8-2016

Northwest Minnesota Economic and Business Conditions Report - Second Quarter 2016

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Northwest Minnesota
Economic and Business Conditions Report
Second Quarter 2016

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

Office of the Minnesota
Secretary of State

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Executive Summary

The Northwest Minnesota planning area economy is expected to grow at a slower pace than normal over the next several months according to the predictions of the St. Cloud State **University (SCSU) Northwest Minnesota Index of Leading Economic Indicators (LEI).** Three of the five components of the leading index were lower in the second quarter, causing the LEI to decrease by 3.66 points. A declining Rural Mainstreet Index (which signals a more challenging macroeconomic environment for rural America), a smaller number of residential building permits in Fargo/Moorhead and Grand Forks/East Grand Forks, and lower new filings for incorporation and LLC helped drive the index lower. Improved consumer sentiment was the only index component that helped lift the index. A fifth LEI component (initial jobless claims) was largely neutral.

There were 1,088 new business filings with the Office of the Minnesota Secretary of State in Northwest Minnesota in the second quarter of 2016 — representing a 3.6 percent decrease from one year ago. 119 new regional business incorporations were recorded in the most recent quarter, which was basically unchanged from the same quarter in 2015. In the second quarter, new LLC filings in Northwest Minnesota were down 6.4 percent from one year earlier—falling to 575. New assumed names totaled 346 in the second quarter—0.9 percent more filings than the same period in 2015. There were 48 new filings for Northwest Minnesota non-profits in the second quarter—six fewer filings than one year ago.

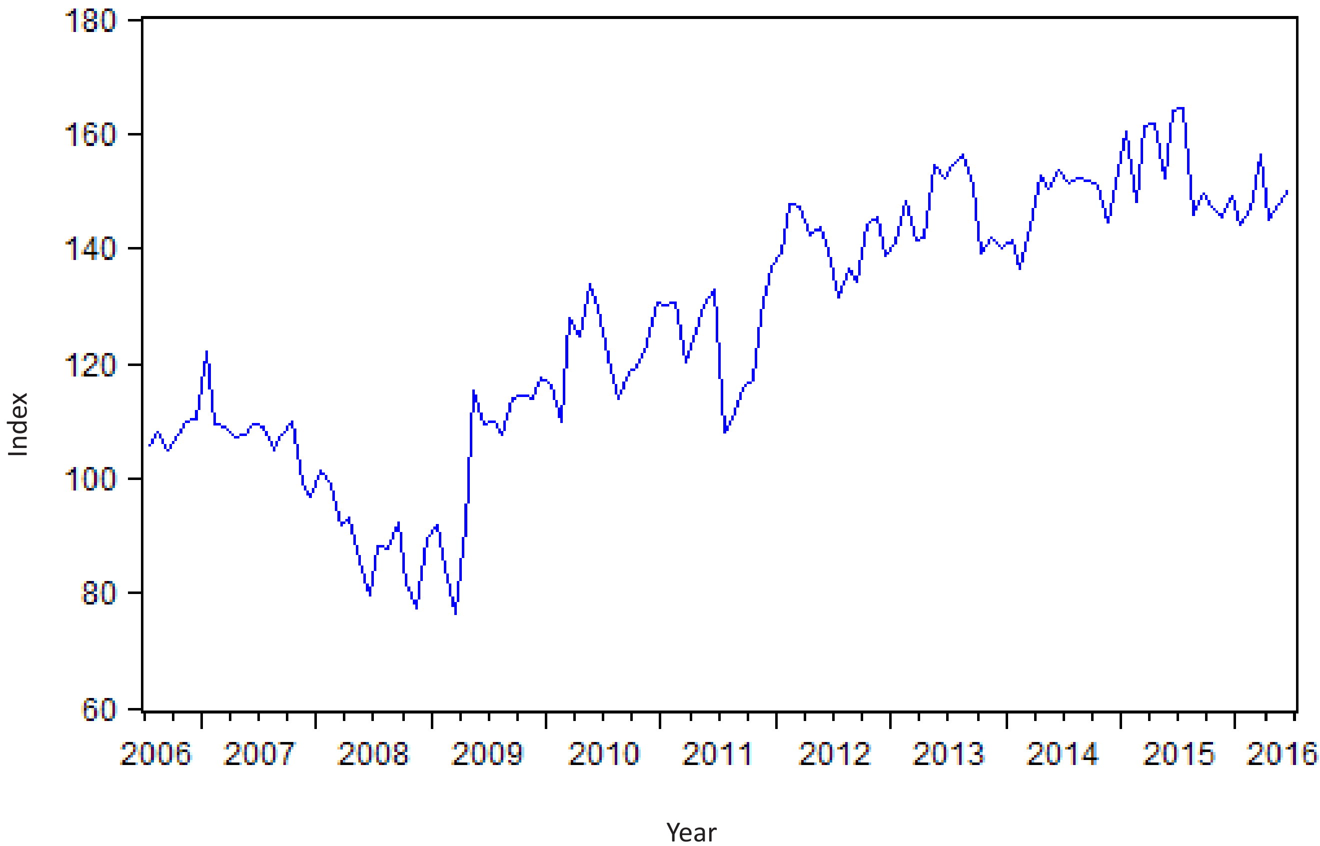
Employment of Northwest Minnesota residents declined by 0.6 percent over the year ending June 2016. The regional unemployment rate was 4.5 percent in June, which was higher than the 4.3 percent rate observed one year ago. The Northwest Minnesota labor force contracted over the past twelve months (there are now 1,260 fewer people in the regional labor force than there was one year ago). Initial claims for unemployment insurance in June were essentially unchanged from June 2015. The average weekly wage rose to $767 in Northwest Minnesota in the fourth quarter of 2015. This is the lowest average weekly wage of Minnesota's six planning areas. The region's total bankruptcies have begun to level out at an historically low level.

The Fargo/Moorhead Metropolitan Statistical Area (MSA) experienced a mixed economic performance over the past quarter. This MSA tallied gains in overall employment and in mining, logging and construction employment (but decreased manufacturing employment), lower initial jobless claims, and a rise in the regional workforce. This was offset by reduced valuation of residential building permits, a lower average workweek, weaker average hourly earnings, an increased unemployment rate, and a jump in the relative cost of living. **Economic activity in the Grand Forks/East Grand Forks MSA was similarly mixed in the second quarter.** Higher overall employment (as well as in two key sectors), a rising labor force, higher average hourly earnings, a longer workweek, and an increase in the value of residential building permits all contributed favorably to the overall economy. An increase in the regional unemployment rate and in initial jobless claims weighed negatively on Grand Forks/East Grand Forks in the second quarter.

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. The LEI fell by 3.66 points in the second quarter after being essentially unchanged in the first quarter of 2016. The index now stands 8.4 percent below its level of the second quarter of 2015. As shown in the accompanying graph, the LEI has flattened out in recent quarters.

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



Components of SCSU Northwest Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2016	Contribution to LEI, 1st quarter 2016
Rural Mainstreet Index	-0.34	4.84
Northwest Minnesota initial claims for unemployment insurance	0.02	-2.50
Northwest Minnesota new filings of incorporation and LLCs	-1.36	-1.52
Fargo-Moorhead + Grand Forks-EGF MSA residential building permits	-3.13	-0.52
Consumer Sentiment, University of Michigan	1.15	-0.74
TOTAL CHANGE	-3.66	-0.44

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 of Northwest Minnesota. As can be seen in the accompanying table, this rural index had an unfavorable impact on this quarter's index. Because Northwest Minnesota exports many recreational vehicles, consumer sentiment is included as a proxy for demand in that industry. The University of Michigan's Consumer Sentiment Index was the one LEI component that had a positive impact on the regional outlook in the most recent quarter. Lower residential building permits in Fargo/Moorhead and Grand Forks/East Grand Forks and a decline in new regional filings of incorporation and LLC each weighed on the LEI in the second quarter.

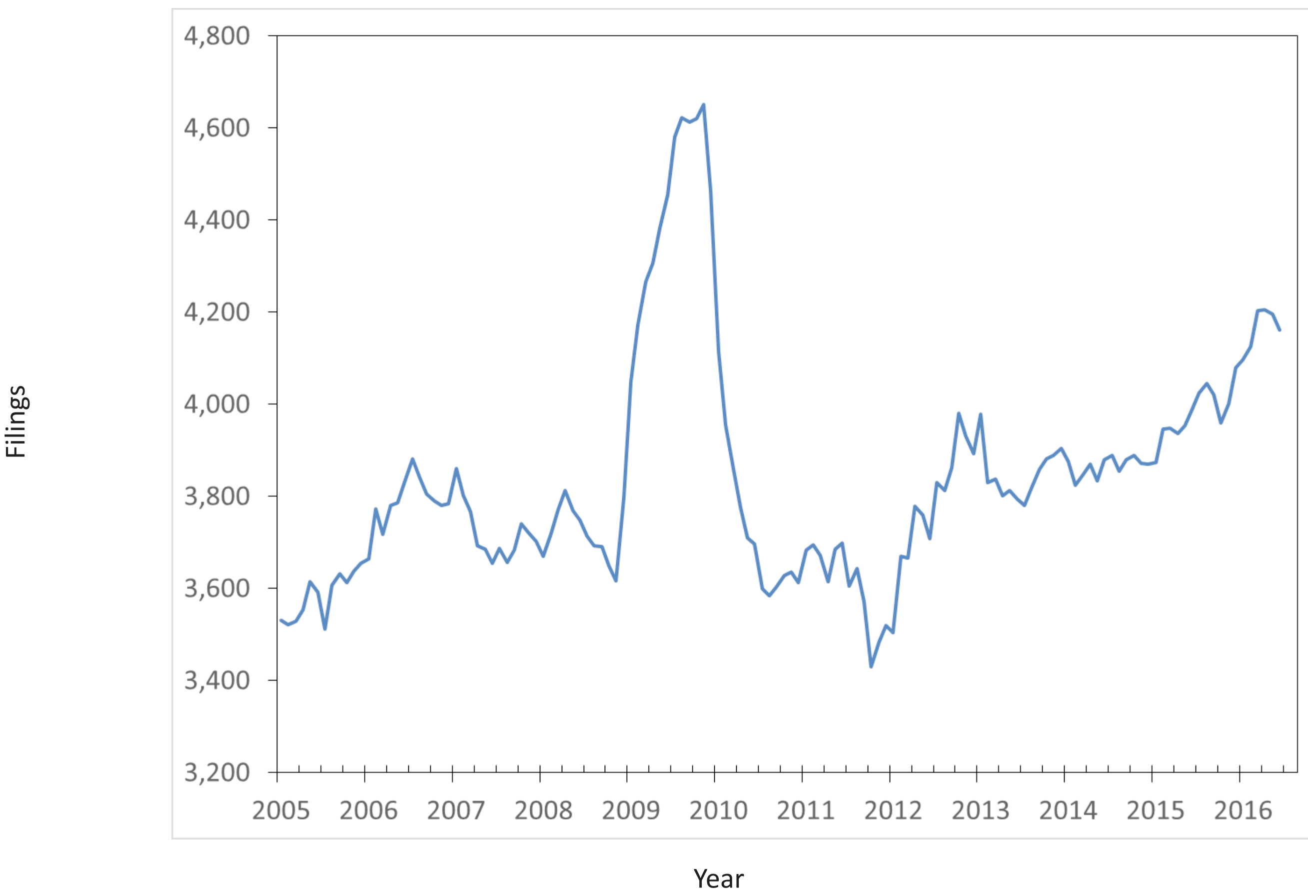
SCSU Northwest Minnesota Leading Economic Indicators Index	2016	2015	Percentage change
Rural Mainstreet Index, Creighton University, June	44.1	52.6	-16.2%
Northwest Minnesota initial claims for unemployment insurance, June	1,677	1,336	25.5%
Northwest Minnesota new filings of incorporation and LLCs, Second Quarter	694	732	-5.2%
Fargo-Moorhead and Grand Forks-EGF MSA single-family building permits, June	156	188	-17.0%
Consumer Sentiment, University of Michigan, June	93.5	96.1	-2.7%
Northwest Minnesota Leading Economic Indicators Index June (June 1999 = 100)	150.4	164.2	-8.4%

Northwest Minnnesota Business Filings

The 12-month moving total of new business filings in this region has trended upward since the end of 2011. There was a pause in this trend in the current quarter as total new filings declined by 3.6% compared to last year's second quarter. 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.

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: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northwest Minnesota Total New Business Filings	1,129	926	923	1,225	1,088	-3.6%

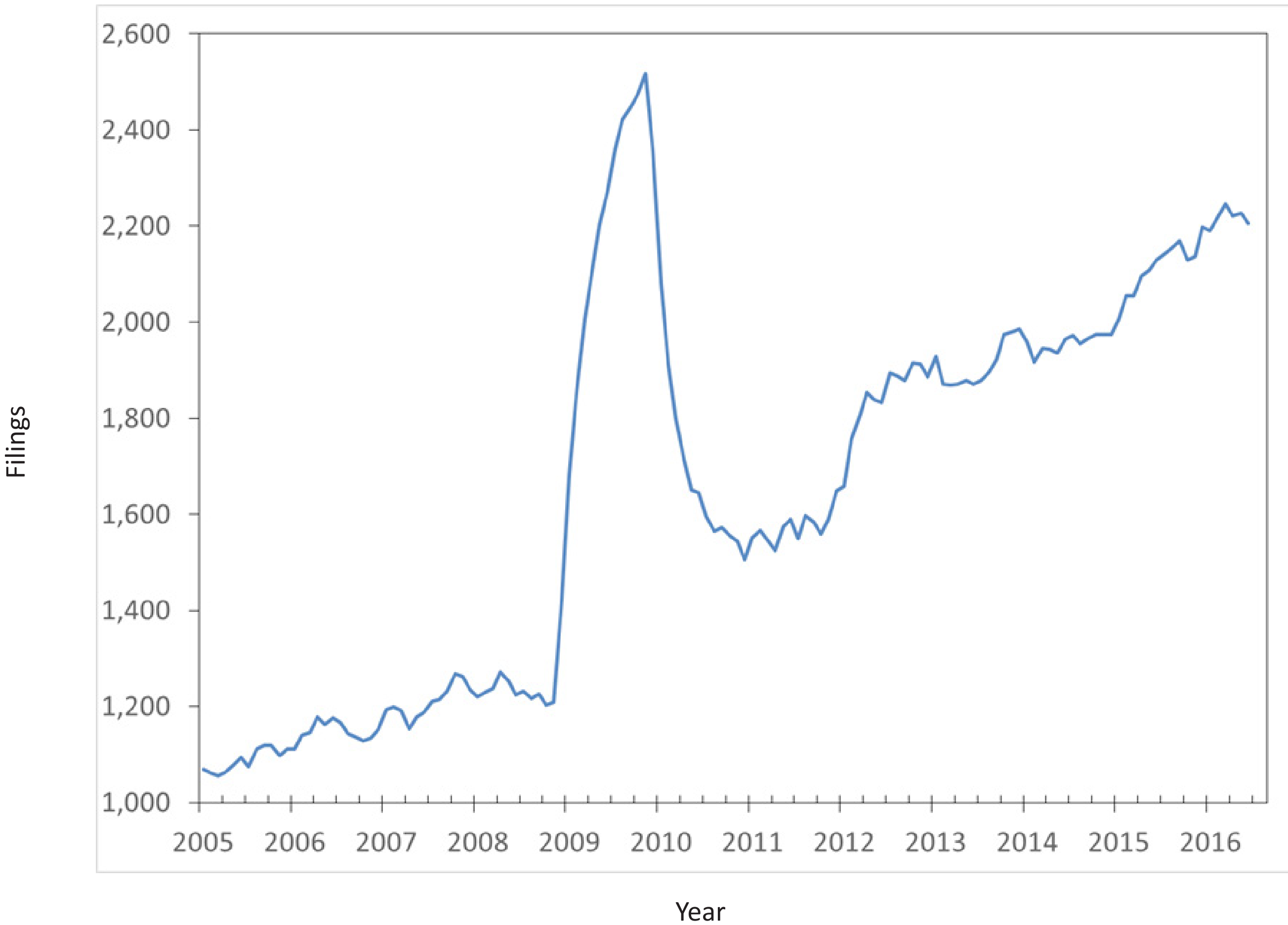
New business incorporations trended downward in Northwest Minnesota from 2005 through 2011, but have since leveled out. New business incorporations in this year's second quarter were largely unchanged from one year ago.

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

Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northwest Minnesota New Business Incorporations	118	84	112	134	119	0.8%

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, until recently there has been a considerable upward trend in LLCs in Northwest Minnesota. With the exception of the outlier period in 2008–2009, new LLC formation had shown a fairly steady rate of growth over the last ten years. However, second quarter 2016 LLC filings fell by 6.4 percent compared to the same period in 2015.

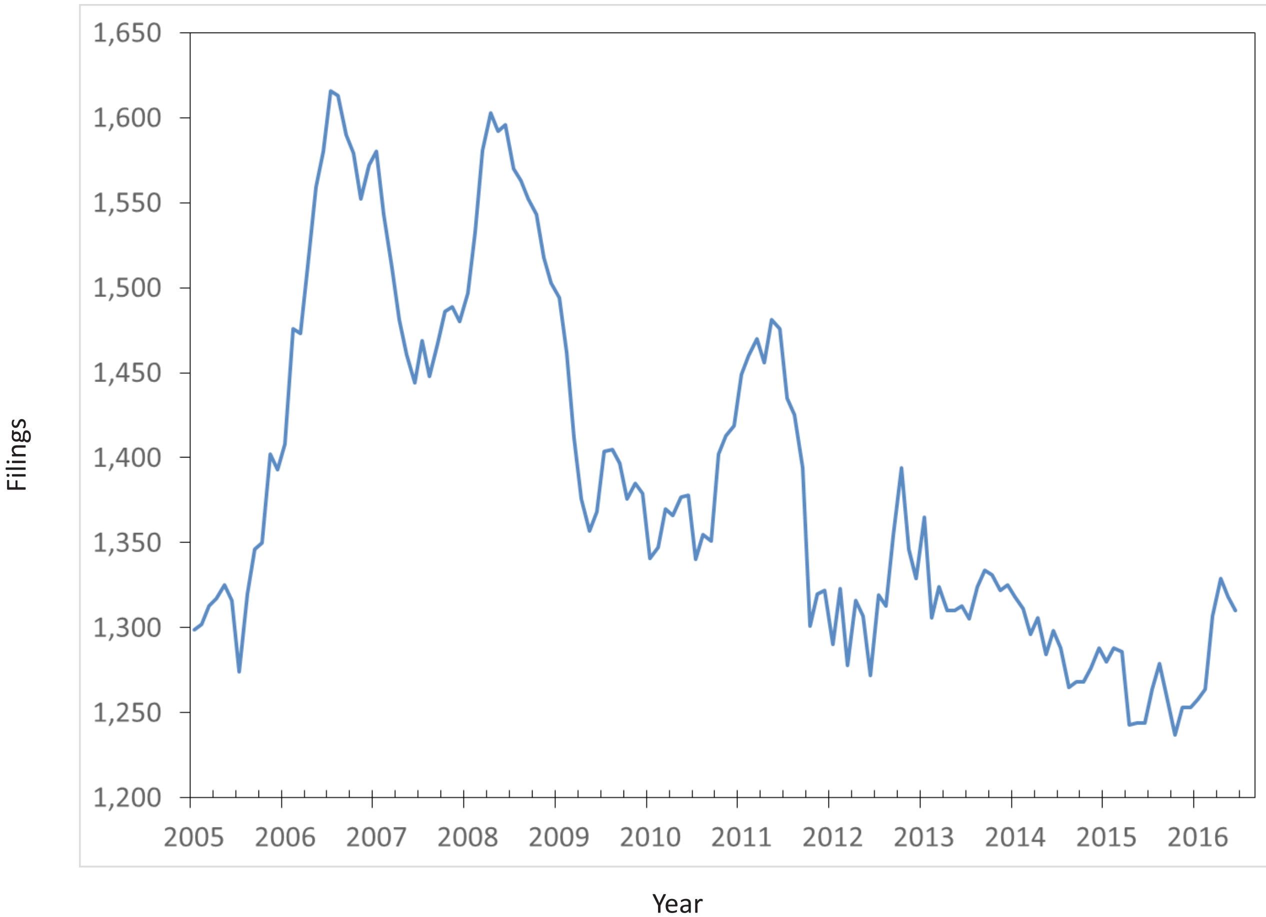
New Limited Liability Companies—Northwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northwest Minnesota New Limited Liability Companies	614	488	504	639	575	-6.4%

Assumed names, which include sole proprietors or organizations that do not have limited liability, were little changed from the same period last year. Until this quarter, this series had been trending upward since the end of 2015.

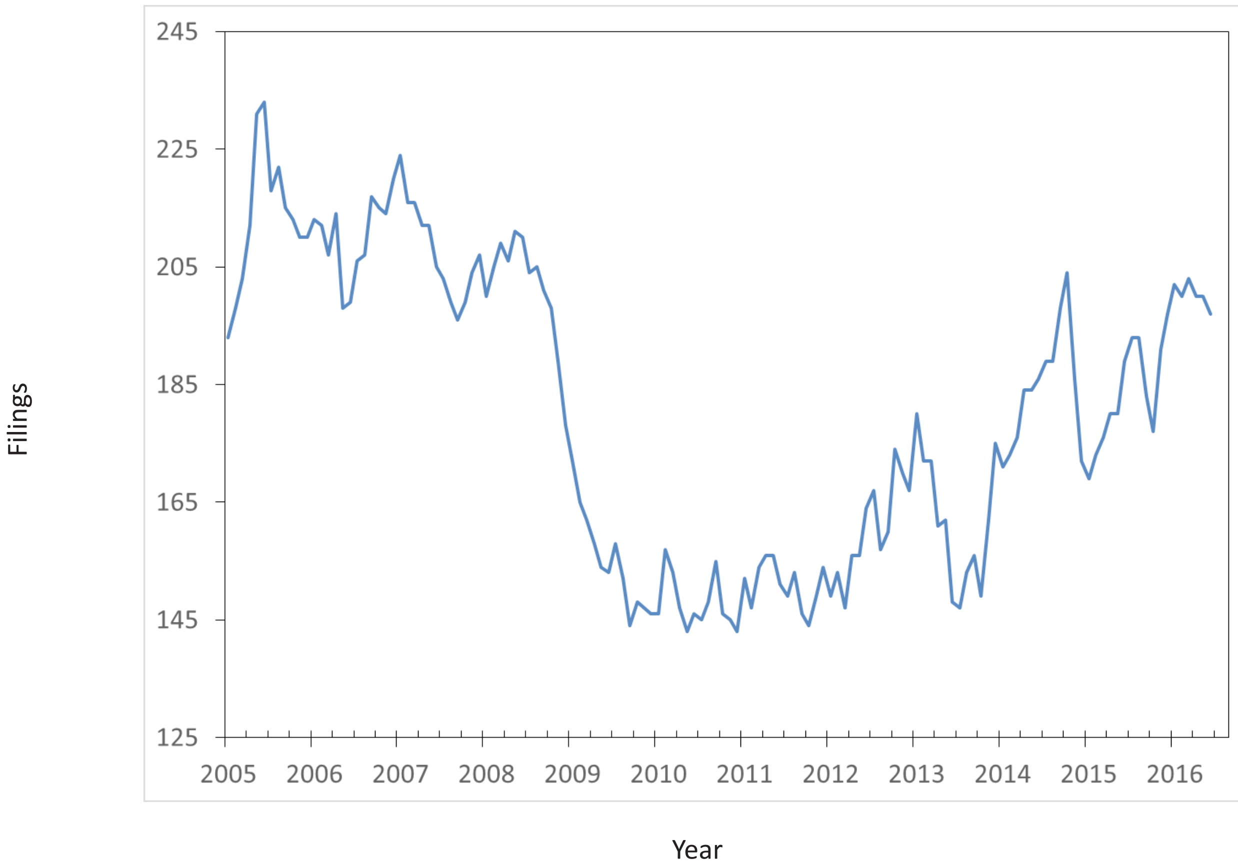
New Assumed Names—Northwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northwest Minnesota New Assumed Names	343	308	259	397	346	0.9%

The number of new non-profits in the Northwest Minnesota planning area was 48 in the second quarter. This was six fewer filings than one year earlier.

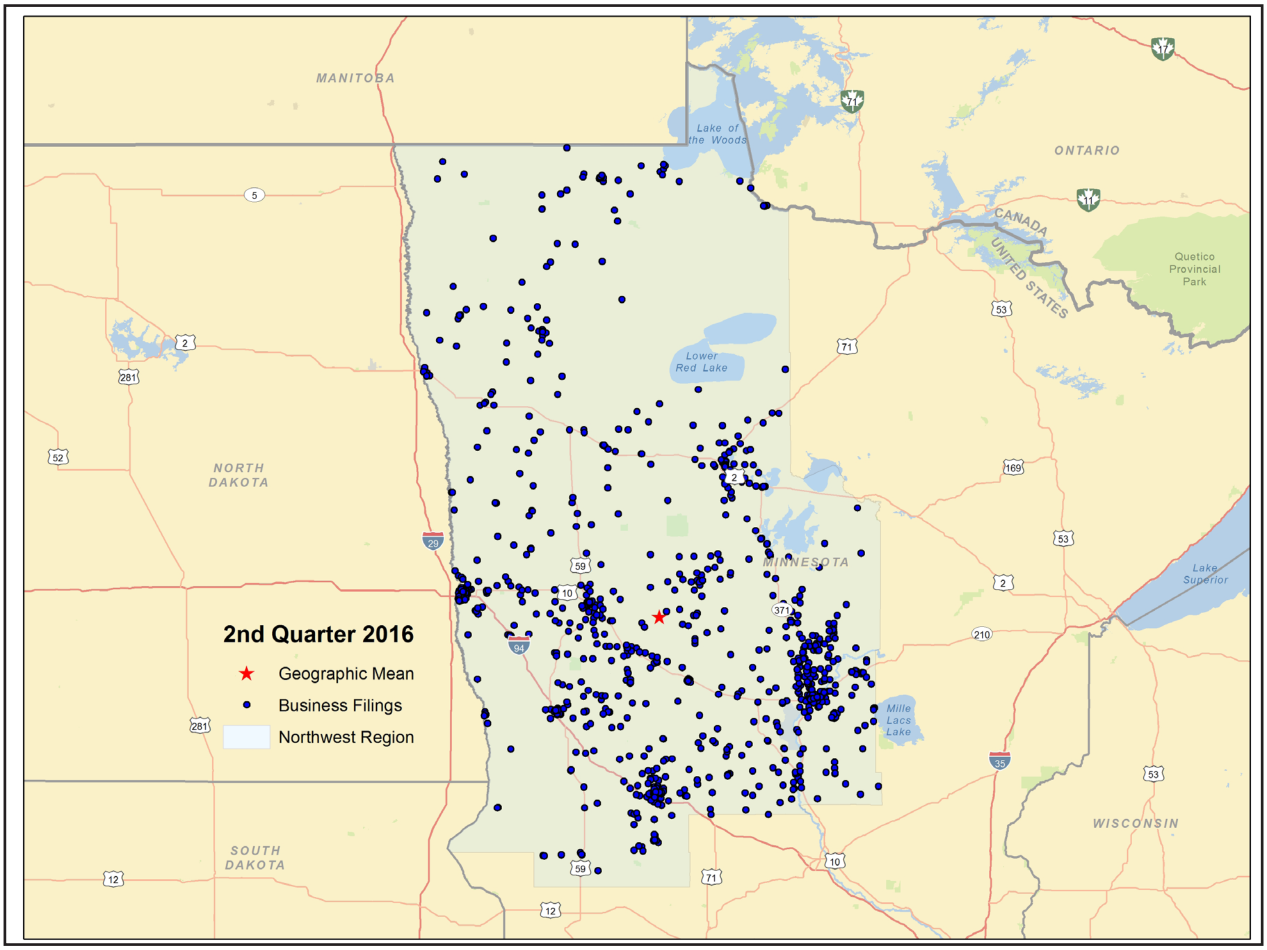
New Non-Profits—Northwest Minnesota Planning Area (12-month moving total)



Quarter	II: 2015	III: 2015	IV: 2015	I: 2016	II: 2016	2016 Quarter II: Percent change from prior year
Northwest Minnesota New Non-Profits	54	46	48	55	48	-11.1%

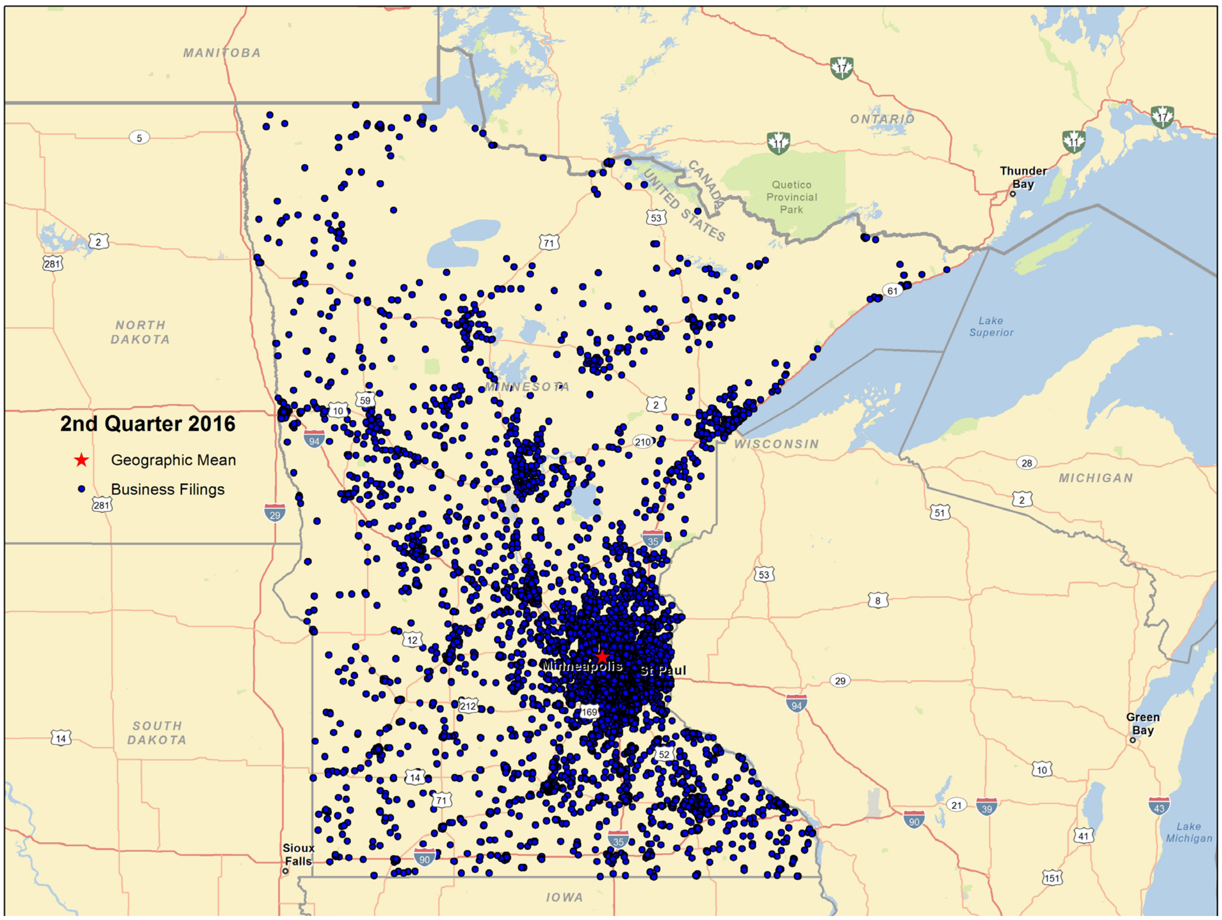
The first map shown below is a visual representation of new business formation around the Northwest Minnesota planning area in the second quarter of 2016. The densest areas of new business formation are in the Alexandria, Brainerd, Bemidji, Park Rapids, Fergus Falls, and Moorhead areas. Well-traveled roadways are also a predictor of new business formation in Northwest Minnesota.

Northwest Minnesota Planning Area--New Business Formation--Quarter 2: 2016



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. With each passing quarter, St. Cloud, Rochester, and Mankato appear to be more connected to the Twin Cities metro.

Minnesota--New Business Formation--Quarter 2: 2016

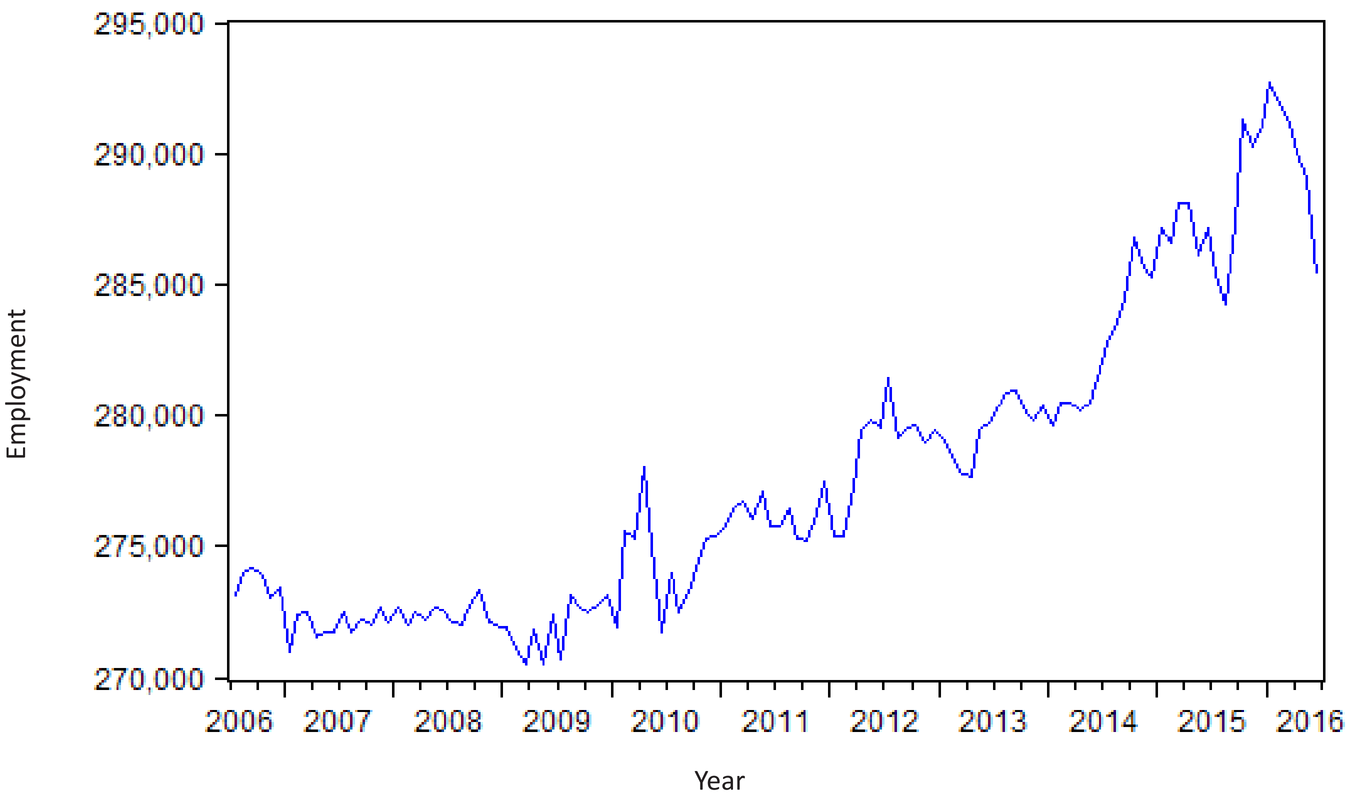


Northwest Minnesota Labor Market Conditions

Employment in the Northwest Minnesota planning area fell by 0.6 percent over the year ending June 2016. As can be seen in the accompanying graph, the 12-month moving average of total employment in the Northwest Minnesota planning area has been declining since the beginning of the year.

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.

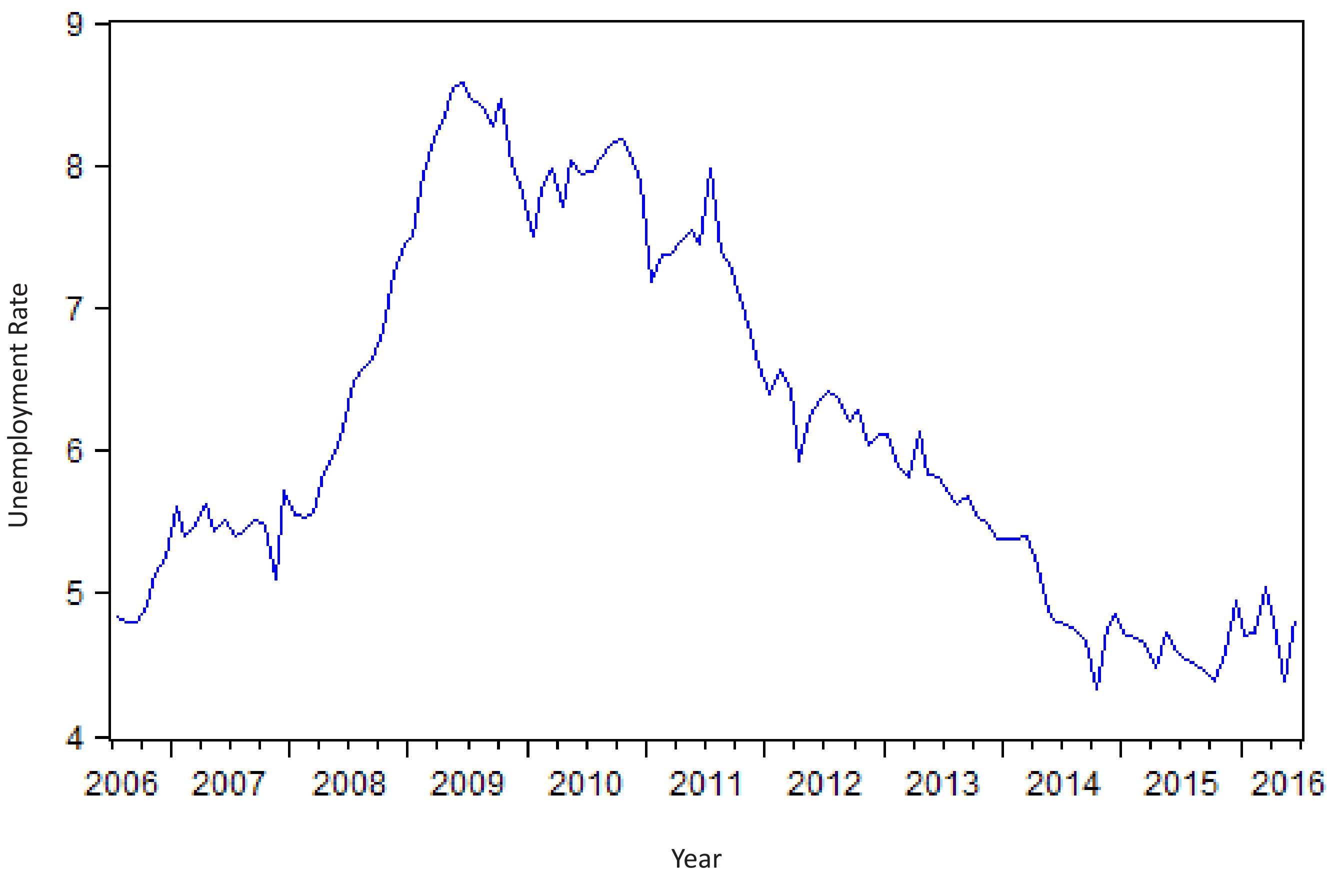
Employment—Northwest Minnesota Planning Area (12-month moving average)



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Employment (Not seasonally adjusted)	293,710	285,340	284,106	285,733	287,854	291,947	291,821

After bottoming out in the third quarter of 2014, the seasonally adjusted unemployment rate in the region has leveled out in recent quarters. At 4.5 percent, the non-seasonally adjusted unemployment rate is now higher than it was in June 2015.

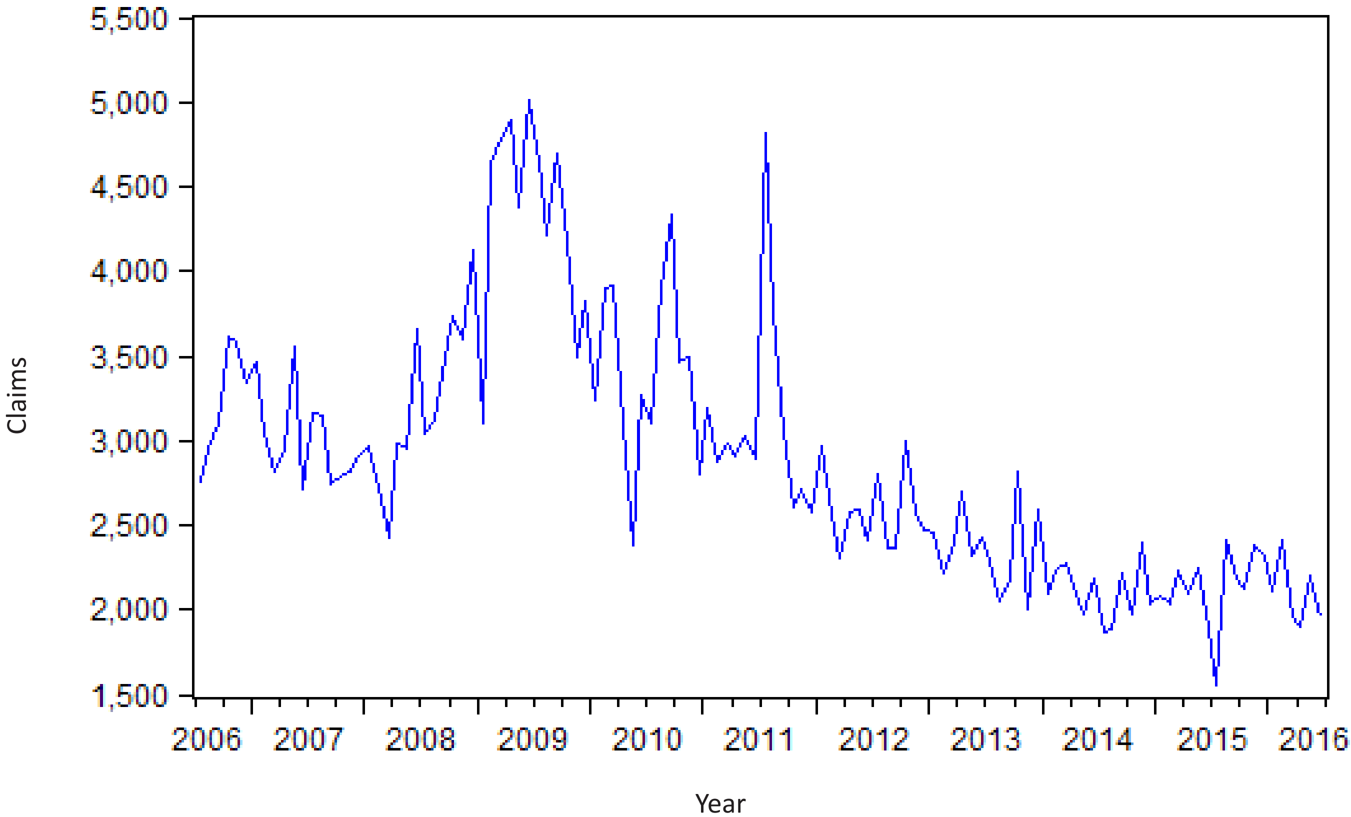
Unemployment Rate, seasonally adjusted—Northwest Minnesota Planning Area



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Unemployment Rate (Not seasonally adjusted)	4.3%	6.5%	6.3%	6.6%	5.0%	3.8%	4.5%

New claims for June 2016 unemployment insurance were little changed from year-ago levels. Seasonally adjusted jobless claims appear to have leveled out over the past couple of years.

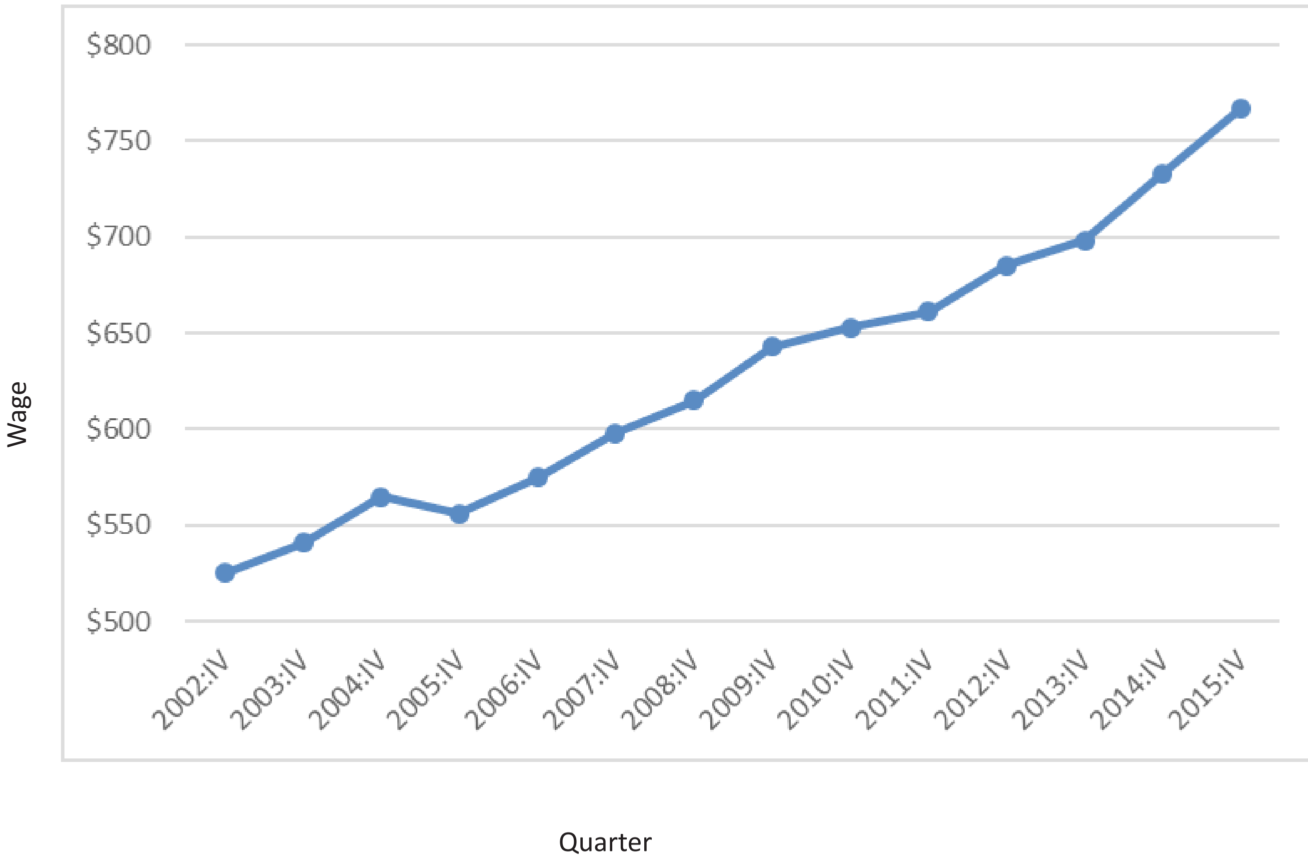
Total Initial Claims for Unemployment Insurance, Seasonally Adjusted—Northwest Minnesota Planning Area



Month	June 2015	January 2016	February 2016	March 2016	April 2016	May 2016	June 2016
Initial claims (Not seasonally adjusted)	1,336	2,484	2,015	1,705	1,335	1,612	1,302

The Northwest Minnesota average weekly wage was $767 in last year's fourth quarter (this is the most recently available data). This represents a 4.6 percent increase from the same period in 2014.

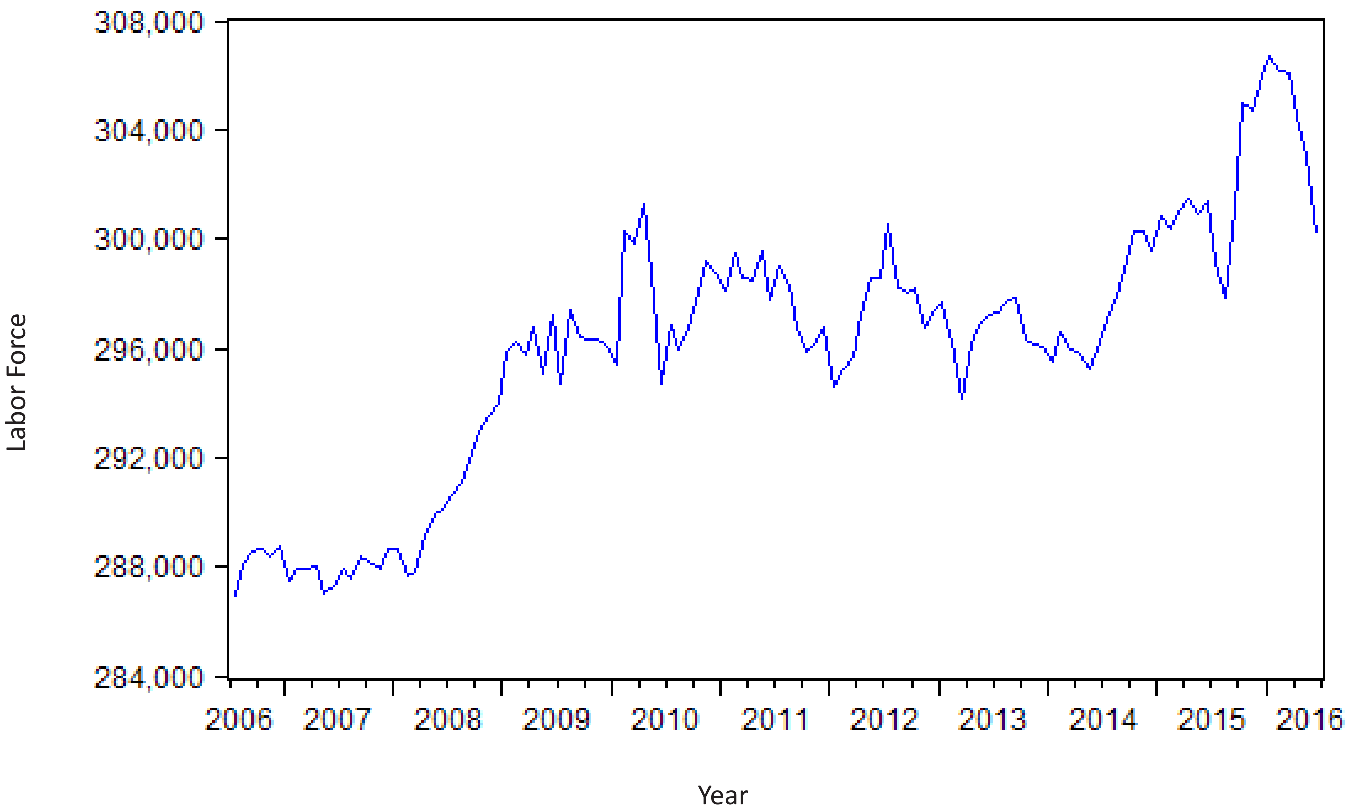
Average Weekly Wage--Northwest Minnesota Planning Area



Quarter	2010:IV	2011:IV	2012:IV	2013:IV	2014:IV	2015:IV
Average Weekly Wage	$653	$661	$685	$698	$733	$767

The Northwest Minnesota labor force contracted over the year ending June 2016. At 305,543, the regional labor force is now 1,260 smaller (representing a 0.4 percent decrease) than one year earlier.

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



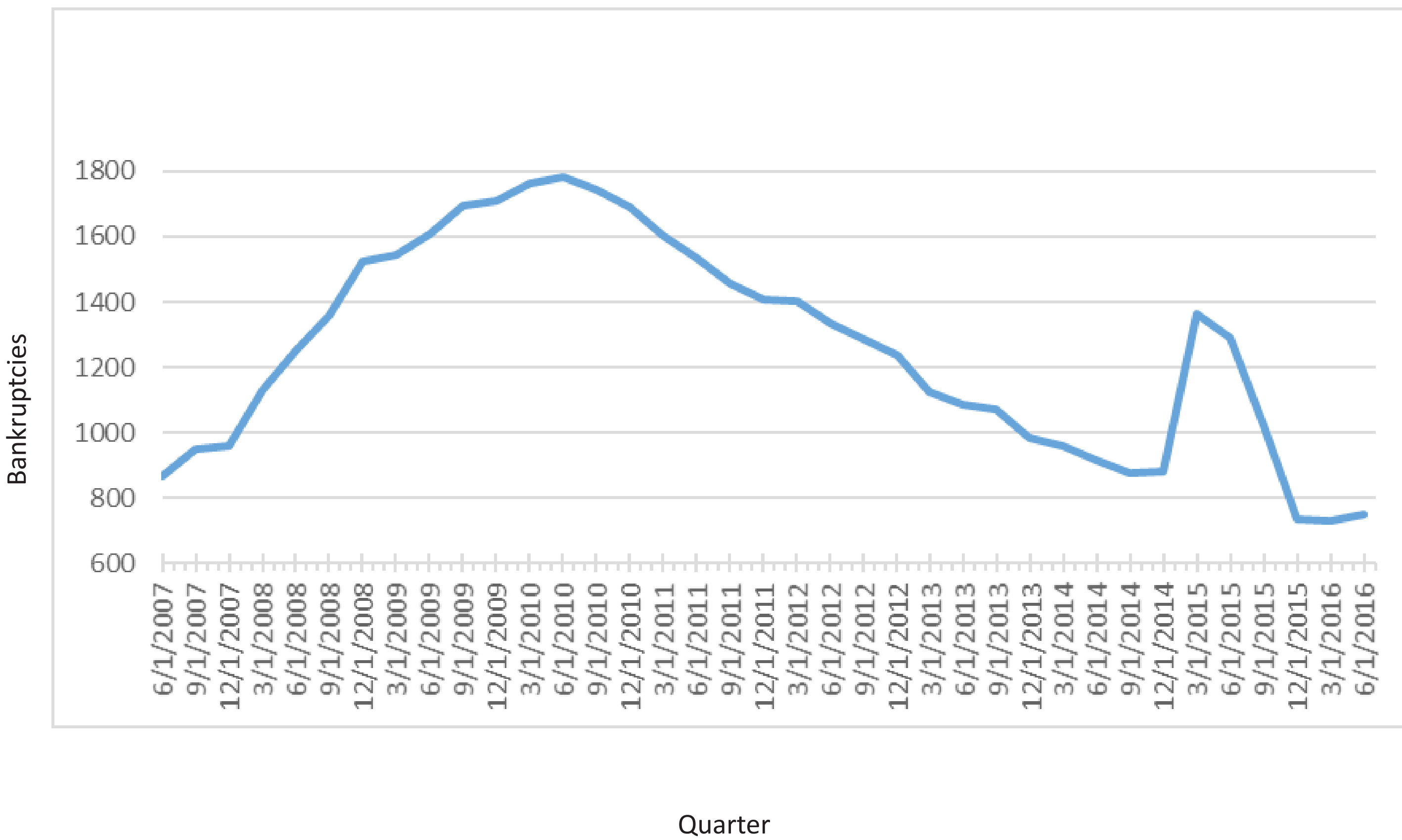
Year (June)	2011	2012	2013	2014	2015	2016
Labor Force (not seasonally adjusted)	303,915	304,502	302,899	301,467	306,803	305,543

Northwest Minnesota Bankruptcies

The figure below shows the 12-month moving total for Northwest 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 then declined steadily until the end of last year. However, the series began to rise in the first quarter of 2015. A closer inspection of the Northwest Minnesota bankruptcy data suggests a disproportionately large number of bankruptcies came from Polk, Becker, and Clay counties at the beginning of 2015. This is the only one of Minnesota's six planning areas to see a rise in this series at that time, so we took a closer look at the bankruptcy data set received from the US Bankruptcy Courts.

The jump in bankruptcies in these three counties is in non-business bankruptcy filings (for example, personal bankruptcies). Since these three counties are close to the North Dakota border, one might imagine that an abrupt increase in non-business bankruptcies in the first quarter of 2015 would be seen in North Dakota's Clay and Grand Forks counties, but bankruptcy filings in these counties did not jump like they did in the three Minnesota counties. These data points may simply have been an aberration. This interpretation seems to be confirmed by recent data readings. The series has now returned to its trend value last observed at the end of 2014. Northwest Minnesota bankruptcies now appear to be levelling out at an historically low value. This is a trend that is seen in bankruptcy data for other planning areas also.

Northwest Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (not seasonally adjusted)	1,532	1,336	1,084	916	1,292	748

Economic Indicators

Fargo-Moorhead MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2016 (m)	141,900	139,200	1.9% ↑	2.0%
Manufacturing Employment	June 2016 (m)	9,700	9,900	-2.0% ↓	1.1%
Mining, Logging, Construction Employment	June 2016 (m)	10,800	10,400	3.8% ↑	2.7%
Average Weekly Work Hours, Private Sector	June 2016 (m)	34.3	34.5	-0.6% ↓	NA
Average Earnings Per Hour, Private Sector	June 2016 (m)	$23.82	$23.98	-0.7% ↓	3.2% (since 2007)
Unemployment Rate	June 2016 (m)	2.7%	2.6%	NA ↑	NA
Labor Force	June 2016 (m)	137,470	131,333	4.7% ↑	1.6%
Initial Jobless Claims	June 2016 (m)	430	561	-23.4% ↓	NA
Fargo-Moorhead Residential Building Permit Valuation, in thousands	June 2016 (m)	42,083	53,183	-20.9% ↓	NA
Fargo-Moorhead Cost of Living Index	First Quarter 2016 (q)	96.9	96.0	0.9% ↑	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 2016 (m)	57,000	56,700	0.5% ↑	1.0%
Maufacturing Employment	June 2016 (m)	3,800	3,700	2.7% ↑	0.3%
Mining, Logging, Construction Employment	June 2016 (m)	3,900	3,800	2.6% ↑	1.0%
Average Weekly Work Hours, Private Sector	June 2016 (m)	33.6	33.1	1.5% ↑	NA
Average Earnings Per Hour, Private Sector	June 2016 (m)	$23.16	$21.08	9.9% ↑	1.8% (since 2007)
Unemployment Rate	June 2016 (m)	3.5%	3.4%	NA ↑	NA
Labor Force	June 2016 (m)	56,401	55,103	2.4% ↑	0.4%
Initial Jobless Claims	June 2016 (m)	153	150	2.0% ↑	NA
Grand Forks-East Grand Forks Residential Building Permit Valuation, in thousands	June 2016 (m)	4,402	3,744	17.6% ↑	NA

(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 into this report, a variety of economic measures can be analyzed. The data in the table show employment gains in the Fargo/Moorhead area (but declining employment in the manufacturing sector), a rise in the unemployment rate, a reduction in average weekly hours worked, lower average hourly earnings, weaker Fargo/Moorhead residential building permits, and a rise in the relative cost of living in Fargo/Moorhead. A rise in the regional labor force, lower initial jobless claims, and improvements in mining, logging, and construction employment, were observed in the Fargo/Moorhead area.

Grand Forks/East Grand Forks MSA economic activity was primarily favorable in the second quarter. MSA overall employment rose (as did employment in two key sectors), average hourly earnings rose, the length of the average work week expanded, the labor force grew, and the number of residential building permits in the Grand Forks/East Grand Forks area rose. Higher initial jobless claims and an increased unemployment rate weighed on the regional outlook.

State and National Indicators

MINNESOTA Indicators	Jun 2016	Mar 2015	Jun 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,891,800	2,876,200	2,859,500	0.5%	1.1%
Average weekly hours worked, private sector	34.3	33.5	34.1	2.4%	0.6%
Unemployment rate, seasonally adjusted	3.8%	3.8%	3.6%	NA	NA
Earnings per hour, private sector	$26.64	$27.05	$25.71	-1.5%	3.6%
Philadelphia Fed Coincident Indicator, MN	180.34	179.04	175.78	0.7%	2.6%
Philadelphia Fed Leading Indicator, MN	1.70	1.31	1.50	29.8%	13.3%
Minnesota Business Conditions Index	51.6	50.7	54.3	1.8%	-5.0%
Price of milk received by farmers (cwt)	$15.00	$15.80	$17.90	-5.1%	-16.2%
Enplanements, MSP airport, thousands	1,725.6	1,662.9	1,680.9	3.8%	2.7%

NATIONAL Indicators	Jun 2016	Mar 2015	Jun 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	144,193	143,733	141,724	0.3%	1.7%
Industrial production, index, SA	104.1	103.4	104.9	0.7%	-0.8%
Real retail sales, SA ($)	190,850	188,259	187,323	1.4%	1.9%
Real personal income less transfers ($, bill.)	11,849.7	11,828.7	11,661.1	0.2%	1.6%
Real personal consumption expenditures ($, bill.)	11,514.3	11,374.4	11,199.2	1.2%	2.8%
Unemployment rate, SA	4.9%	5.0%	5.3%	NA	NA
New building permits, SA, thousands	22,634	19,300	24,190	17.3%	-6.4%
Standard & Poor’s 500 stock price index	2,083.9	2,022	2,099	3.1%	-0.7%
Oil, price per barrel in Cushing, OK	$48.76	$37.55	$59.82	29.9%	-18.5%

Across the state there was growth in payrolls, higher earnings per hour, and more average weekly hours worked in the private sector over the past twelve months (note that June earnings were lower than three months earlier). The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia suggest improved current and future conditions in the state economy. The Minnesota Business Conditions index improved over the past three months, but was lower than year ago levels. Milk prices continue to fall across the state. As was noted in last quarter’s report, this has been a particularly difficult period for those who make a living in milk production. Enplanements at the Minneapolis-St. Paul airport increased by 2.7 percent over the last twelve months.

The national economic indicators reported in the table are mixed. Over the past twelve months, industrial production and stock prices declined, building permits are lower, and oil prices have continued to fall. However, employment, consumer expenditures, and income all experienced growth over the recent quarter (and year) and the national unemployment rate fell. Retail sales improved. This all seems to fit with a general outlook of positive growth that is lower than normal for the U.S. economy. While there is little fear of recession, sluggish growth conditions persist.

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.

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

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Federal Reserve Bank of Philadelphia: Minnesota Coincident Indicator Index, Minnesota Leading Indicators Index.

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Institute for Supply Management: Manufacturing Business Survey, purchasing managers index.

Metropolitan Airports Commission: MSP Enplanements.

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

Standard & Poor's: Standard & Poor's 500 Stock Price Index.

Thomson Reuters and University of Michigan, Index of Consumer Sentiment

U.S. Bankruptcy Courts

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

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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.