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Central Minnesota Economic and Business Conditions Report Second Quarter 2018


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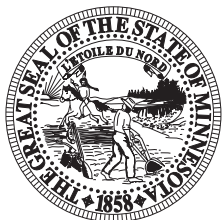
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Central Minnesota Economic and Business Conditions Report Second Quarter 2018

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Central Minnesota Planning Area consists of 13 counties: Benton, Chisago, Isanti, Kanabec, Kandiyohi, McLeod, Meeker, Mille Lacs, Pine, Renville, Sherburne, Stearns, and Wright.



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EXECUTIVE SUMMARY

Continued steady economic growth is expected in the Central Minnesota planning area over the next several months according to predictions of the Central Minnesota Index of Leading Economic Indicators (LEI). The leading index rose by 1.30 points in the most recent period, with three components producing positive readings and one index value that was largely unchanged. A downturn in the Minnesota Business Conditions Index is the only LEI component to have a measurable negative reading in the second quarter. Increased St. Cloud area residential building permits contributed to this quarter's higher LEI as did higher national durable goods orders and lower regional initial jobless claims.

There were 1,580 new business filings with the Office of the Minnesota Secretary of State in Central Minnesota in the second quarter of 2018 — representing a 9.7 percent increase from one year ago. 133 new regional business incorporations were tallied in the second quarter, 10.1 percent fewer than their year ago level. New limited liability company (LLC) filings in Central Minnesota increased 10.9 percent relative to the second quarter of 2017. New assumed names totaled 436 over the recent quarter—an increase of 16 percent compared to the same period in 2017. Current quarter new filings for Central Minnesota non-profit were 1.9 percent higher than one year ago.

Sixty-six percent of new business filers in the Central Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's second quarter. Results of this voluntary survey indicate that 5 percent of new filers come from communities of color. Approximately 8.1 percent of new filings were made by military veterans. About 2.3 percent of new filers come from the disability community and 3.5 percent of new filings were made by the immigrant community. Forty percent of new business filings in Central Minnesota in this year's second quarter were initiated by women. MBS results also show that most new business filers in Central Minnesota have between 0 and \$10,000 in annual gross revenues (although 100 new filers have revenues in excess of \$50,000). The most popular industries for new businesses in Central Minnesota are construction, retail trade, real estate/rental/leasing and other services. Employment levels at most new firms are between 0 and 5 workers, and 47.2 percent of those starting a new business consider this a part-time activity.

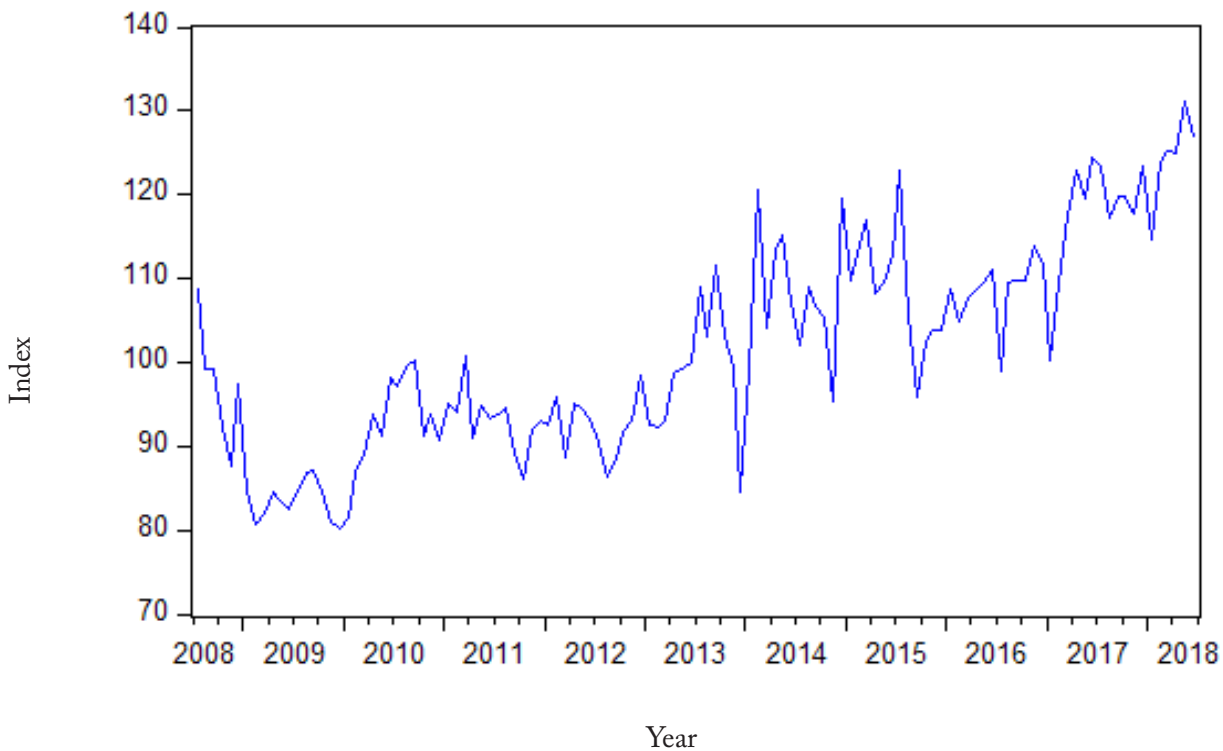
Central Minnesota employment was 3.4 percent higher in June 2018 than it was one year earlier and the June regional unemployment rate was 3%—considerably lower than one year ago. Initial claims for unemployment insurance were 13.9 percent lower in June than they were in the same month last year. The Central Minnesota labor force rose by 2.5 percent and average weekly wages were 3.7 percent higher than one year earlier. Regional bankruptcies have begun to rise in Central Minnesota.

Economic performance in the St. Cloud area was mostly favorable. The future outlook from a survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University was generally improved from one year earlier. Total new business filings of incorporation, assumed name and LLC were all higher in the St. Cloud area. Employment expanded, the unemployment rate fell, initial jobless claims were lower, the labor force increased, and median home sales prices were higher. However, average hourly earnings and hours worked were lower and the cost of living in St. Cloud inched up.

CENTRAL MINNESOTA LEADING ECONOMIC INDICATORS INDEX

The SCSU Central 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 rose 1.30 points in the second quarter after rising by a similar amount in the previous quarter. Compared to one year ago, the LEI is now 2 percent higher. Four of Minnesota's six planning areas experienced an increase in their leading index in the second quarter of 2018 as most of the state's regional economies continue to experience a favorable economic outlook. Only the Northeast and Southwest planning areas had negative leading index readings in the second quarter.

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



Components of SCSU Central Minnesota Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2018	Contribution to LEI, 1st quarter 2018
Minnesota Business Conditions Index	-0.72	1.41
Central Minnesota initial claims for unemployment insurance	0.91	0.81
Central Minnesota new filings of incorporation	-0.05	0.78
St. Cloud MSA residential building permits	0.65	-2.23
National new order for durable goods, real	0.51	0.63
TOTAL CHANGE	1.30	1.40

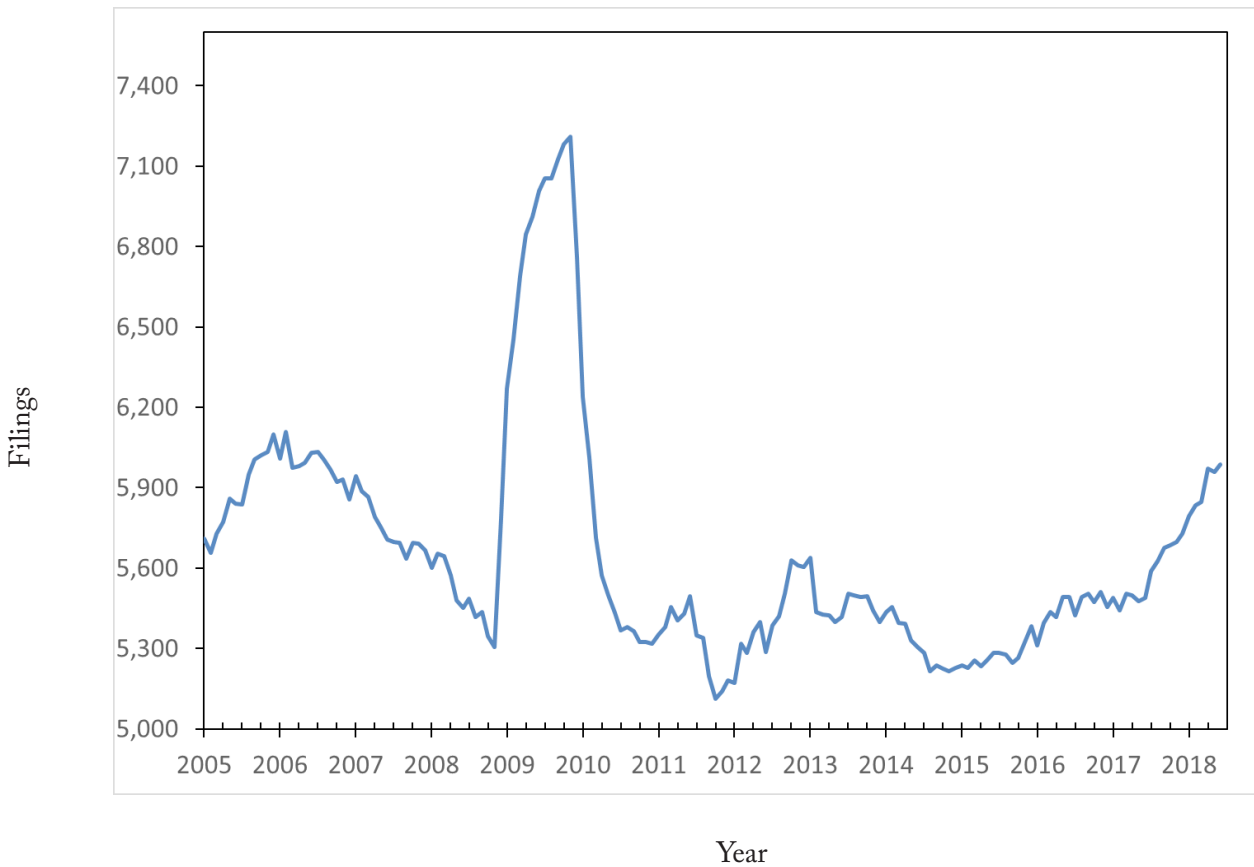
Only one index component—the Minnesota Business Conditions Index (which is a general measure of statewide business conditions) made a significant negative contribution to the Central Minnesota LEI in the second quarter. Regional new filings of incorporation had a basically neutral effect on the LEI. Since Central Minnesota is an exporter of consumer durables, national durable goods orders are used as a proxy for regional economic performance. This indicator was positive in the current quarter. Also contributing favorably to the second quarter LEI was a smaller number of initial jobless claims in the region. Increased St. Cloud area residential building permits also helped lift the leading index.

SCSU Central Minnesota Leading Economic Indicators Index	2018	2017	Percentage change
Minnesota Business Conditions Index June	58.8	68	-13.53%
Central Minnesota initial claims for unemployment insurance June	1,487	1,728	-13.95%
Central Minnesota new filings of incorporation Second Quarter	1030	1011	1.88%
St. Cloud MSA single family building permits June	34	34	0.00%
National new orders for durable goods, billions of real 1984 dollars, March	258.9	238.1	8.74%
Central Minnesota Leading Economic Indicators Index June (December 1999 = 100)	126.8	124.3	1.97%

CENTRAL MINNESOTA BUSINESS FILINGS

The graphs in this section show 12-month moving totals for the various new business filings in Central Minnesota that are registered with the Office of the Minnesota Secretary of State. There were 1,580 new business filings in Central Minnesota in the second quarter. This represents a 9.7 percent increase from the same period in 2017. As can be seen in the accompanying graph, there was an abrupt increase in new business filings in mid-2008. This resulted from a sharp increase in new LLC filings at that time. 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. The 12-month moving total of new business filings has generally trended upward since the end of 2015.

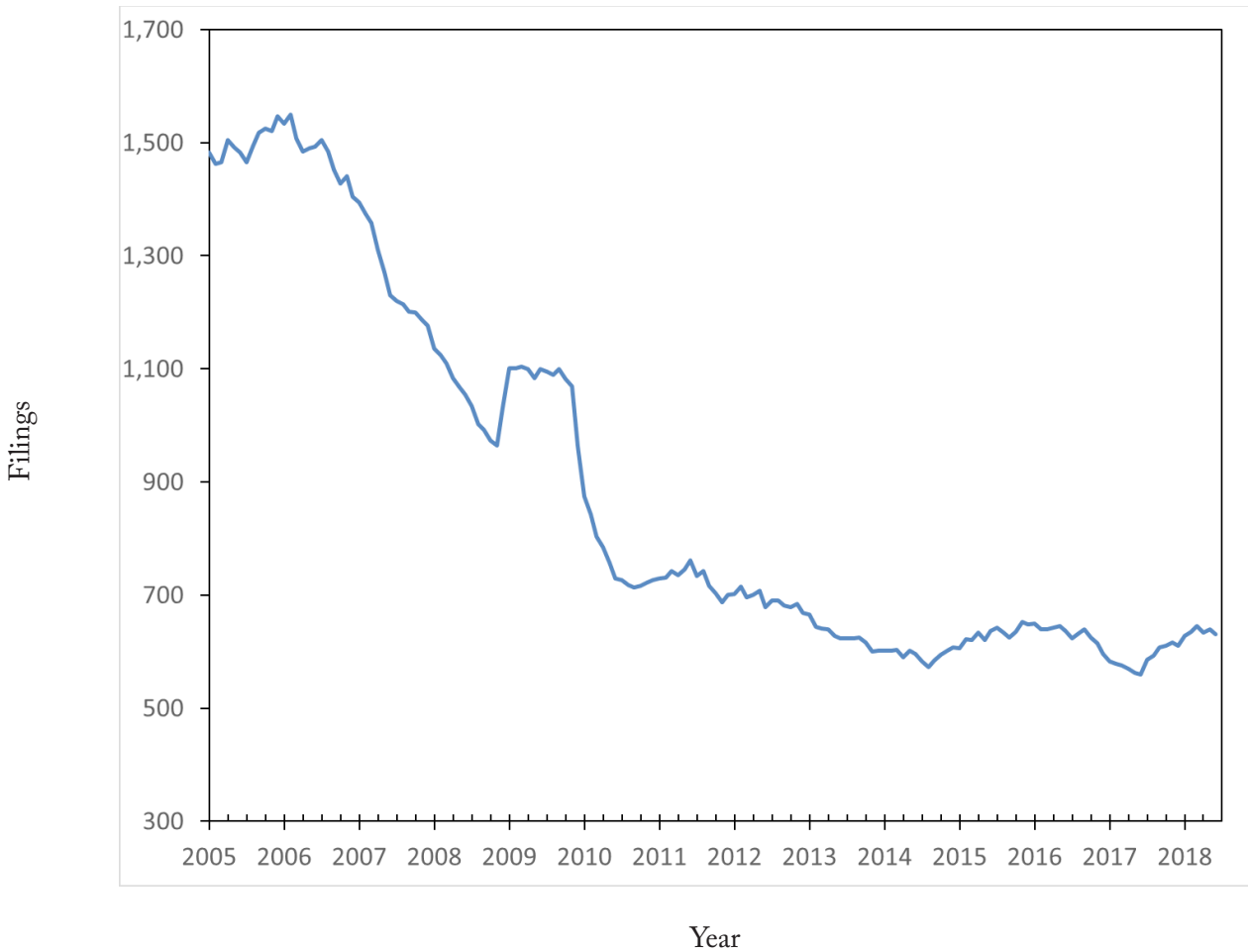
Total New Business Filings—Central Minnesota Planning Area
(12-month moving total)



Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Central Minnesota Total New Business Filings	1,440	1,378	1,331	1,699	1,580	9.7%

After a decade of decline, new business incorporations had levelled out for several quarters at the beginning of 2015. However, this gave way to a declining trend that began midway through 2016. This pattern appears to have reversed itself as new filings for incorporation had once again started to rise in 2017. However, with a 10.1 percent decline in new incorporations in the second quarter of this year, the moving total of this series appears to have levelled out in 2018.

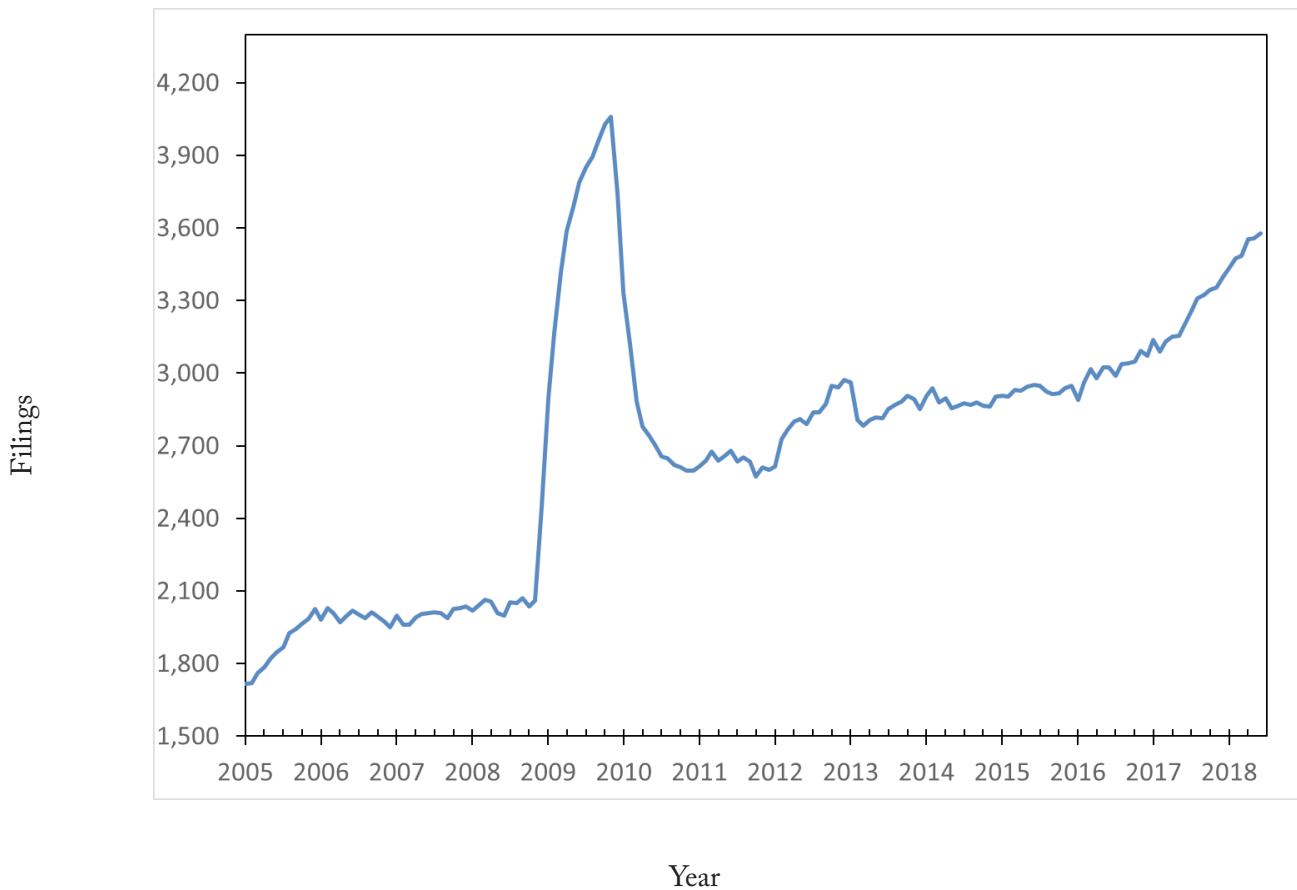
New Incorporations—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Central Minnesota New Business Incorporations	148	165	136	196	133	-10.1%

There has been a move away from the traditional incorporation form of business organization towards the LLC throughout Minnesota. While new business incorporations remain an important indicator of new business formation in Central Minnesota, LLCs are increasingly useful in evaluating regional economic performance. In the most recent quarter, the number of new LLCs increased by 10.9 percent (to 957) from one year earlier. As can be seen in the accompanying graph, the number of Central Minnesota LLCs has slowly trended upward in recent years.

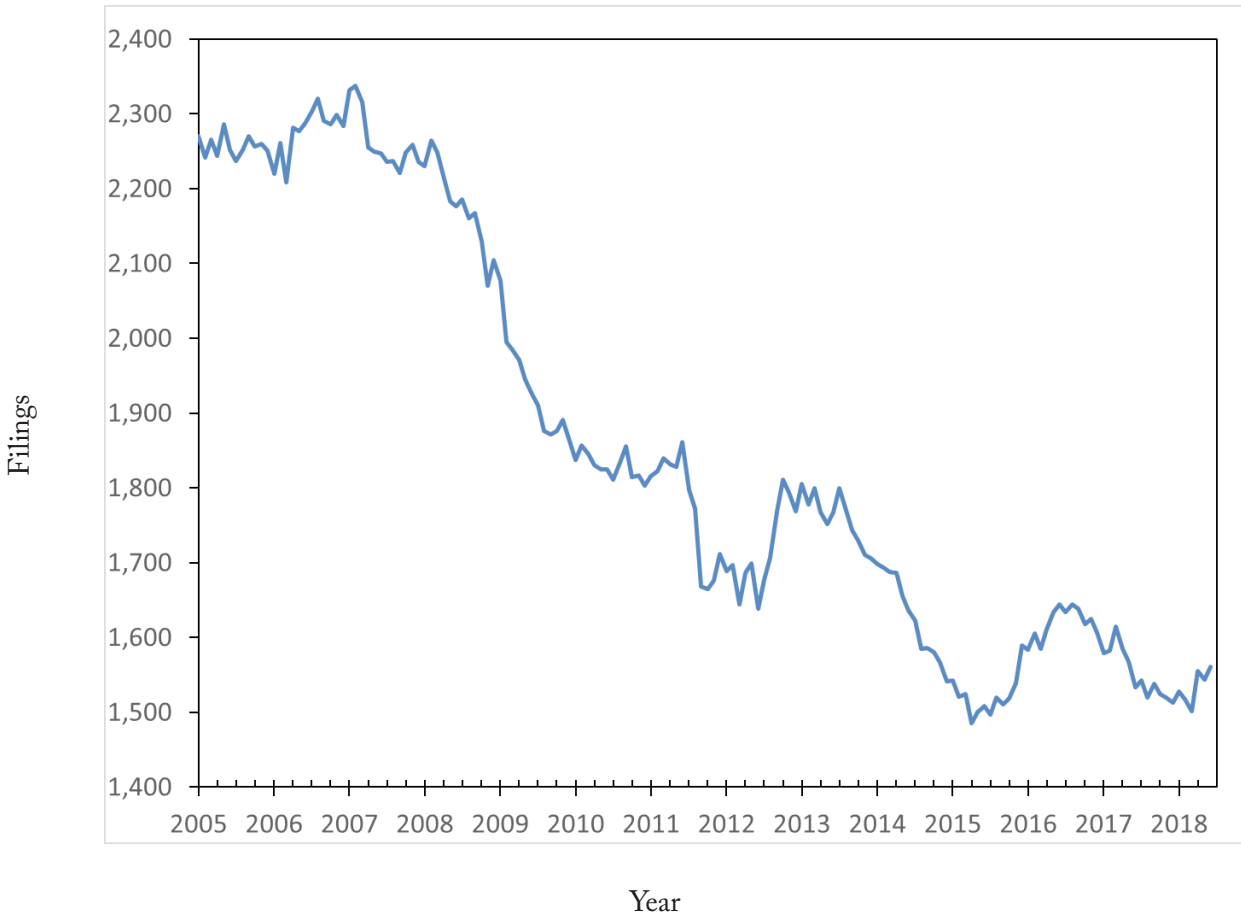
New Limited Liability Companies—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Central Minnesota New Limited Liability Companies	863	808	830	984	957	10.9%

New filings for assumed name, which include sole proprietors or organizations that do not have limited liability, surged by 16 percent compared to the same quarter in 2017. After declining for several quarters, the moving total of this series has started to turn up in 2018.

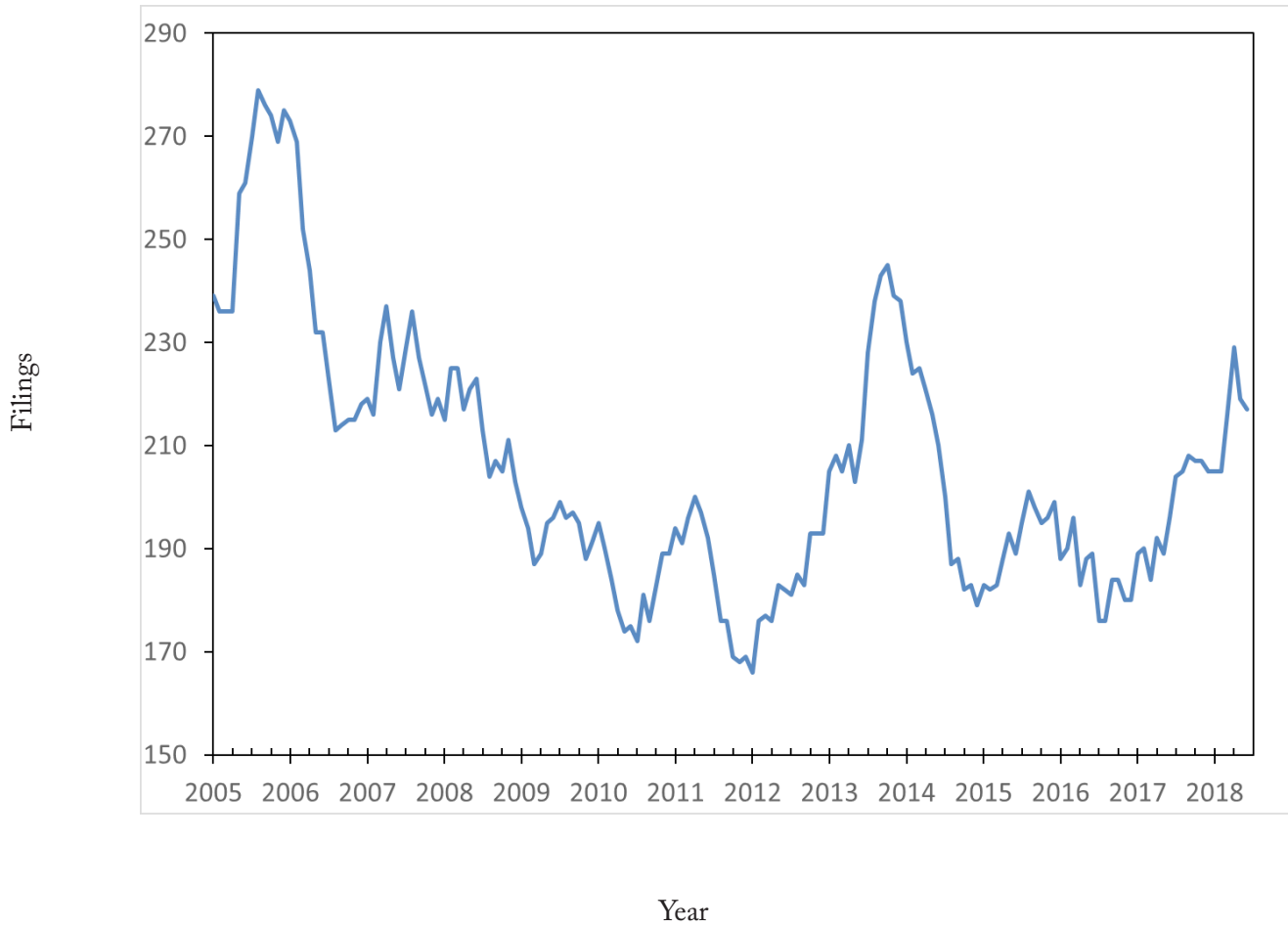
New Assumed Names—Central Minnesota Planning Area (12-month moving total)



Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Central Minnesota New Assumed Names	376	348	326	451	436	16.0%

There were 54 new Central Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the second quarter of 2018. This was one more filing than one year ago.

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



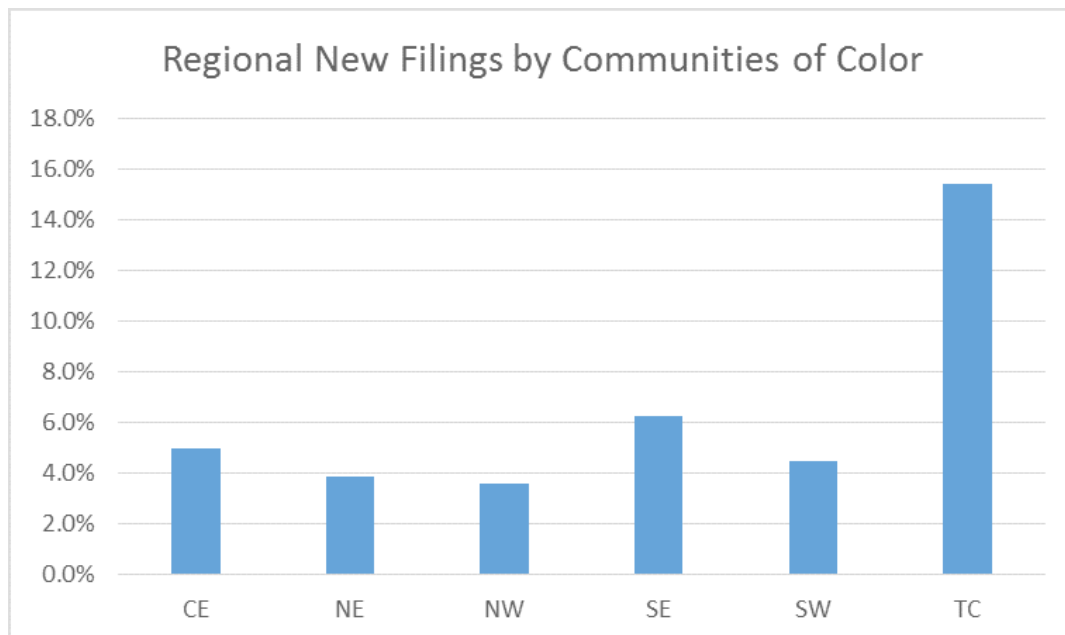
Quarter	II: 2017	III: 2017	IV: 2017	I: 2018	II: 2018	2018 Quarter II: Percent change from prior year
Central Minnesota New Non-Profits	53	57	38	68	54	1.9%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

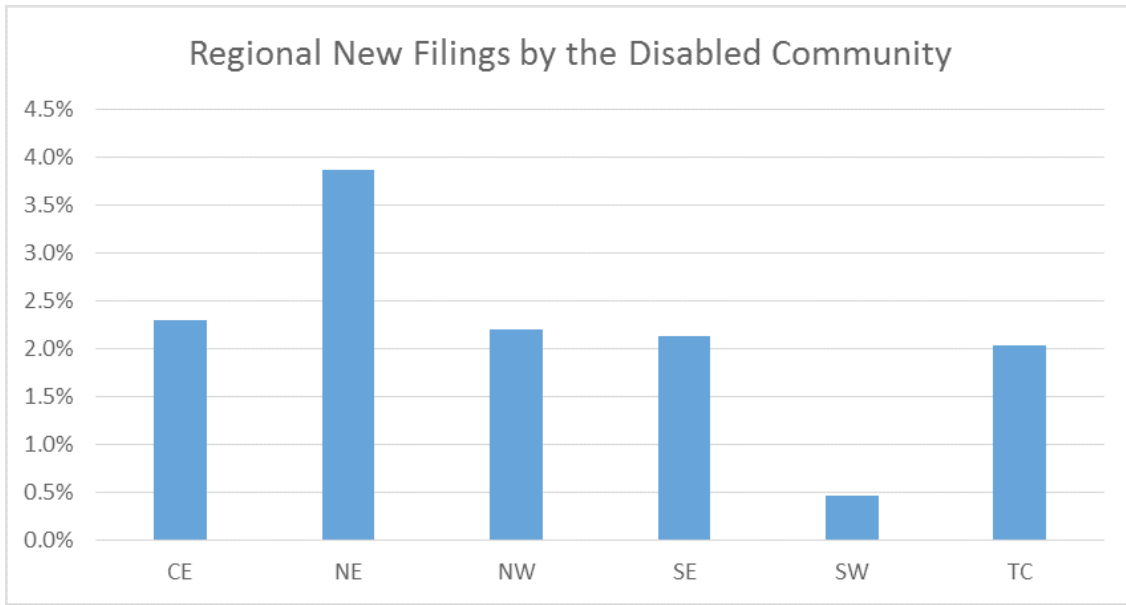
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 Central Minnesota, about 66 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

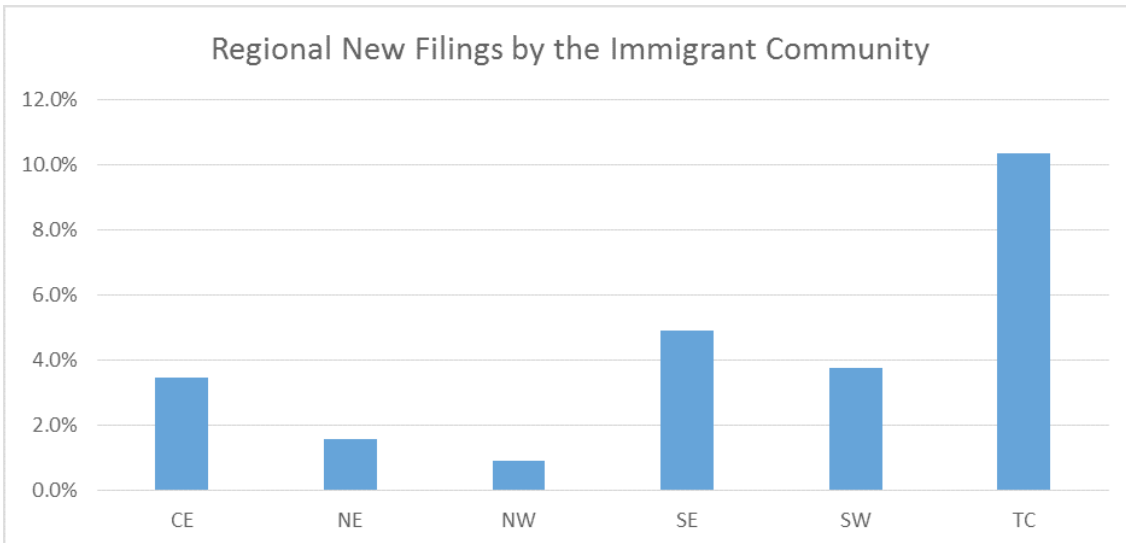
About 5 percent of those new filers completing the MBS from the Central Minnesota planning area report being from a community of color. This is a considerably lower percentage than in the Twin Cities, and is also lower than is found in the Southeast Minnesota planning area.



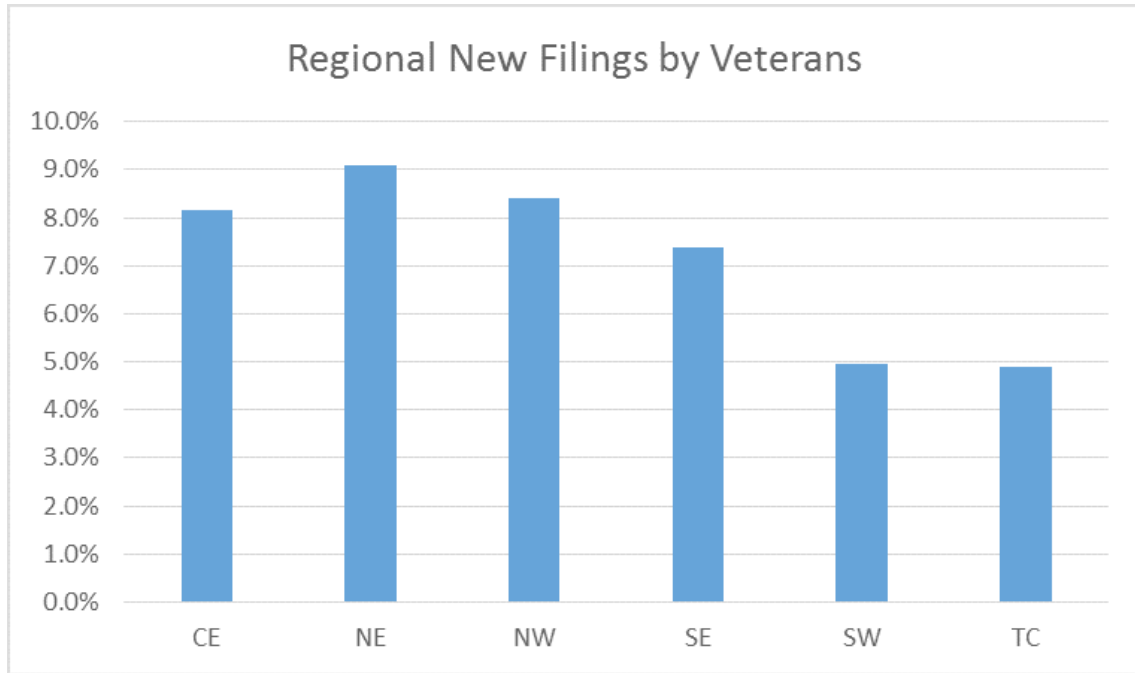
A small percentage of Central Minnesota’s new filers—about 2.3 percent—are from the disability community.



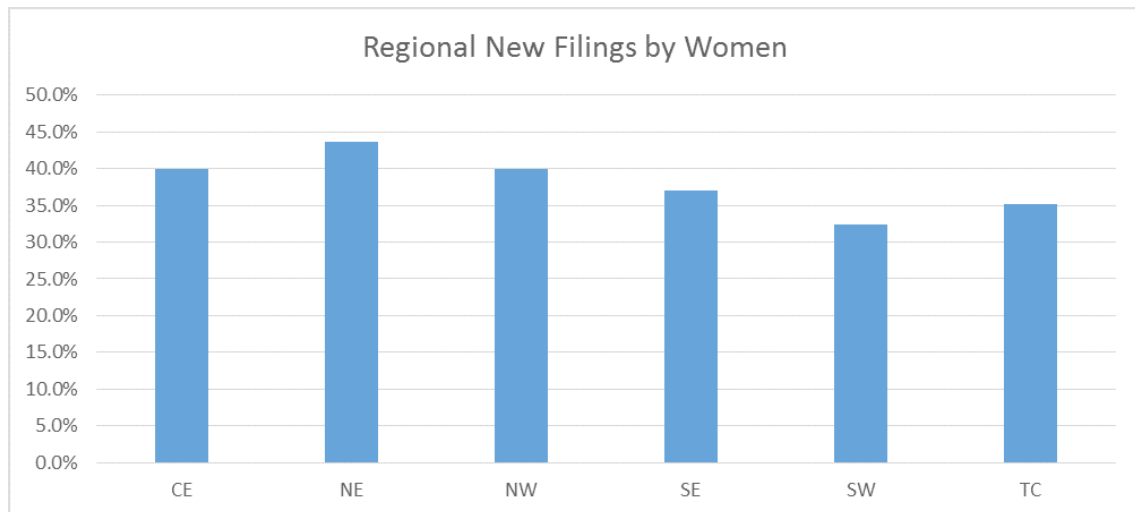
Only 3.5 percent of new business filings in Central Minnesota come from the immigrant community. Similar to what has been seen in recent quarters, the Twin Cities and Southeast planning areas had a higher share of immigrant new filers. This quarter, for the first time since the survey has been conducted, the share of immigrant new business filers in the Southwest planning area surpassed what was recorded in Central Minnesota.



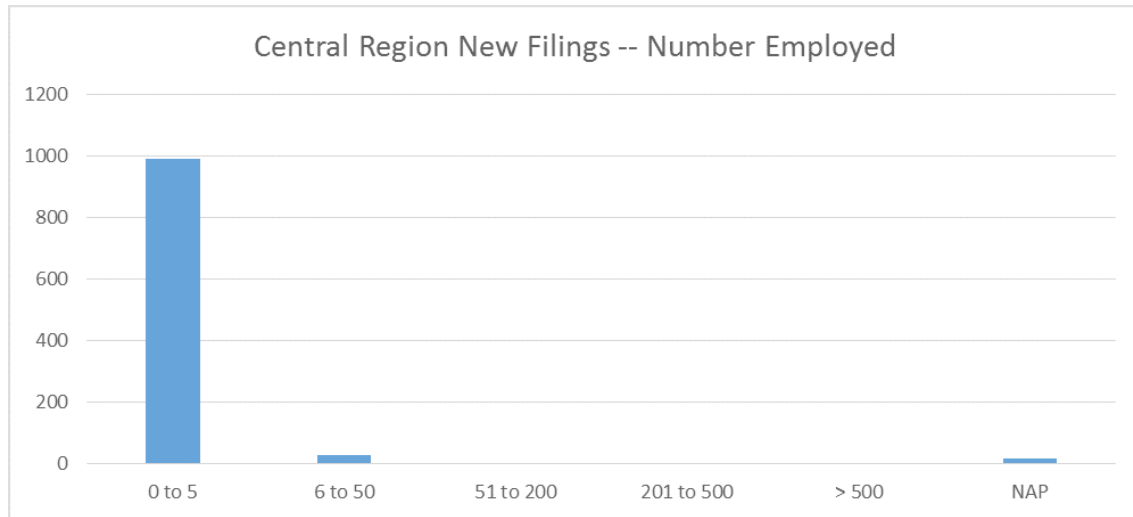
About 8.1 percent of new filings in Central Minnesota come from military veterans.



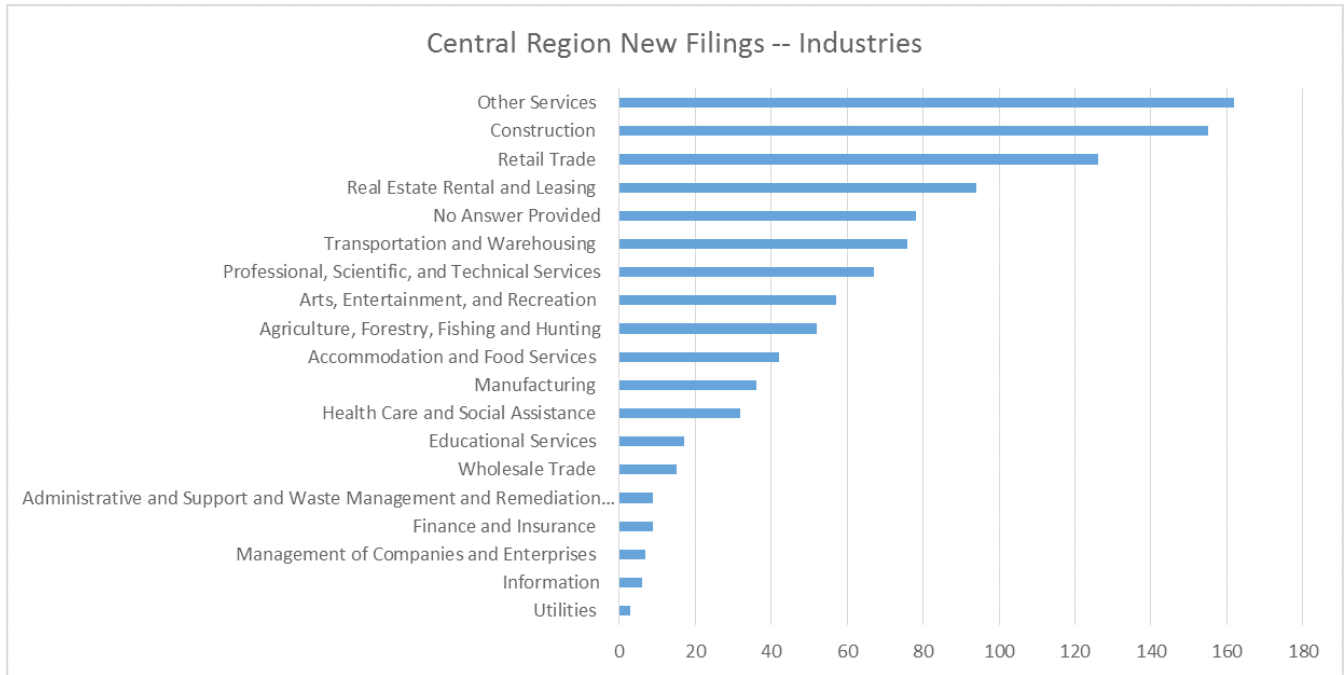
Woman owners represented 40 percent of the new business filings in Central Minnesota in the second quarter of 2018. This is higher than the first quarter, when women represented about 37 percent of the sample.



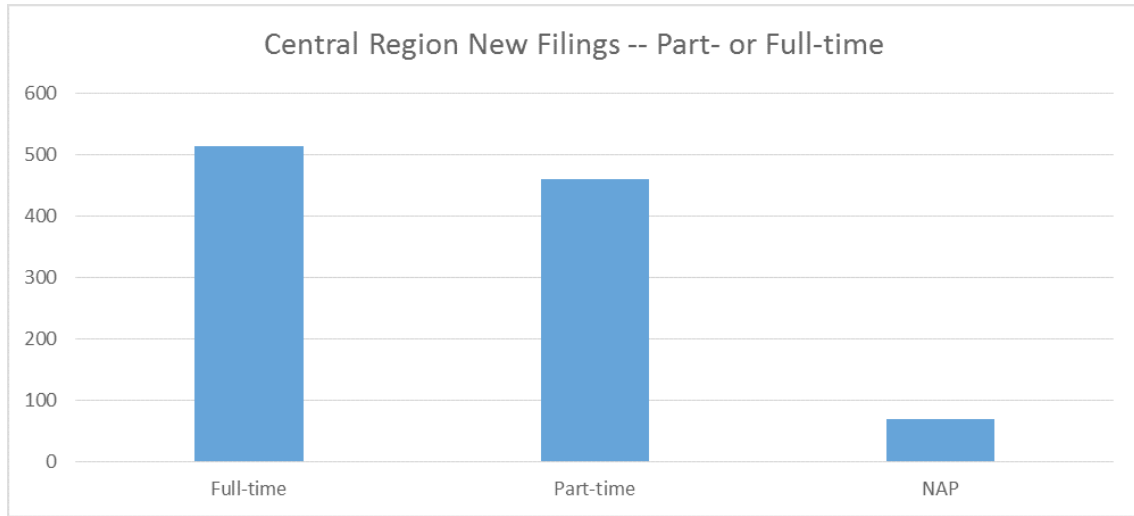
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by “NAP”—no answer provided), 1,026 responses were tallied to a question asking the new business filer to indicate 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.



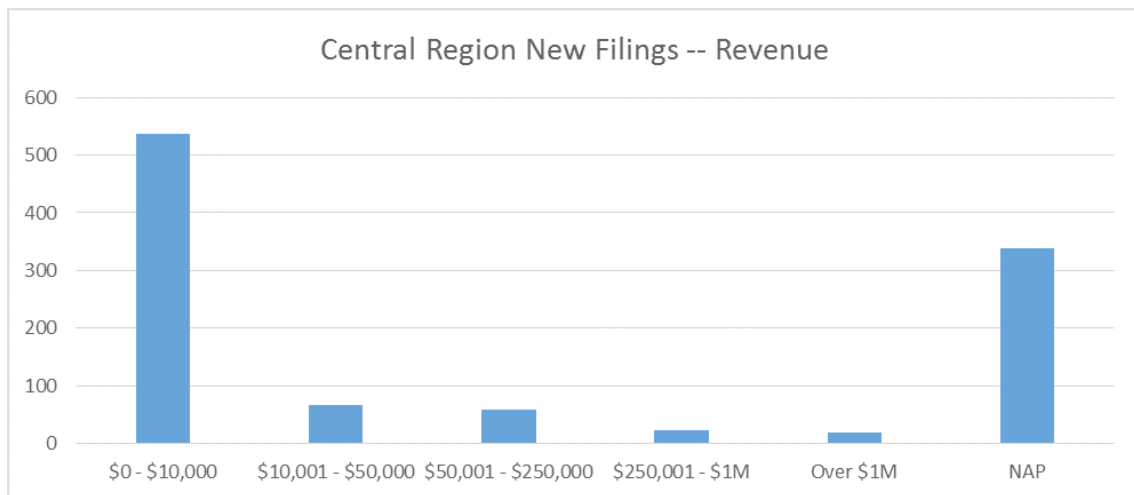
Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, construction, retail trade, real estate/rental/leasing and “other services” lead the 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. Transportation and warehousing was a more popular new business filing in Central Minnesota in 2018:II than has been seen in the past. Seventy-eight new firms did not provide an answer to this survey item.



Over 47 percent of those providing an answer to the MBS survey item on part- and full-time status indicate their new business in Central Minnesota is part time.



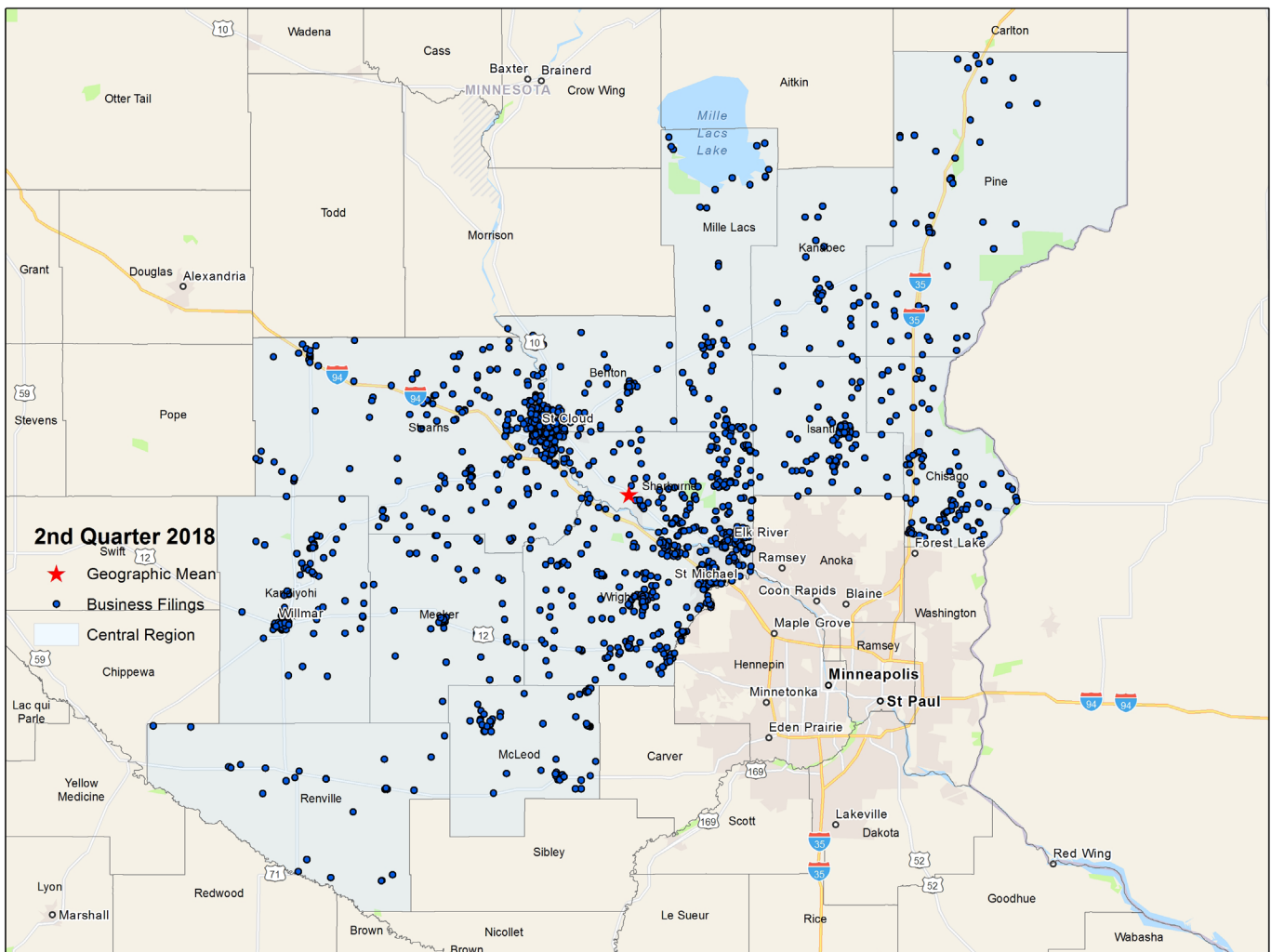
339 new business filers in Central Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues of less than \$10,000. 100 firms report revenues in excess of \$50,000.



MAPS

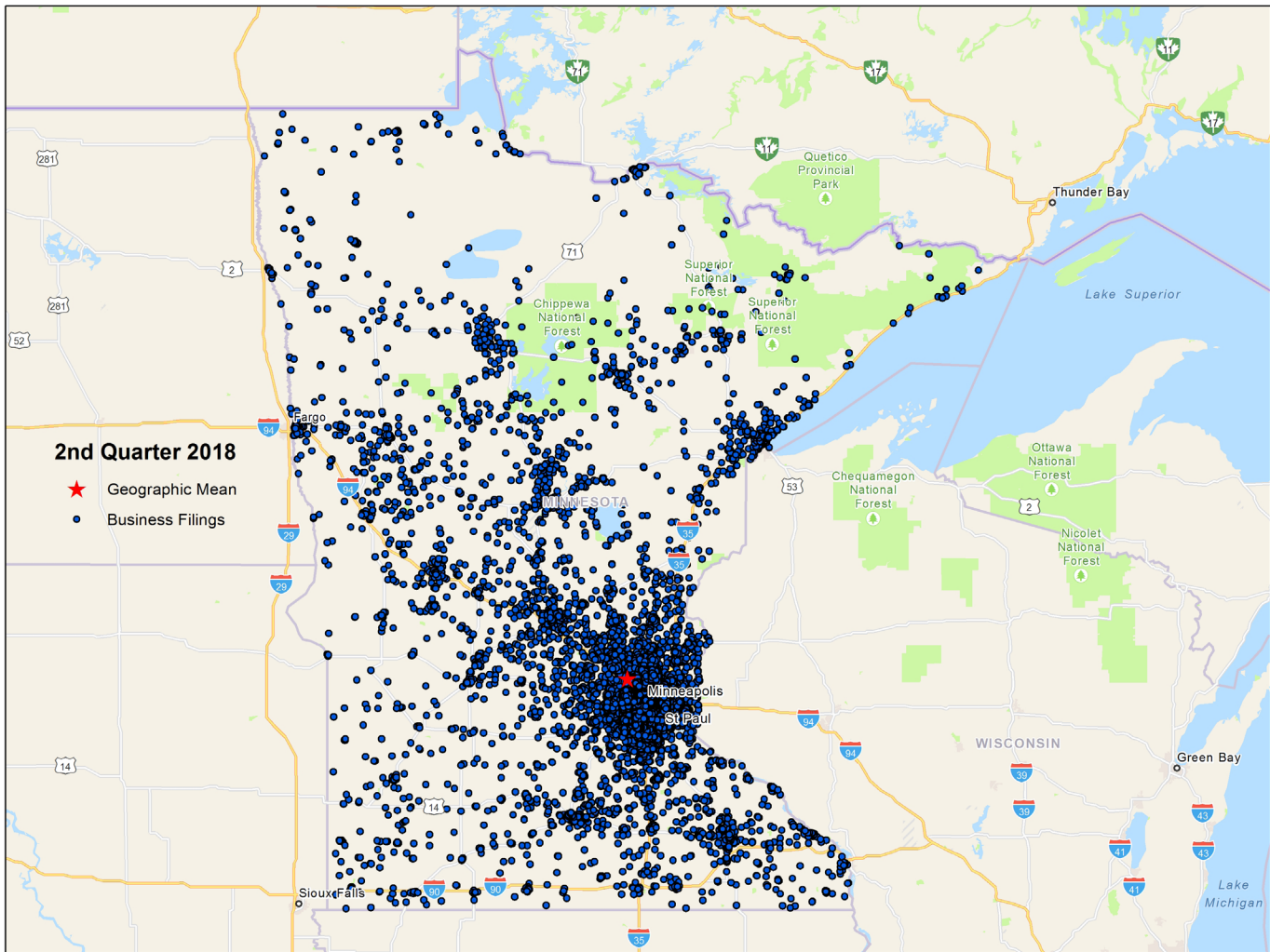
The first map shown below is a visual representation of new business filings around the Central Minnesota planning area in the second quarter of 2018. As usual, the densest areas of new business filings are in the St. Cloud metro as well as along the I-94/US-10 corridor approaching the Twin Cities. The geographic center of new filings lies within that I-94/US-10 corridor. Well-traveled roadways are also a predictor of new business filings in Central Minnesota.

Central Minnesota Planning Area--New Business Formation--Quarter 2: 2018



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`

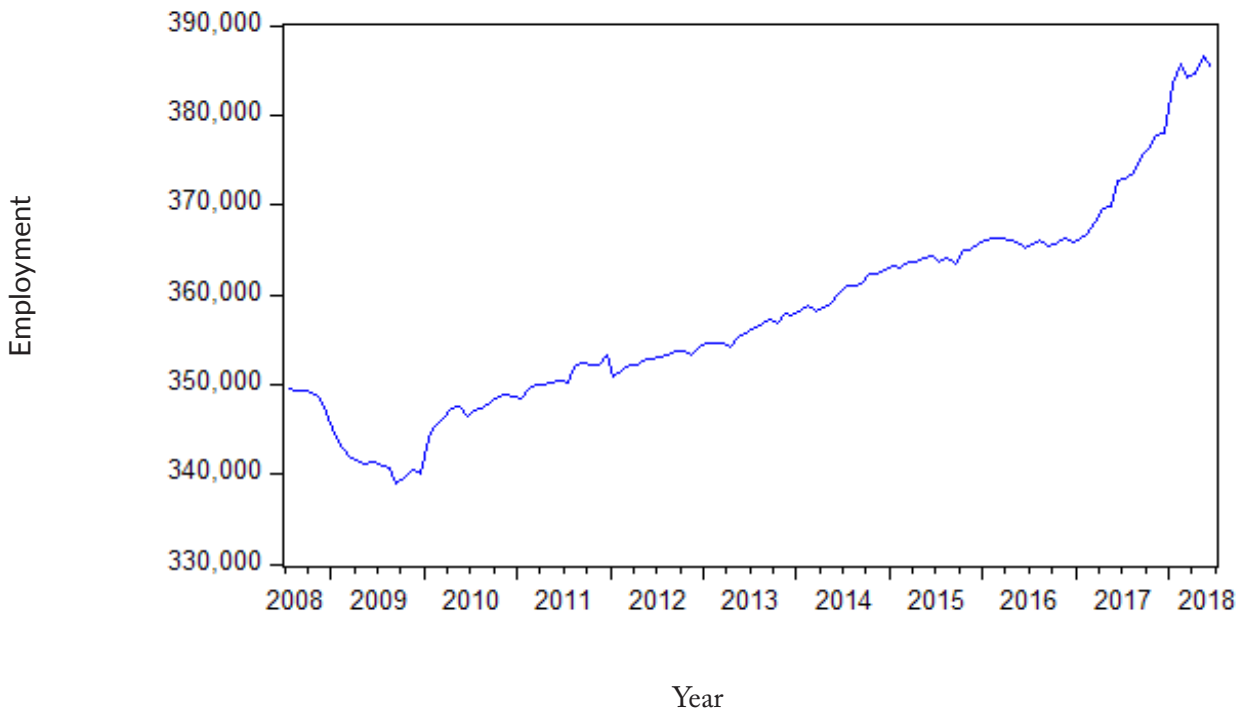


CENTRAL MINNESOTA LABOR MARKET CONDITIONS

Central Minnesota employment rose 3.4 percent over the year ending June 2018. Note that all of Minnesota’s six planning areas experienced an employment gain over the past twelve months. As is apparent from the figure below, the 12-month moving average of Central Minnesota employment has trended upward since the end of the Great Recession.

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.

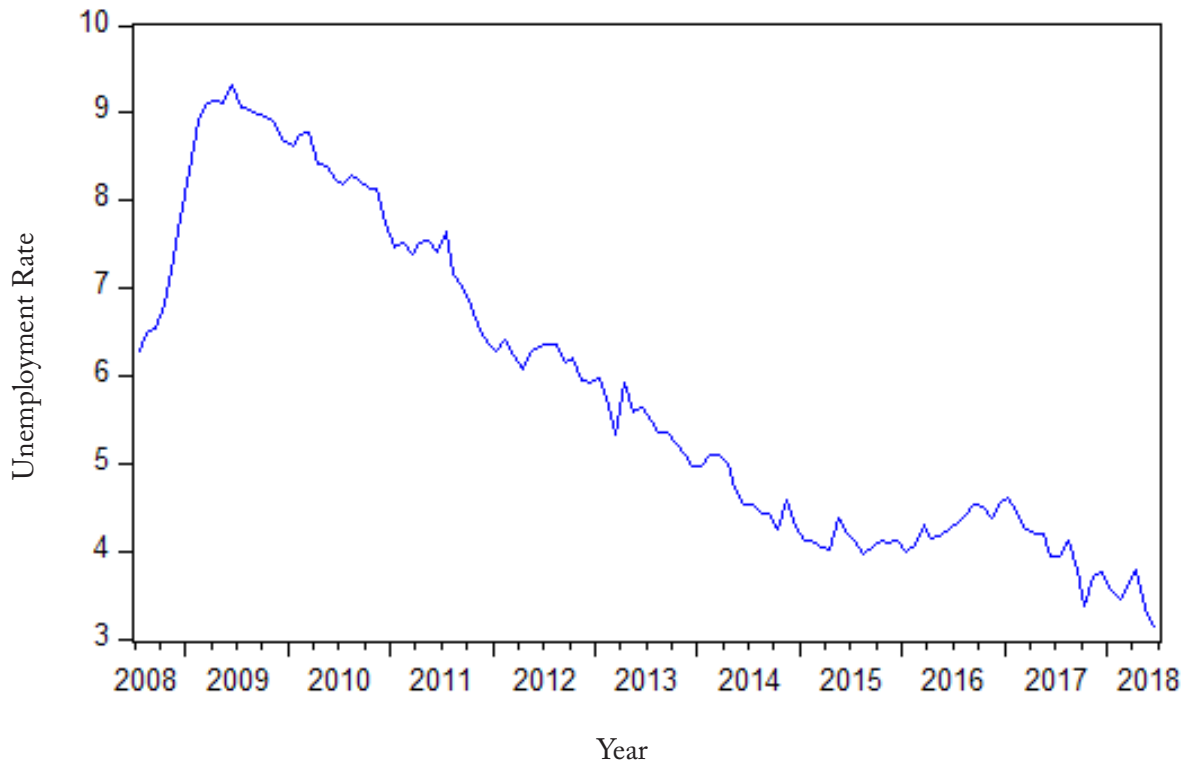
Employment—Central Minnesota Planning Area (12-month moving average)



Month	June 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
Employment (Not seasonally adjusted)	374,285	378,405	381,062	381,317	384,442	387,876	387,028

Central Minnesota’s unemployment rate was 3 percent in June 2018, considerably lower than the 3.8 percent rate tallied one year earlier. After rising slightly in 2016, the seasonally adjusted unemployment rate in the Central Minnesota planning area has declined over the past several quarters.

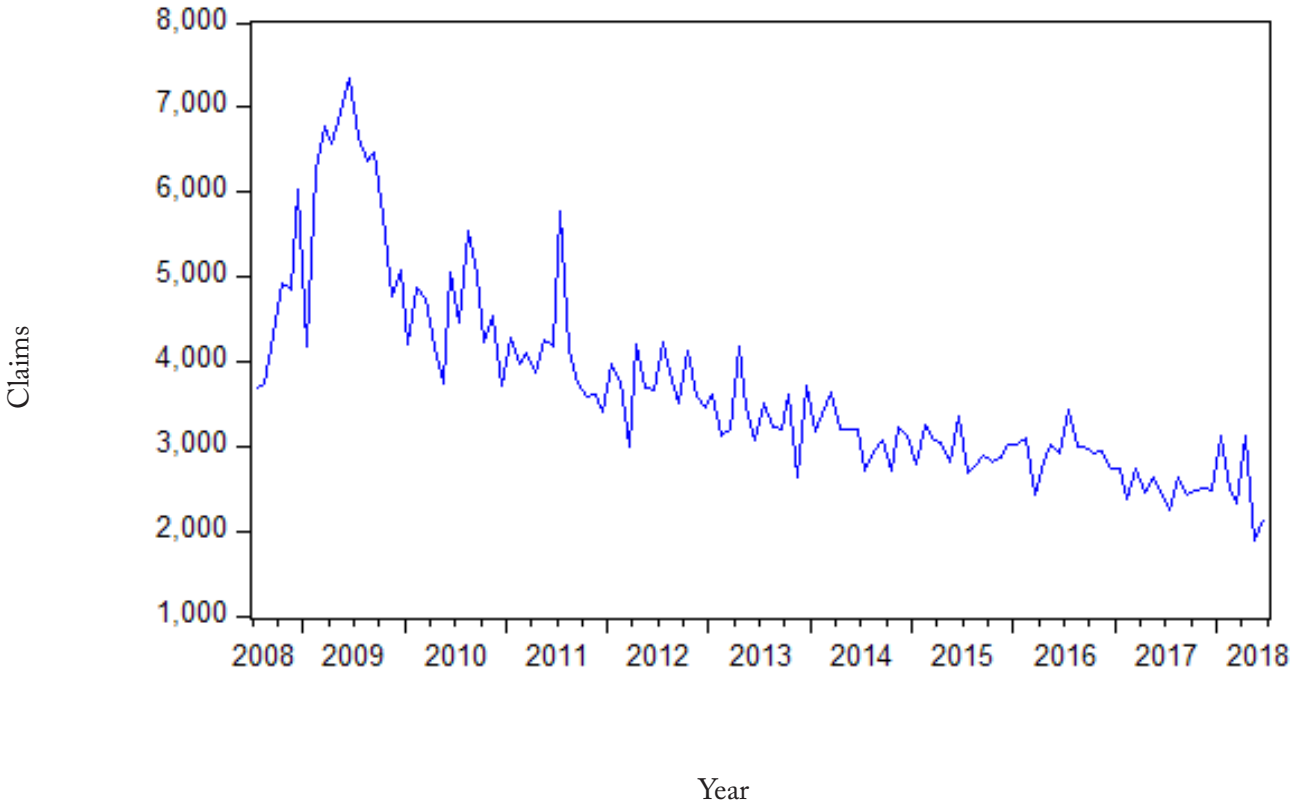
Unemployment Rate, seasonally adjusted—Central Minnesota Planning Area



Month	June 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
Unemployment Rate (Not seasonally adjusted)	3.8%	5.1%	4.9%	4.7%	3.8%	2.7%	3.0%

Initial claims for unemployment insurance in the Central Minnesota planning area were 1,487 in June 2018. This represents nearly 14 percent fewer claims than one year ago. As can be seen in the accompanying graph, the seasonally adjusted initial jobless claims series has been trending downward since the end of the Great Recession.

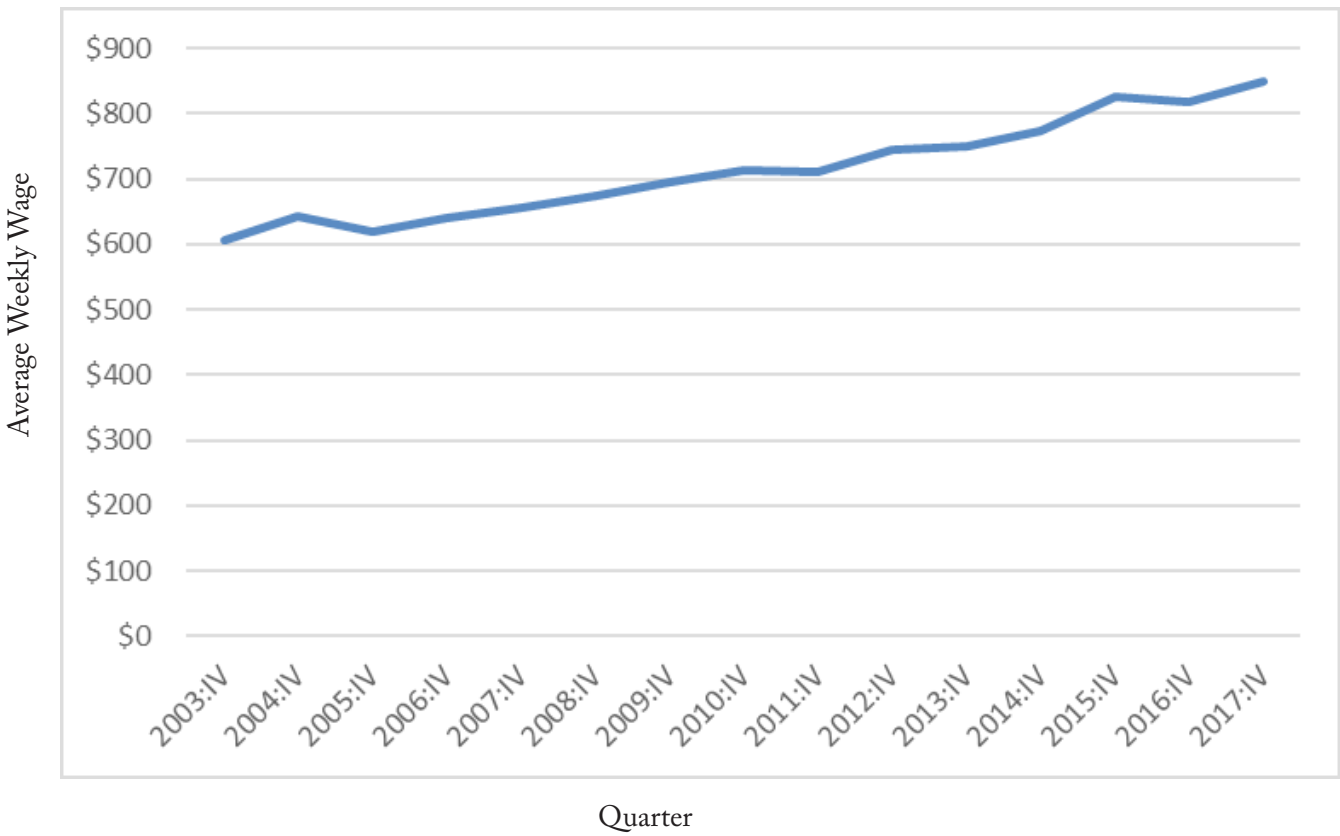
**Total Initial Claims for Unemployment Insurance, seasonally adjusted—
Central Minnesota Planning Area**



Period	June 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
Initial claims (Not seasonally adjusted)	1,728	4,330	2,218	2,078	2,140	1,551	1,487

With continuing labor shortages being reported across the state, it is no surprise that average weekly wages in Central Minnesota rose over the most recent reporting period. Over the year ending quarter 4, 2017, the average weekly wage in the Central Minnesota planning area rose 3.7 percent to \$848. This planning area has the fourth highest average weekly wage in the state—workers in the Northeast, Southeast, and Twin Cities regions have higher weekly earnings.

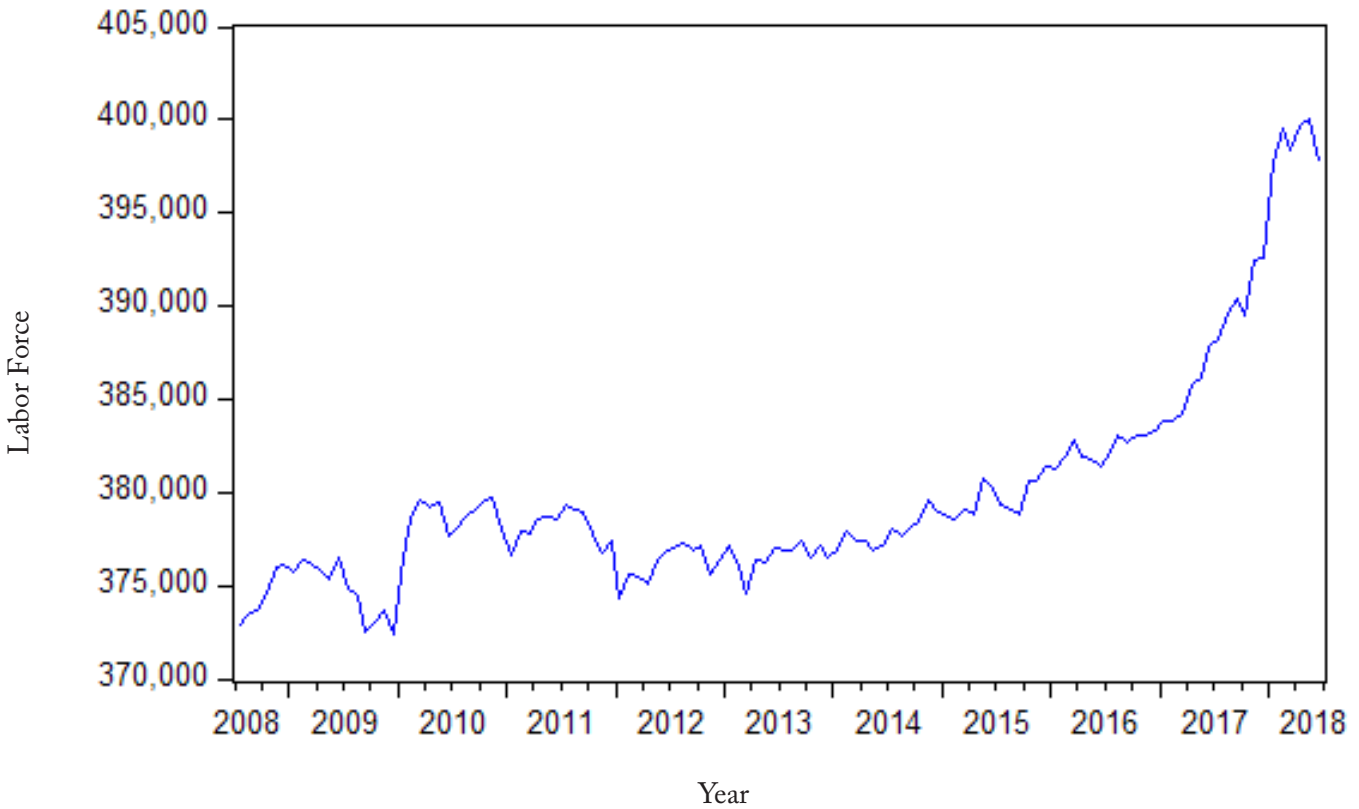
Average Weekly Wages---Central Minnesota Planning Area



Quarter	2012:IV	2013:IV	2014:IV	2015:IV	2016:IV	2017:IV
Average Weekly Wages	\$744	\$751	\$774	\$826	\$818	\$848

The Central Minnesota labor force expanded at a 2.5 percent rate over the year ending in June 2018. As seen in the accompanying graph, the 12-month moving average of the regional labor force has been steadily rising over the past several years (although it does appear to have levelled out in 2018). Among Minnesota’s six planning areas, the Central region experienced the second fastest pace of labor force growth over the past twelve months. Only the Northwest Minnesota planning area’s labor force grew at a faster annual pace.

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

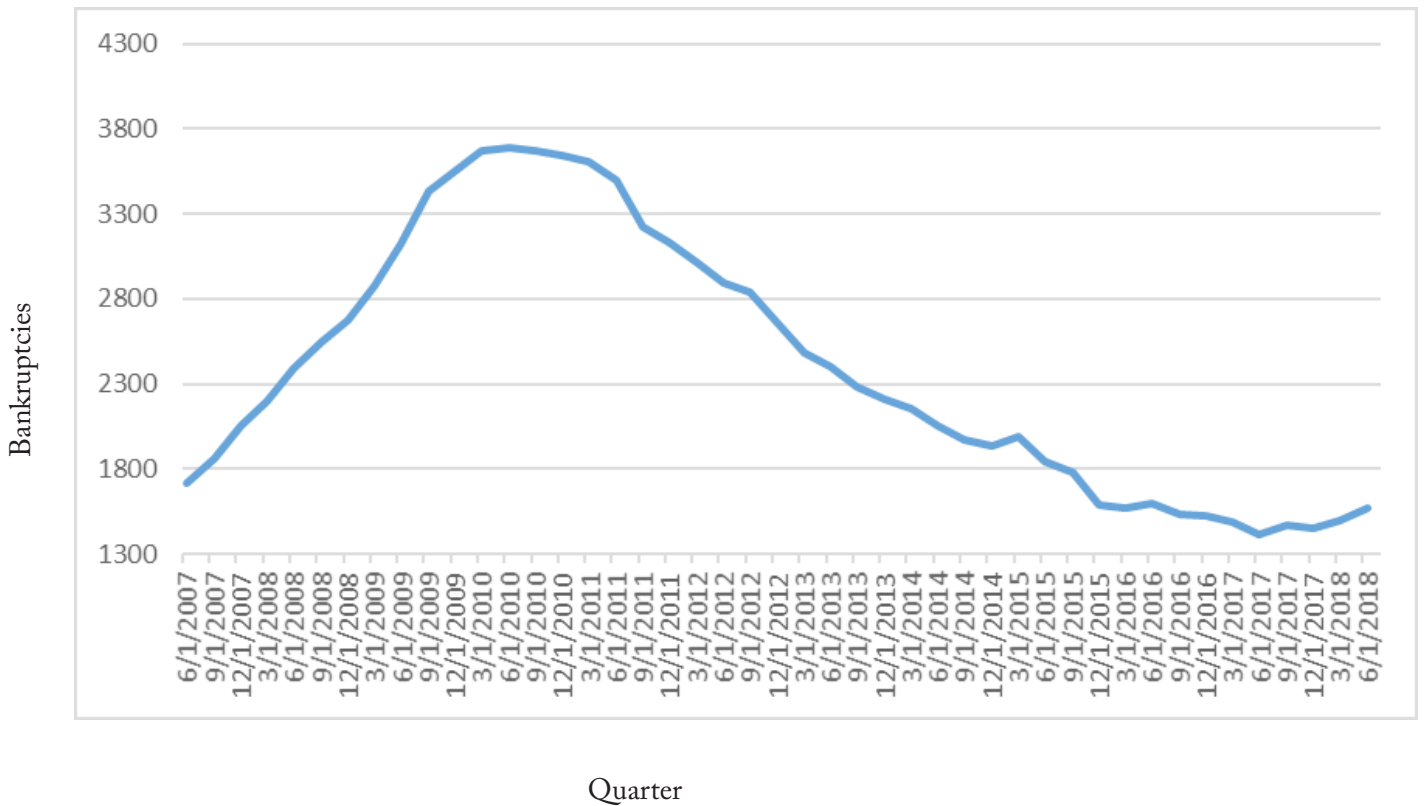


Year (June)	2013	2014	2015	2016	2017	2018
Labor Force (Not seasonally adjusted)	377,870	378,197	381,371	382,569	388,932	398,848

CENTRAL MINNESOTA BANKRUPTCIES

The figure below shows the 12-month moving total for Central 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 peaked out in the second quarter of 2010, and declined slowly until very recently when it has started to rise. With 1,567 bankruptcies over the past twelve months, the annual level of bankruptcies in Central Minnesota is 10.7 percent higher than one year ago.

Central Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2013	2014	2015	2016	2017	2018
Annual Bankruptcies (Not seasonally adjusted)	2,396	2,053	1,845	1,597	1,415	1,567

ECONOMIC INDICATORS

St. Cloud MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
LABOR MARKET					
Employment	June 2018 (m)	111,981	110,263	1.6% ↑	1.0%
Manufacturing Employment	June 2018 (m)	16,133	15,382	4.9% ↑	-0.4%
Average Weekly Work Hours--Private Sector	June 2018 (m)	31.9	33.4	-4.5% ↓	33.6 (since 2007)
Average Earnings Per Hour--Private Sector	June 2018 (m)	\$26.26	\$26.52	-1.0% ↓	3.0% (since 2007)
Unemployment Rate	June 2018 (m)	2.9%	3.6%	NA ↓	4.7%
Labor Force	June 2018 (m)	113,489	110,693	2.5% ↑	0.7%
SCSU Future Employment Index	May 2018 (q)	28.8	23.7	21.5% ↑	25.7 (since 2005)
SCSU Future Length of Workweek Index	May 2018 (q)	8.4	11.8	-28.8% ↓	10.8 (since 2005)
SCSU Future Employee Compensation Index	May 2018 (q)	55.9	45.8	22.1% ↑	41.1 (since 2005)
SCSU Future Worker Shortage Index	May 2018 (q)	39.0	39.0	0.0% ↔	23 (since 2005)
St. Cloud-Area New Unemployment Insurance Claims	June 2018 (m)	375	460	-18.5% ↓	NA
Estimated St. Cloud Times Help Wanted Linage	April 2018 (q)	2,412.0	2,279.0	5.8% ↑	NA
BUSINESS FORMATION					
New Business Filings	Second Quarter 2018	458	379	20.8% ↑	373 (since 2000)
Assumed Names	Second Quarter 2018	122	94	29.8% ↑	127 (since 2000)
Business Incorporations	Second Quarter 2018	42	39	7.7% ↑	62 (since 2000)
Limited Liability Corporations	Second Quarter 2018	279	230	21.3% ↑	167 (since 2000)
Non-Profits	Second Quarter 2018	15	16	-6.3% ↓	16 (since 2000)

(m) represents a monthly series;
(q) represents a quarterly series

St. Cloud MSA Indicators, Cont'd.

	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
BUSINESS ACTIVITY					
SCSU Future Business Activity Index	May 2018 (q)	38.9	45.7	-14.9% ↓	45.0 (since 2005)
SCSU Future Capital Expenditures Index	May 2018 (q)	28.6	18.6	53.8% ↑	23.1 (since 2005)
SCSU Future National Business Activity Index	May 2018 (q)	35.6	28.8	23.6% ↑	25.8 (since 2005)
St. Cloud Index of Leading Economic Indicators	April 2018 (m)	114.2	110.6	3.2% ↑	NA
PRICES					
St. Cloud Median Home Sales Prices	June 2018 (m)	\$189,450	\$177,250	6.9% ↑	NA
SCSU Future Prices Received Index	May 2018 (q)	33.9	23.7	43.0% ↑	22.3 (since 2005)
St. Cloud Cost of Living	First Quarter 2018 (q)	97.4	96.1	1.4% ↑	NA

(m) represents a monthly series;

(q) represents a quarterly series

Central Minnesota contains the St. Cloud MSA, where quantitative signals of the future economic health of this metropolitan area are mostly favorable. For example, the future outlook from a survey of St. Cloud area business leaders conducted quarterly by St. Cloud State University was largely improved from one year earlier and St. Cloud area filings for new incorporation, assumed name, and LLC rose. Employment (and the labor force) expanded, the unemployment rate fell, initial jobless claims declined, and median home sales prices picked up. However, average hourly earnings and hours worked fell, and the St. Cloud area's relative cost of living increased.

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 Central 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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