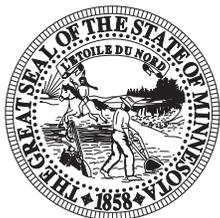




Twin Cities Area
Economic and Business Conditions Report
Third Quarter 2015



OFFICE OF THE MINNESOTA
SECRETARY OF STATE



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

TABLE OF CONTENTS

Executive Summary	1
Twin Cities Leading Economic Indicators Index	2
Twin Cities Business Filings.....	4
Twin Cities Labor Market Conditions.....	11
Twin Cities Bankruptcies.....	16
Economic Indicators	17
Sources	19

Executive Summary

Twin Cities economic performance is expected to be steady over the next several months according to the prediction of the Twin Cities Index of Leading Economic Indicators (LEI). After increasing by 4.2 points in the second quarter, the Twin Cities LEI fell by 1.61 points in this year’s third quarter as two of the five index components decreased. The LEI is now 4 percent below its level of one year ago. Accounting for the decrease in the index are lower single family residential building permits in the Minneapolis/St. Paul Metropolitan Statistical Area (MSA) and a small decrease in a general measure of statewide business conditions. Three components had a favorable impact on the leading index in the recent quarter. Lower initial claims for unemployment insurance, increased new business filings, and a second measure of general business conditions each made a positive contribution to this quarter’s LEI.

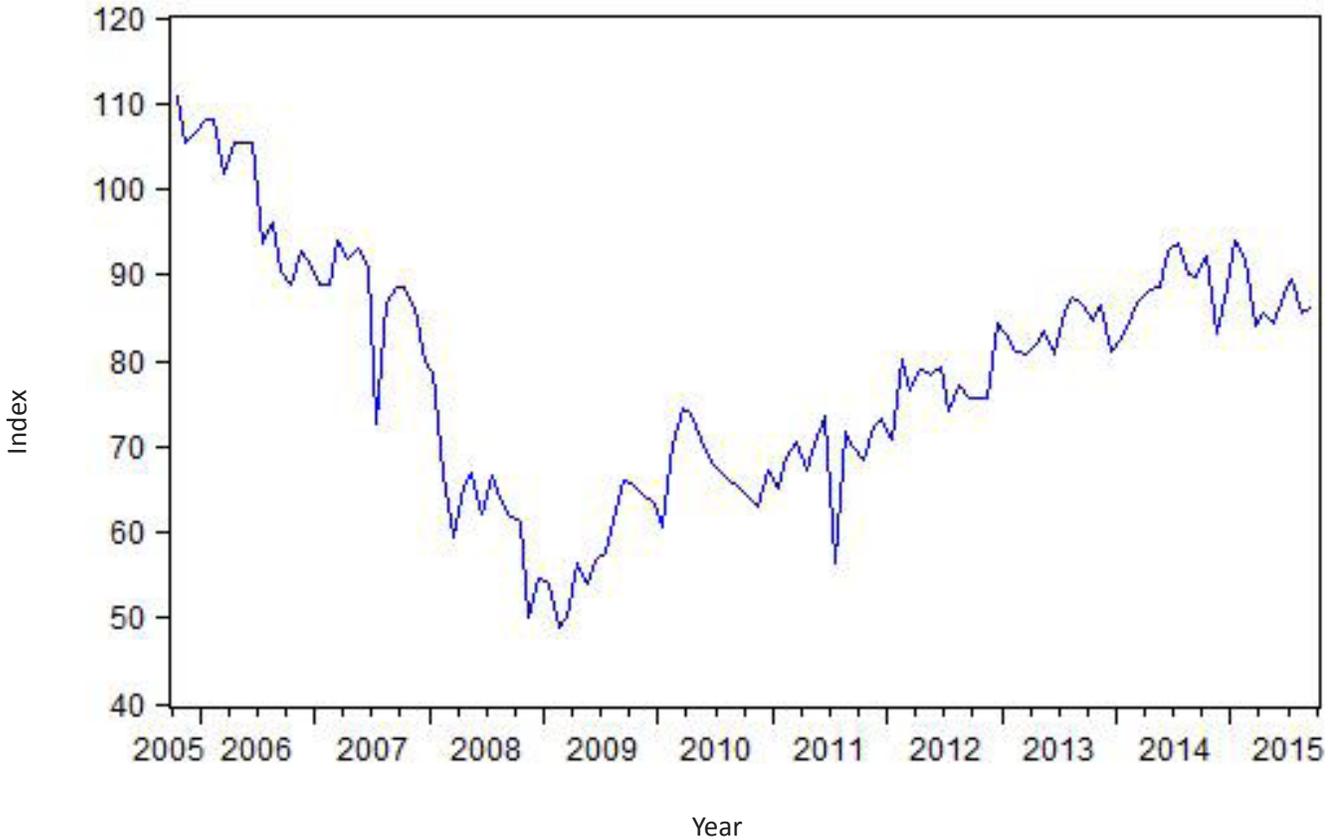
There were 9,684 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the third quarter of 2015—representing a 5 percent increase from one year ago. There were 1,349 new regional business incorporations in the third quarter, a 3.2 percent decrease over year ago levels. Third quarter new LLC filings rose to 6,007 in the seven-county metro area—an 8.9 percent increase compared to last year. New assumed names totaled 1,937 in this year’s third quarter—a reduction of 0.1 percent from the third quarter of 2014. There were 391 new filings for non-profits in the Twin Cities in the third quarter of 2015, 4.5 percent more filings than one year earlier.

Twin Cities employment increased by 0.8 percent over the year ending September 2015. The regional unemployment rate was 3.1 percent in September, an improvement on its 3.4 percent reading one year earlier. September 2015 initial claims for unemployment insurance were lower than year ago levels, falling by 5.1 percent to 6,620. The rate of job vacancies per 100 unemployed in the Twin Cities planning area was 87.43 in the second quarter of 2015. The labor force expanded in the Minneapolis-St. Paul area by 0.5 percent over the past year. Average weekly hours worked were flat in the metro area and the relative cost of living in both Minneapolis and St. Paul appears to have increased. There was a small increase in average hourly earnings in the Twin Cities in the most recent quarter. The value of residential building permits fell by 13.1 percent in the Twin Cities MSA compared to one year ago.

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 increasing last quarter, the LEI fell by 1.61 points in the third quarter of 2015. The Twin Cities index is now 4 percent lower than 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, 3rd quarter 2015	Contribution to LEI, 2nd quarter 2015
Minnesota Business Conditions Index	-0.74	2.51
Twin Cities initial claims for unemployment insurance	0.85	-1.44
Twin Cities new filings of incorporation and LLCs	0.61	0.81
Mpls.-St. Paul MSA residential building permits	-3.18	2.48
Philadelphia Fed Minnesota leading indicators	0.85	-0.16
TOTAL CHANGE	-1.61	4.20

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 contributed favorably to the LEI this quarter. On the other hand, the Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—had a negative effect on this quarter’s LEI.

Two of the three local measures were positive in this year’s third quarter. While lower single family residential building permits across the Minneapolis-St. Paul MSA were a drag on the index, a reduction in initial jobless claims had a favorable impact on the LEI in the third quarter. An increase in new Twin Cities filings for incorporation and LLC also made a positive contribution to the leading index.

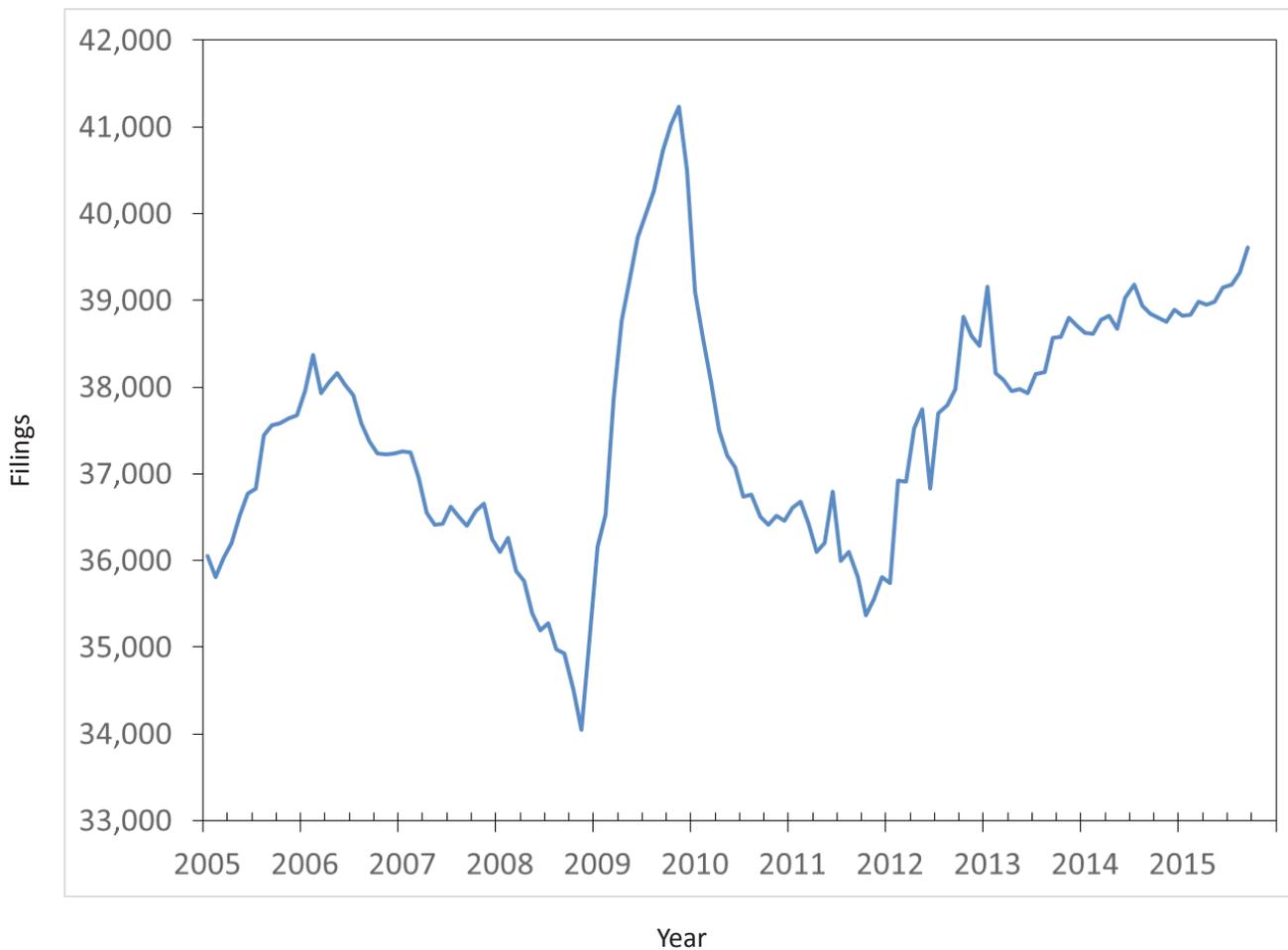
SCSU Twin Cities Leading Economic Indicators Index	2015	2014	Percentage change
Minnesota Business Conditions Index September	53	66.3	-20.1%
Twin Cities initial claims for unemployment insurance September	6,620	6,975	-5.1%
Twin Cities new filings of incorporation and LLCs Third Quarter	7356	6911	6.4%
Twin Cities MSA single-family building permits, September	570	649	-12.2%
Index of Leading Economic Indicators Philadelphia Federal Reserve, September	2.17	1.12	93.8%
Twin Cities Leading Economic Indicators Index September (December 1999 = 100)	86.3	89.8	-4.0%

Twin Cities Business Filings

Total new business filings have generally trended upward since the second half of 2011. This trend continued in the third quarter of this year as filings grew at a 5 percent year-over-year rate. 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.

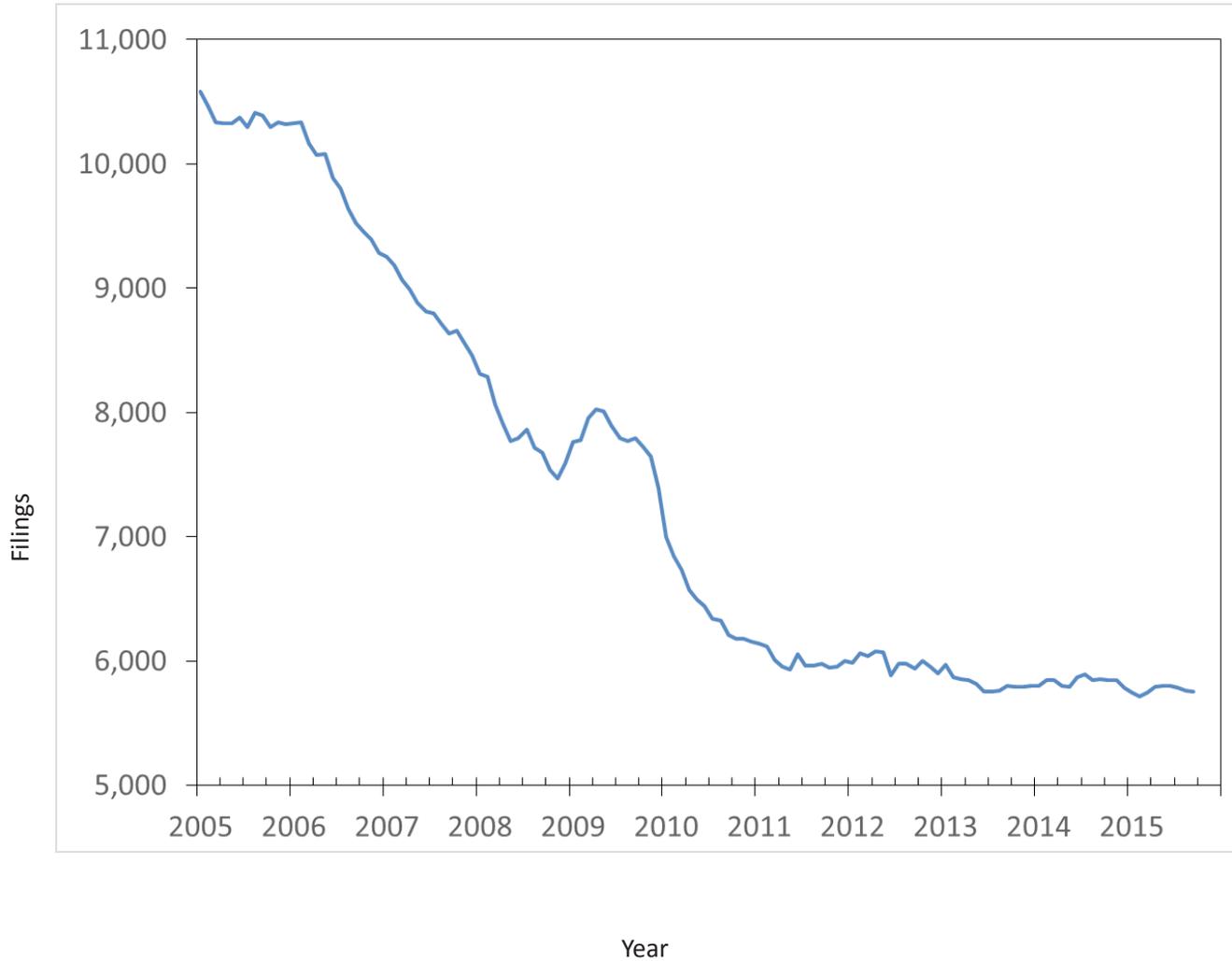
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Twin Cities Total New Business Filings	9,223	9,127	10,494	10,306	9,684	5.0%

New business incorporations trended downward in the Twin Cities from 2005 to 2011, and have been relatively flat since that time. Filings for new business incorporation fell 3.2 percent from one year earlier in the third quarter of 2015.

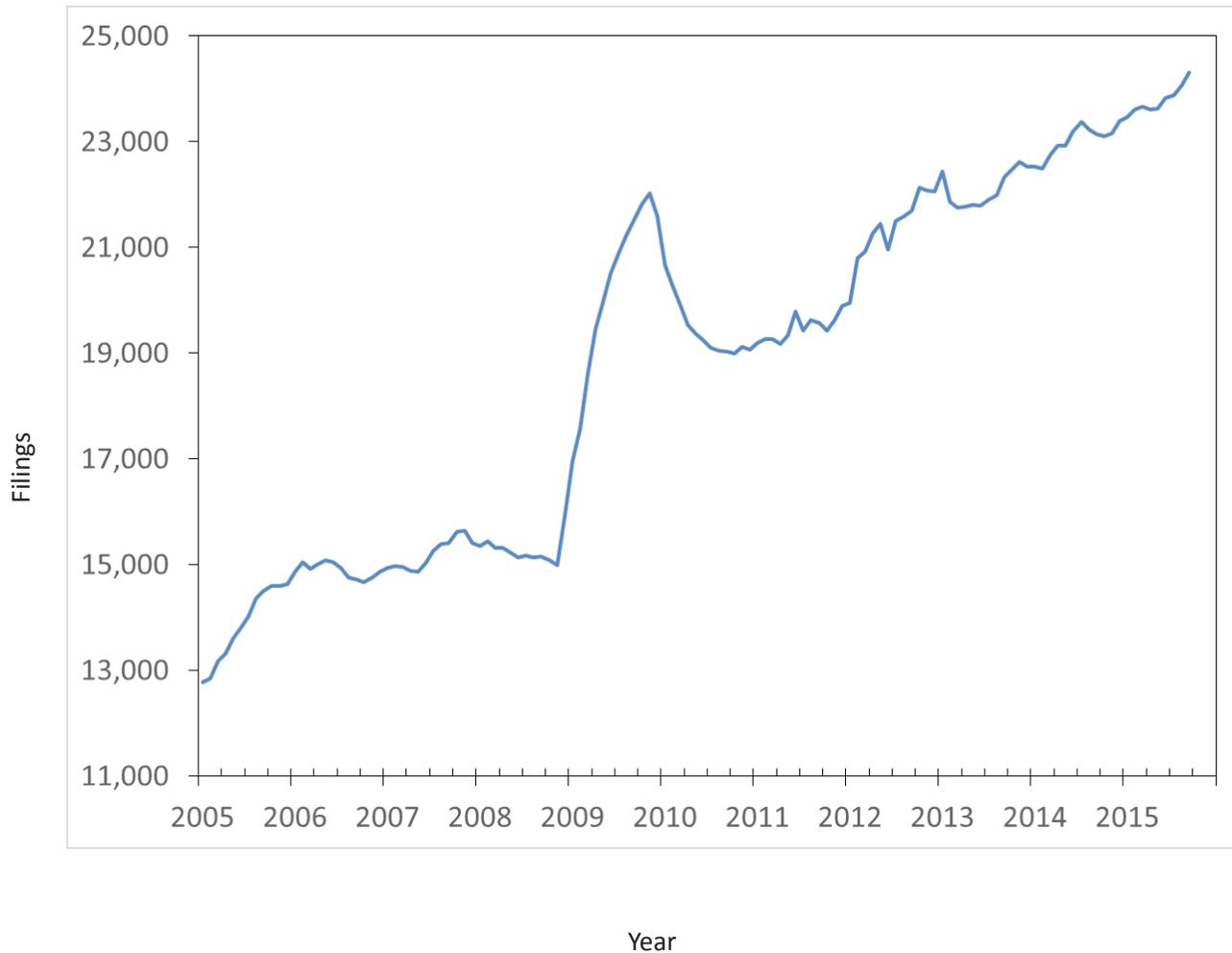
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Twin Cities New Business Incorporations	1,394	1,346	1,553	1,504	1,349	-3.2%

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 6,007, new filings for LLC in the third quarter of 2015 were 8.9 percent higher than one year earlier.

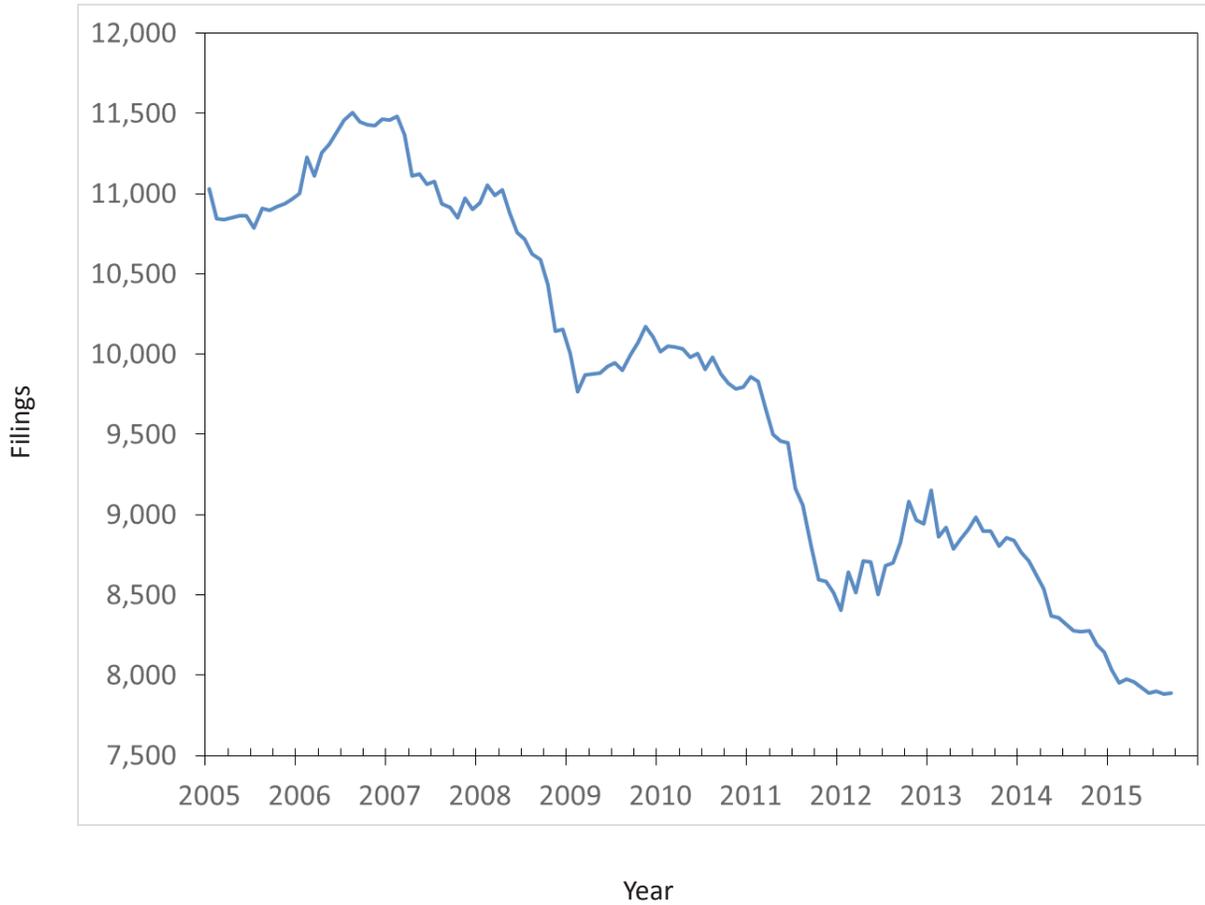
New Limited Liability Companies—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Twin Cities New Limited Liability Companies	5,517	5,619	6,385	6,310	6,007	8.9%

Assumed names, which include sole proprietors or organizations that do not have limited liability, were largely unchanged in the third quarter relative to the same period in 2014. This series has been on a downward slide since peaking out in 2006-2007.

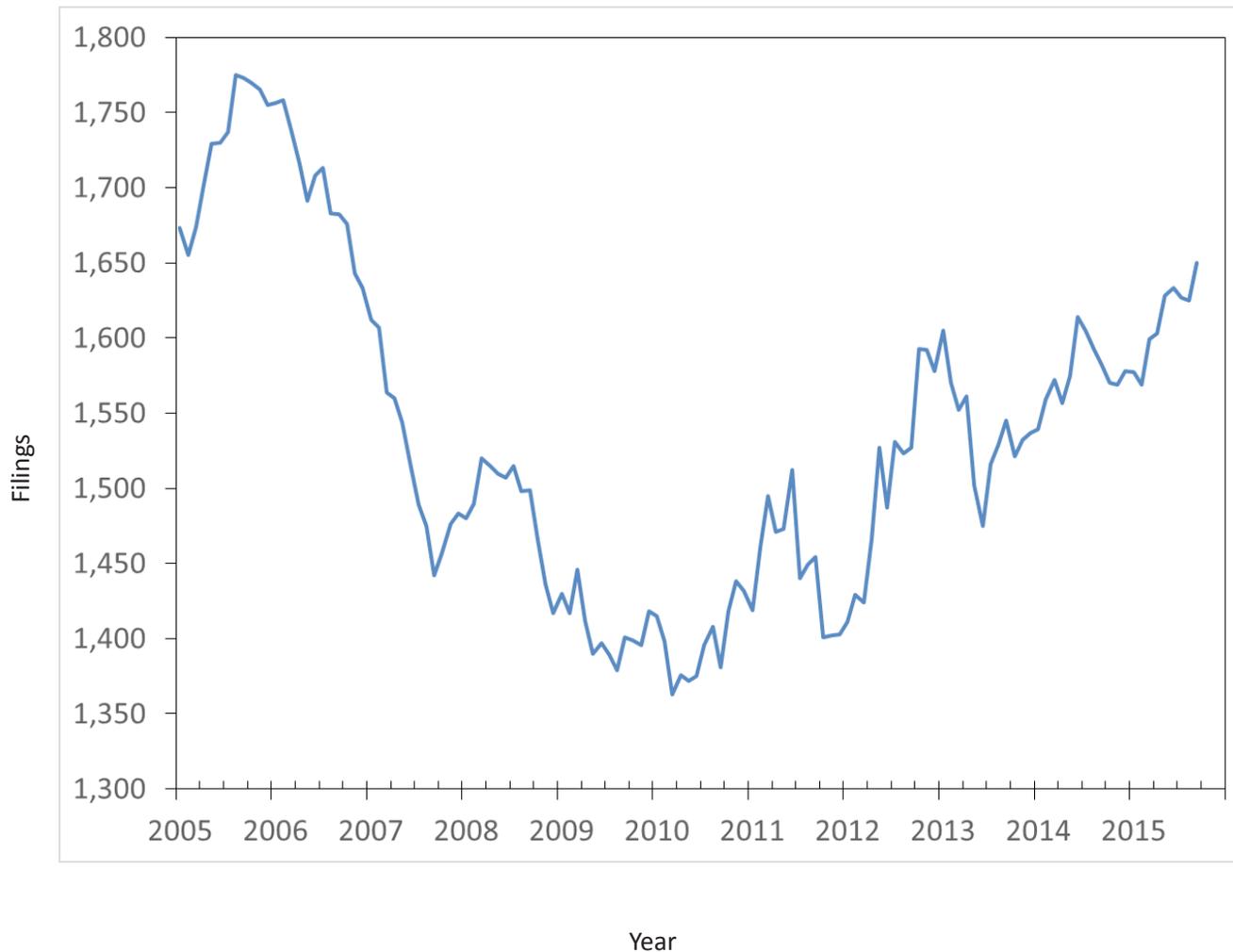
New Assumed Names—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Twin Cities New Assumed Names	1,938	1,791	2,099	2,061	1,937	-0.1%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State increased to a level last seen in the mid-2000s. With 391 new non-profits registered in this year’s third quarter, this sector expanded by 4.5 percent compared to one year earlier.

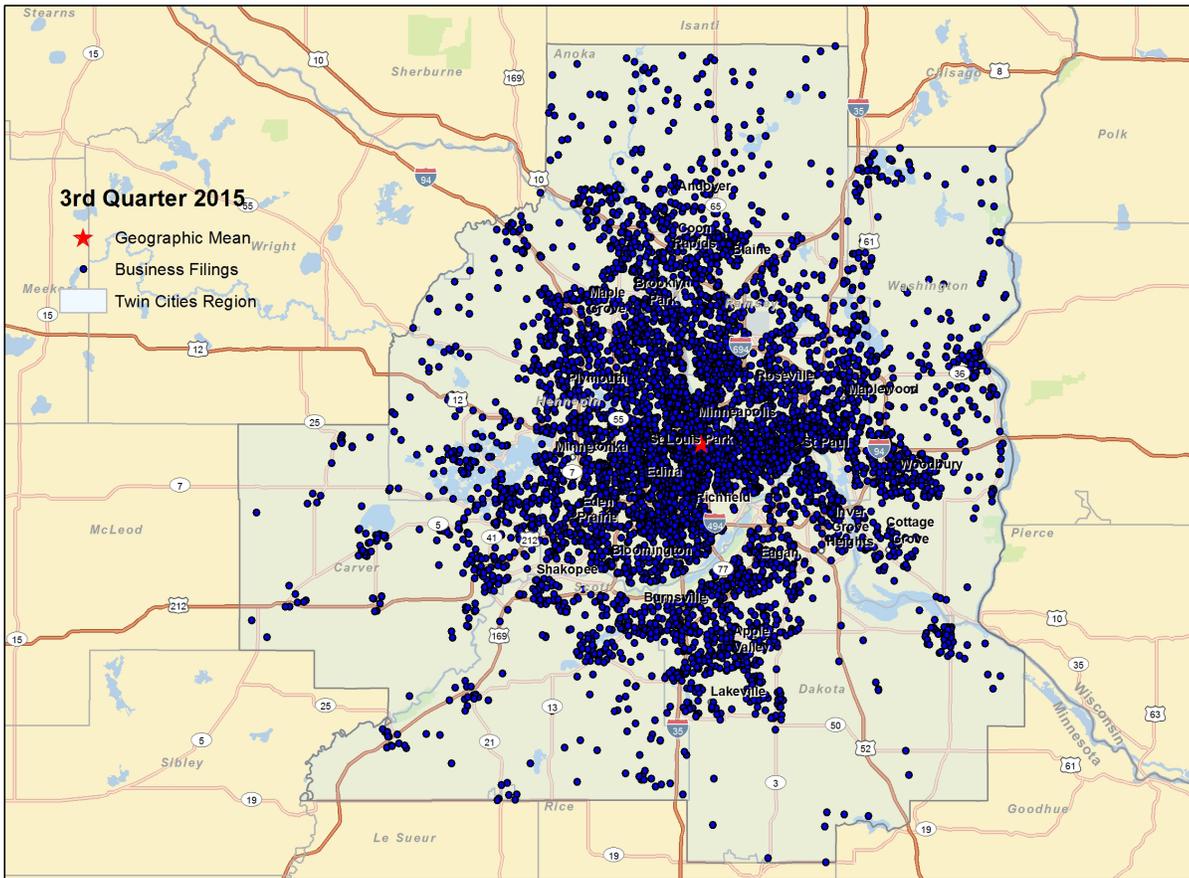
New Non-Profits—Twin Cities Planning Area (12-month moving total)



Quarter	III: 2014	IV: 2014	I: 2015	II: 2015	III: 2015	2015 Quarter III: Percent change from prior year
Twin Cities New Non-Profits	374	371	457	431	391	4.5%

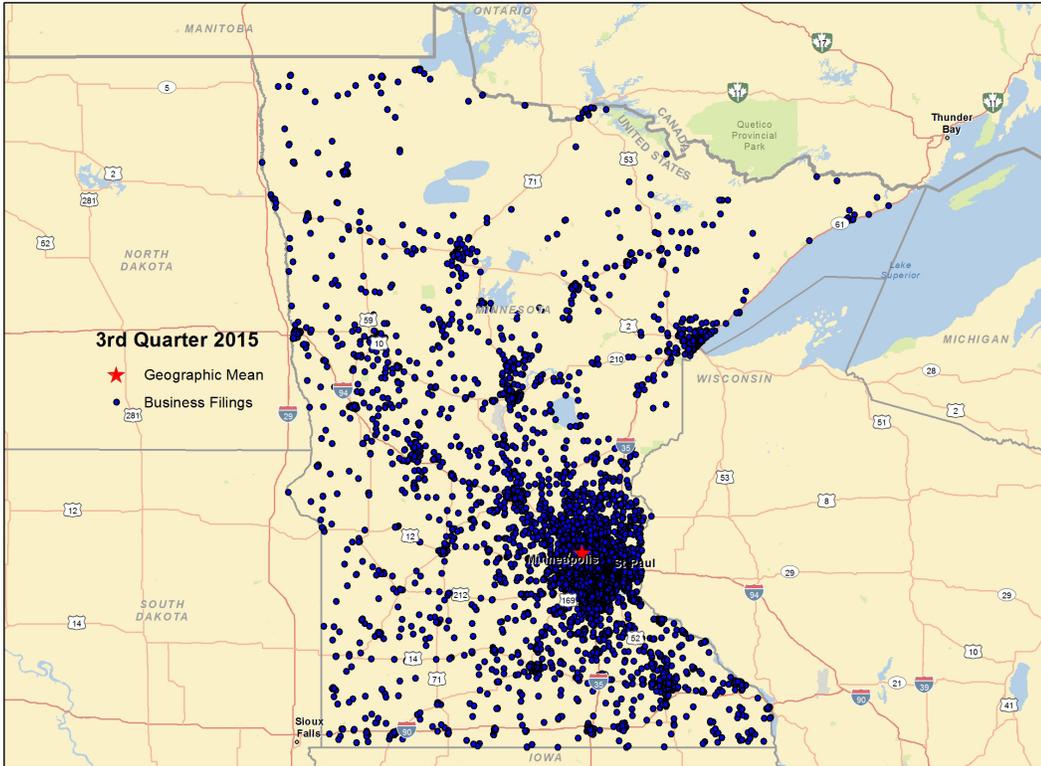
The first map shown below is a visual representation of new business formation around the Twin Cities planning area in this year's third quarter. It is easy to see how dense new business formation is around the geographic mean of this region. The geographic center of new filings is between Minneapolis and St. Louis Park, and then thins out as the outer edges of the planning area are approached. Note that roadways also help predict new business formation in the Twin Cities.

Twin Cities Planning Area — New Business Formation — Quarter 3: 2015



The second map shows new business formation around the entire State of Minnesota in the most recent quarter. Note the dominance of the Twin Cities metropolitan area in statewide new business formation. This also reinforces the importance of roadways (and the Mississippi River) in new business filing locations. Also noteworthy is the extent to which the spread of new businesses extends both Northwest (towards St. Cloud) and South (towards Rochester and Mankato).

State of Minnesota -- New Business Formation -- Quarter 3: 2015

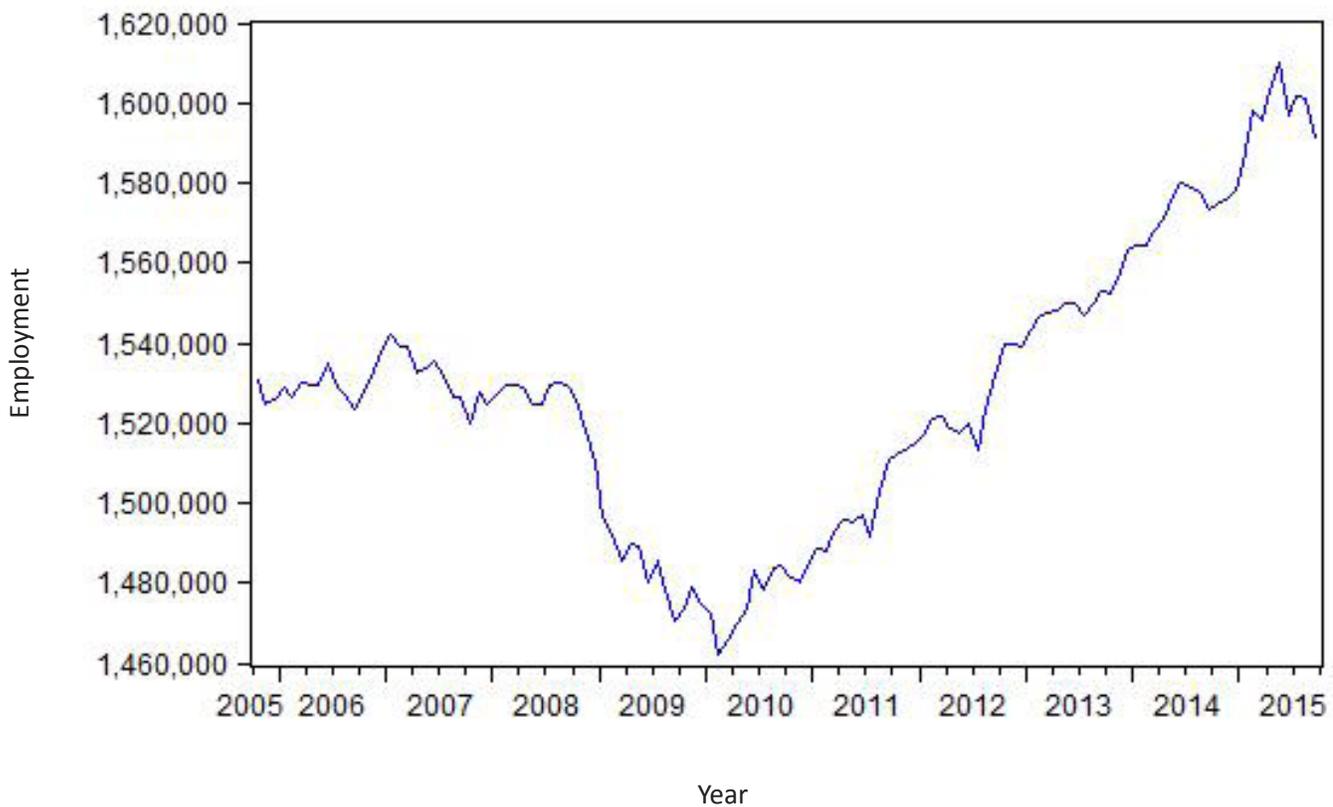


Twin Cities Labor Market Conditions

Employment of Twin Cities residents grew 0.8 percent over the past year. After relative stagnation through 2007 and a decline during the Great Recession, the area has experienced fairly steady employment growth since the start of 2010 (although the 12-month moving average of employment has declined in 2015).

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. To request access to seasonally adjusted series, please contact the SCSU School of Public Affairs Research Institute, soparesearch@stcloudstate.edu.

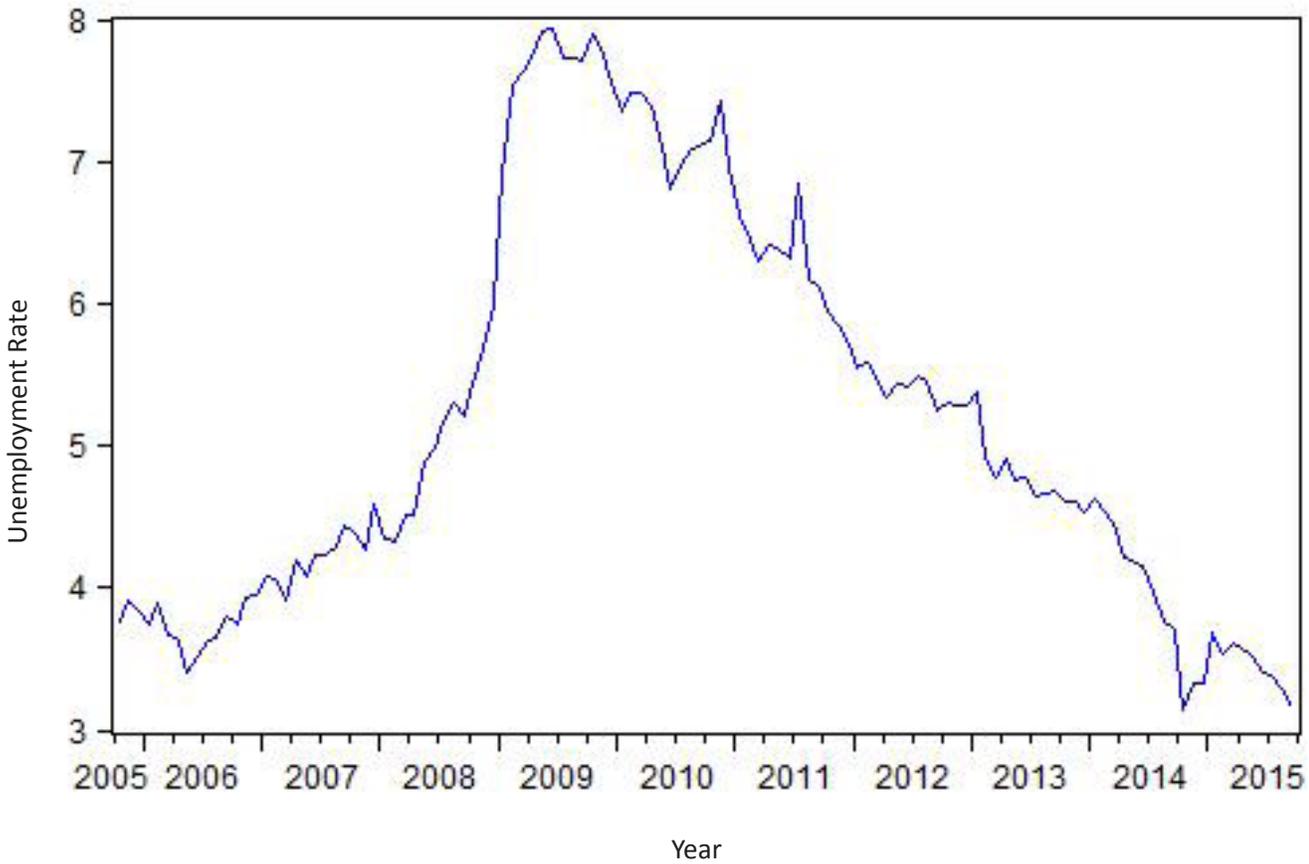
Employment—Twin Cities Planning Area (12-month moving average)



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Employment (Not seasonally adjusted)	1,581,023	1,602,675	1,613,592	1,602,600	1,617,218	1,606,818	1,594,340

The seasonally adjusted unemployment rate in the Twin Cities had declined since the end of the Great Recession in 2009. This series has flattened out over the last year as the Twin Cities approaches full employment. The non-seasonally adjusted unemployment rate now stands at 3.1 percent, lower than the 3.4 percent rate recorded one year ago.

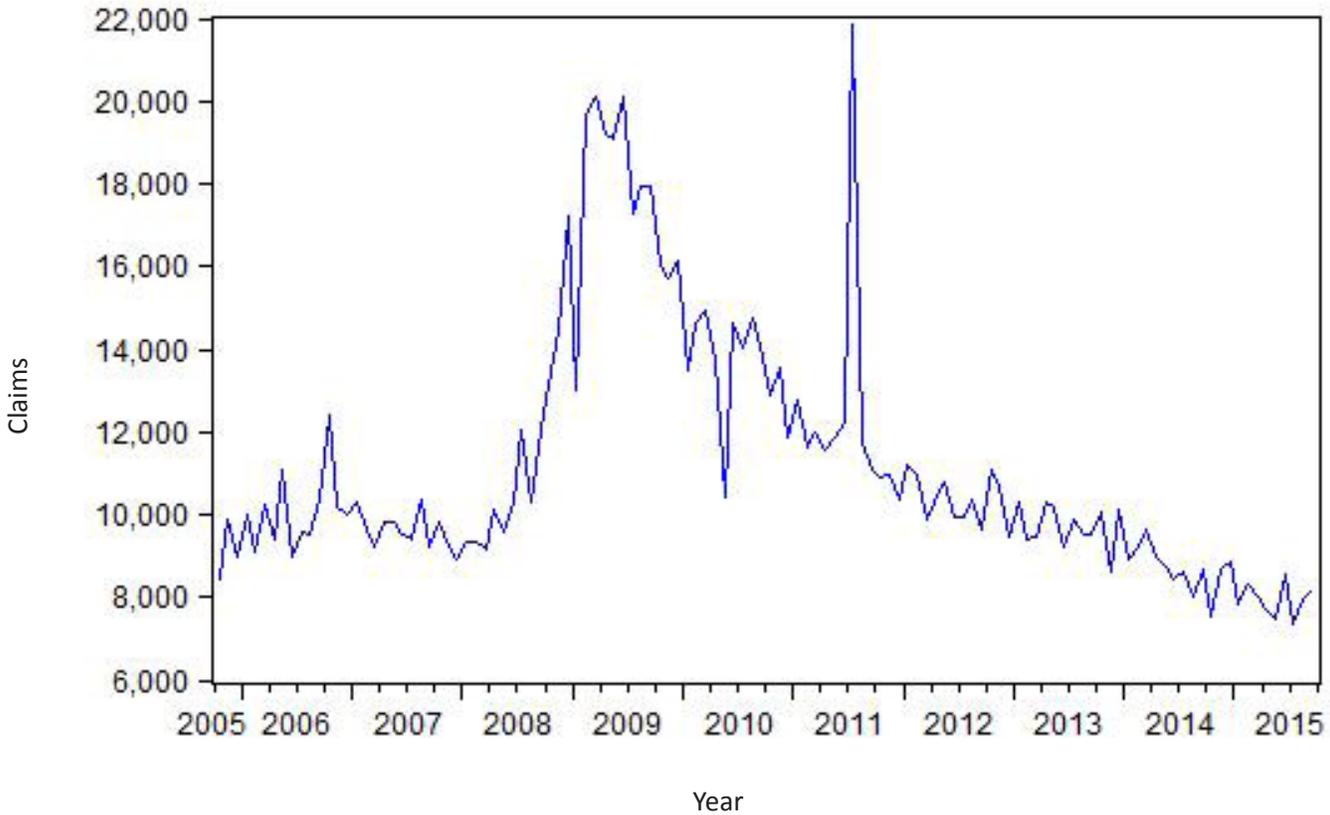
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Unemployment Rate (Not seasonally adjusted)	3.4%	3.4%	3.4%	3.7%	3.6%	3.3%	3.1%

New claims for unemployment insurance were 5.1 percent below year ago levels in September 2015. The graph of the seasonally adjusted series suggests claims are at levels that are among the lowest observed over the past 10 years.

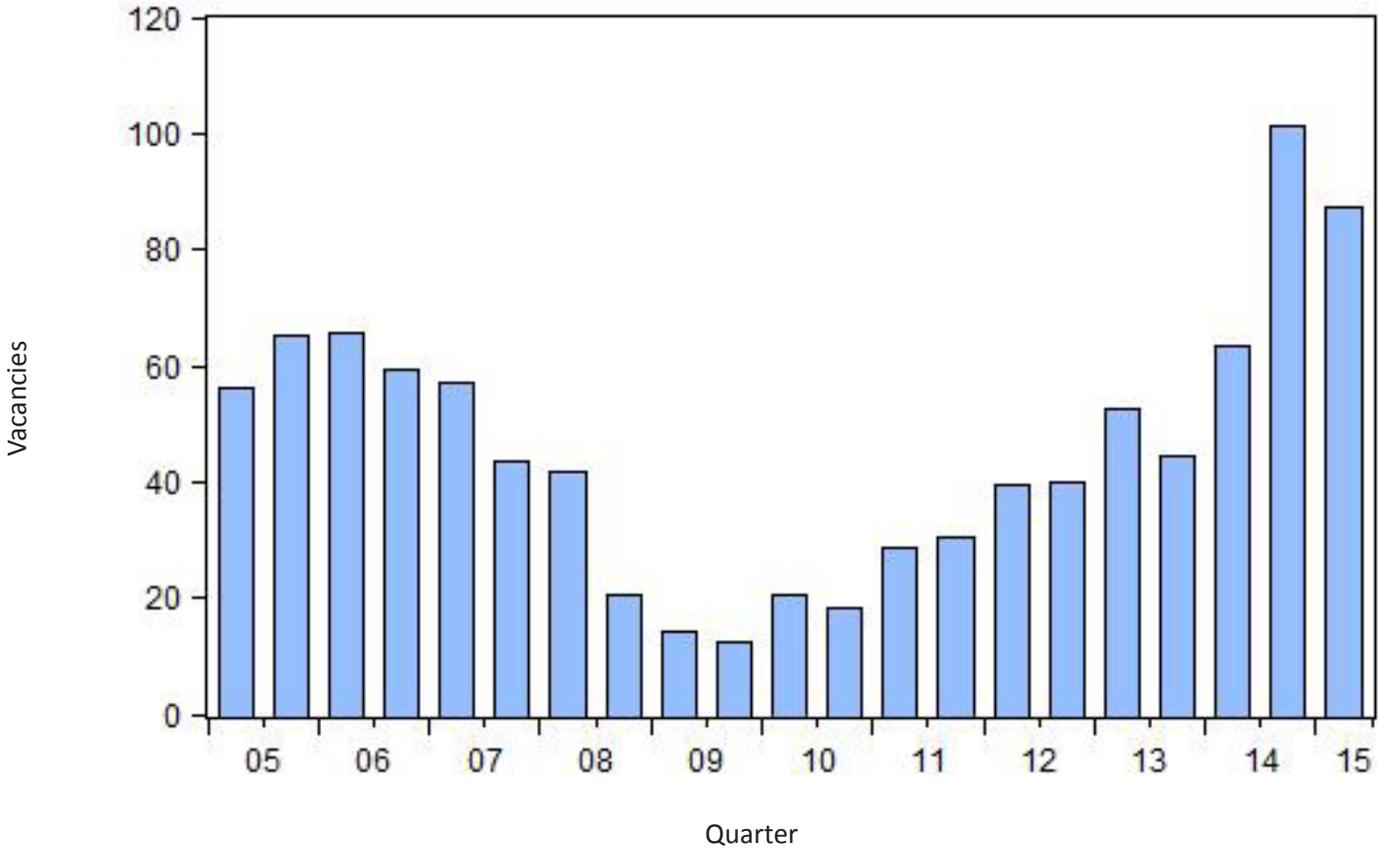
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Twin Cities Planning Area



Month	September 2014	April 2015	May 2015	June 2015	July 2015	August 2015	September 2015
Initial claims (Not seasonally adjusted)	6,975	7,021	6,710	8,185	6,606	6,189	6,620

Twin Cities job vacancies fell in this year’s second quarter (this is the most recently available data). The rate of regional job vacancies per 100 unemployed is now 87.43. For every 100 people who are unemployed in the Twin Cities planning area, there are more than 87 job vacancies. The job vacancy rate in the Twin Cities is the second highest of Minnesota’s six planning areas. Only Southeast Minnesota has a higher job vacancy rate.

Job Vacancies per 100 Unemployed—Twin Cities Planning Area



Quarter	2012:IV	2013:II	2013:IV	2014:II	2014:IV	2015:II
Job Vacancies per 100 Unemployed	43.50	54.11	48.62	68.74	101.39	87.43

The size of the Twin Cities labor force continues to rise. Over the last twelve months, the labor force in the Twin Cities planning area expanded by 0.5 percent to 1,645,704. However, the 12-month moving average (see accompanying graph) of the Twin Cities labor force has been declining in 2015.

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

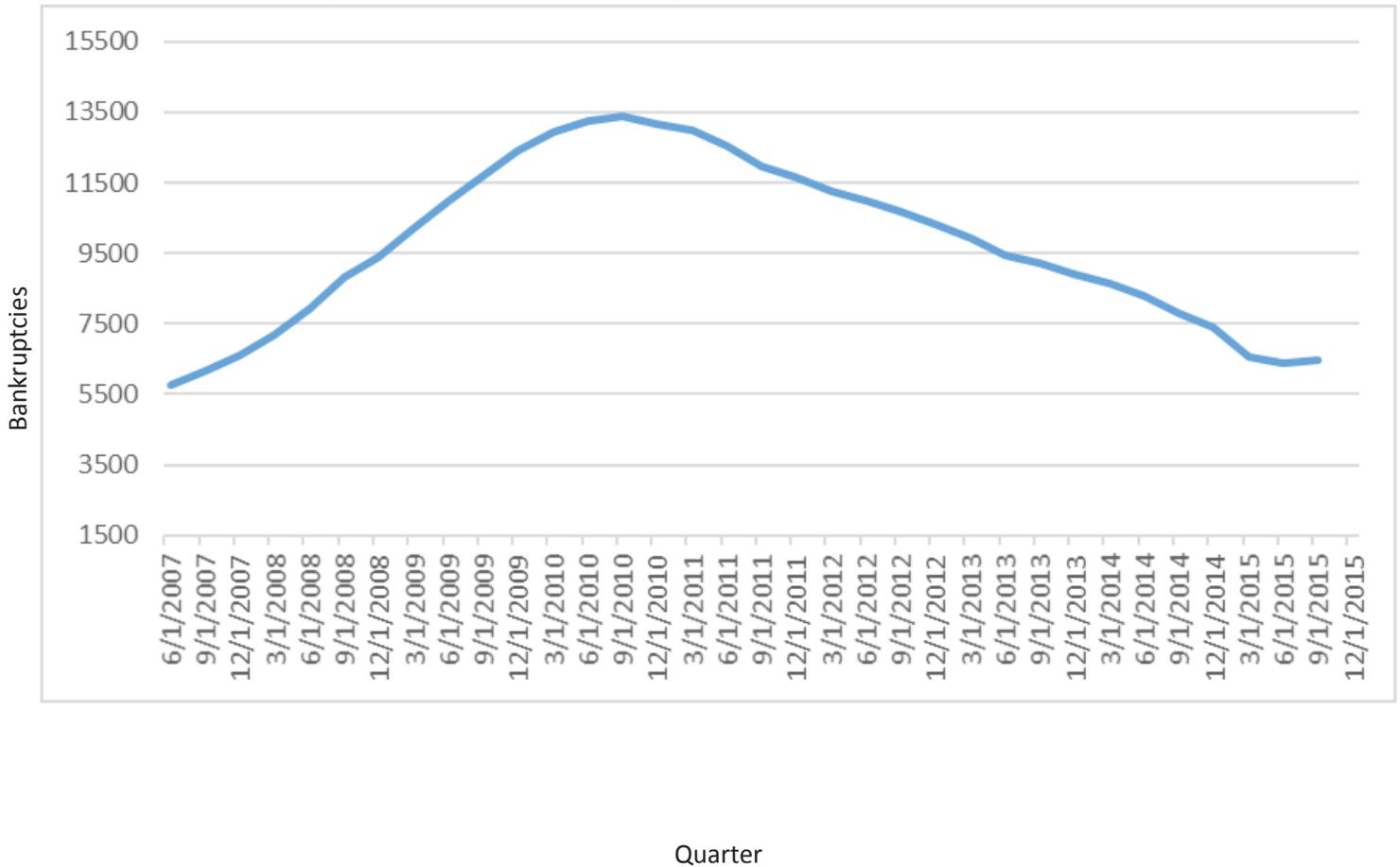


Year (September)	2010	2011	2012	2013	2014	2015
Labor Force (Not seasonally adjusted)	1,607,067	1,617,141	1,625,074	1,634,254	1,637,356	1,645,704

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 has steadily declined since that time. With 6,454 bankruptcies over the past twelve months, the level of bankruptcies in the Twin Cities has now nearly returned to a level last seen prior to the Great Recession.

Twin Cities Bankruptcies (12-month moving total)



Year (Third Quarter)	2010	2011	2012	2013	2014	2015
Annual Bankruptcies (not seasonally adjusted)	13,376	11,967	10,673	9,229	7,789	6,454

Economic Indicators

Twin Cities MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (since 1999 unless noted)
Employment	September 2015 (m)	1,941,355	1,909,052	1.7% ↑	0.6%
Manufacturing Employment	September 2015 (m)	194,596	191,707	1.5% ↑	-1.4%
Average Weekly Work Hours Private Sector	September 2015 (m)	34.4	34.4	0.0% ↔	34 (since 2007)
Average Earnings Per Hour Private Sector	September 2015 (m)	\$26.53	\$26.45	0.3% ↑	0.9% (since 2007)
Average Weekly Work Hours Manufacturing (Production Workers)	September 2015 (m)	41.1	42.4	-3.1% ↓	41 (since 2005)
Average Earnings Per Hour Manufacturing (Production Workers)	September 2015 (m)	\$21.26	\$20.62	3.1% ↑	1.5% (since 2005)
Unemployment Rate	September 2015 (m)	3.1%	3.5%	NA ↓	4.5%
Labor Force	September 2015 (m)	1,923,295	1,915,020	0.4% ↑	0.5%
MSP Residential Building Permit Valuation, in thousands	September 2015 (m)	266,904	307,270	-13.1% ↓	NA
Minneapolis Cost-of-Living Index	Second Quarter 2015	111.2	107.6	3.3% ↑	NA
St. Paul Cost-of-Living Index	Second Quarter 2015	109.8	108.5	1.2% ↑	NA

(m) represents a monthly 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 favorable labor market conditions in the last 12 months. Overall employment increased 1.7 percent in the Twin Cities MSA and manufacturing employment rose by 1.5 percent over the year ending September 2015. Average hourly earnings rose slightly in the private sector (although hourly earnings increased more substantially in manufacturing) and average weekly hours were flat (they declined in manufacturing). The relative cost of living measure for Minneapolis and St. Paul increased in the second quarter of 2015. The Twin Cities MSA is approximately 10-11 percent more expensive to live in than in the average city in the United States. The value of residential building permits fell by 13.1 percent in September 2015 relative to the same period one year earlier. Compared to September 2015, the Twin Cities MSA unemployment rate is lower and the labor force is larger.

State and National Indicators

MINNESOTA Indicators	Sep 2015	Jun 2015	Sep 2014	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,855,200	2,857,200	2,819,200	-0.1%	1.3%
Average weekly hours worked, private sector	33.9	34.1	34.1	-0.6%	-0.6%
Unemployment rate, seasonally adjusted	3.8%	3.9%	3.7%	NA	NA
Earnings per hour, private sector	\$26.00	\$25.70	\$25.75	1.2%	1.0%
Philadelphia Fed Coincident Indicator, MN	176.38	175.11	171.14	0.7%	3.1%
Philadelphia Fed Leading Indicator, MN	2.17	1.28	1.21	69.5%	79.3%
Minnesota Business Conditions Index	53.0	54.3	66.3	-2.4%	-20.1%
Price of milk received by farmers (cwt)	\$17.80	\$17.90	\$27.10	-0.6%	-34.3%
Enplanements, MSP airport, thousands	1,506.7	1,680.9	1,411.3	-10.4%	6.8%

NATIONAL Indicators	Sep-15	Jun-15	Sep-14	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	142,383	141,870	139,619	0.4%	2.0%
Industrial production, index, SA	107.4	106.7	106.7	0.7%	0.7%
Real retail sales, SA	188,171	186,611	184,083	0.8%	2.2%
Real personal income less transfers	11,618.2	11,512.5	11,190.5	0.9%	3.8%
Real personal consumption expenditures	11,298.0	11,205.1	10,948.6	0.8%	3.2%
Unemployment rate, SA	5.1%	5.3%	5.9%	NA	NA
New building permits, SA, thousands	1,848	2,419	1,638	-23.6%	12.8%
Standard & Poor's 500 stock price index	1,944.4	2099.28	1993.23	-7.4%	-2.4%
Oil, price per barrel in Cushing, OK	\$45.48	\$59.82	\$93.21	-24.0%	-51.2%

Across the state there was growth in payrolls and higher earnings per hour in the private sector over the past twelve months. The seasonally adjusted unemployment rate was slightly higher and average weekly hours worked in the private sector were lower. Two of three broader indicators suggest improvement in the state economy in the third quarter. Milk prices were 34.3 percent lower than one year ago in September. This is an important unfavorable indicator in many areas of Minnesota. Enplanements at the Minneapolis-St. Paul airport increased by 6.8 percent over the last twelve months.

The national economic indicators reported in the table suggest strong economic performance at the national level. Compared to year earlier levels, industrial production, retail sales, real income, real consumption expenditures, payroll employment, building permits and the unemployment rate are all improved. Oil prices have declined significantly over the past year. While this has put additional discretionary income in the hands of consumers, it has also created dislocation in some key sectors of the economy. Stock prices were the only indicator that declined on a year-over-year basis in September 2015. These prices have since rebounded from these temporarily low readings.

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.

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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Metropolitan Airports Commission: MSP Enplanements.

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Thomson Reuters and University of Michigan, Index of Consumer Sentiment

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