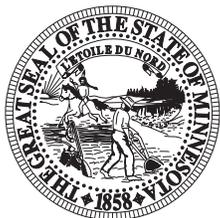




# Twin Cities Area Economic and Business Conditions Report Fourth Quarter 2016

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

**Strong economic growth is expected over the next several months in the Twin Cities according to the prediction of the St. Cloud State University Twin Cities Index of Leading Economic Indicators (LEI).** The Twin Cities LEI rose 8.86 points in the fourth quarter after a weak reading in the previous quarter. Four of the five index components increased in the fourth quarter. Slightly higher initial claims for unemployment insurance were the only index component that had a negative impact on this quarter’s LEI. Strength in two general measures of statewide business conditions had a positive effect on the index. Higher residential building permits in the Twin Cities MSA and increased new filings of business incorporation and LLC also helped lift the Twin Cities LEI.

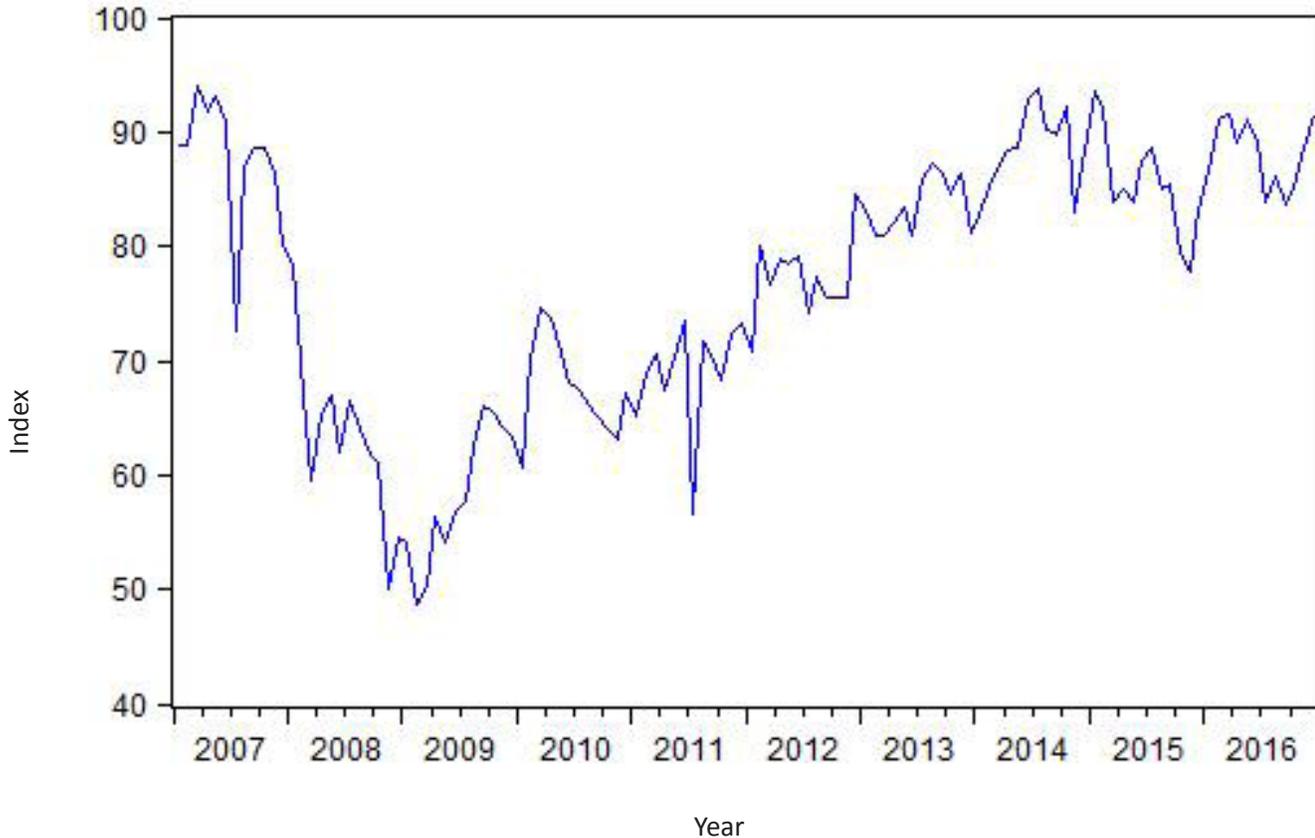
**There were 9,315 new business filings with the Office of the Minnesota Secretary of State in the seven-county metro area in the fourth quarter of 2016—representing a 3.3 percent increase from one year ago.** There were 1,333 new regional business incorporations in the fourth quarter, 0.8 fewer than year ago levels. Fourth quarter new LLC filings rose to 5,784 in the seven-county metro area—a 6.3 percent increase compared to the fourth quarter of 2015. New assumed names totaled 1,800 in the fourth quarter. This was 2 percent lower than one year ago. There were 398 new filings for non-profit in the Twin Cities in the fourth quarter of 2016, 1.3 percent more filings than one year earlier.

**Based on preliminary data, Twin Cities planning area employment decreased by 1.5 percent over the year ending December 2016.** At 3.4 percent, the planning area’s unemployment rate was considerably higher than one year earlier. Initial claims for unemployment insurance were lower than year ago levels, falling by 7.2 percent to 10,861. The average weekly wage in the Twin Cities planning area was \$1,117 in the most recent reporting period. This was \$18 (1.6%) more than one year earlier. The planning area labor force contracted by 1.1 percent over the year ending in December 2016. Annual bankruptcies continued to decline in the Twin Cities over the past twelve months. Average weekly hours and average hourly earnings were both higher in the metro area and the relative cost of living declined.

## 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 falling by 5.70 points last quarter, the LEI rose by 8.86 points in the fourth quarter of 2016. The Twin Cities index is now 10.3 percent higher 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, 4th quarter 2016	Contribution to LEI, 3rd quarter 2016
Minnesota Business Conditions Index	2.36	-1.94
Twin Cities initial claims for unemployment insurance	-0.04	0.32
Twin Cities new filings of incorporation and LLCs	3.39	-2.56
Mpls.-St. Paul MSA residential building permits	2.35	-0.74
Philadelphia Fed Minnesota leading indicators	0.80	-0.78
<b>TOTAL CHANGE</b>	<b>8.86</b>	<b>-5.70</b>

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. In addition, the Minnesota Business Conditions Index (constructed by Creighton University)—another general indicator of statewide economic conditions—also had a positive impact on this quarter’s LEI.

Only one of the three local measures was negative in the fourth quarter. Higher initial jobless claims in the planning area contributed slightly unfavorably to this quarter’s index. An increase in single family residential building permits across the Minneapolis-St. Paul MSA had a positive impact on this quarter’s index as did higher new filings for incorporation and LLC in the planning area.

SCSU Twin Cities Leading Economic Indicators Index	2016	2015	Percentage Change
Minnesota Business Conditions Index December	52.3	48.2	8.5%
Twin Cities initial claims for unemployment insurance December	10,861	11,702	-7.2%
Twin Cities new filings of incorporation and LLCs Fourth Quarter	7,117	6,784	4.9%
Twin Cities MSA single-family building permits, December	606	527	15.0%
Index of Leading Economic Indicators Philadelphia Federal Reserve, December	2.01	1.26	59.5%
Twin Cities Leading Economic Indicators Index December (December 1999 = 100)	91.4	82.9	10.3%

## Twin Cities Business Filings

While total new business filings generally trended upward since the second half of 2011, this series has begun to level out in recent quarters. New filings were 3.3 percent higher in the fourth quarter of 2016 than they were 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.

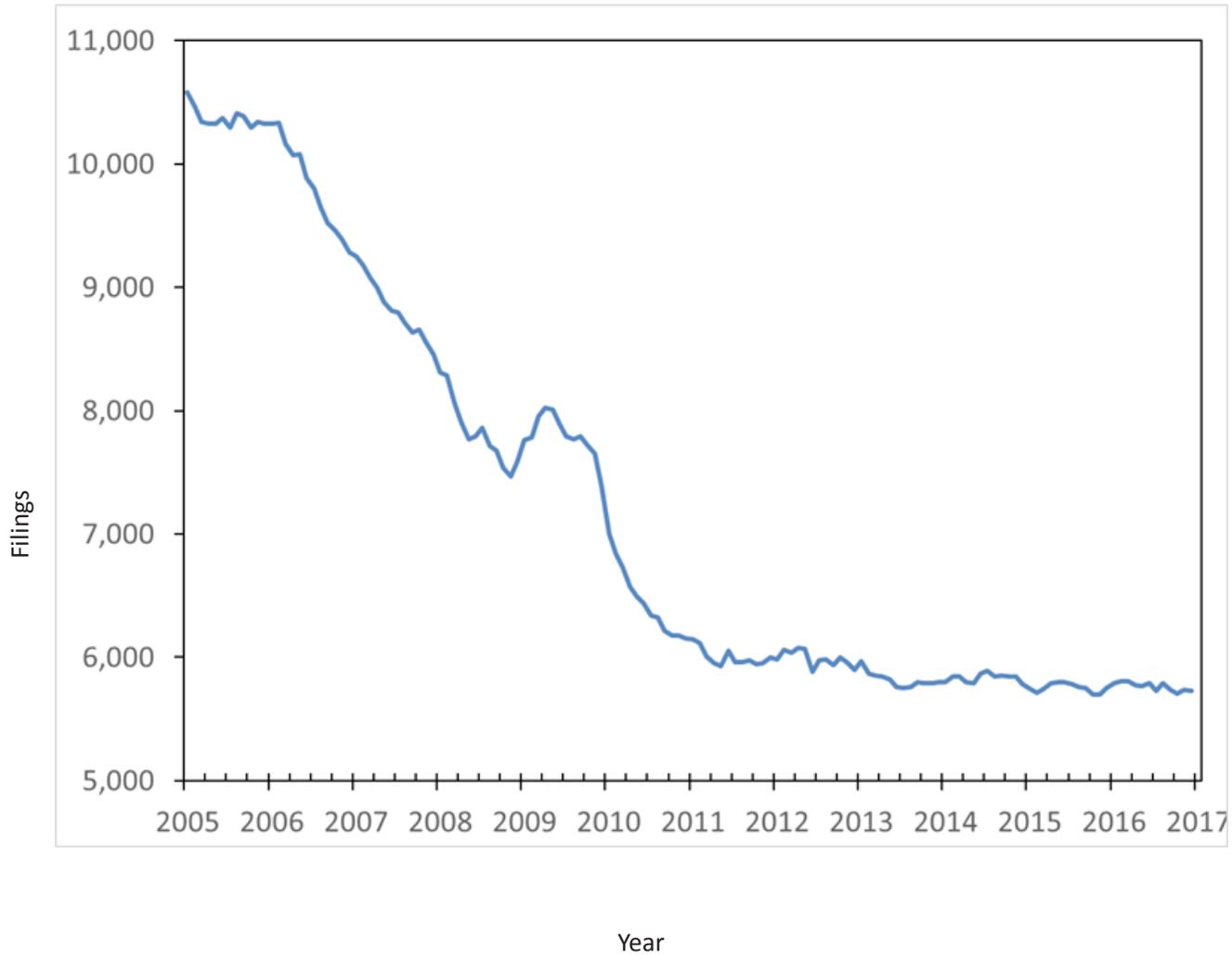
Total New Business Filings—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Twin Cities Total New Business Filings	9,014	11,215	10,186	9,196	9,315	3.3%

New business incorporations trended downward in the Twin Cities from 2005 to 2011, and have levelled out since that time. Filings for new business incorporation fell 0.8 percent from one year earlier in the fourth quarter of 2016.

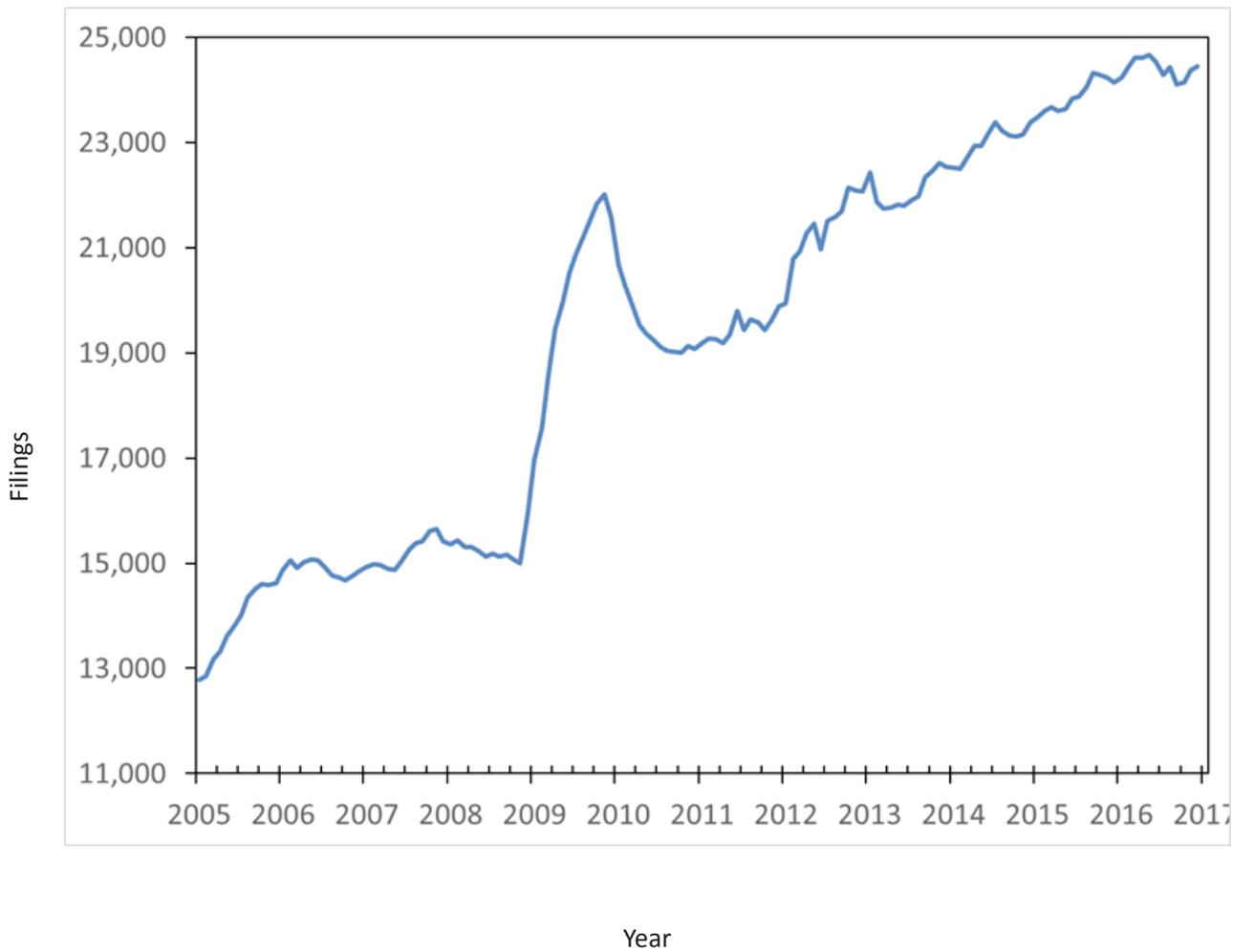
New Incorporations—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Twin Cities New Business Incorporations	1,344	1,606	1,489	1,299	1,333	-0.8%

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 5,784, new filings for LLC in the fourth quarter of 2016 were 6.3 percent higher than one year earlier.

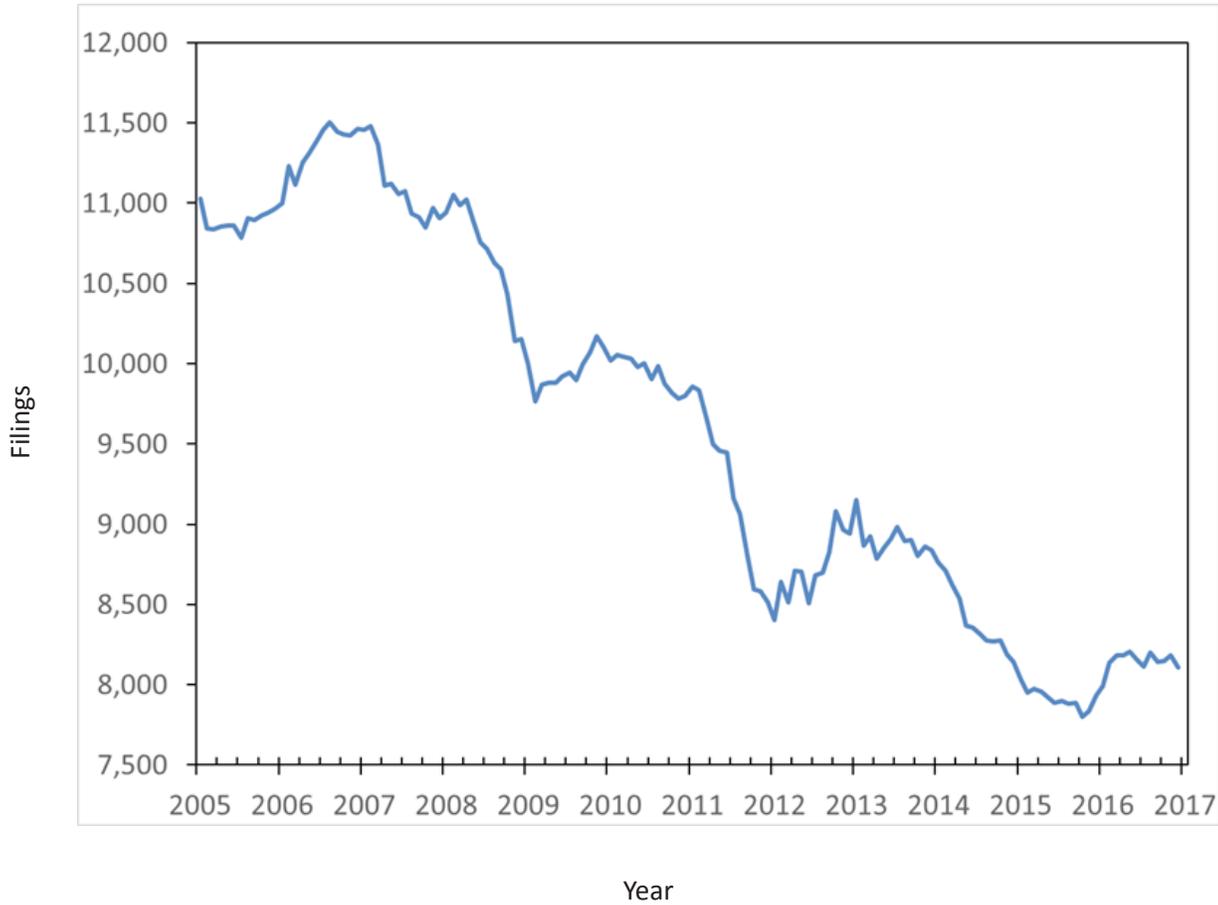
**New Limited Liability Companies—Twin Cities Planning Area (12-month moving total)**



Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Twin Cities New Limited Liability Companies	5,440	6,846	6,249	5,570	5,784	6.3%

Assumed names, which include sole proprietors or organizations that do not have limited liability, fell two percent in the fourth quarter relative to the same period in 2015. Assumed names filings have flattened out in recent quarters after a short growth spurt at the end of 2015.

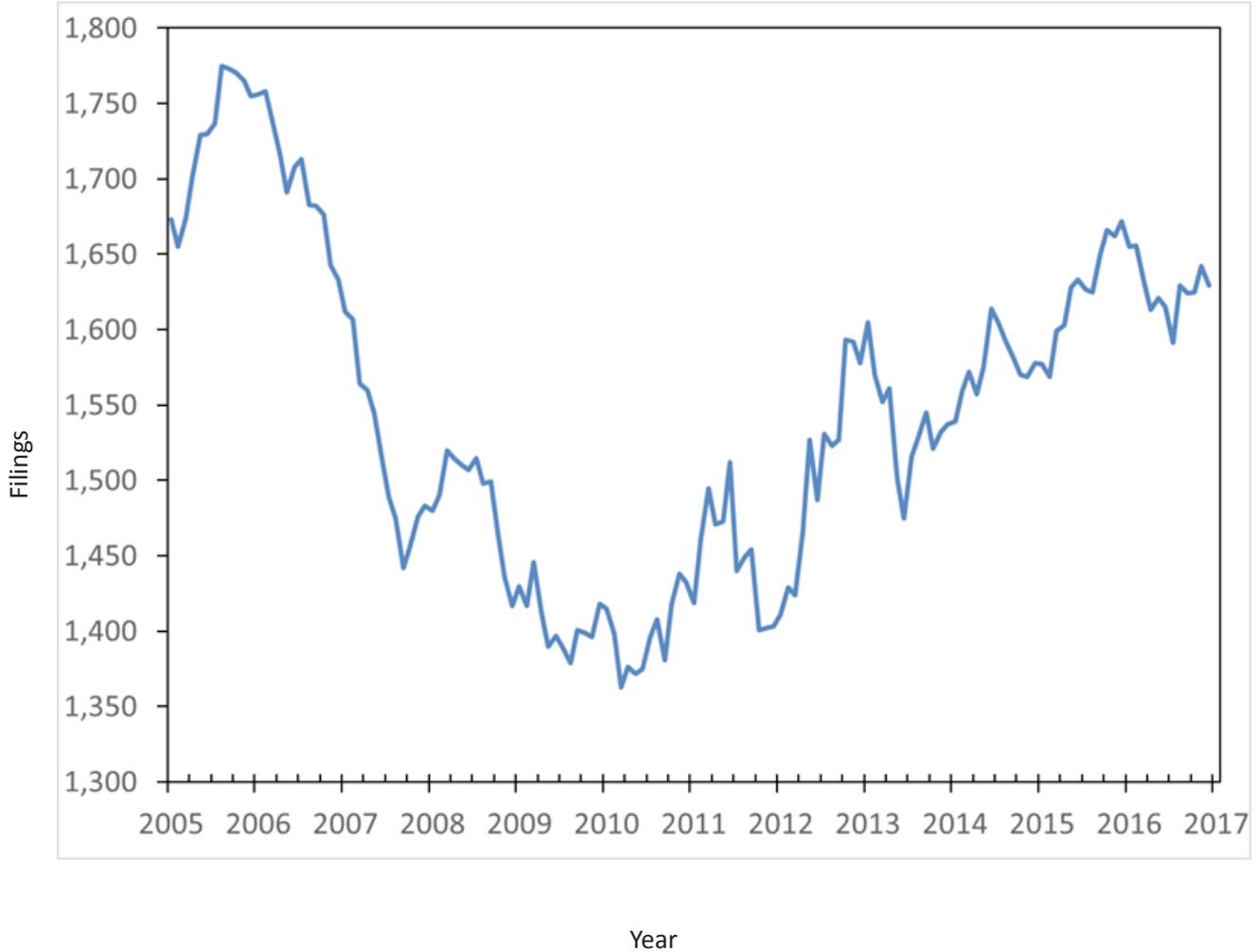
New Assumed Names—Twin Cities Planning Area (12-month moving total)



Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Twin Cities New Assumed Names	1,837	2,346	2,034	1,927	1,800	-2%

After bottoming out in 2010, the number of new Twin Cities non-profits registered with the Office of the Minnesota Secretary of State had increased to a level last seen in the mid-2000s. However, this series has abandoned its upward trajectory since the end of 2015. With 398 new non-profits registered in the fourth quarter, new filings in this sector rose by 1.3 percent compared to one year earlier.

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

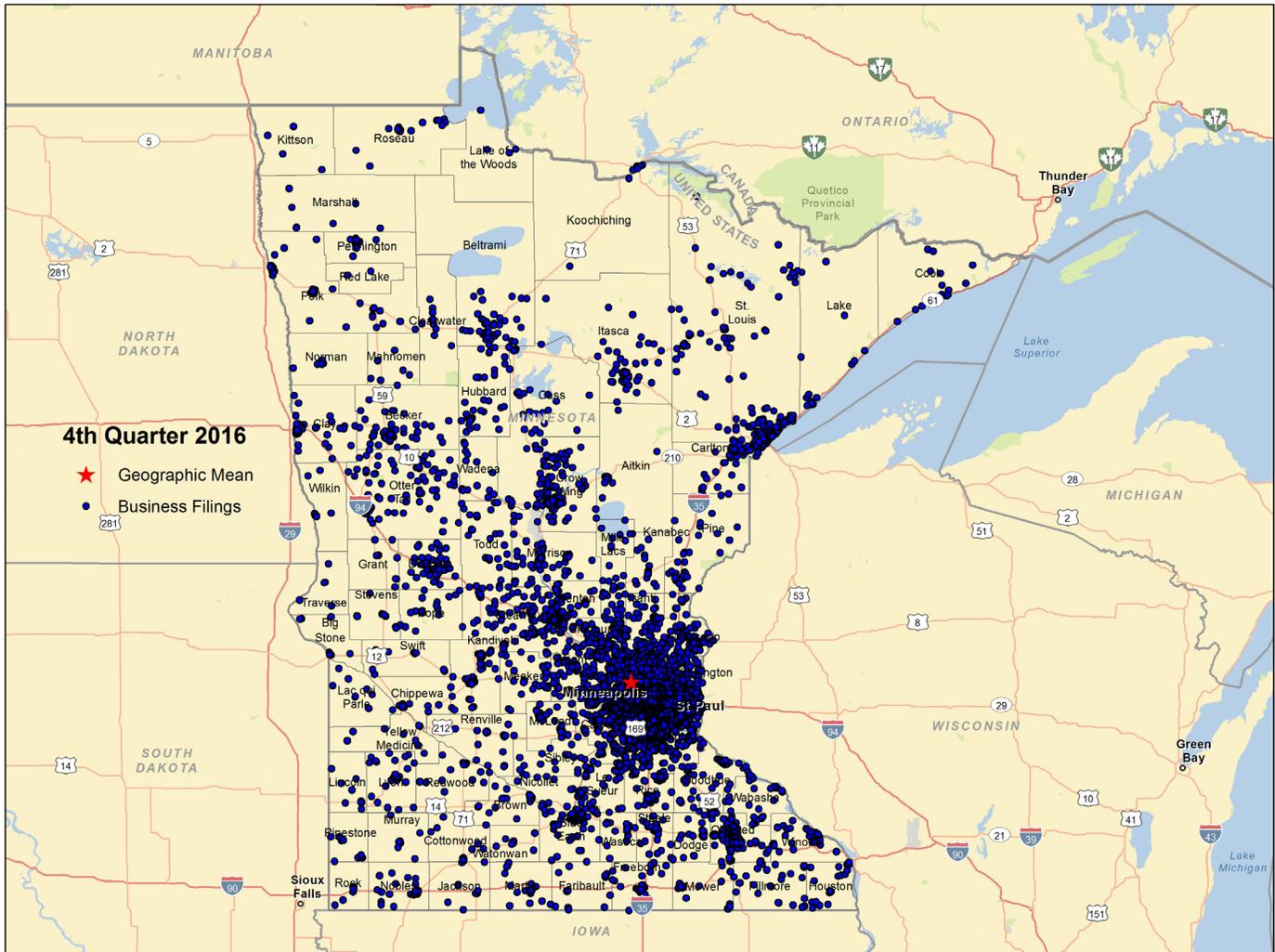


Quarter	IV: 2015	I: 2016	II: 2016	III: 2016	IV: 2016	2016 Quarter IV: Percent change from prior year
Twin Cities New Non-Profits	393	408	414	400	398	1.3%



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.

### Minnesota--New Business Formation--Quarter 4: 2016

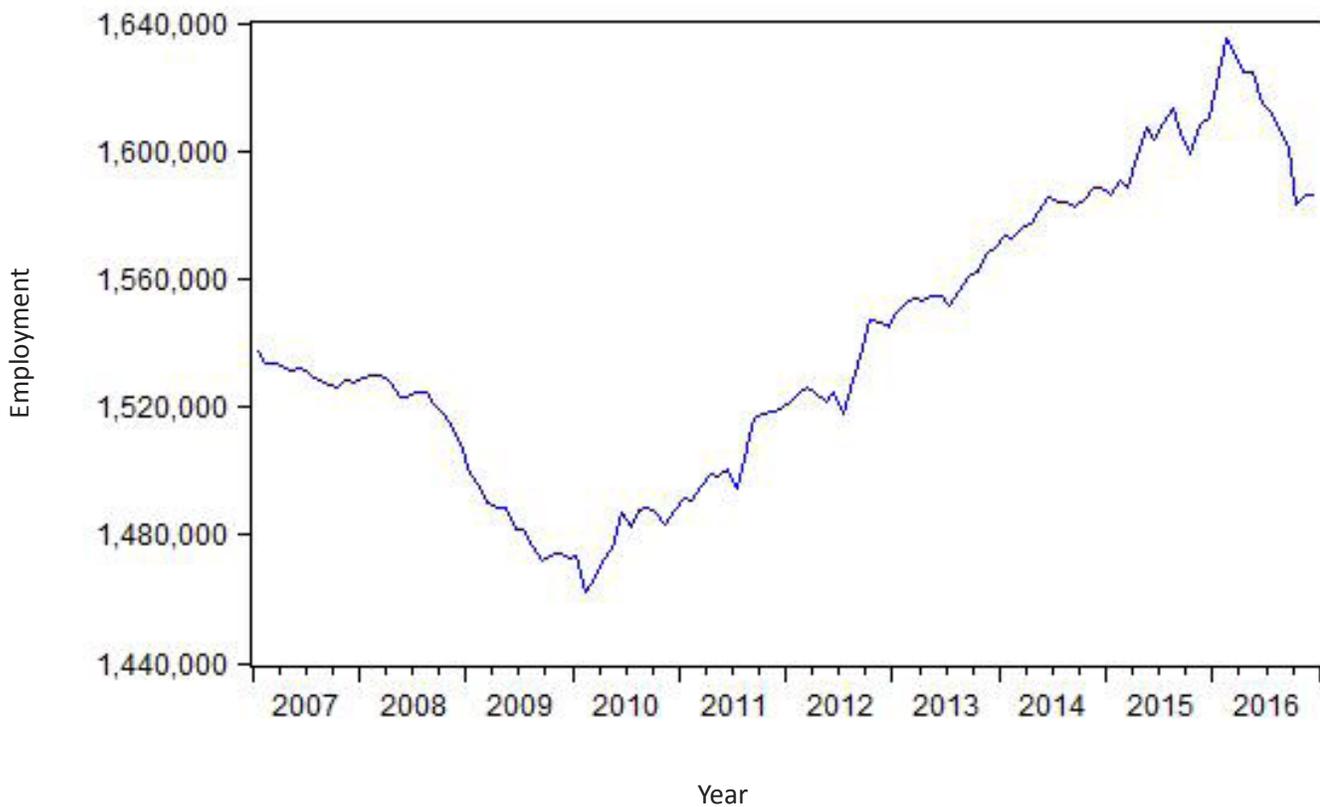


## Twin Cities Labor Market Conditions

Employment of Twin Cities planning area residents declined 1.5 percent over the past year. After relative stagnation through 2007 and a decline during the Great Recession, the area had experienced fairly steady employment growth since the start of 2010. However, the 12-month moving average of employment in the Twin Cities has been declining in 2016. Note that upcoming benchmark revisions of regional labor market data could alter the pattern of the relationships found in this section. This will be looked at in next quarter’s report.

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.

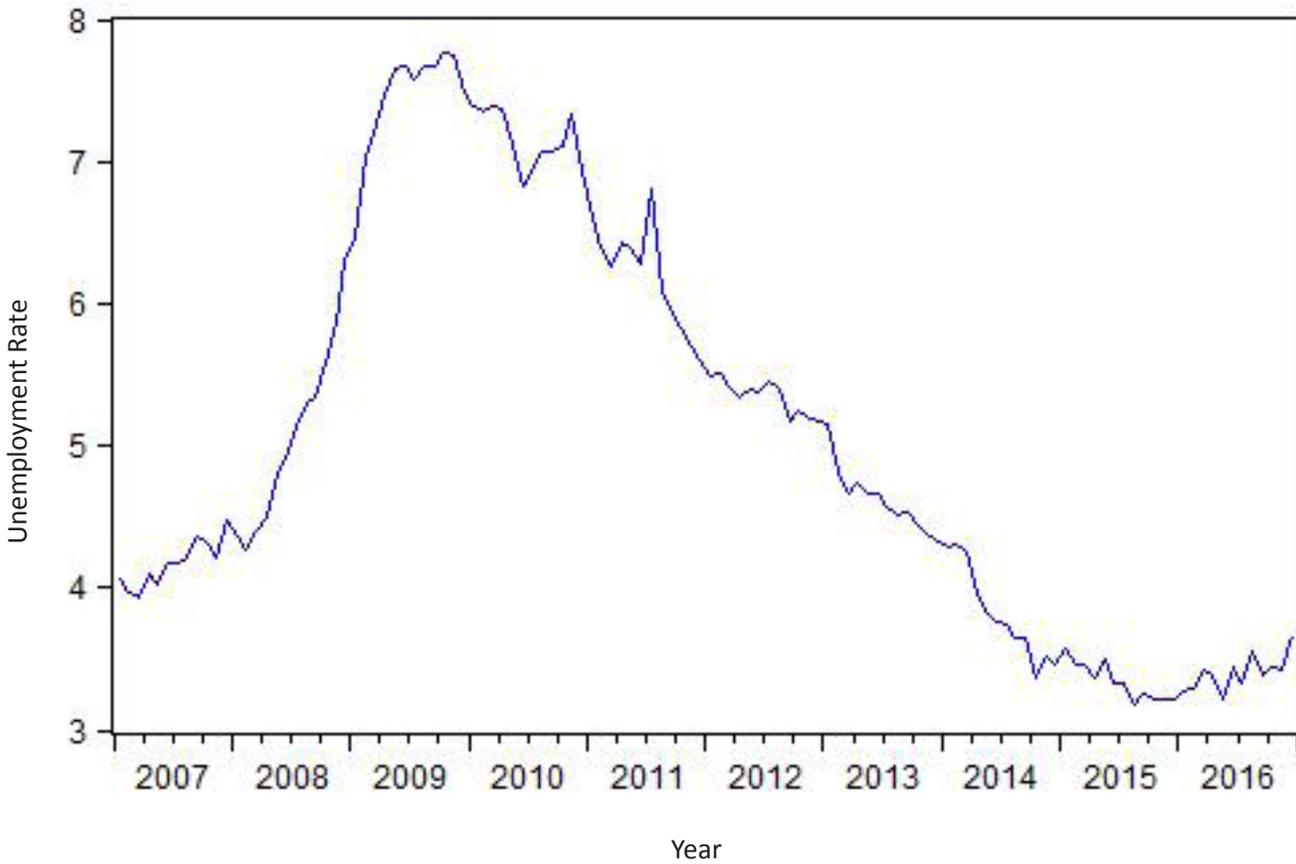
### Employment—Twin Cities Planning Area (12-month moving average)



Month	December 2015	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016
Employment (Not seasonally adjusted)	1,607,120	1,630,305	1,613,507	1,601,949	1,589,096	1,590,220	1,583,098

The seasonally adjusted unemployment rate in the Twin Cities had declined since the end of the Great Recession in 2009. The accompanying graph shows the unemployment rate slowly inching up since the end of 2015. The non-seasonally adjusted unemployment rate now stands at 3.4 percent, considerably higher than the 3 percent rate recorded one year earlier.

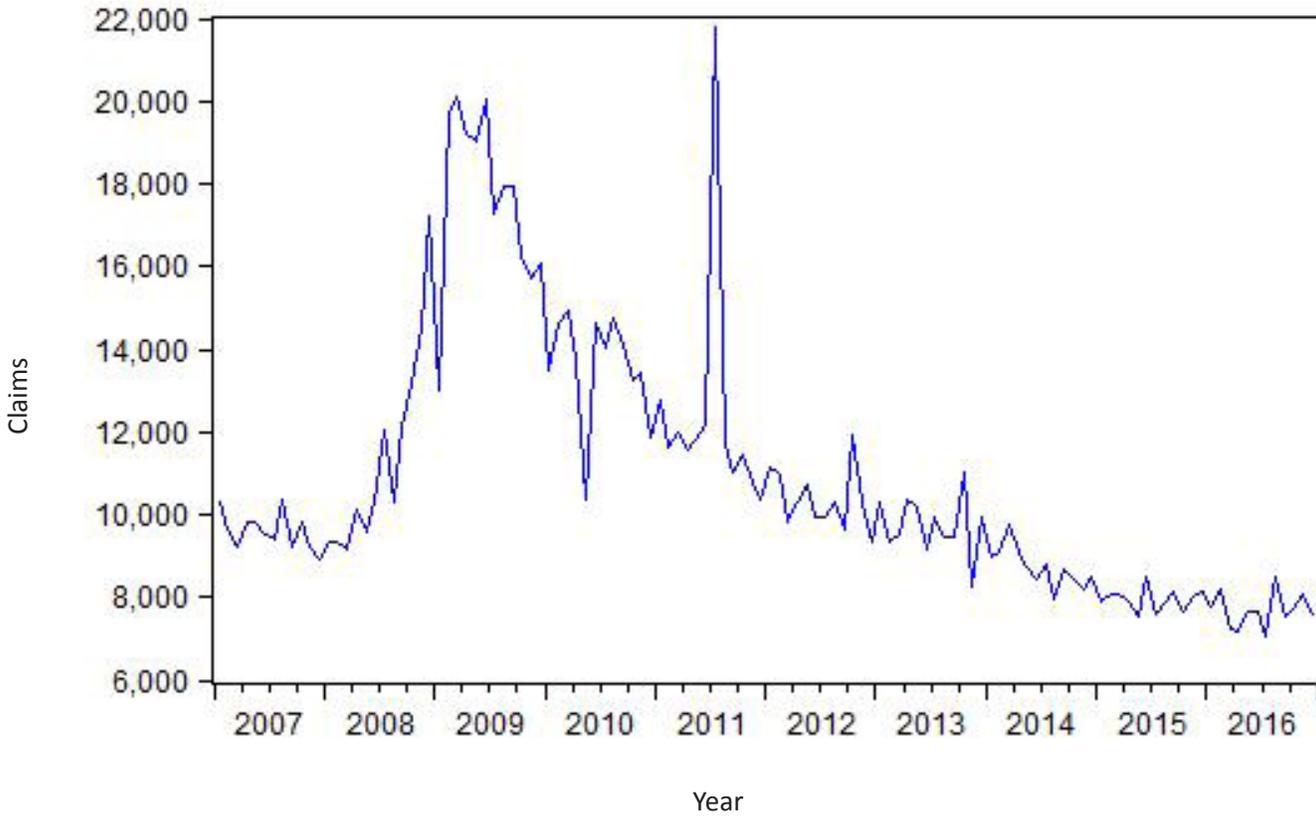
Unemployment Rate, seasonally adjusted—Twin Cities Planning Area



Month	December 2015	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016
Unemployment Rate (Not seasonally adjusted)	3%	3.5%	3.6%	3.3%	3.1%	3%	3.4%

New claims for unemployment insurance were 7.2 percent below year ago levels in December 2016. The graph of the seasonally adjusted series suggests claims have levelled out in 2016 after having declined over the previous 10 years.

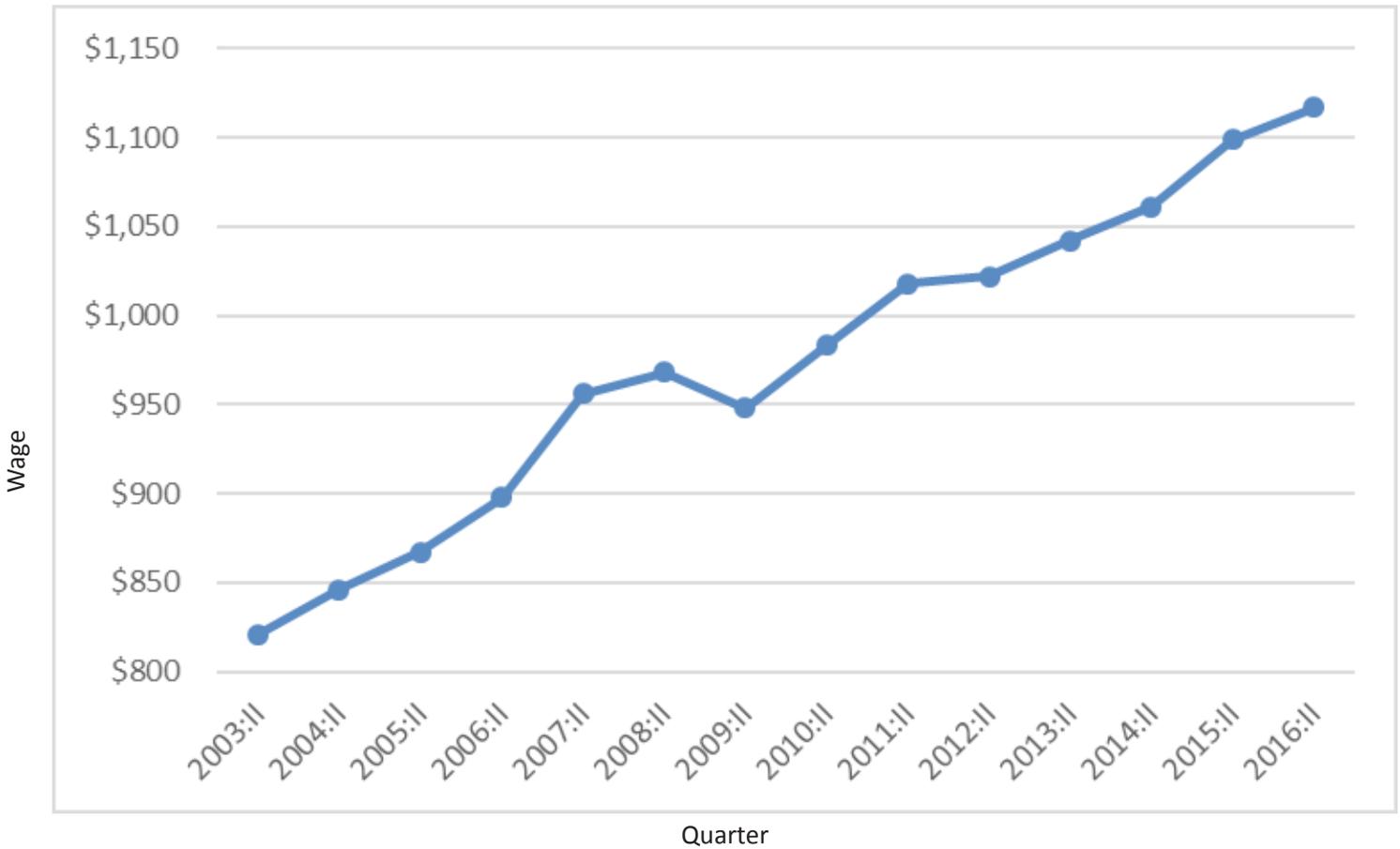
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Twin Cities Planning Area



Period	December 2015	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016
Initial claims (Not seasonally adjusted)	11,702	6,078	6,610	6,140	6,521	10,776	10,861

The average weekly wage in the Twin Cities continued to rise in the second quarter of 2016 (this is the most recently available data). At \$1,117, Twin Cities average wages are by far the highest in any of Minnesota’s six planning areas (the Southeast Minnesota planning area has the second highest total with an average weekly wage of \$872).

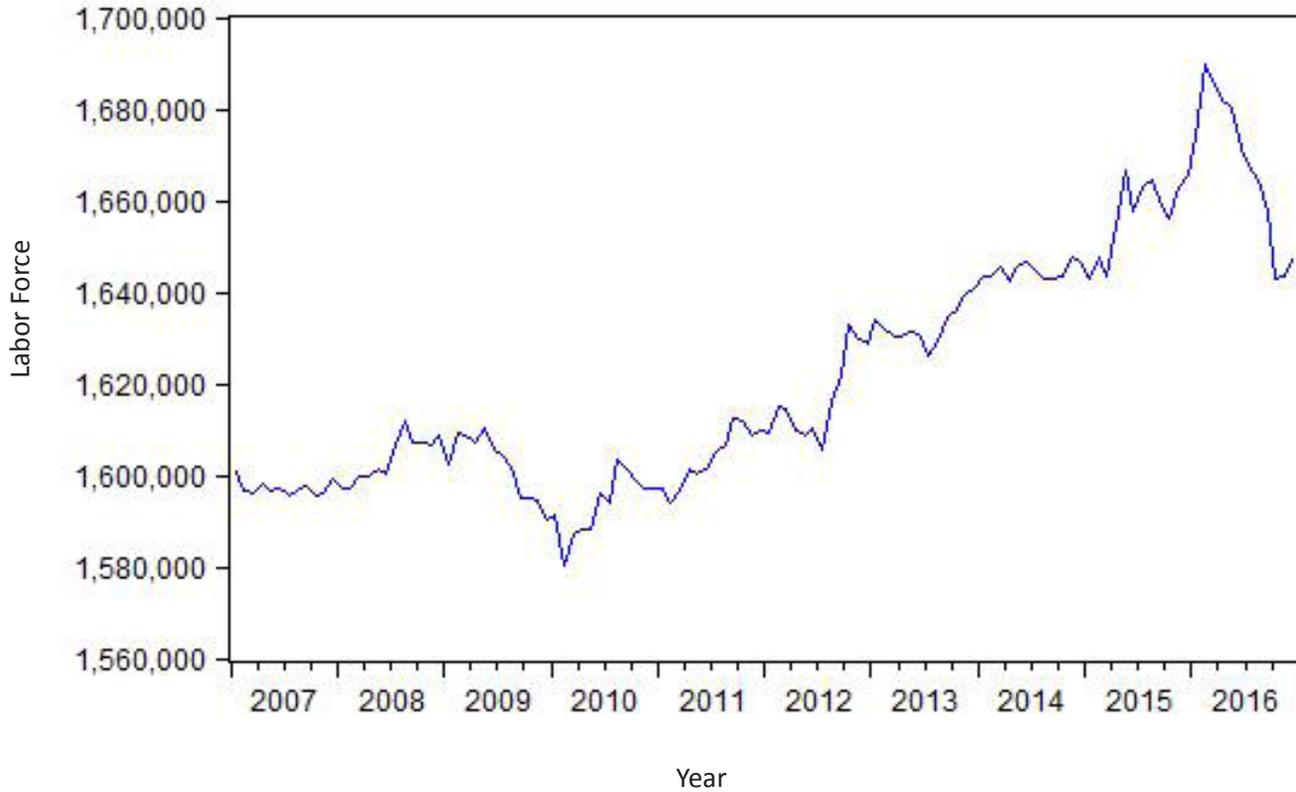
Average Weekly Wage---Twin Cities Minnesota Planning Area



Quarter	2011:II	2012:II	2013:II	2014:II	2015:II	2016:II
Average Weekly Wage	\$1,018	\$1,022	\$1,042	\$1,061	\$1,099	\$1,117

The size of the Twin Cities labor force contracted by 1.1 percent over the past twelve months. At a level of 1,638,954 the labor force is 17,679 smaller than one year ago. The 12-month moving average (see accompanying graph) of the Twin Cities labor force has receded from its all-time high in recent quarters.

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

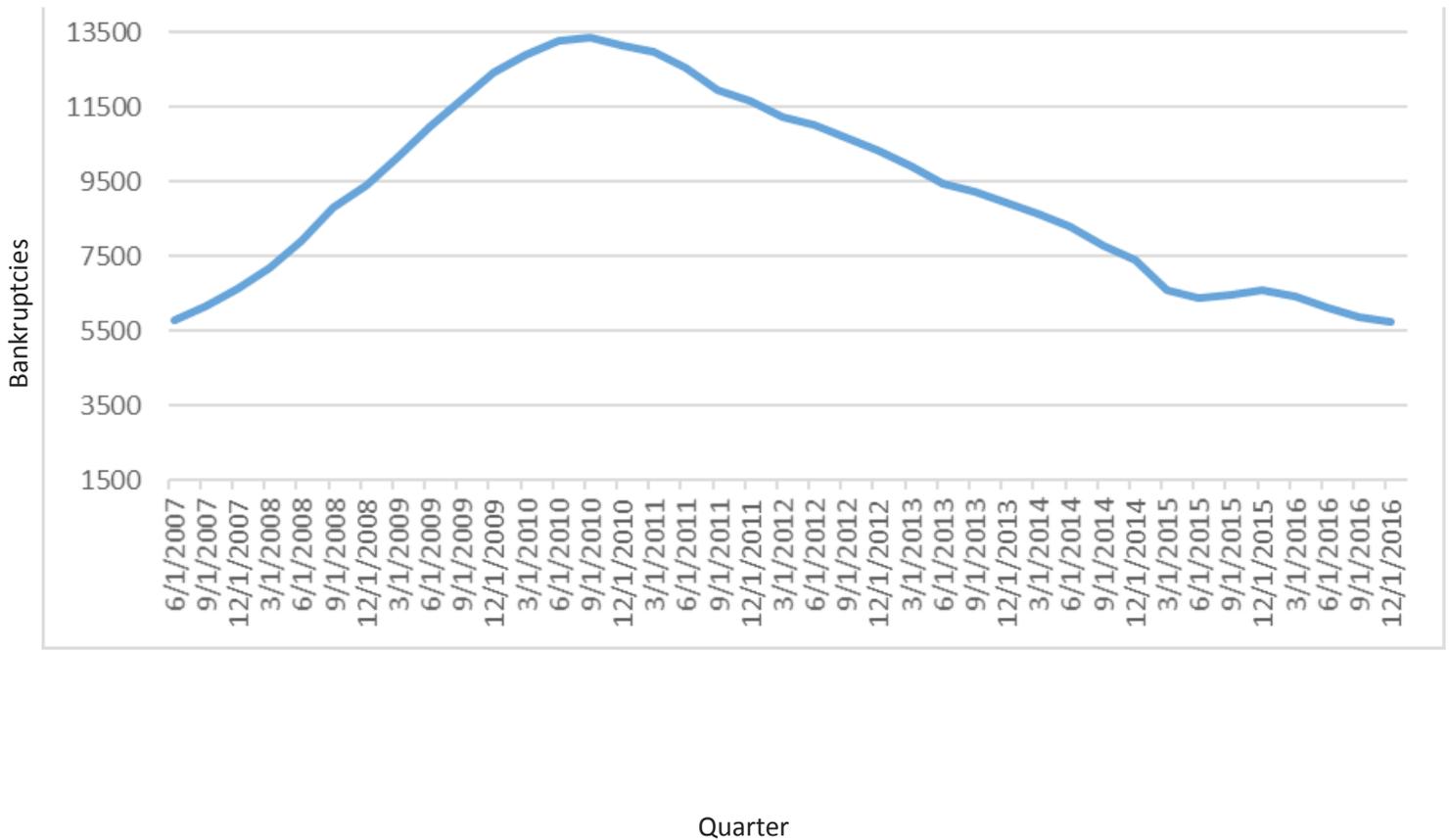


Year (December)	2011	2012	2013	2014	2015	2016
Labor Force (Not seasonally adjusted)	1,602,968	1,621,156	1,632,311	1,637,934	1,656,633	1,638,954

## 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 declined steadily until the beginning of 2015, at which time it began leveling out. With 5,756 bankruptcies over the past twelve months, the level of bankruptcies in the Twin Cities has now continued its decline to a level that was last seen prior to the Great Recession.

Twin Cities Bankruptcies (12-month moving total)



Year (Fourth Quarter)	2011	2012	2013	2014	2015	2016
Annual Bankruptcies (not seasonally adjusted)	11,661	10,350	8,930	7,385	6,615	5,756

## Economic Indicators

Twin Cities MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long Term Average (since 1999 unless noted)
Employment	December 2016 (m)	1,974,019	1,946,326	1.4% ↑	0.6%
Manufacturing Employment	December 2016 (m)	193,719	194,823	-0.6% ↓	-1.3%
Average Weekly Work Hours Private Sector	December 2016 (m)	34.7	34.3	1.2% ↑	33.9 (since 2007)
Average Earnings Per Hour Private Sector	December 2016 (m)	\$28.55	\$26.81	6.5% ↑	1.4% (since 2007)
Average Weekly Work Hours Manufacturing (Production Workers)	December 2016 (m)	41.5	41.6	-0.2% ↓	40.8 (since 2005)
Average Earnings Per Hour Manufacturing (Production Workers)	December 2016 (m)	\$21.33	\$21.26	0.3% ↑	1.4% (since 2005)
Unemployment Rate	December 2016 (m)	3.6%	3.2%	NA ↑	4.4%
Labor Force	December 2016 (m)	1,922,032	1,940,473	-1.0% ↓	0.5%
MSP Residential Building Permit Valuation, in thousands	December 2016 (m)	347,142	176,875	96.3% ↑	NA
Minneapolis Cost-of-Living Index	Third Quarter 2016 (q)	104.8	105.9	-1.0% ↓	NA
St. Paul Cost-of-Living Index	Third Quarter 2016 (q)	104.5	105.7	-1.1% ↓	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 labor market conditions in the last 12 months. Overall employment increased 1.4 percent in the Twin Cities MSA, although manufacturing employment contracted by 0.6 percent over the year ending December 2016. Average hourly earnings and average weekly work hours rose in the private sector. Average hourly earnings also increased for production workers. The value of residential building permits jumped 96.3 percent in December 2016 relative to the same period one year earlier. Compared to December 2015, the Twin Cities MSA unemployment rate was higher and the labor force was smaller. The relative cost of living in both Minneapolis and St. Paul declined.

## State and National Indicators

MINNESOTA Indicators	Dec 2016	Sep 2015	Dec 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,919,300	2,905,600	2,875,700	0.5%	1.0%
Average weekly hours worked, private sector	33.9	34.1	33.7	-0.6%	0.6%
Unemployment rate, seasonally adjusted	3.9%	4.0%	3.7%	NA	NA
Earnings per hour, private sector	\$27.87	\$27.33	\$26.36	2.0%	5.7%
Philadelphia Fed Coincident Indicator, MN	181.73	180.23	176.73	0.8%	2.8%
Philadelphia Fed Leading Indicator, MN	2.01	1.19	1.23	68.9%	63.4%
Minnesota Business Conditions Index	52.3	48.4	39.4	8.1%	32.7%
Price of milk received by farmers (cwt)	\$19.70	\$17.90	\$17.00	10.1%	15.9%
Enplanements, MSP airport, thousands	1,456.8	1,536.1	1,429.0	-5.2%	1.9%

NATIONAL Indicators	Dec 2016	Sep 2015	Dec 2015	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	145,303	144,808	143,146	0.3%	1.5%
Industrial production, index, SA	104.6	104.2	104.0	0.4%	0.6%
Real retail sales, SA (\$)	193,017	191,817	189,246	0.6%	2%
Real personal income less transfers (\$, bill.)	12,074.8	12,022.9	11,848.2	0.4%	1.9%
Real personal consumption expenditures (\$, bill.)	11,672.4	11,603.3	11,351.5	0.6%	2.8%
Unemployment rate, SA	4.7%	4.9%	5.0%	NA	NA
New building permits, SA, thousands	17,581	20,857	17,620	-15.7%	-0.2%
Standard & Poor's 500 stock price index	2,246.6	2,157.7	2,054.1	4.1%	9.4%
Oil, price per barrel in Cushing, OK	\$51.97	\$45.18	\$37.19	15.0%	39.7%

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. The seasonally adjusted unemployment rate rose over the past twelve months. Indicators from the Federal Reserve Bank of Philadelphia are favorable—current conditions are stronger and the future conditions index surged compared to one year earlier. The Minnesota Business Conditions index also turned positive this quarter. Milk prices have finally started to rise and enplanements at the Minneapolis-St. Paul airport increased by 1.9 percent over the last twelve months.

The national economic indicators reported in the table are also largely favorable. Over the past twelve months, stock prices rose, employment increased, and real income and consumer expenditures expanded. The national unemployment rate fell and retail sales improved. Industrial production picked up. National building permits were nearly unchanged from one year earlier and oil prices have begun to rise. While rising oil prices will adversely impact the discretionary income of households, it will also improve the economic well-being of those employed in the energy sector (which has been struggling over the last two years).

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.

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