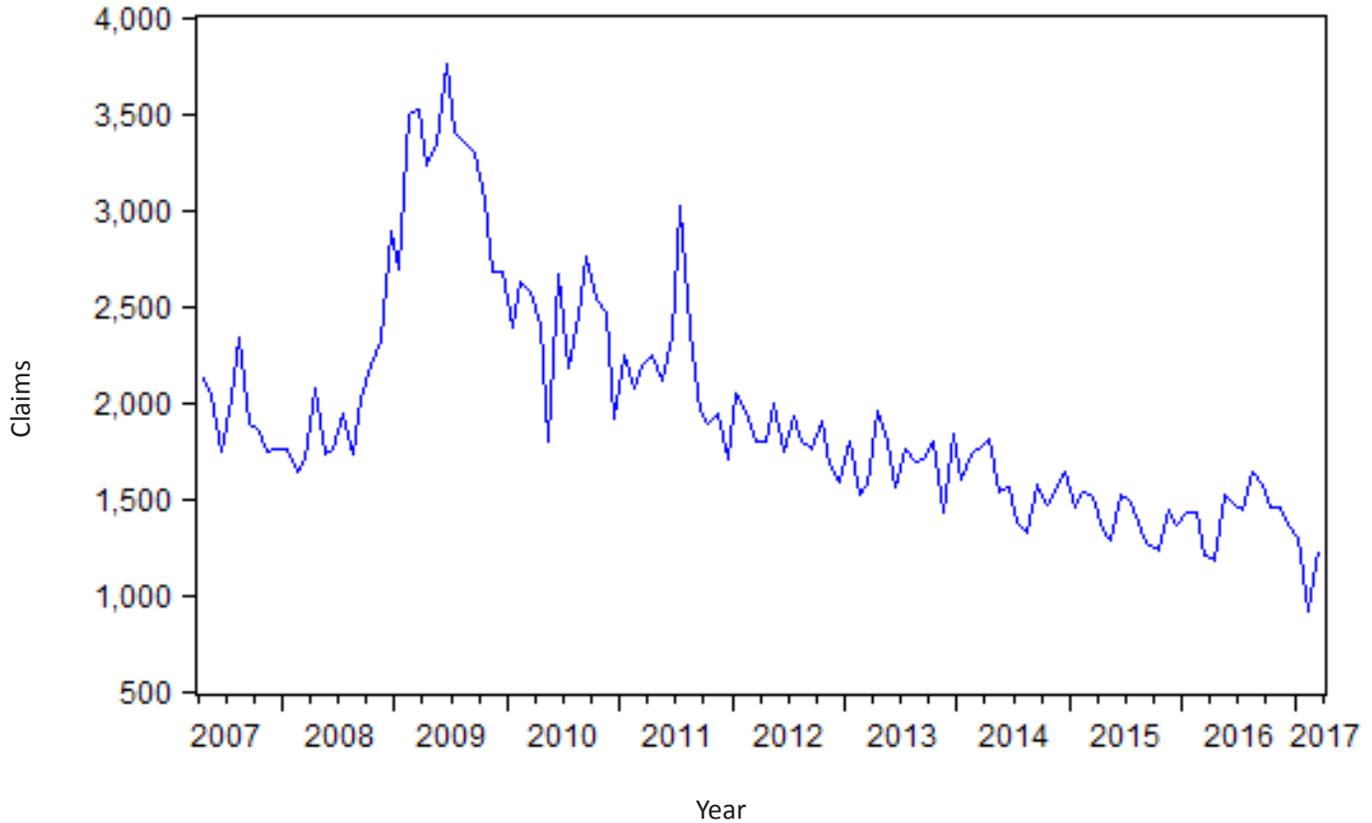
Unemployment Rate, seasonally adjusted—Southeast Minnesota Planning Area



Month	March 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Unemployment Rate (Not seasonally adjusted)	4.1%	3%	2.9%	3.6%	4.5%	4.3%	3.9%

New claims for unemployment insurance in March 2017 were 1.5 percent higher than one year earlier. On a seasonally adjusted basis, these claims appear to have shown more volatility in recent quarters.

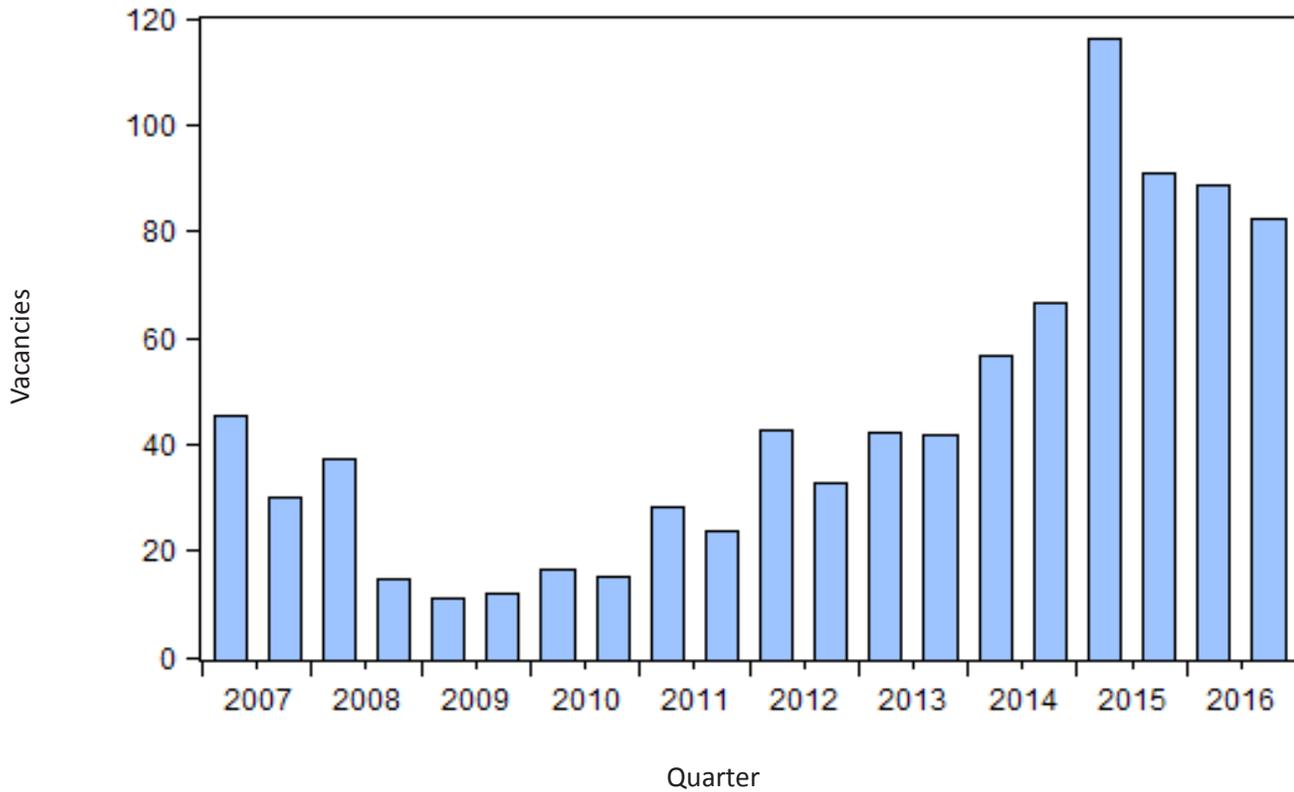
Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Southeast Minnesota Planning Area



Period	March 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017
Initial claims (Not seasonally adjusted)	1,070	1,110	2,385	2,726	1,685	891	1,086

The ratio of job vacancies per 100 unemployed remains elevated in Southeast Minnesota. With 94.44 job vacancies per 100 unemployed, the shortage of qualified workers continues to plague Southeast Minnesota. Except for the Twin Cities, the region’s job vacancy ratio is higher than all other Minnesota planning areas. Note that the ratio of job vacancies per 100 unemployed in the Twin Cities now stands at 106.83, representing more job vacancies than unemployed people available to fill these vacancies.

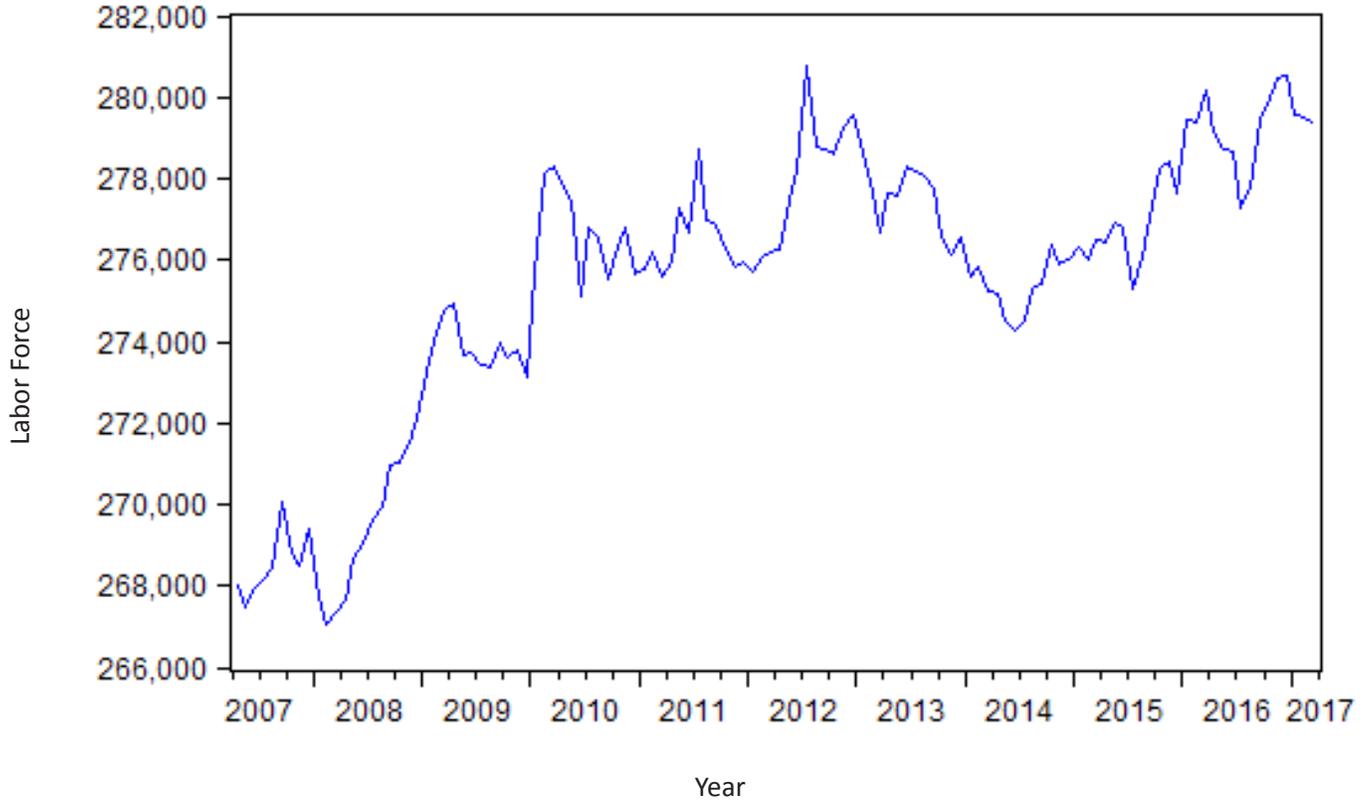
Job Vacancies per 100 Unemployed---Southeast Minnesota Planning Area



Quarter	2014:II	2014:IV	2015:II	2015:IV	2016:II	2016:IV
Job Vacancies per 100 Unemployed	59.68	78.35	120.65	105.28	91.73	94.44

The Southeast Minnesota labor force contracted by 0.3 percent over the last year. The 12 month moving average of the regional labor force has now returned to its level at the beginning of 2016.

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

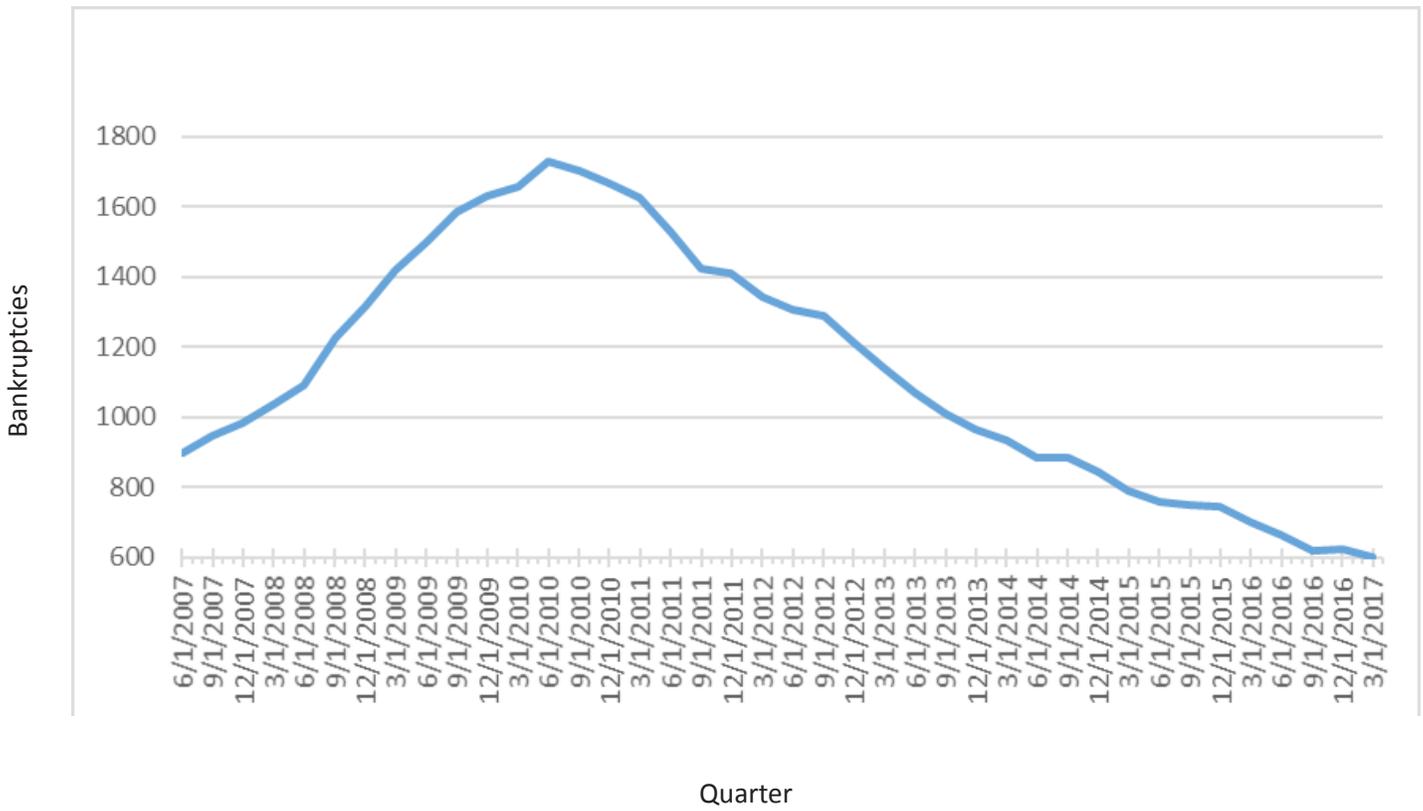


Year (March)	2012	2013	2014	2015	2016	2017
Labor Force (Not seasonally adjusted)	275,896	276,475	275,103	276,479	280,226	279,412

Southeast Minnesota Bankruptcies

The figure below shows the 12-month moving total for Southeast 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 through the second quarter of 2010, and has steadily declined since that time. With 599 bankruptcies over the past twelve months, bankruptcies in Southeast Minnesota continue to fall to historical lows.

Southeast Minnesota Bankruptcies (12-month moving total)



Year (First Quarter)	2012	2013	2014	2015	2016	2017
Annual Bankruptcies (not seasonally adjusted)	1,342	1,141	934	791	700	599

Economic Indicators

Rochester MSA Indicators

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Labor Market					
Employment	March 2017 (m)	117,650	117,092	0.5% ↑	1.0%
Manufacturing Employment	March 2017 (m)	10,475	10,467	0.1% ↓	-2.7%
Educational and Health Employment	March 2017 (m)	48,683	47,728	2.0% ↑	3.0%
Average Weekly Work Hours Private Sector	March 2017 (m)	33.8	34.1	-0.9% ↓	33.3
Average Earnings Per Hour Private Sector	March 2017 (m)	\$35.62	\$34.19	4.2% ↑	3.9%
Unemployment Rate	March 2017 (m)	3.7%	3.9%	NA ↓	4.8%
Labor Force	March 2017 (m)	119,056	119,717	-0.6% ↓	0.7%
Initial Jobless Claims	March 2017 (m)	402	401	0.2% ↑	NA
Business Formation					
Total New Business Filings	First Quarter 2017 (q)	468	450	4.0% ↑	403 (since 2000)
New Business Incorporations	First Quarter 2017 (q)	38	35	8.6% ↑	58 (since 2000)
New Limited Liability Companies	First Quarter 2017 (q)	299	257	16.3% ↑	194 (since 2000)
New Assumed Names	First Quarter 2017 (q)	119	137	-13.1% ↓	131 (since 2000)
New Non-profits	First Quarter 2017 (q)	12	21	-42.9% ↓	20 (since 2000)
Rochester Residential Building Permit Valuation, in thousands	March 2017 (m)	13,644	7,388	84.7% ↑	NA

(m) represents a monthly series

(q) represents a quarterly series

Southeast Minnesota contains the Rochester MSA, an area that derives much of its employment from the educational and health sector. This sector continues to be a pillar of economic vitality for Rochester (and for Southeast Minnesota). Year-over-year overall employment in the Rochester area increased by 0.5 percent in March 2017 and employment in the key education/health sector rose by 2 percent (which is below the 3 percent long-term annualized growth of employment in this sector). Note that the share of employment in Rochester's educational and health sector has increased from 29.4 percent of employment to more than 40 percent since 1999. The number of new business filings increased in the area and the value of residential building permits rose in the Rochester area during the most recent reporting period. Average hourly earnings were higher, but weekly work hours fell. The unemployment rate was lower, but the size of the labor force fell.

State and National Indicators

MINNESOTA Indicators	Mar 2017	Dec 2016	Mar 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,879,836	2,915,048	2,831,674	-1.2%	1.7%
Average weekly hours worked, private sector	33.7	33.9	33.5	-0.6%	0.6%
Unemployment rate, seasonally adjusted	3.8%	4.0%	3.9%	NA	NA
Earnings per hour, private sector	\$28.21	\$27.85	\$27.05	1.3%	4.3%
Philadelphia Fed Coincident Indicator, MN	198.50	196.42	192.93	1.1%	2.9%
Philadelphia Fed Leading Indicator, MN	2.88	1.47	1.47	95.9 %	95.9%
Minnesota Business Conditions Index	61.8	52.3	50.7	18.2%	21.9%
Price of milk received by farmers (cwt)	\$17.50	\$19.60	\$15.80	-10.7%	10.8%
Enplanements, MSP airport, thousands	1,731.6	1,456.8	1,662.9	18.9%	4.1%
NATIONAL Indicators	Mar 2017	Dec 2016	Mar 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	145,858	145,325	143,673	0.4%	1.5%
Industrial production, index, SA	104.1	103.8	102.5	0.3%	1.6%
Real retail sales, SA (\$)	193,165	193,812	188,072	-0.3%	2.7%
Real personal income less transfers (\$, bill.)	12,154.6	12,088.4	11,825.3	0.5%	2.8%
Real personal consumption expenditures (\$, bill.)	11,695.6	11,709.4	11,374.4	-0.1%	2.8%
Unemployment rate, SA	4.5%	4.7%	5.0%	NA	NA
New building permits, SA, thousands	22,864	17,581	19,300	30.0%	18.5%
Standard & Poor's 500 stock price index	2,366.8	2,246.6	2,022.0	5.4%	17.1%
Oil, price per barrel in Cushing, OK	\$49.33	\$51.97	\$37.55	-5.1%	31.4%

Across the state, all year-over-year categories of economic performance found in the State and National Indicators table are favorable. There was growth in payrolls, higher earnings per hour, more average weekly hours worked in the private sector, and a lower seasonally adjusted unemployment rate over the past twelve months. Current and leading Indicators from the Federal Reserve Bank of Philadelphia are both higher than one year earlier and the Minnesota Business Conditions index rose nearly 22 percent. Milk prices are higher than one year ago (although they declined over the three months ending March 2017) and enplanements at the Minneapolis-St. Paul airport increased by 4.1 percent over the last twelve months.

While three national economic indicators shown in the table were weaker over the past three months, most of the measures in this part of the table reinforce the strong economic outlook found throughout this report. Over the past twelve months, stock prices rose, employment increased, and real income and consumer expenditures expanded. The national unemployment rate fell and retail sales improved. Industrial production picked up. National building permits were also higher. As noted last quarter, oil prices have firmed up to \$50 per barrel compared to under \$40 a year ago. While rising oil prices adversely impact the discretionary income of households, they also improve the economic well-being of those employed in the energy sector (which has been struggling in recent years).

The Southeast 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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Metropolitan Airports Commission: MSP Enplanements.

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Thomson Reuters and University of Michigan, Index of Consumer Sentiment

U.S. Bankruptcy Courts: Bankruptcies

U.S. Bureau of Census: Durable Goods Orders, Housing Permits, Residential Building Permits, Retail Sales.

U.S. Department of Agriculture: Milk Prices.

U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income, Real Wages and Salaries.

U.S. Energy Information Administration: Oil Prices.