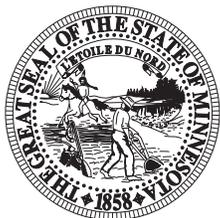




Twin Cities Area Economic and Business Conditions Report Second Quarter 2018

This issue is part of a series for the six planning areas of Minnesota: Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Twin Cities Planning Area consists of seven counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.



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EXECUTIVE SUMMARY

Economic growth is expected to continue in the Twin Cities planning area according to the predictions of the Twin Cities Index of Leading Economic Indicators (LEI). The Twin Cities LEI increased 1.13 points in the second quarter of 2018 as two of five index components showed strength. Lower initial jobless claims and an improvement in the Federal Reserve Bank of Philadelphia Minnesota Leading Economic Indicators Index each contributed favorably to this quarter's LEI. A decrease in the Minnesota Business Conditions Index—a general measure of statewide business conditions—and fewer residential building permits in the Twin Cities metropolitan area each had a negative impact on the Twin Cities LEI.

There were 11,578 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the second quarter of 2018—representing a 6.9 percent increase from one year ago. 1,421 new regional business incorporations were tallied in the Twin Cities in the second quarter—3.7 percent fewer than year ago levels. Second quarter new LLC filings rose to 7,682 in the seven-county metro area—a 10.1 percent increase compared to the second quarter of 2017. New assumed names were 2.3 percent higher in the second quarter and there were 44 more new non-profit filings in the Twin Cities than one year ago.

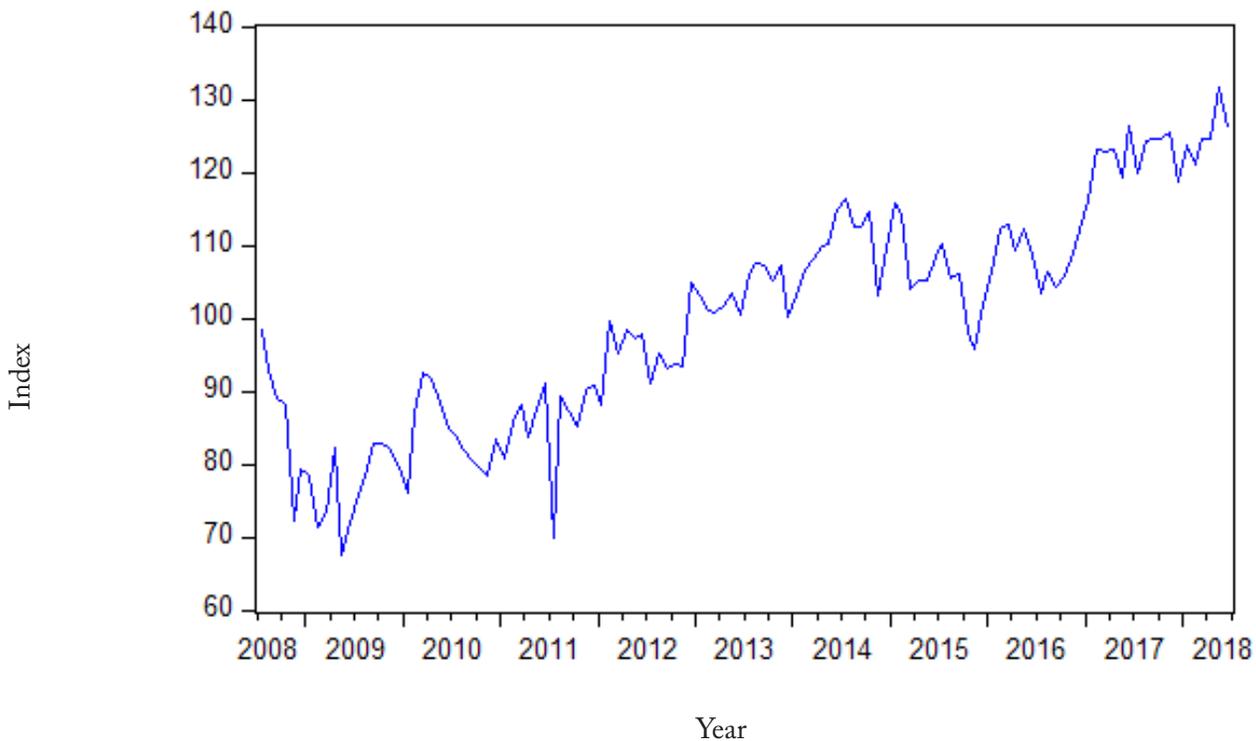
Sixty percent of new business filers in the Twin Cities planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's second quarter. Results of this voluntary survey indicate that 15.4 percent of new filers come from communities of color. 5.8 percent of new filings are veterans. Two percent of new filers come from the disability community and 10.4 percent of new filings are made by the immigrant community. Thirty-five percent of new business filings in the Twin Cities planning area in this year's second quarter were initiated by women. MBS results also show that most new business filers in the Twin Cities have between 0 and \$10,000 in annual gross revenues (although 703 new filers have revenues in excess of \$50,000). The most popular industries for new businesses in the Twin Cities are professional/scientific/technical, retail trade, real estate/rental/leasing, construction, and other services. Employment levels at most new firms are between 0 and 5 workers, and 43.2 percent of those starting a new business consider this a part-time activity.

Twin Cities planning area employment increased by 2.5 percent over the year ending June 2018. At 2.8 percent, the planning area's unemployment rate was considerably lower than one year earlier. Initial claims for unemployment insurance were lower than year ago levels, falling by 14 percent to 5,909. Average weekly wages in the region rose by 3.5 percent to \$1,224 in the most recent reporting period. The planning area's labor force expanded by 1.7 percent over the year ending June 2018. Average hourly earnings rose for private sector workers in the 16-county Minneapolis-St. Paul MSA over the year ending June 2018, but average weekly work hours declined. Annual bankruptcies continue to rise in the Twin Cities. The relative cost of living rose in both Minneapolis and St. Paul.

TWIN CITIES LEADING ECONOMIC INDICATORS INDEX

The SCSU Twin Cities Leading Economic Indicators (LEI) index is designed to predict performance of the regional economy with a four-to-six month lead time. After rising by 5.85 points in the first quarter, the Twin Cities LEI rose a more modest 1.13 points in the second quarter of 2018. The Twin Cities index is little changed from its level of one year ago.

SCSU Twin Cities Index of Leading Economic Indicators (December 1999 = 100)



Components of SCSU Twin Cities Leading Economic Indicators Index

| Component of Index | Contribution to LEI, 2nd quarter 2018 | Contribution to LEI, 1st quarter 2018 |
|---|---------------------------------------|---------------------------------------|
| Minnesota Business Conditions Index | -1.12 | 2.18 |
| Twin Cities initial claims for unemployment insurance | 2.66 | 0.52 |
| Twin Cities new filings of incorporation and LLCs | -0.03 | -0.05 |
| Mpls.-St. Paul MSA residential building permits | -0.82 | 2.82 |
| Philadelphia Fed Minnesota leading indicators | 0.44 | 0.38 |
| TOTAL CHANGE | 1.13 | 5.85 |

The Twin Cities LEI contains five components—two reflecting state business conditions and three for local conditions (the LEI is an index equal to 100 in December 1999). The Federal Reserve Bank of Philadelphia (which creates a leading economic indicator series for each of the 50 states) reported a value for its Minnesota Leading Indicators series that made a positive contribution to the LEI this quarter. However, the Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—had an unfavorable impact on this quarter’s leading index. Lower single-family residential permits across the Minneapolis-St. Paul MSA also weighed on the LEI. A decrease in regional initial claims for unemployment insurance helped lift the Twin Cities economic outlook and new filings for incorporation and LLC in the metropolitan area had a neutral impact on the index.

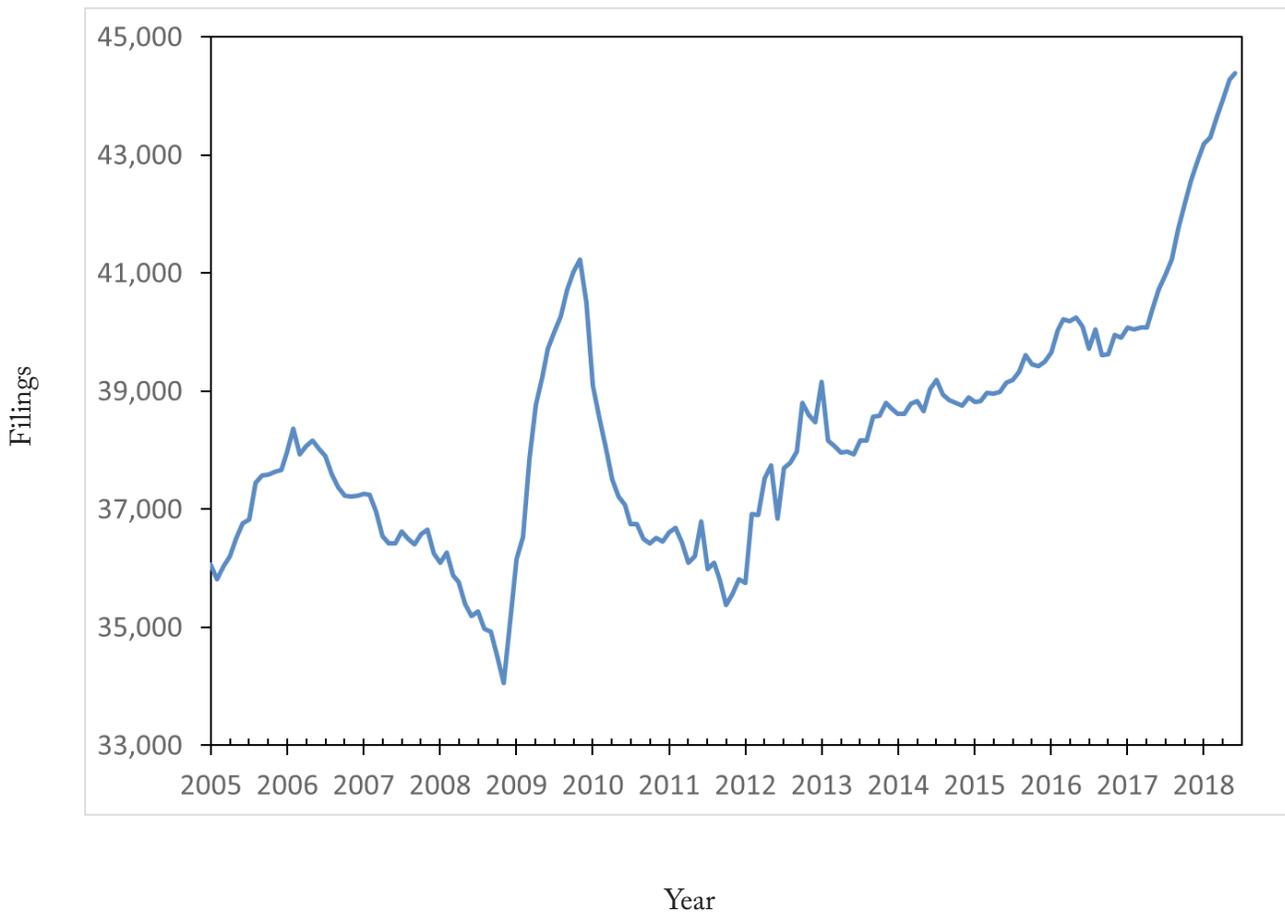
| SCSU Twin Cities Leading Economic Indicators Index | 2018 | 2017 | Percentage Change |
|---|-------|-------|----------------------|
| Minnesota Business Conditions Index June | 58.8 | 68.0 | -13.5% |
| Twin Cities initial claims for unemployment insurance June | 5,909 | 6,867 | -14.0% |
| Twin Cities new filings of incorporation and LLCs Second Quarter | 9,103 | 8,450 | 7.7% |
| Twin Cities MSA single-family building permits, June | 861 | 898 | -4.1% |
| Index of Leading Economic Indicators Philadelphia Federal Reserve, June | 2.30 | 1.88 | 22.3% |
| Twin Cities Leading Economic Indicators Index June (December 1999 = 100) | 126.1 | 126.5 | -0.3% |

TWIN CITIES BUSINESS FILINGS

Total new business filings in the Twin Cities planning area have generally trended upward since the second half of 2011. This upward trend continued in the second quarter, as new filings rose 6.9 percent to 11,578 compared to one year earlier. 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 only 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 the Twin Cities that are registered with the Office of the Minnesota Secretary of State. This adjustment removes seasonal patterns in the data.

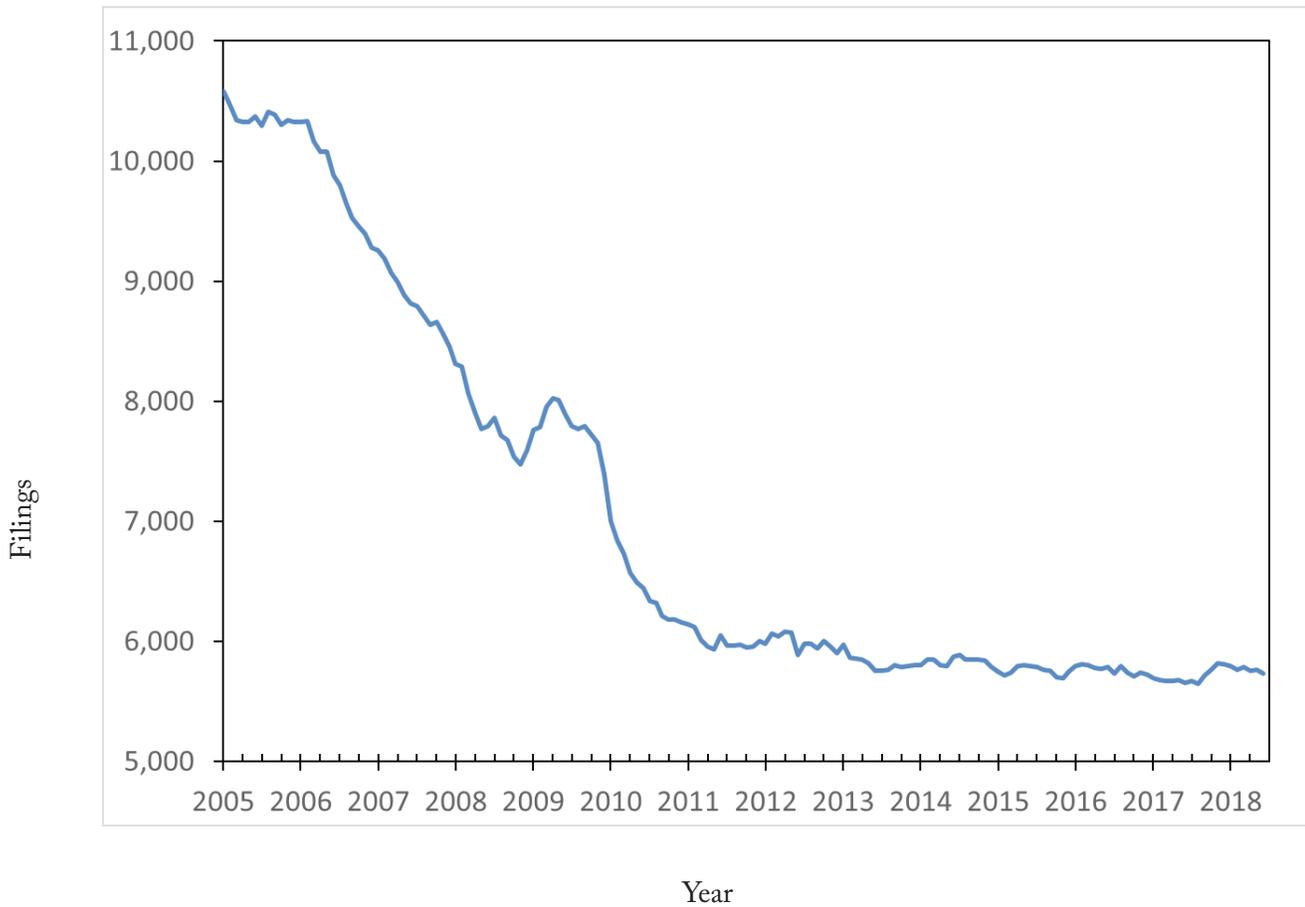
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



| Quarter | II: 2017 | III: 2017 | IV: 2017 | I: 2018 | II: 2018 | 2018 Quarter II: Percent change from prior year |
|---|-------------|--------------|-------------|------------|-------------|--|
| Twin Cities Total New Business Filings | 10,835 | 10,214 | 10,466 | 12,132 | 11,578 | 6.9% |

New business incorporations trended downward in the Twin Cities from 2005 to 2011, and then levelled out. At a level of 1421, second quarter new filings of incorporation were 3.7 percent lower than one year earlier.

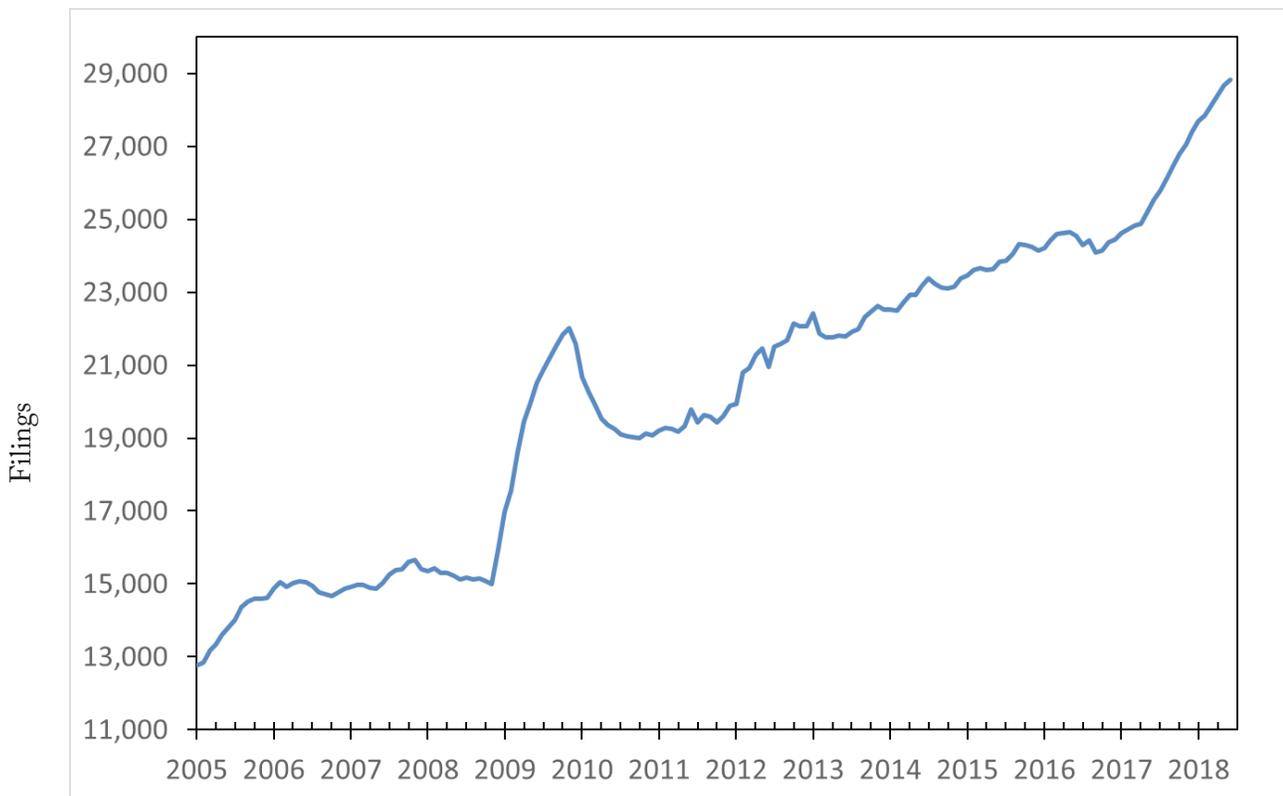
New Incorporations—Twin Cities Planning Area (12-month moving total)



| Quarter | II: 2017 | III: 2017 | IV: 2017 | I: 2018 | II: 2018 | 2018 Quarter II: Percent change from prior year |
|--|-------------|--------------|-------------|------------|-------------|--|
| Twin Cities New Business Incorporations | 1,475 | 1,363 | 1,426 | 1,523 | 1,421 | -3.7% |

There has been a move in the Twin Cities (and the rest of the state) away from the traditional incorporation form of business organization toward LLCs. While new business incorporations remain an important indicator of new business formation in the Twin Cities, LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in the Twin Cities. With the exception of the outlier period in 2008-2009, new LLC formation has shown a fairly steady rate of growth since 2005. At a level of 7,682, new filings for LLC in the second quarter of 2018 were 10.1 percent higher than one year earlier.

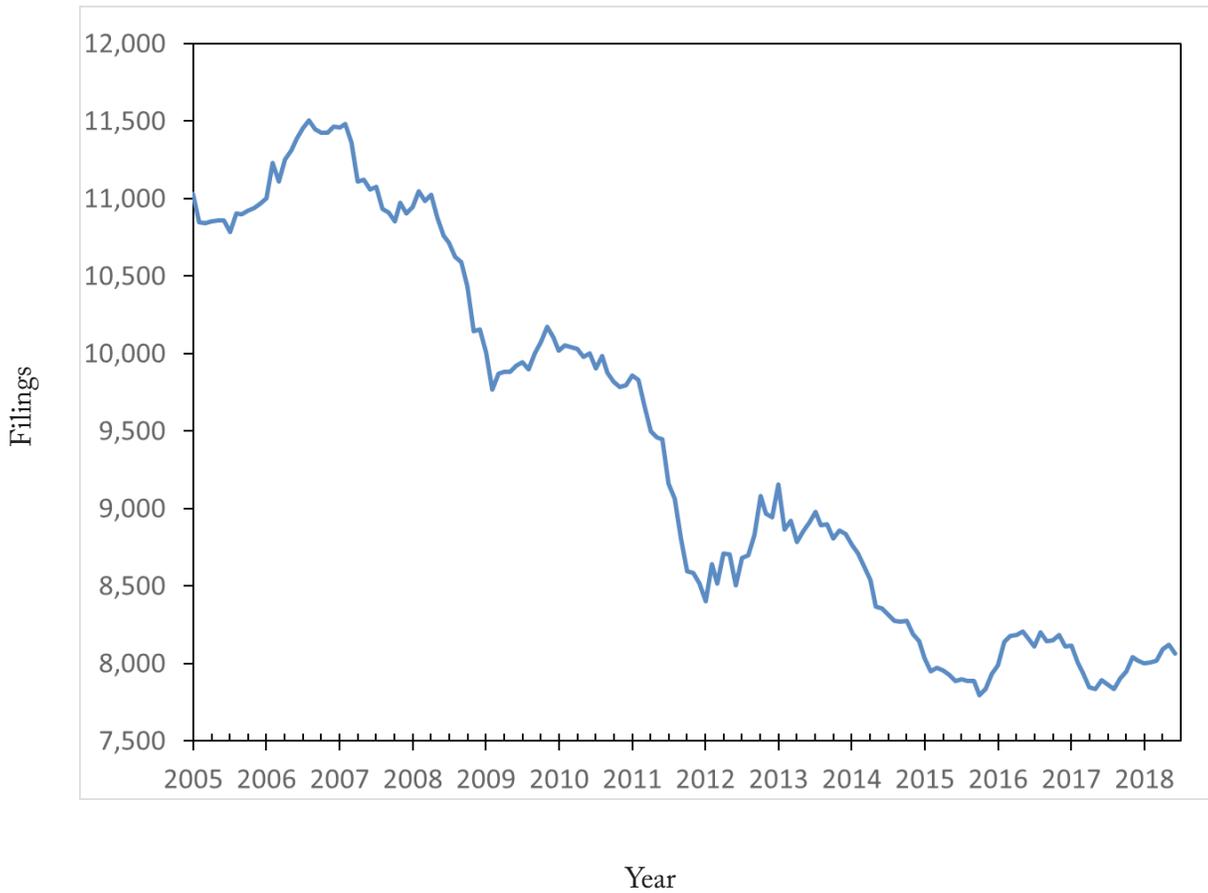
New Limited Liability Companies—Twin Cities Planning Area (12-month moving total)



| Quarter | II: 2017 | III: 2017 | IV: 2017 | I: 2018 | II: 2018 | 2018 Quarter II: Percent change from prior year |
|---|----------|-----------|----------|---------|----------|---|
| Twin Cities New Limited Liability Companies | 6,975 | 6,508 | 6,696 | 7,943 | 7,682 | 10.1% |

Assumed names, which include sole proprietors or organizations that do not have limited liability, rose by 2.3 percent in the second quarter relative to the same period in 2017.

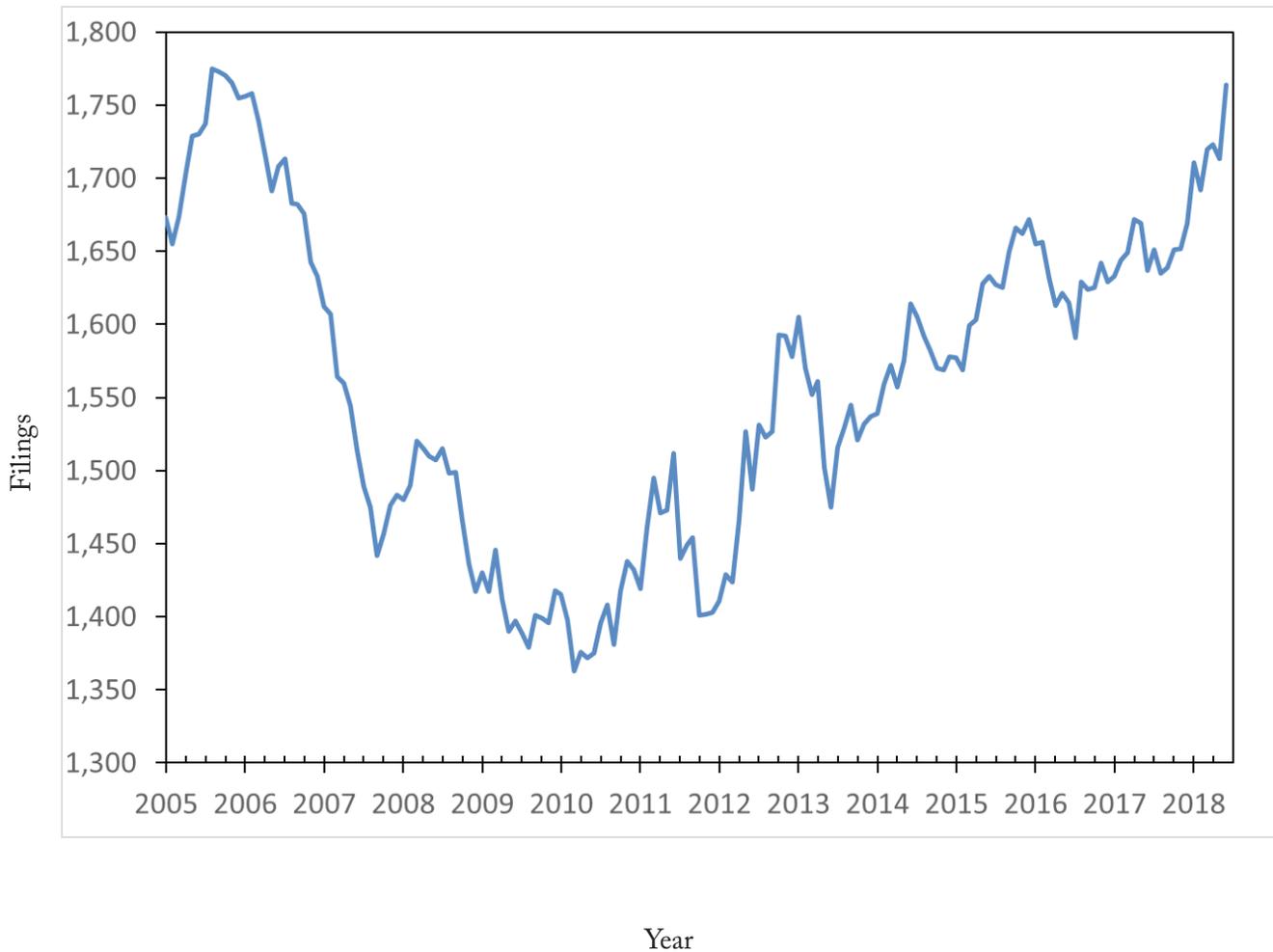
New Assumed Names—Twin Cities Planning Area (12-month moving total)



| Quarter | II: 2017 | III: 2017 | IV: 2017 | I: 2018 | II: 2018 | 2018 Quarter II: Percent change from prior year |
|----------------------------------|-------------|--------------|-------------|------------|-------------|--|
| Twin Cities New Assumed Names | 1,983 | 1,941 | 1,916 | 2,178 | 2,029 | 2.3% |

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State has slowly increased to a level last seen in the mid-2000s. With 446 new non-profits registered in the second quarter, new filings in this sector rose by 10.9 percent compared to one year earlier.

New Non-Profits—Twin Cities Planning Area (12-month moving total)



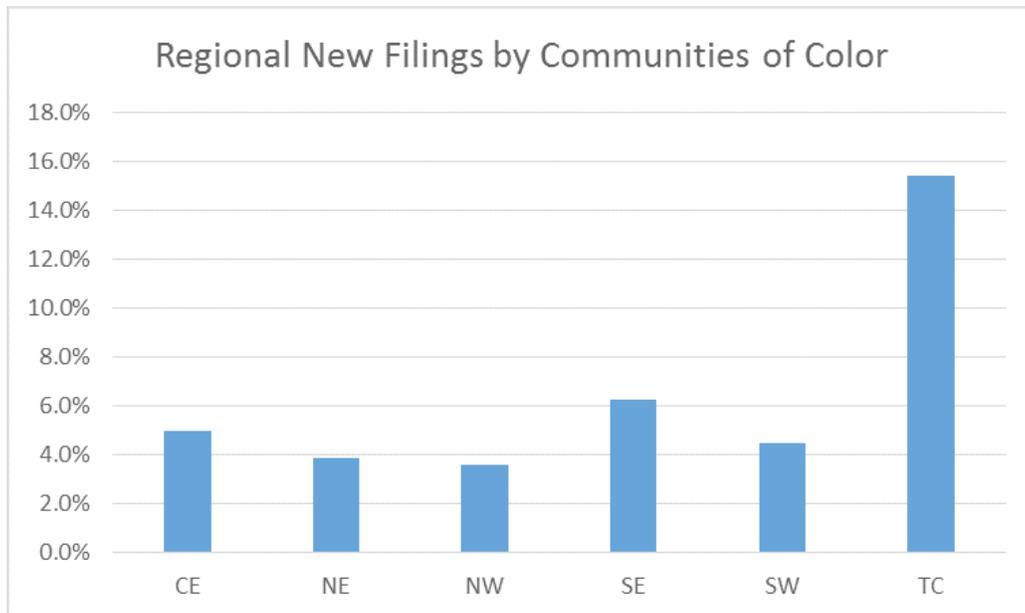
| Quarter | II: 2017 | III: 2017 | IV: 2017 | I: 2018 | II: 2018 | 2018 Quarter II: Percent change from prior year |
|--------------------------------|-------------|--------------|-------------|------------|-------------|--|
| Twin Cities New Non-Profits | 402 | 402 | 428 | 488 | 446 | 10.9% |

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

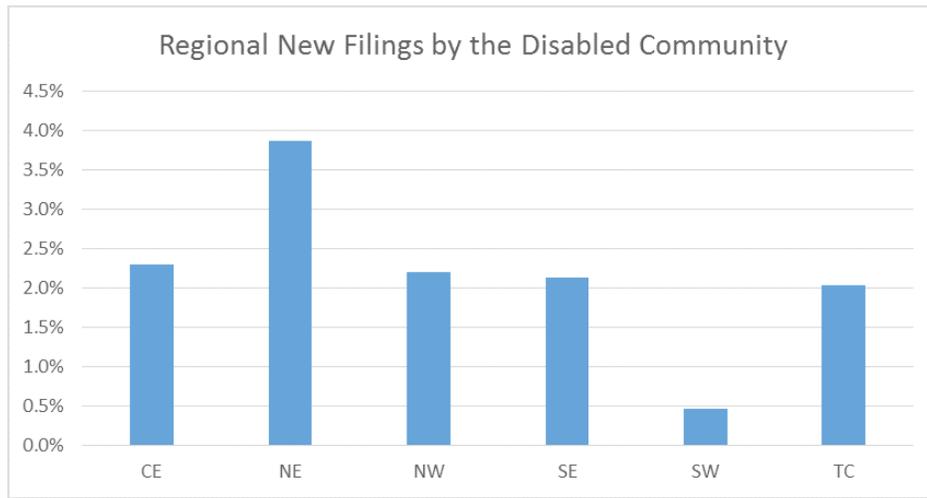
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 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 second quarter of 2018 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 61 percent. This yields thousands of self-reported records in this emerging data set. For the Twin Cities, 60 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

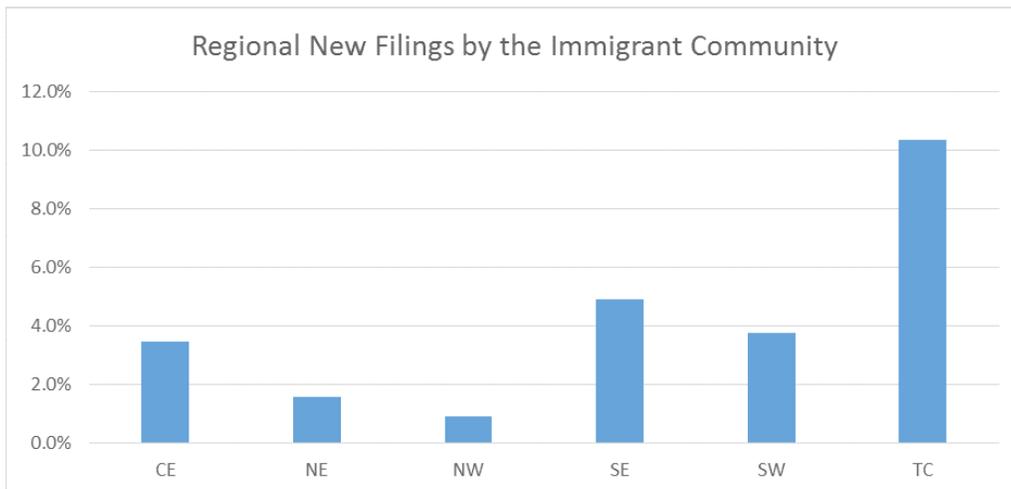
15.4 percent of those new filers completing the MBS from the Twin Cities planning area report being from a community of color. This is more than twice the rate recorded in any of the other planning areas in the state.



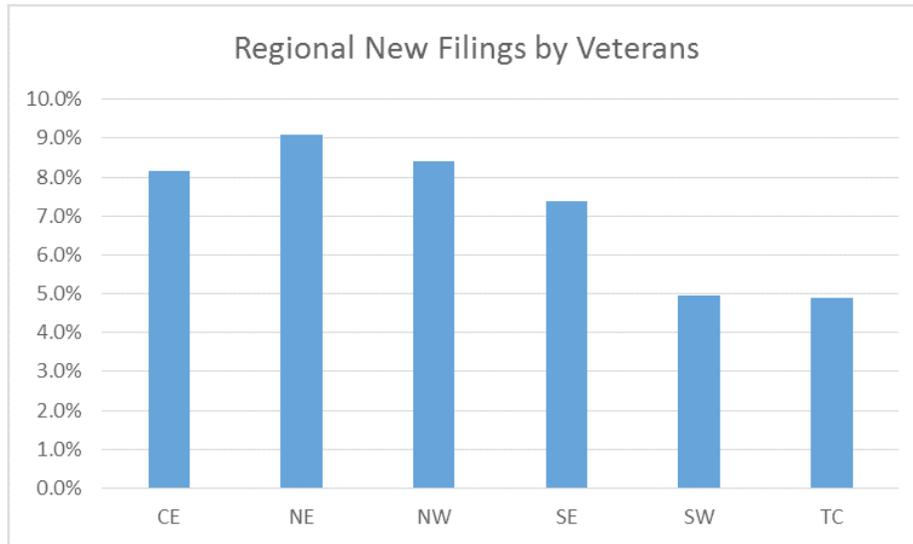
A small percentage of Twin Cities' new filers—2 percent—are from the disability community.



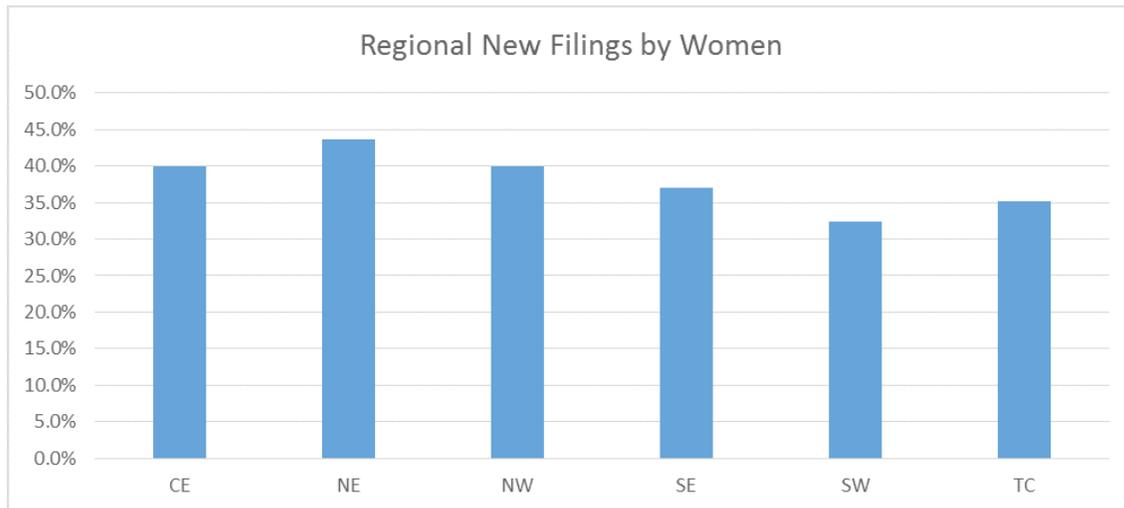
10.4 percent of new business filings in the Twin Cities come from the immigrant community. This is a considerably higher rate than is found in other Minnesota planning areas.



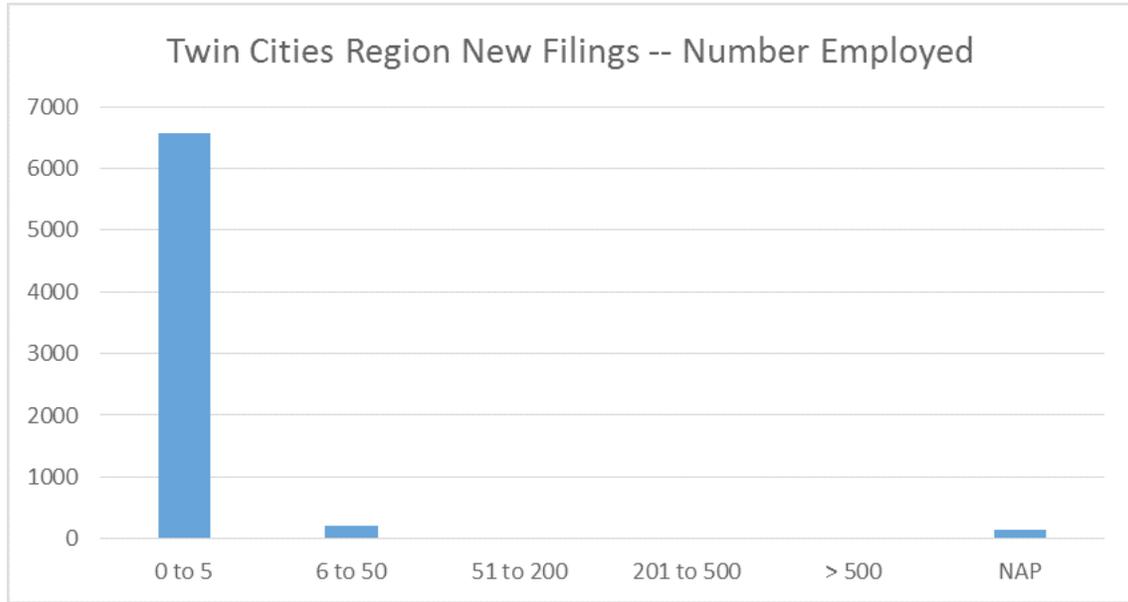
About 5 percent of new filings in the Twin Cities come from military veterans. This is tied with the Southwest Minnesota planning area for the lowest of Minnesota's six planning areas.



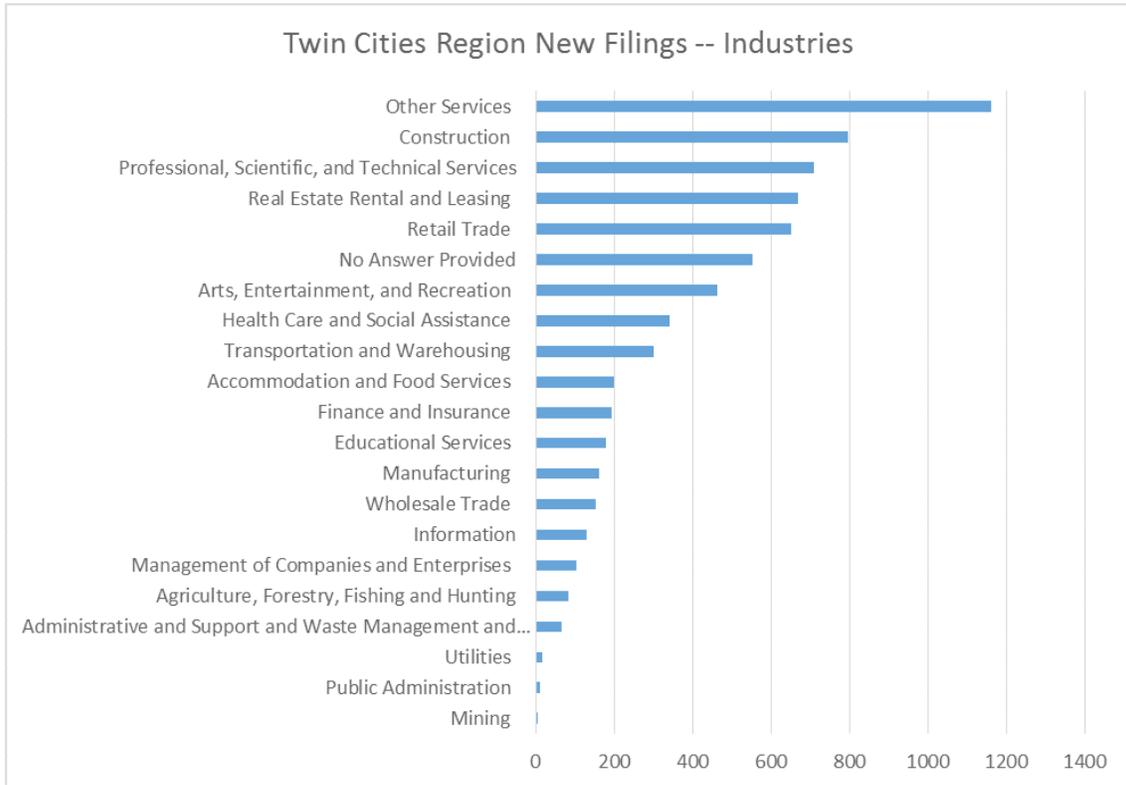
Woman owners represented approximately 35 percent of the new business filings in the Twin Cities in the second quarter of 2018.



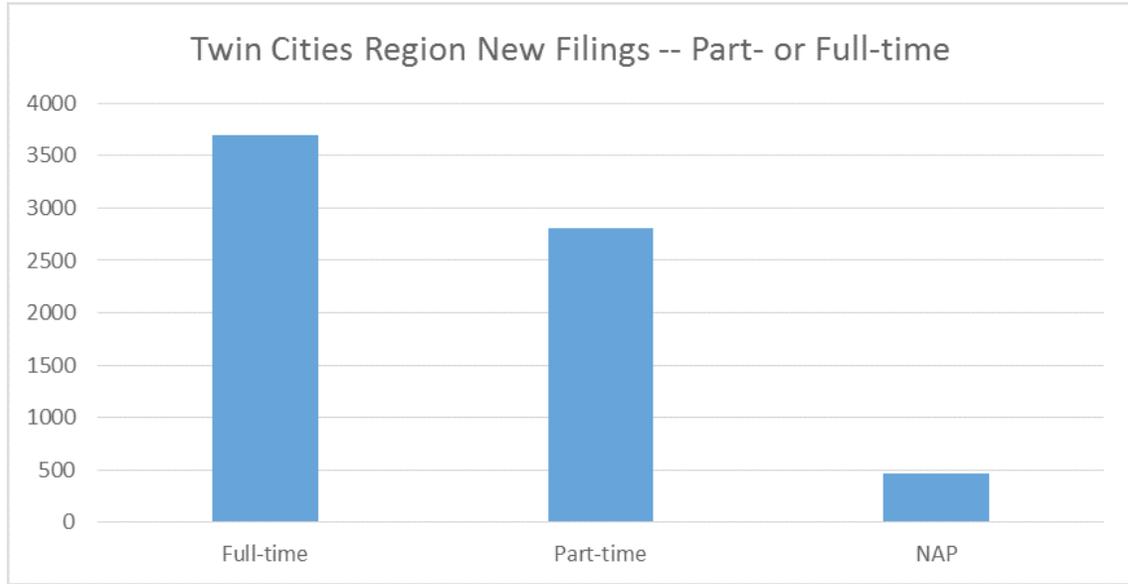
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by “NAP”—no answer provided), 6,815 responses were tallied to a question asking the new business filer to indicate 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.



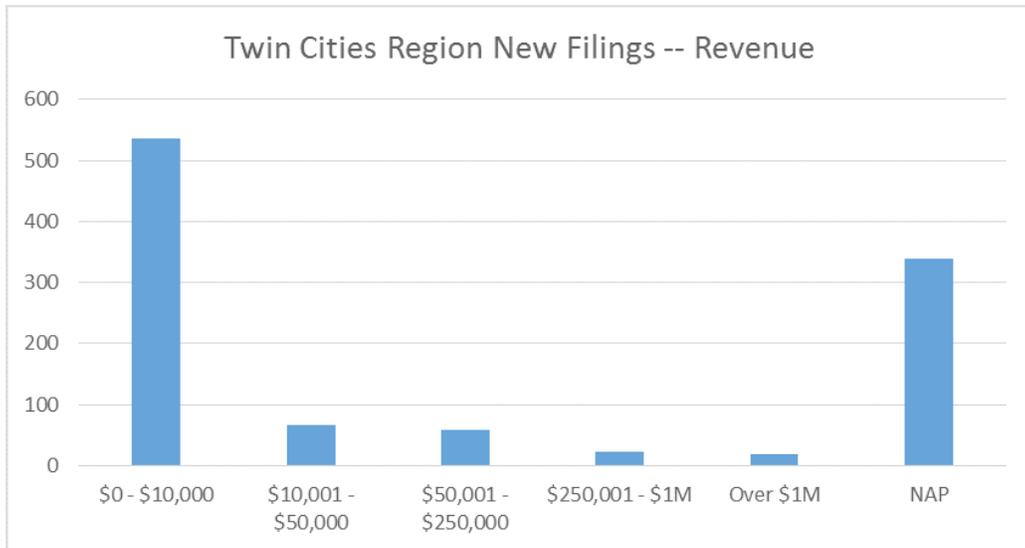
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, professional/scientific/technical services, retail trade, real estate/rental/leasing, 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. 554 new firms did not provide an answer to this survey item.



43.2 percent of those submitting a new business filing in the Twin Cities are part-time ventures.

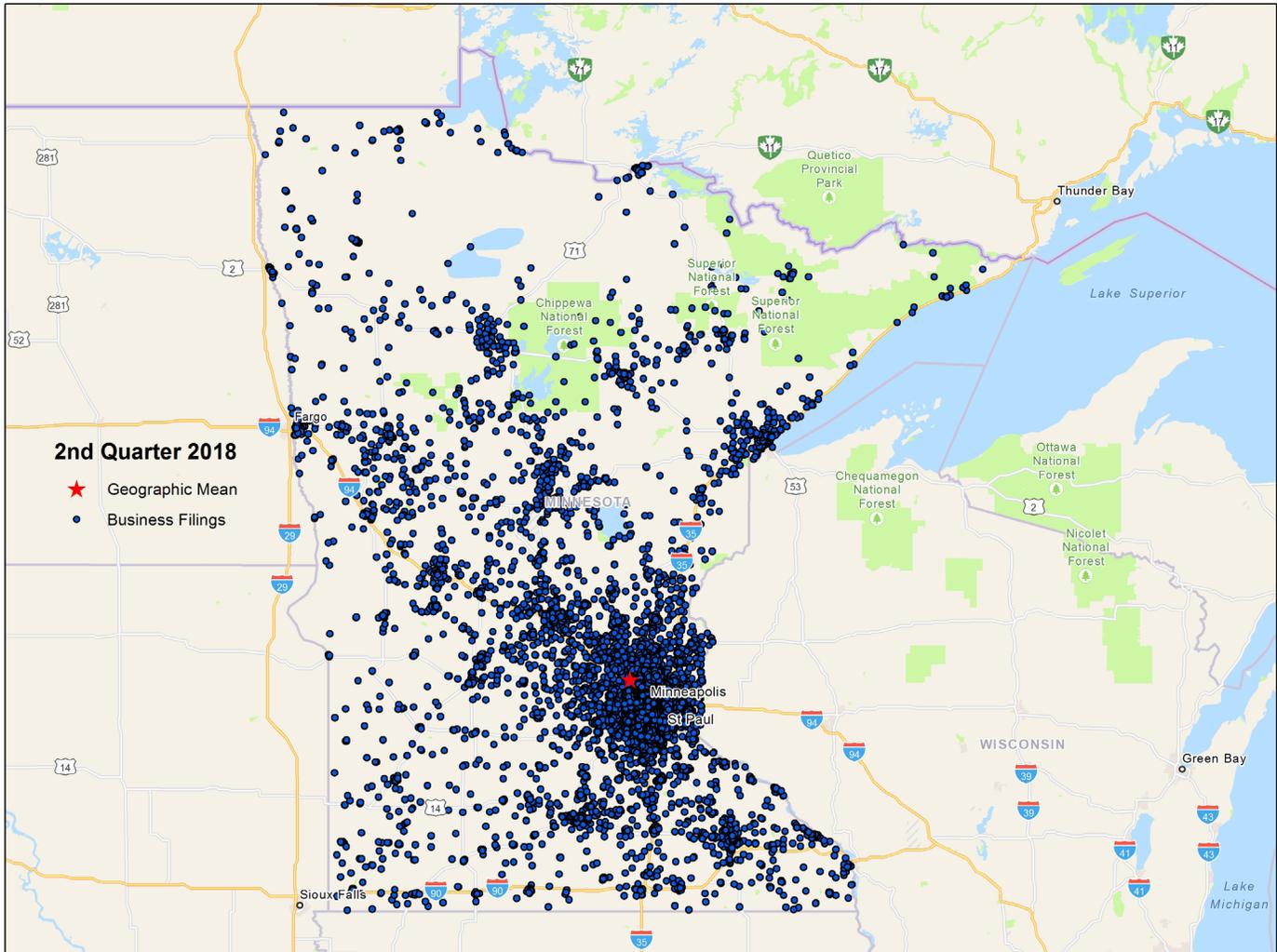


2,072 new business filers in the Twin Cities did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues of less than \$10,000. 703 firms report revenues in excess of \$50,000.



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, 94 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 2: 2018

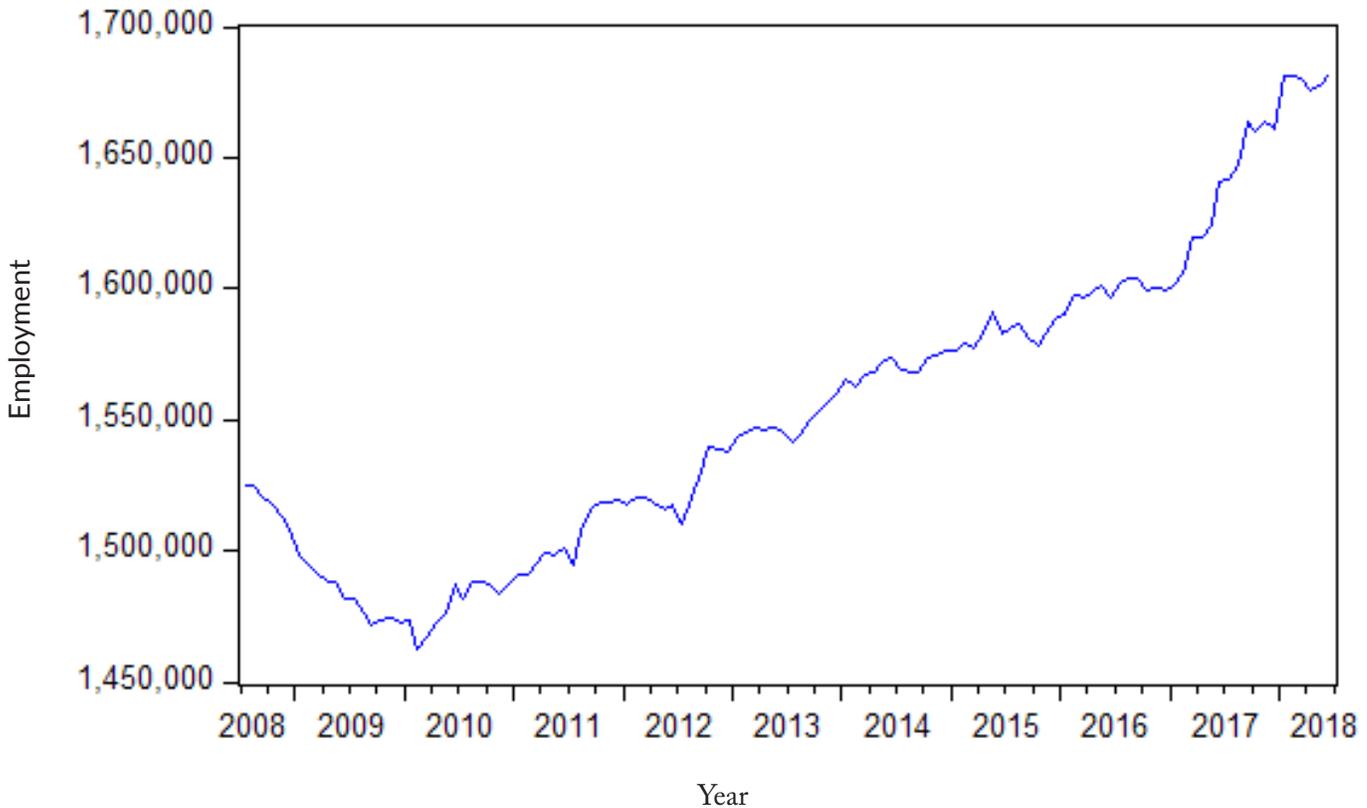


TWIN CITIES LABOR MARKET CONDITIONS

Employment of Twin Cities planning area residents increased 2.5 percent over the past year. After a decline during the Great Recession, the area has experienced fairly steady employment growth since the start of 2010.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance. While there are seasonally adjusted labor market data for the Twin Cities metro area, these data include parts of Wisconsin. These seasonally adjusted data therefore do not accurately capture the Twin Cities planning area (which is confined to seven counties). Some graphs of labor market indicators found in this section of the report are adjusted so as to remove seasonal patterns from the data. Tabular data are not seasonally adjusted.

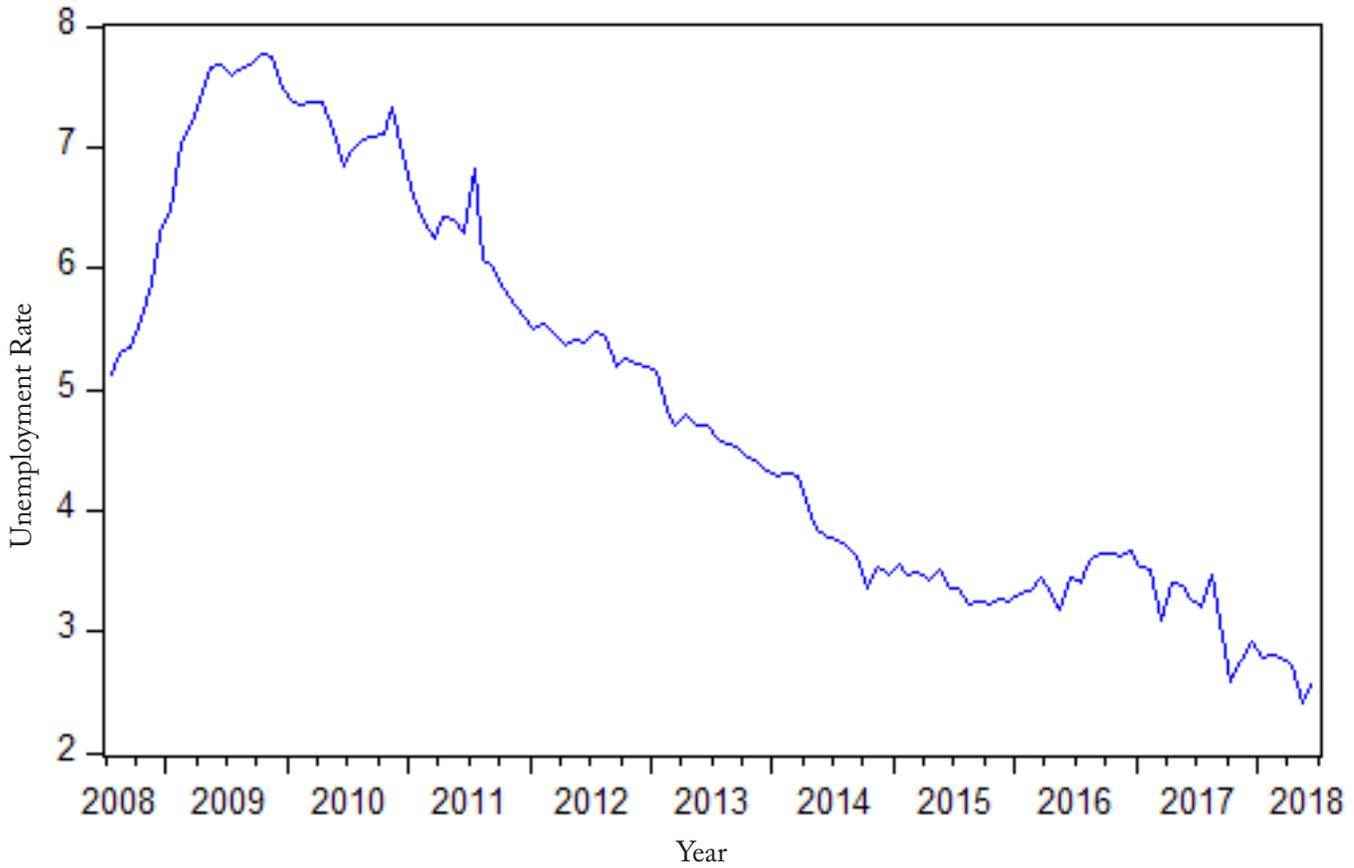
Employment—Twin Cities Planning Area (12-month moving average)



| Month | June 2017 | January 2018 | February 2018 | March 2018 | April 2018 | May 2018 | June 2018 |
|--------------------------------------|-----------|--------------|---------------|------------|------------|-----------|-----------|
| Employment (Not seasonally adjusted) | 1,651,167 | 1,656,341 | 1,667,533 | 1,665,025 | 1,673,536 | 1,683,892 | 1,692,657 |

Until flattening out in 2015, the seasonally adjusted unemployment rate in the Twin Cities had declined since the end of the Great Recession. However, the accompanying graph shows the seasonally adjusted unemployment rate has once again continued to decline since the beginning of 2017. The non-seasonally adjusted unemployment rate now stands at 2.8 percent, lower than the 3.5 percent rate recorded in June 2017.

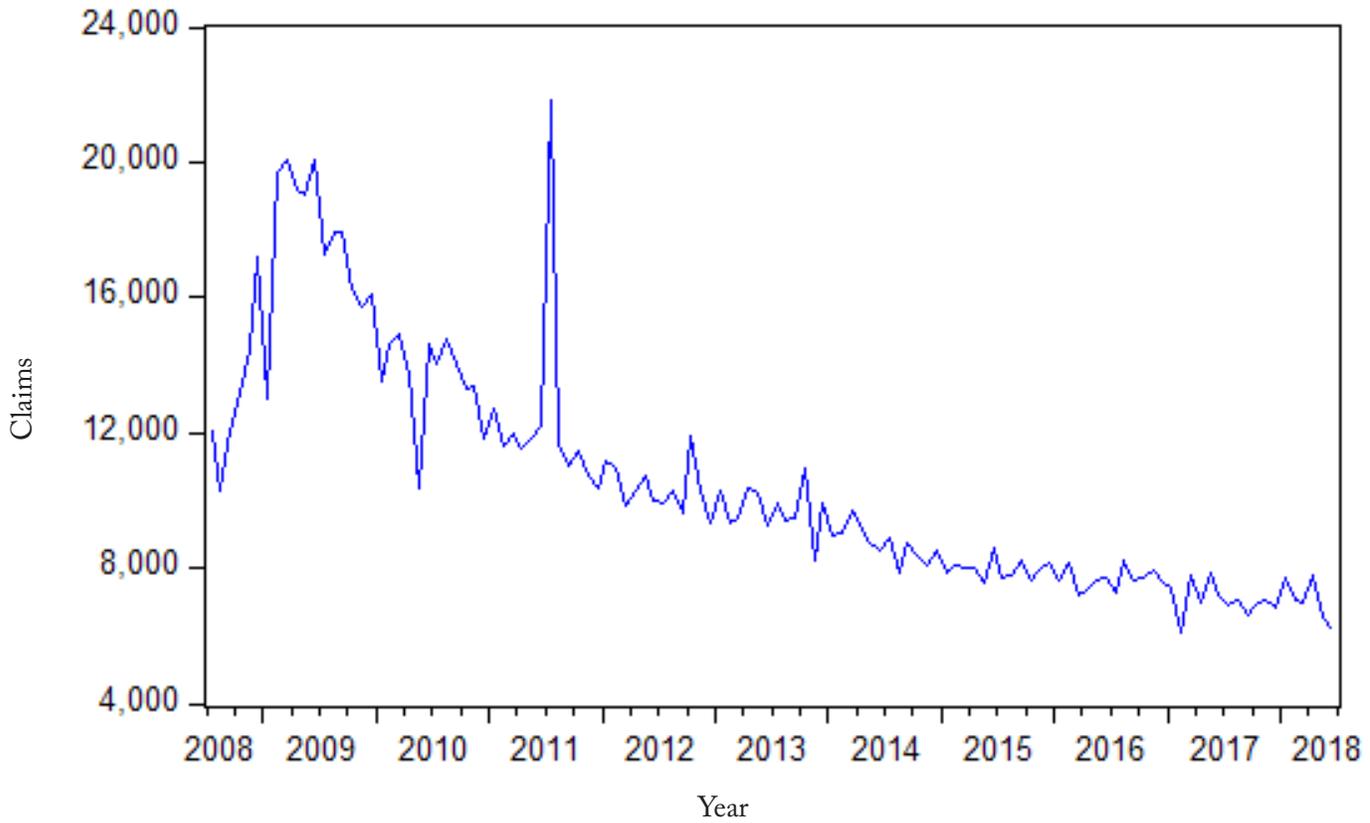
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



| Month | June 2017 | January 2018 | February 2018 | March 2018 | April 2018 | May 2018 | June 2018 |
|---|-----------|--------------|---------------|------------|------------|----------|-----------|
| Unemployment Rate (Not seasonally adjusted) | 3.5% | 3.2% | 3.1% | 3.0% | 2.6% | 2.3% | 2.8% |

New claims for unemployment insurance were 14 percent below year ago levels in June 2018. The graph of the seasonally adjusted series suggests claims have slowly declined for the past several years.

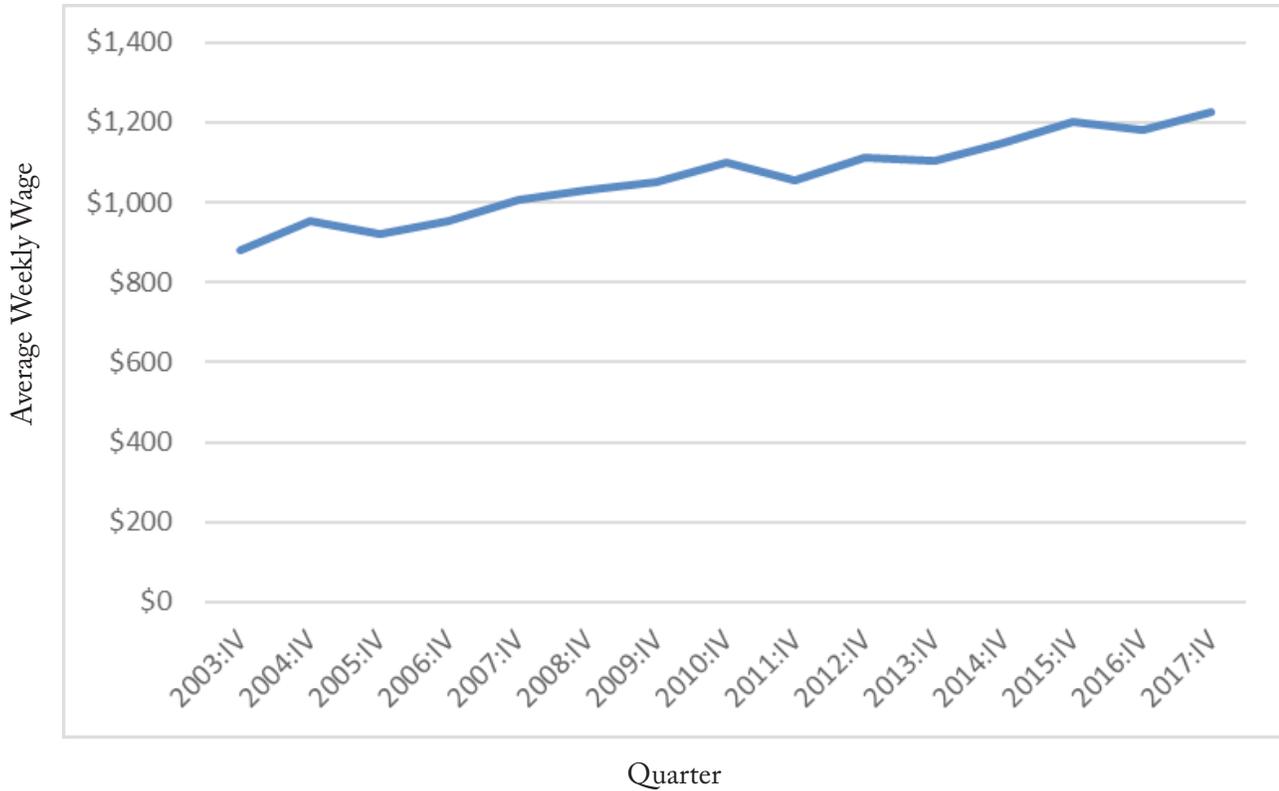
**Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Twin Cities Planning Area**



| Period | June 2017 | January 2018 | February 2018 | March 2018 | April 2018 | May 2018 | June 2018 |
|---|-----------|--------------|---------------|------------|------------|----------|-----------|
| Initial claims (Not seasonally adjusted) | 6,867 | 9,945 | 6,892 | 6,622 | 6,570 | 5,809 | 5,909 |

Labor shortages are being reported by employers across the entire state. This is creating wage pressures, as firms adjust levels of employee compensation to attract and retain workers. One measure of employee compensation is the average weekly wage. The average weekly wage in the Twin Cities planning area increased 3.5 percent over year earlier levels for the most recent reporting period. At a level of \$1,224, the average weekly wage in the Twin Cities is far higher than that which was recorded in the planning area with the second highest wages. The Southeast Minnesota planning area's average weekly wage was \$969—26.3 percent lower than in the Twin Cities.

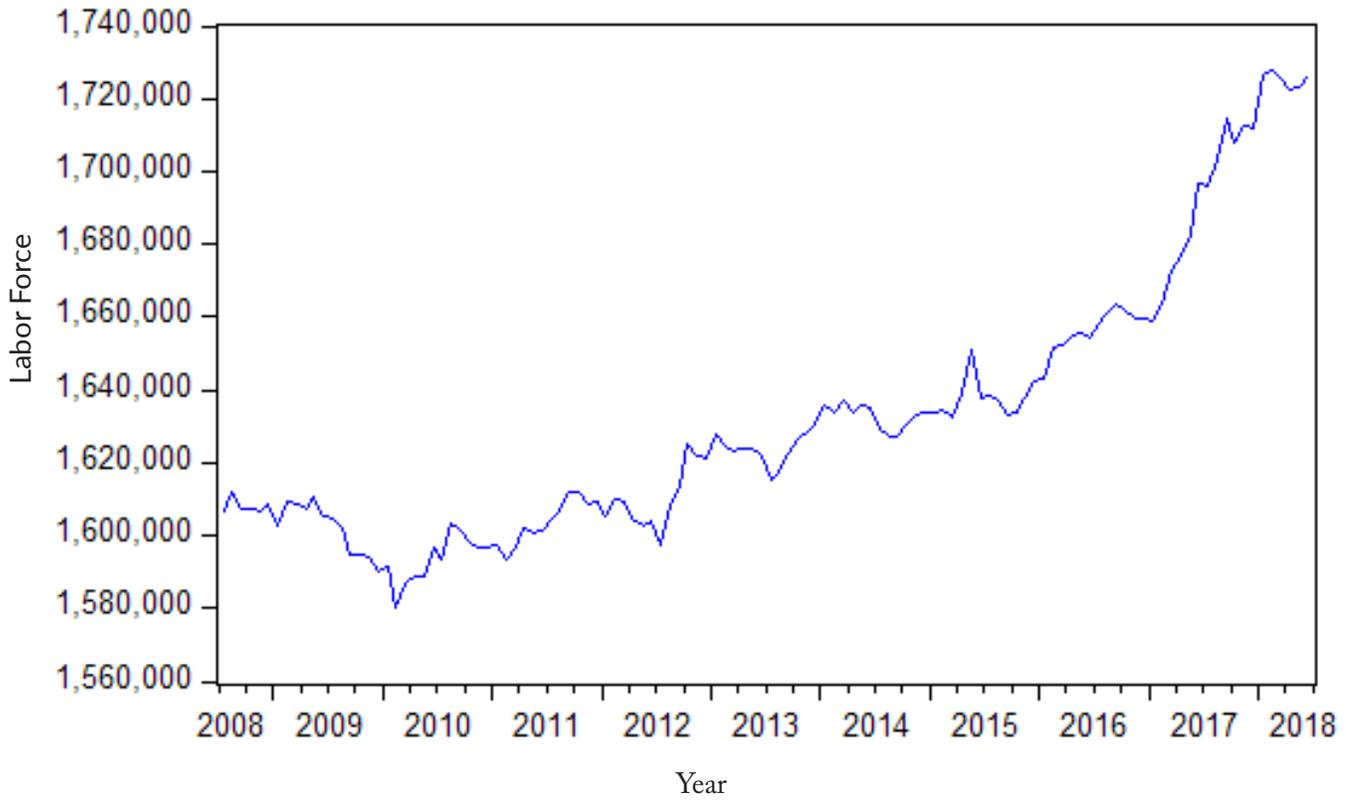
Average Weekly Wages---Twin Cities Planning Area



| Quarter | 2015:II | 2015:IV | 2016:II | 2016:IV | 2017:II | 2017:IV |
|---------------------|---------|---------|---------|---------|---------|---------|
| Average Weekly Wage | \$1,112 | \$1,102 | \$1,150 | \$1,202 | \$1,183 | \$1,224 |

The size of the Twin Cities labor force rose by 1.7 percent over the past twelve months. The 12-month moving average (see accompanying graph) of the Twin Cities labor force continues to trend upward.

Labor Force—Twin Cities Planning Area (12-month moving average)

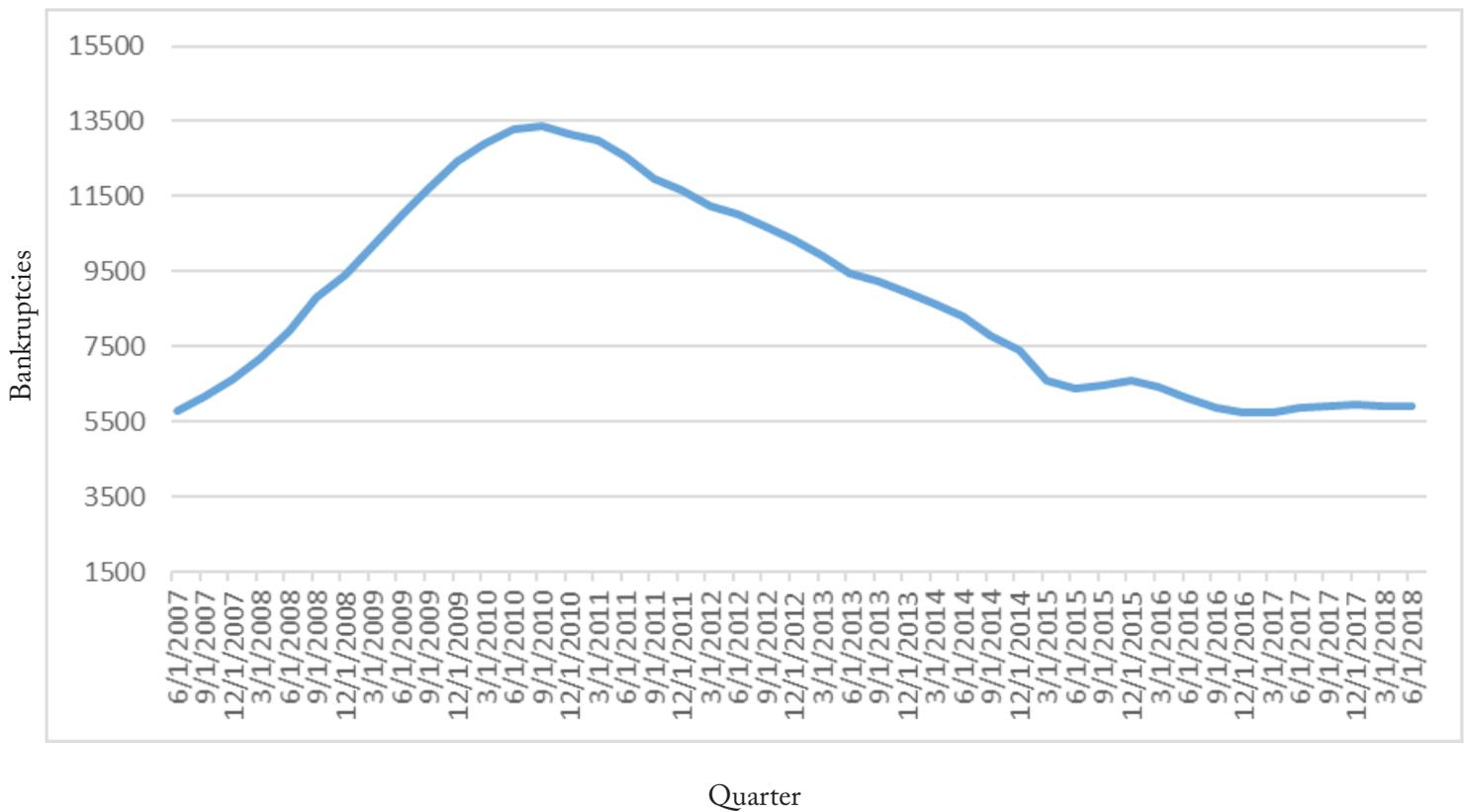


| Year (June) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Labor Force (Not seasonally adjusted) | 1,632,337 | 1,646,369 | 1,650,089 | 1,667,631 | 1,711,168 | 1,740,905 |

TWIN CITIES BANKRUPTCIES

The figure below shows the 12-month moving total for Twin Cities 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 generally declined until the beginning of this year, at which time it began leveling out. With 5,900 bankruptcies over the past twelve months, the annual number of bankruptcies reported in the Twin Cities is higher than it was one year ago (when 5,877 annual bankruptcies were reported).

Twin Cities Bankruptcies (12-month moving total)



| Year (Second Quarter) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------|-------|-------|-------|-------|-------|
| Annual Bankruptcies (not seasonally adjusted) | 9,433 | 8,283 | 6,389 | 6,109 | 5,877 | 5,900 |

ECONOMIC INDICATORS

| Twin Cities MSA Indicators | Period Covered | Current Period | Prior Year | Annual Percent Change | Long Term Average (since 1999 unless noted) |
|--|------------------------|----------------|------------|-----------------------|---|
| Employment | June 2018 (m) | 2,049,020 | 2,008,850 | 2.0% ↑ | 0.8% |
| Manufacturing Employment | June 2018 (m) | 204,319 | 197,870 | 3.3% ↑ | -0.9% |
| Average Weekly Work Hours-Private Sector | June 2018 (m) | 34.9 | 35.0 | -0.3% ↓ | 34.3 (since 2007) |
| Average Earnings Per Hour-Private Sector | June 2018 (m) | \$29.84 | \$28.76 | 3.8% ↑ | 1.4% (since 2007) |
| Average Weekly Work Hours-Manufacturing (Production Workers) | June 2018 (m) | 41.9 | 41.2 | 1.7% ↑ | 40.8 (since 2005) |
| Average Earnings Per Hour-Manufacturing (Production Workers) | June 2018 (m) | \$21.76 | \$21.54 | 1.0% ↑ | 1.5% (since 2005) |
| Unemployment Rate | June 2018 (m) | 2.8% | 3.5% | NA ↓ | 4.6% |
| Labor Force | June 2018 (m) | 2,036,572 | 2,001,817 | 1.7% ↑ | 0.8% |
| MSP Residential Building Permit Valuation | June 2018 (m) | 417,516 | 323,324 | 29.1% ↑ | NA |
| Minneapolis Cost of Living Index | First Quarter 2018 (q) | 105.0 | 104.8 | 0.2% ↑ | NA |
| St. Paul Cost of Living Index | First Quarter 2018 (q) | 104.7 | 104.5 | 0.2% ↑ | NA |

(m) represents a monthly series

(q) represents a quarterly series

The Minneapolis-St. Paul Metropolitan Statistical Area (an MSA is a grouping of counties and municipalities identified by the Census as having economic and demographic forces in common) includes 14 Minnesota counties (the definition of the MSA was recently expanded to include Le Sueur, Mille Lacs, and Sibley counties): Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Le Sueur, Mille Lacs, Ramsey, Scott, Sherburne, Sibley, Washington and Wright. This MSA also includes the Wisconsin counties of Pierce and St. Croix. It is thus much larger than the seven-county Twin Cities planning area. Still, activity outside of the area influences economic behavior within it, and vice versa. The larger Minneapolis-St. Paul MSA experienced mostly favorable economic performance over the past 12 months. Overall employment increased 2 percent in the Twin Cities MSA (and manufacturing employment also expanded). Average hourly earnings rose in the private sector (as well as for manufacturing employees), but average weekly work hours declined in the private sector (but increased for production workers). The Twin Cities MSA unemployment rate was lower and the labor force was larger in June than it was one year ago. The relative cost of living rose in both Minneapolis and St. Paul. The value of residential building permits in the Twin Cities MSA experienced a 29.1 percent year-over-year increase in June 2018.

STATE AND NATIONAL INDICATORS

| MINNESOTA Indicators | Jun 2018 | Mar 2018 | Jun 2017 | Change from one quarter ago | Annual Change |
|---|-----------|-----------|-----------|-----------------------------|---------------|
| Nonfarm payroll employment, SA | 2,962,300 | 2,948,800 | 2,929,000 | 0.5% | 1.1% |
| Average weekly hours worked, private sector | 34.1 | 33.7 | 34.1 | 1.2% | 0% |
| Unemployment rate, seasonally adjusted | 3.1% | 3.2% | 3.4% | NA | NA |
| Earnings per hour, private sector | \$28.78 | \$28.88 | \$27.94 | -0.3% | 3.0% |
| Philadelphia Fed Coincident Indicator, MN | 135.96 | 134.58 | 131.42 | 1.0% | 3.5% |
| Philadelphia Fed Leading Indicator, MN | 2.30 | 1.57 | 1.88 | 46.5 % | 22.3% |
| Minnesota Business Conditions Index | 58.8 | 61.0 | 68.0 | -3.6% | -13.5% |
| Price of milk received by farmers (cwt) | \$16.20 | \$16.10 | \$17.50 | 0.6% | -7.4% |
| Enplanements, MSP airport, thousands | 1,753.0 | 1,716.4 | 1,738.8 | 2.1% | 0.8% |
| NATIONAL Indicators | Jun 2018 | Mar 2018 | Jun 2017 | Change from one quarter ago | Annual Change |
| Nonfarm payroll employment, SA, thousands | 148,971 | 148,280 | 146,538 | 0.5% | 1.7% |
| Industrial production, index, SA | 107.7 | 106.4 | 103.8 | 1.2% | 3.8% |
| Real retail sales, SA (\$) | 202,022 | 198,859 | 194,817 | 1.6% | 3.7% |
| Real personal income less transfers, billions | 13,500.6 | 13,418.0 | 13,139.8 | 0.6% | 2.7% |
| Real personal consumption expenditures, bill. | 12,886.2 | 12,759.8 | 12,539.3 | 1.0% | 2.8% |
| Unemployment rate, SA | 4.0% | 4.1% | 4.3% | NA | NA |
| New building permits, SA, thousands | 25,637 | 24,168 | 25,160.4 | 6.1% | 1.9% |
| Standard & Poor's 500 stock price index | 2,754.4 | 2,702.8 | 2,434.0 | 1.9% | 13.2% |
| Oil, price per barrel in Cushing, OK | \$67.87 | \$62.73 | \$45.18 | 8.2% | 50.2% |

Most categories of economic performance found in the State and National Indicators table are favorable. For the state as a whole, there was growth in employment, a lower seasonally adjusted unemployment rate, and increased enplanements at the Minneapolis-St. Paul airport. Two of the three indicators series reported in the table are higher. Year-over-year, average hourly earnings rose but weekly work hours were flat. Milk prices continue to fall.

The national economic indicators found in the table are also highly favorable. Stock prices have now rebounded and employment has increased. Real income and consumer expenditures have expanded and the national unemployment rate continues to fall. Industrial production rose and the number of new building permits rose. Oil prices are now 50 percent higher than they were one year ago. The adverse impact of rising oil prices on household budgets is at least partially offset by the benefits of higher crude prices enjoyed in the domestic energy sector.

The Twin Cities 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.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Alex Franta and Nicholas Gross Kotschevar. Professor David Wall of the SCSU Geography Department provided GIS assistance.

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