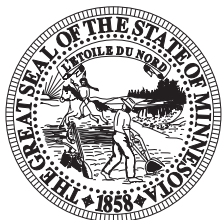




# Northeast Minnesota Economic and Business Conditions Report Second Quarter 2019

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.



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## EXECUTIVE SUMMARY

**Continued slow economic growth in Northeast Minnesota is expected over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI).** Three components of the LEI increased as the overall index rose by 0.25 points in the first quarter. A larger number of Duluth metropolitan area residential building permits, a decline in initial jobless claims, and a strengthening in a purchasing managers' index all contributed favorably to the region's economic outlook. A decline in a general measure of statewide business conditions and lower regional new filings of incorporation each weighed on this quarter's leading index. The Northeast Minnesota LEI remains 10.3 percent lower than it was one year ago.

**There were 621 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the first quarter of 2019 — representing 3.4 percent fewer new filings than one year earlier.** Forty-six new regional business incorporations were filed in the first quarter—23.3 percent fewer than in the same period of 2018. New limited liability company (LLC) filings in Northeast Minnesota fell 6.1 percent to a level of 340. New assumed name filings increased 10.3 percent and there were 21 new filings for non-profit—six fewer filings than in the first quarter of 2018.

**Sixty-nine percent of new business filers in the Northeast Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in the first quarter.** Results of this voluntary survey indicate that 4.9 percent of new filers come from communities of color, while 7 percent of new filings come from veterans. Only 0.9 percent of new filers come from the disability community and 2.6 percent of new filings are made by the immigrant community. 43.5% of new business filings in Northeast Minnesota in this year's first quarter were initiated by women. MBS results also show that most new business filers in Northeast Minnesota have between 0 and \$10,000 in annual gross revenues (although 47 new filers have revenues in excess of \$50,000). The most popular industries for new businesses in Northeast Minnesota are construction, retail trade, professional/scientific/technical, real estate/rental/leasing, and other services. Employment levels at most new firms are between 0 and 5 workers, and more than half of those starting a new business consider this a part-time activity.

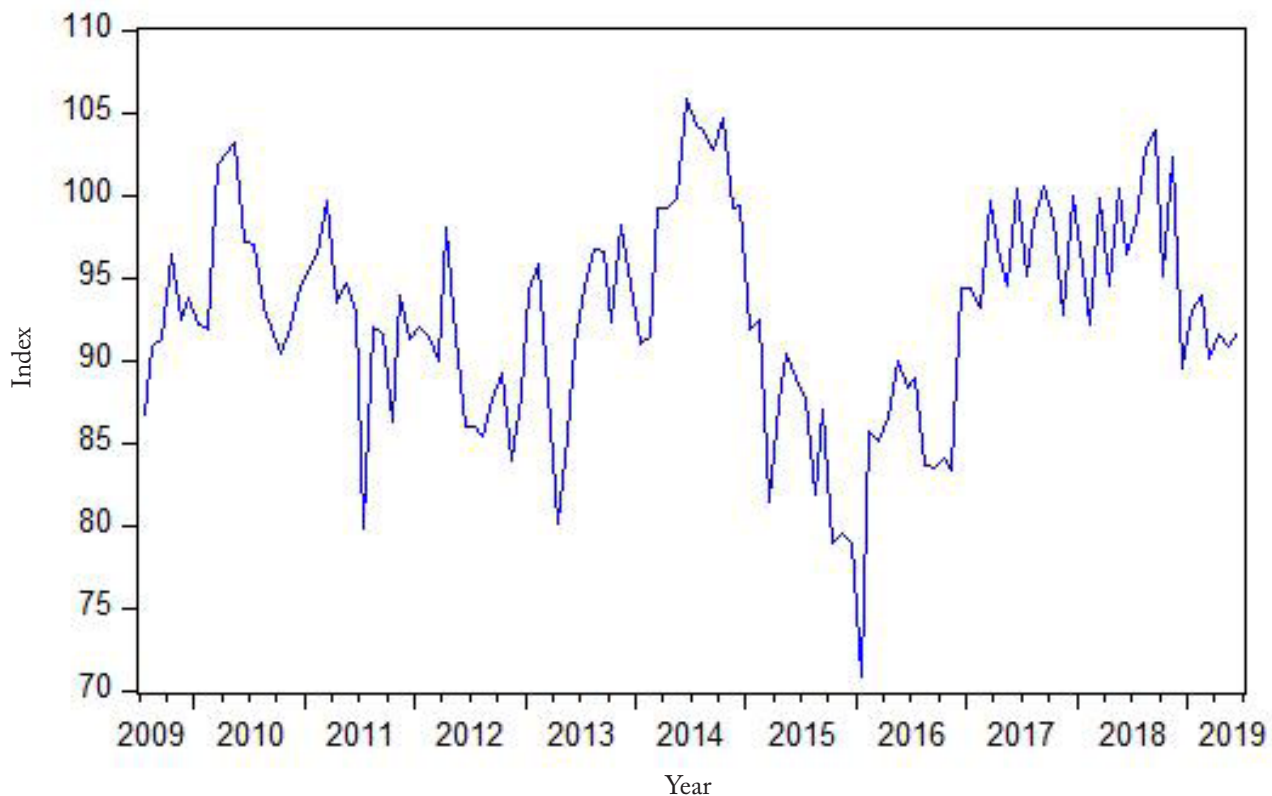
**Northeast Minnesota employment was 0.3 percent higher than year ago levels in March.** The regional unemployment rate was 5.6% (considerably higher than the 5.2% rate recorded one year ago) and the labor force rose by 0.7 percent from one year earlier. March 2019 initial claims for unemployment insurance were 5.9 percent lower than the same month last year. Job vacancy rates surged as labor shortages created historic difficulties for employers who are seeking qualified workers. Annual bankruptcies in Northeast Minnesota were little changed from one year ago.

**Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was mostly weaker.** Northeast Minnesota's largest market experienced a 0.5 percent decrease in overall employment over the year ending March 2019. Manufacturing sector employment also declined as did employment in the key education/health sector. Average weekly work hours declined, but average hourly earnings rose by 3.7 percent over the past twelve months. The Duluth area unemployment rate rose to 4.9 percent and the labor market contracted. The value of residential permits in the Duluth metropolitan area fell by 66.2 percent

# NORTHEAST MINNESOTA LEADING ECONOMIC INDICATORS INDEX

The SCSU Northeast Minnesota Leading Economic Indicators Index (LEI) is designed to predict performance of the regional economy with a four-to-six month lead time. After a revised 14.91 point decrease in last year's fourth quarter, the first quarter LEI rose 0.25 points. The LEI remains 10.3 percent below its March 2019 level. Note that all of Minnesota's planning areas are experiencing weakness in their leading indexes and three areas (northwest, southeast, and southwest) saw their LEI's turn negative in the current quarter.

The SCSU Northeast Minnesota Leading Economic Indicators Index  
June 1999=100



## Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2019	Contribution to LEI, 1st quarter 2019
Minnesota Business Conditions Index	-0.96	-1.63
Northeast Minnesota initial claims for unemployment insurance	0.03	-1.78
Northeast Minnesota new filings of incorporation	-1.57	-0.63
Duluth Superior MSA residential building permits	1.83	-6.01
Institute of Supply Management Purchasing Managers Index for manufacturing	0.92	-4.85
<b>TOTAL CHANGE</b>	<b>0.25</b>	<b>-14.91</b>

Three index components rose in the first quarter in the Northeast Minnesota planning area. Lower regional initial jobless claims and higher new residential building permits in the Duluth/Superior MSA favorably impacted the region's leading index in this year's first quarter. Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This LEI component also rose in the most recent quarter. A weakening of the Minnesota Business Conditions Index (which is used as an indicator of general statewide business conditions) and a lower number of new business incorporations in the planning area weighed on the region's economic outlook.

**SCSU Northeast Minnesota  
Leading Economic Indicators Index**

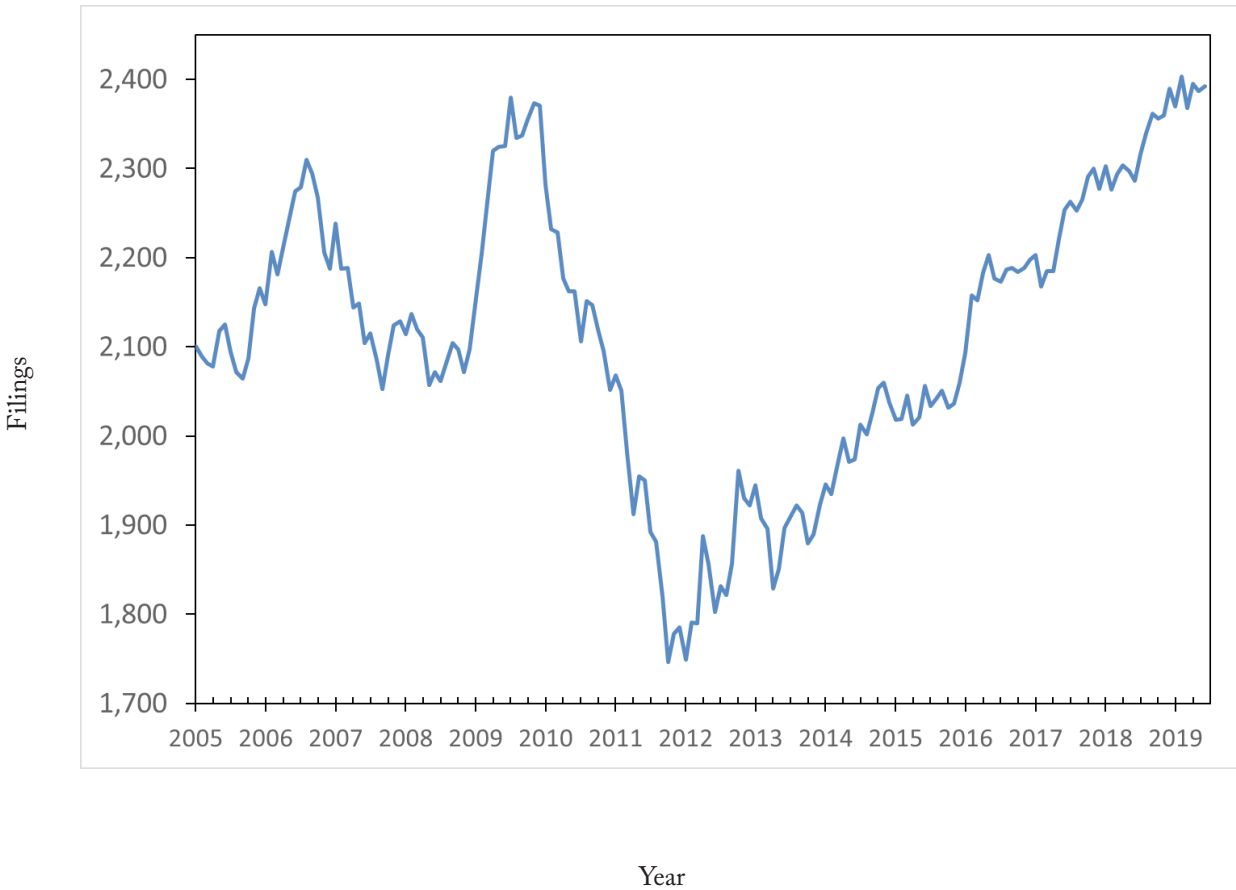
	2019	2018	Percentage change
Minnesota Business Conditions Index June	53.0	61	-13.1%
Northeast Minnesota initial claims for unemployment insurance, March	1,108	1,178	-5.9%
Northeast Minnesota new filings of incorporation Second Quarter	46	60	-23.3%
Duluth-Superior MSA single-family building permits June	2	6	-66.7%
Institute for Supply Management Purchasing Managers' Index, manufacturing sector, March	55.3	59.3	-6.7%
Northeast Minnesota Leading Economic Indicators Index June (December 1999 = 100)	89.6	99.9	-10.3%

# NORTHEAST MINNESOTA BUSINESS FILINGS

Total new business filings fell 3.4 percent compared to last year’s first quarter. However, as can be seen in the accompanying graph, the moving total of this series has been generally trending upward since the end of 2011.

Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data.

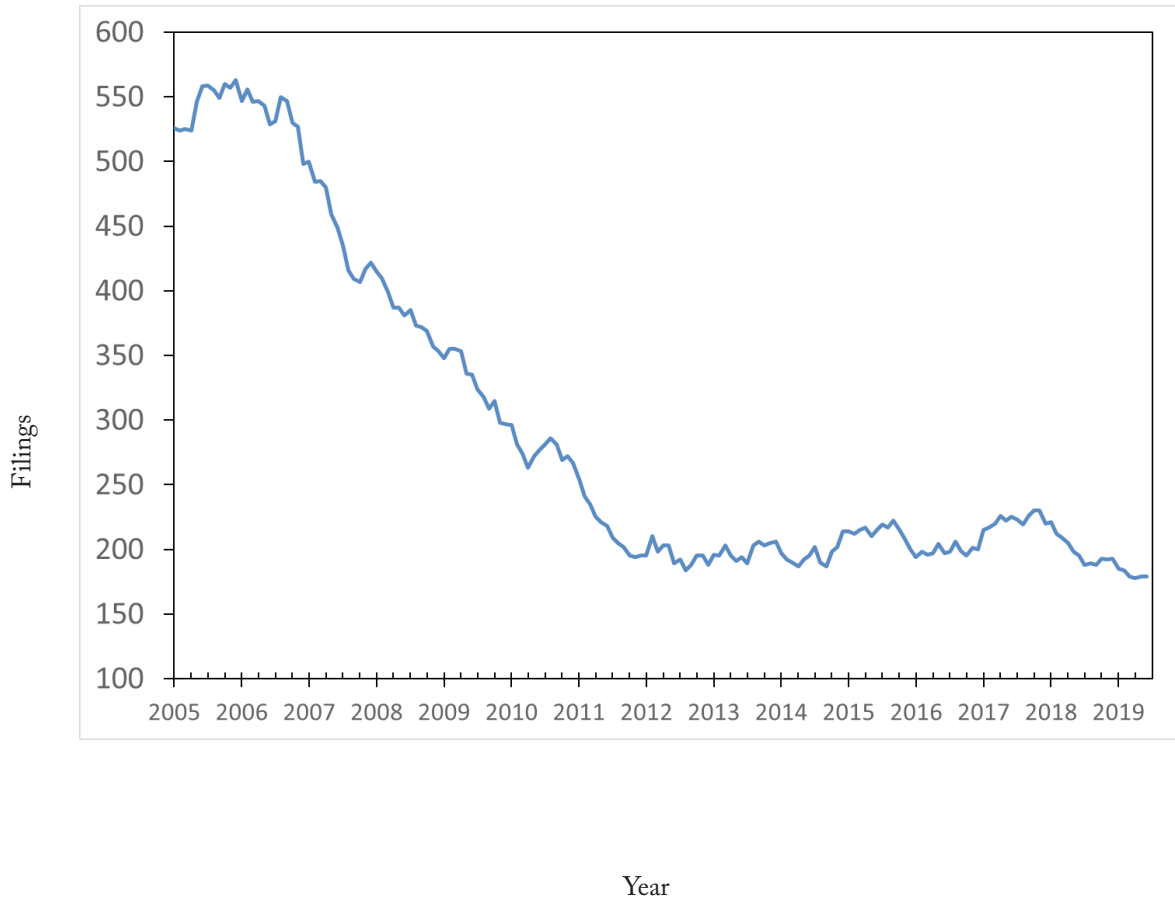
Total New Business Filings—Northeast Minnesota Planning Area  
(12-month moving total)



Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Northeast Minnesota Total New Business Filings	643	645	567	535	621	-3.4%

Compared to the first quarter of 2018, new filings of incorporation in Northeast Minnesota were 23.3 percent lower. As can be seen in the graph, the 12-month moving total of Northeast Minnesota new business incorporations had been mostly flat for the past several years, but it began declining in 2018.

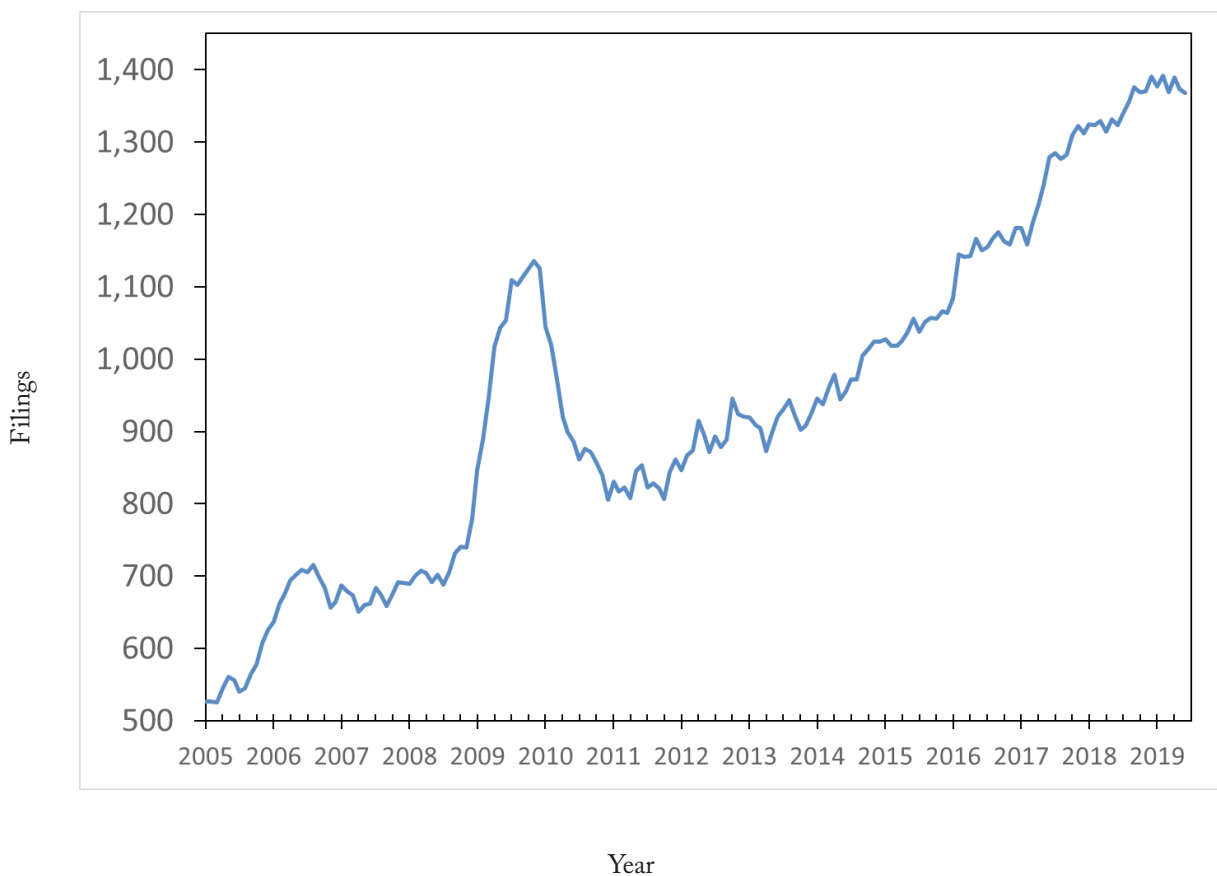
### New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Northeast Minnesota New Business Incorporations	60	44	42	47	46	-23.3%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is considerable upward trend in LLCs in Northeast Minnesota. This trend moderated in the first quarter as new LLC filings fell by 6.1 percent compared to the same period one year earlier. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was 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.

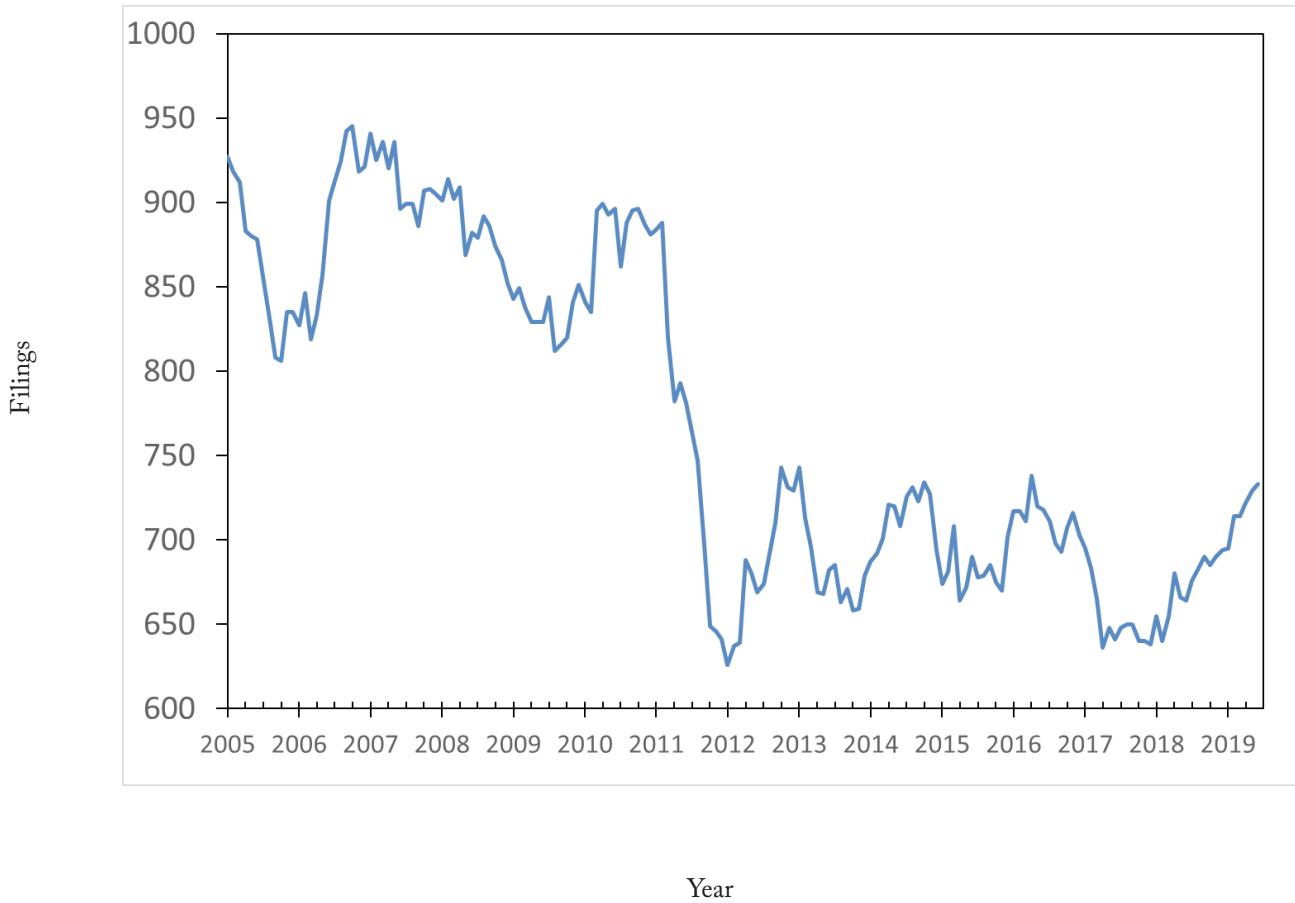
### New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	362	387	327	315	340	-6.1%

Compared to the first quarter of 2018, assumed names rose by 10.3 percent in Northeast Minnesota. As can be seen in the accompanying figure, the moving total of this series had levelled out in 2017, but began rising in 2018. Assumed name filings still remain well below their level of the mid-2000s.

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

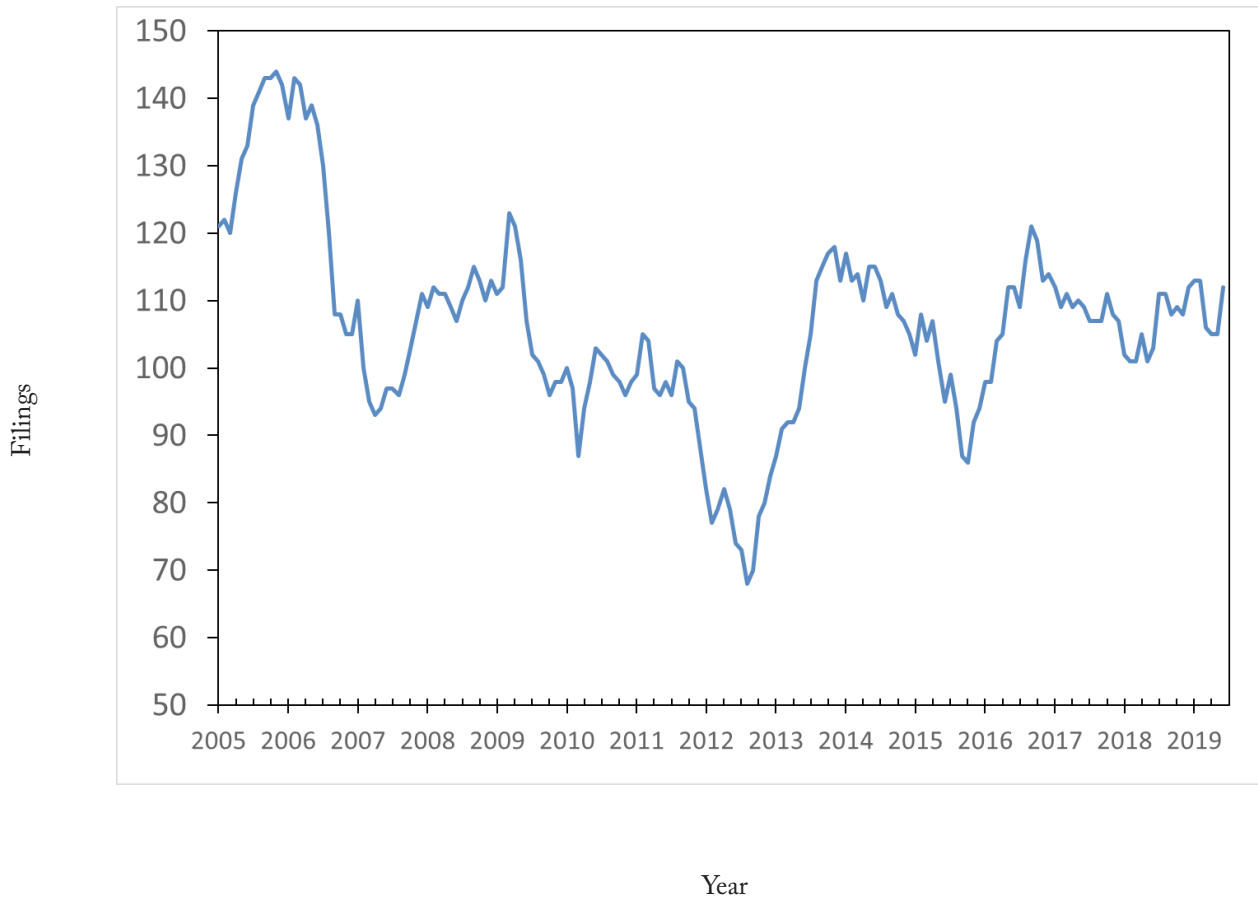


Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Northeast Minnesota New Assumed Names	194	184	169	147	214	10.3%



There were 21 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the first quarter of 2019. This is six fewer filings than one year earlier.

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



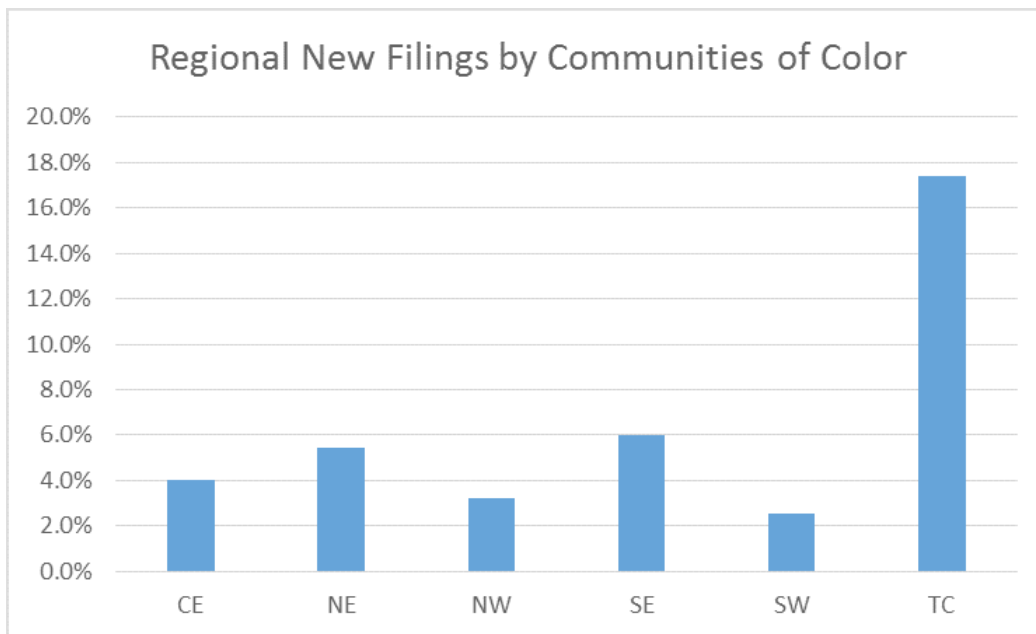
Quarter	II: 2018	III: 2018	IV: 2018	I: 2019	II: 2019	2019 Quarter II: Percent change from prior year
Northeast Minnesota New Non-Profits	27	30	29	26	21	-22.2%

## MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

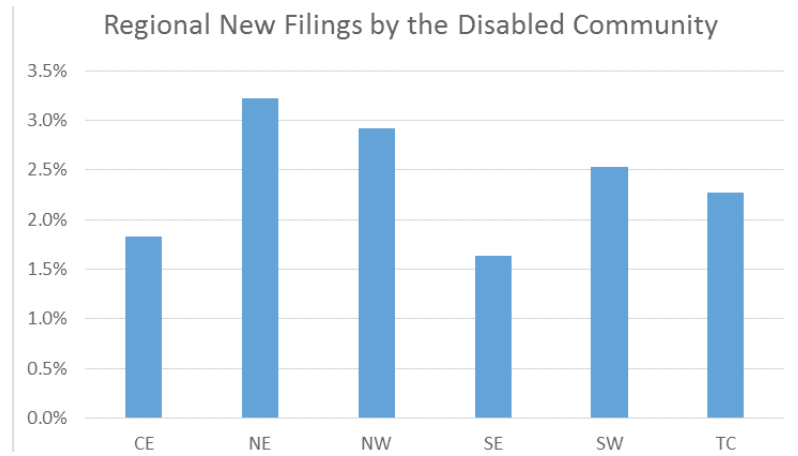
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, 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 (an annual report of the Minnesota Business Snapshot is available from the Office of the Minnesota Secretary of State), 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 first quarter of 2019 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 Northeast Minnesota, about 69 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

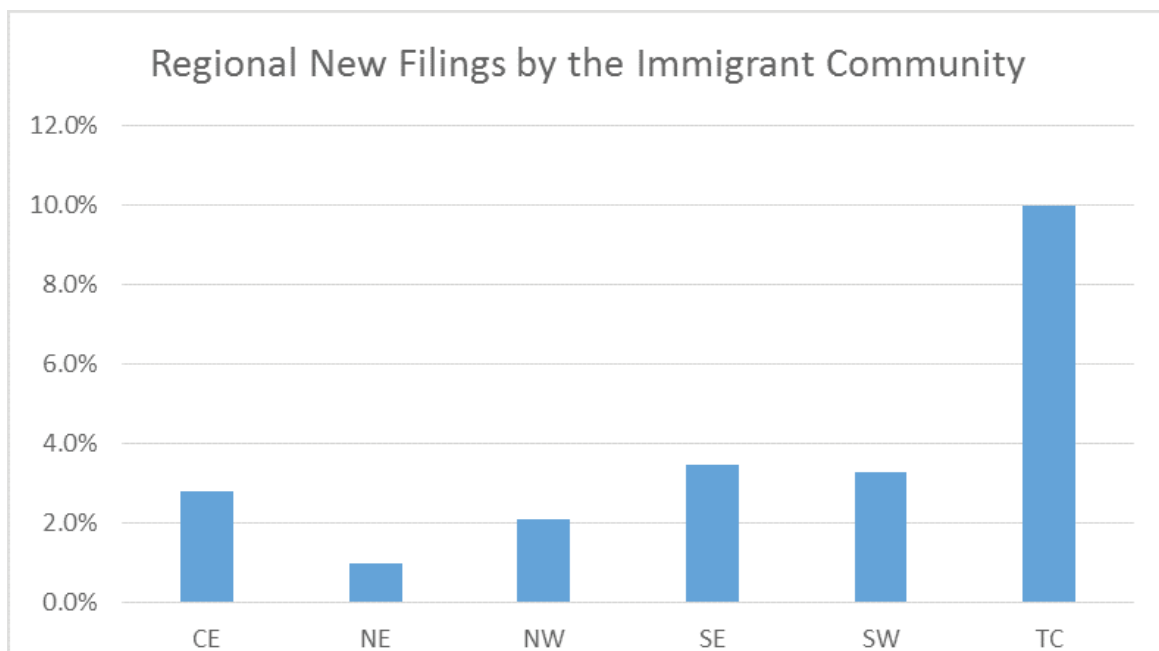
4.9 percent of those new filers completing the MBS from the Northeast Minnesota planning area report being from a community of color.



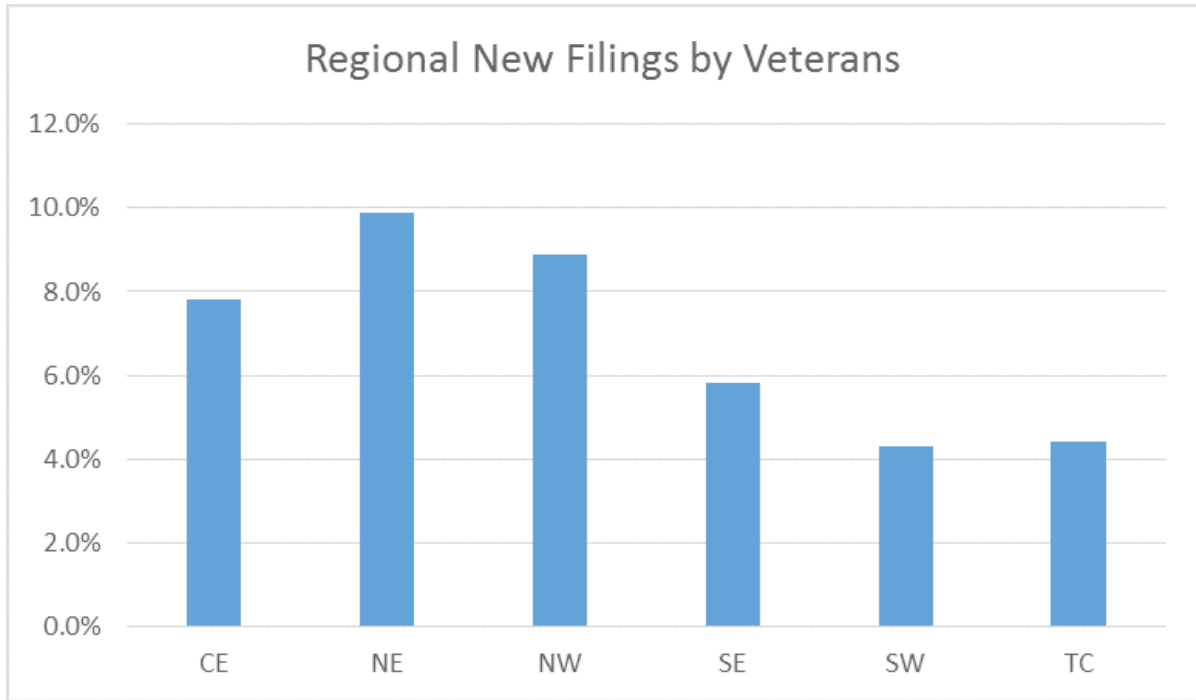
About 0.9 percent of Northeast Minnesota’s new filers are from the disability community. This is the lowest percentage of any of Minnesota’s six planning areas.



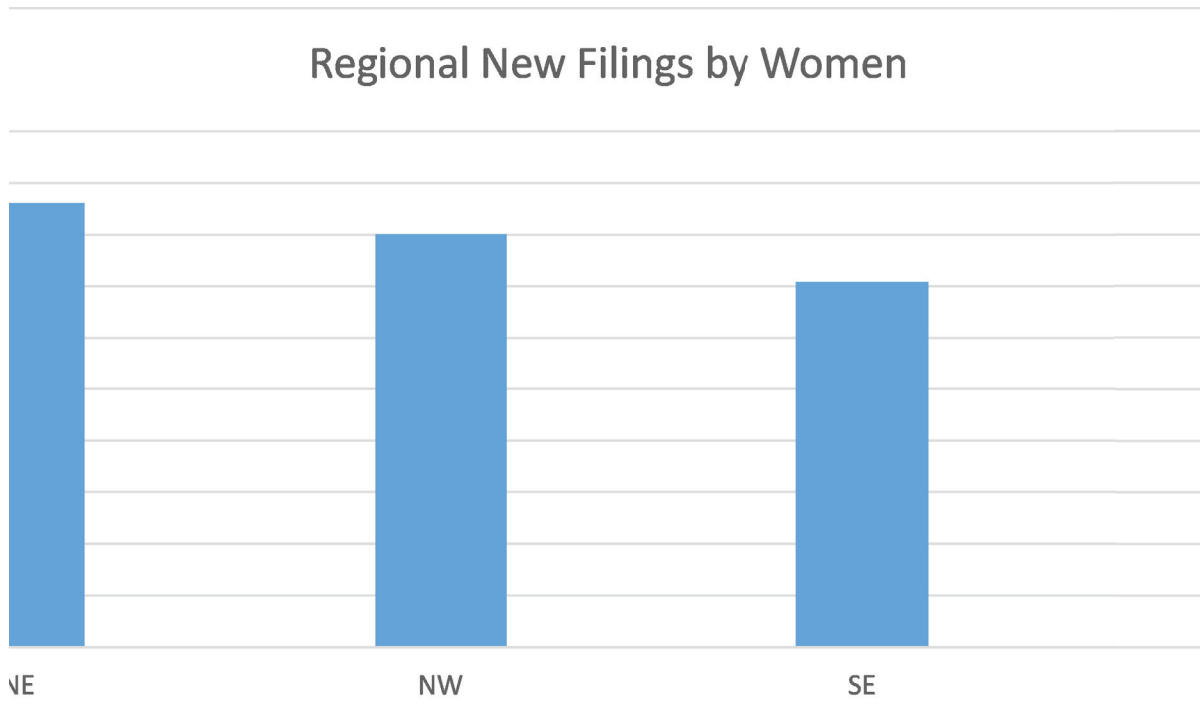
Very few (2.6 percent) new business filings in Northeast Minnesota come from the immigrant community. The percentage of immigrant new business filings in the Northeast portion of the state is below what is seen in most other planning areas.



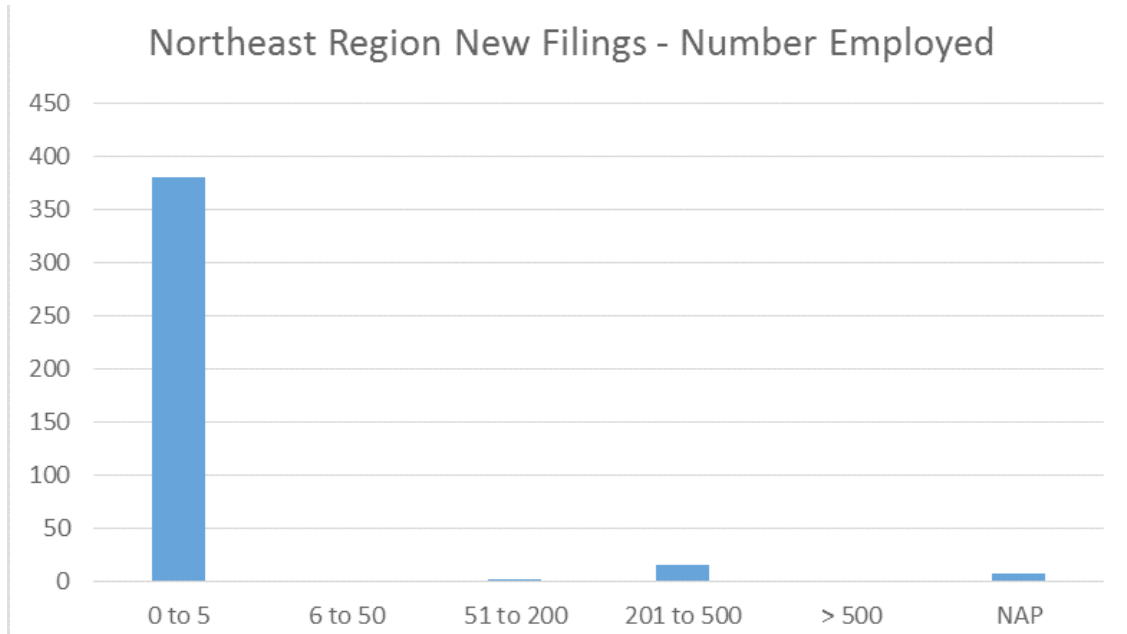
Seven percent of all new filings in Northeast Minnesota came from military veterans in the first quarter of 2019.



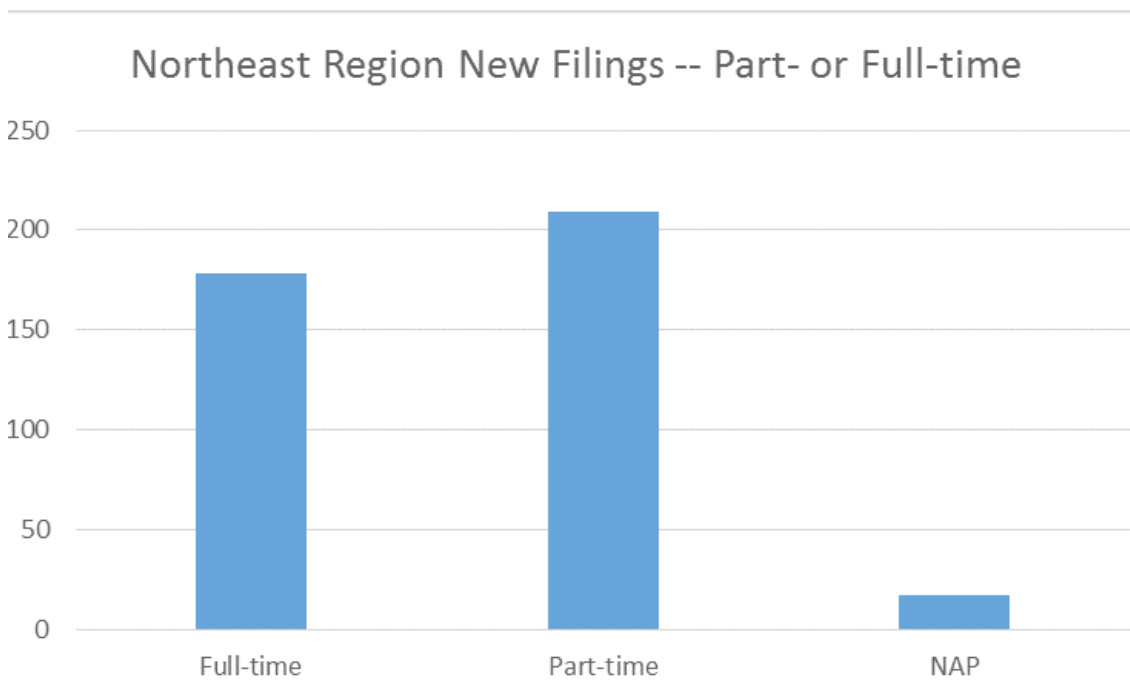
Woman owners represented 43.5 percent of the new business filings in Northeast Minnesota in the first quarter of 2019. This is tied with Southwest Minnesota for the highest percentage of Minnesota's six planning areas.



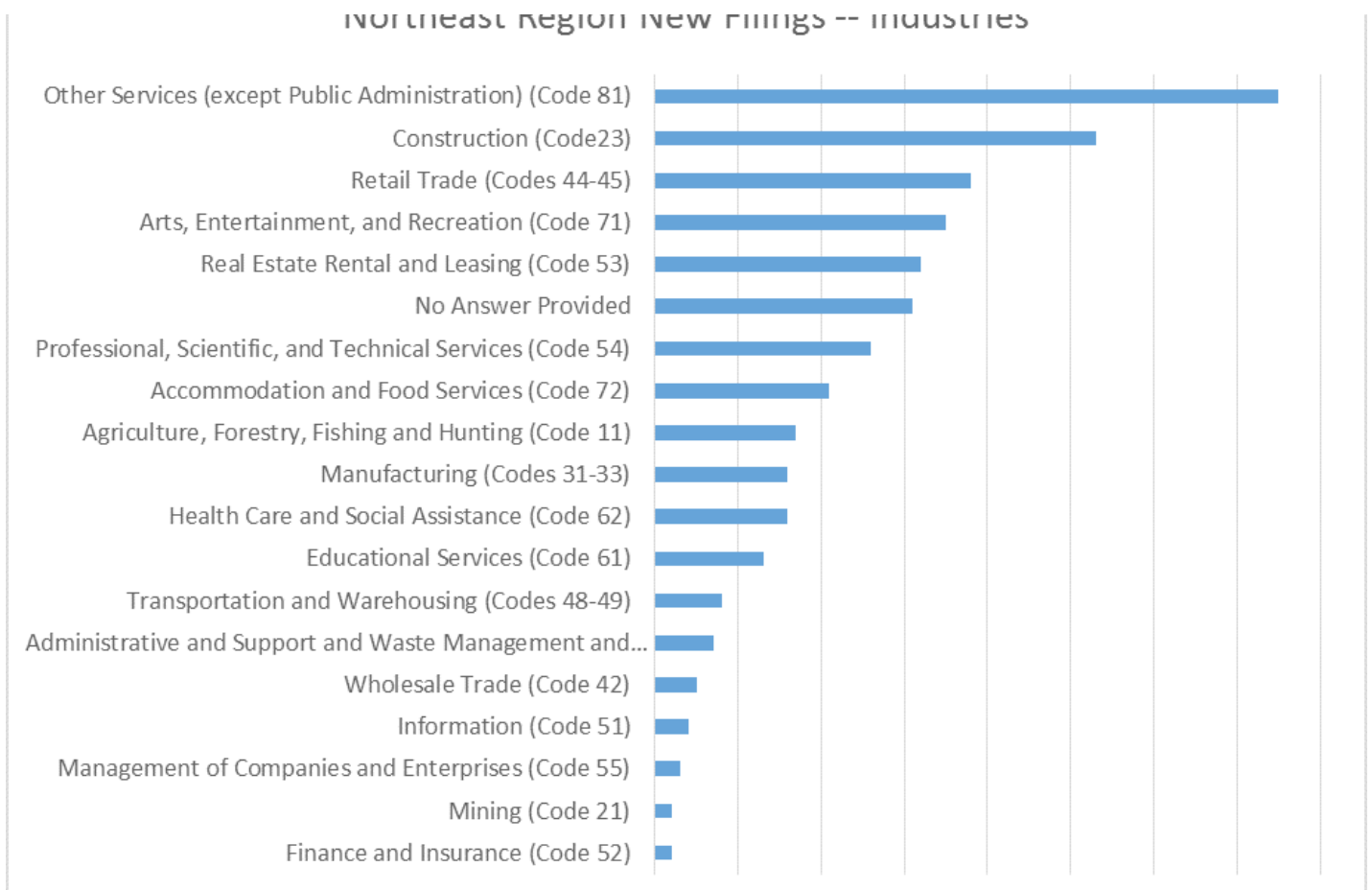
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by “NAP”—no answer provided), 420 responses were tallied to a question asking the new business filer to indicate 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.



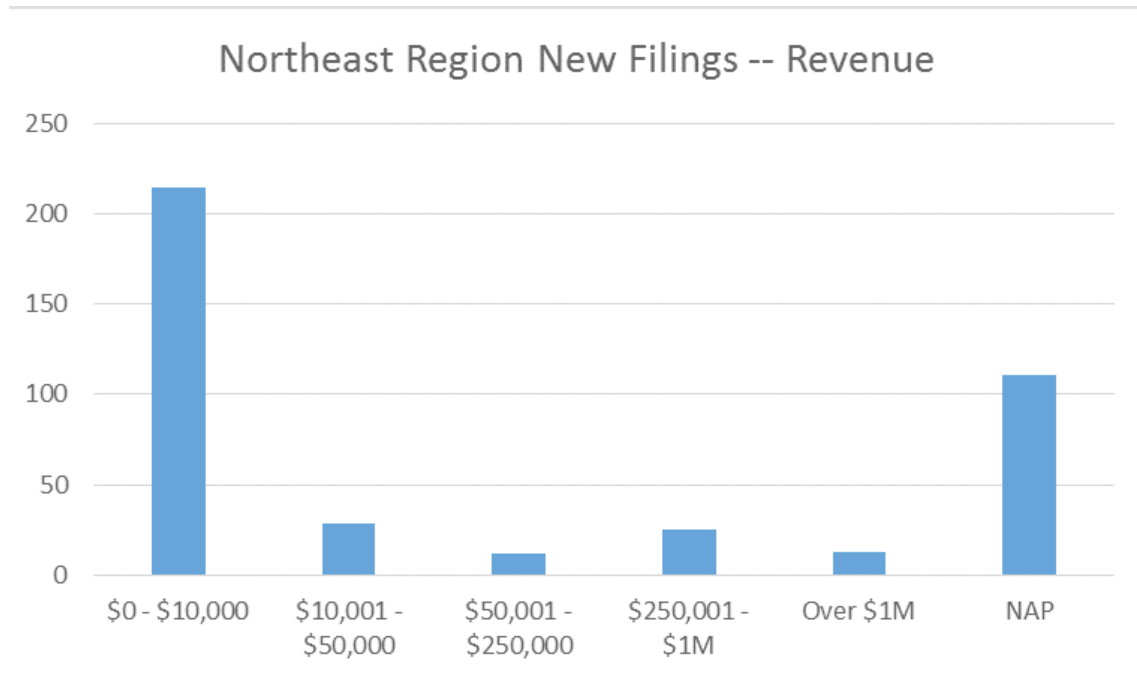
More than half (53 percent) of those submitting a new business filing in Northeast Minnesota are part-time ventures.



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, real estate/rental/leasing, retail trade, professional/scientific/technical, construction, and “other services” lead the way. Since businesses are often unsure of their industrial classification, the “other services” category is likely to represent a “catch-all” category for service-related businesses who were unable to specify their industry. Thirty-four new firms did not provide an answer to this survey item (see “NAP”).



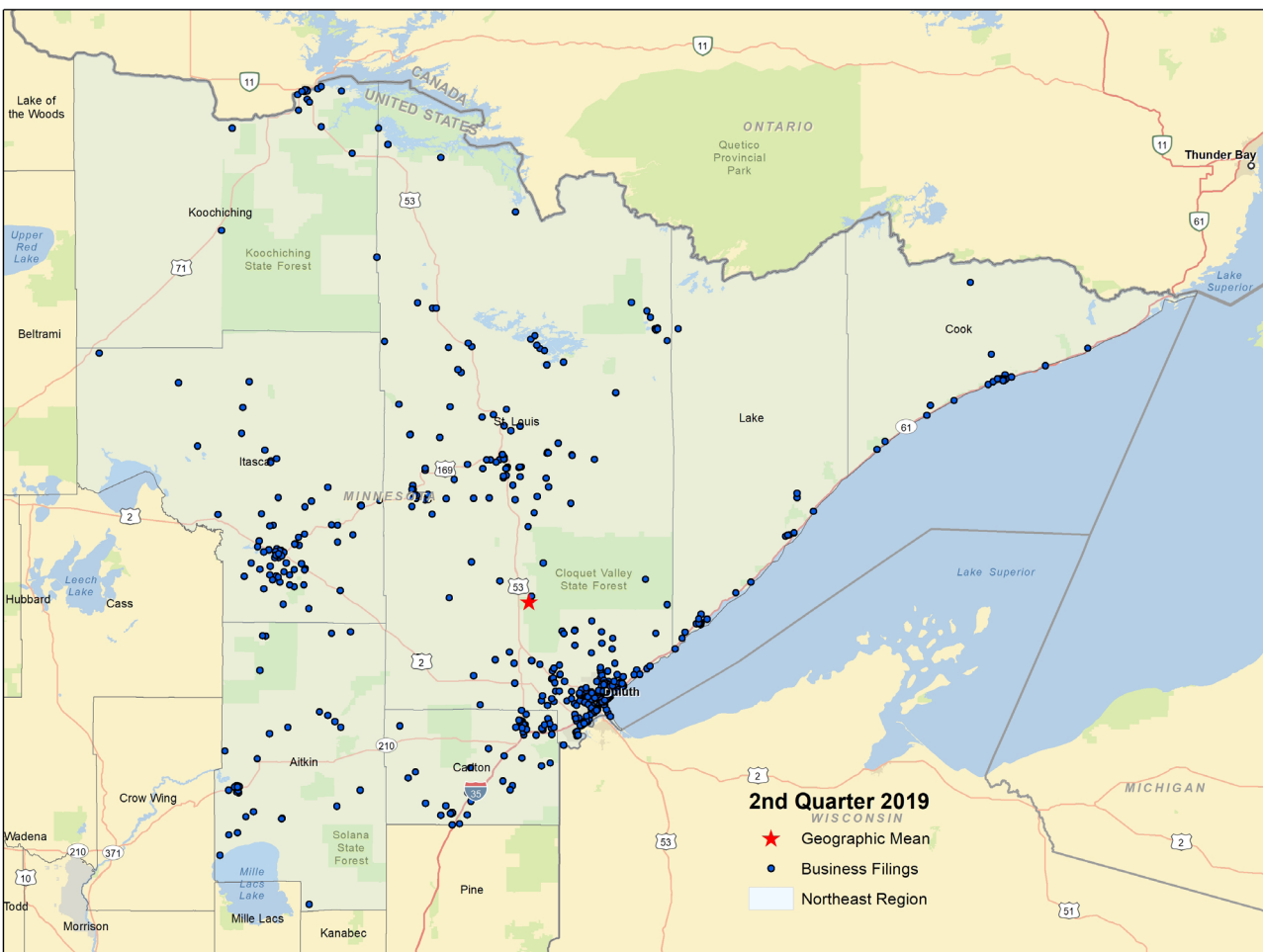
141 new business filers in Northeast Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues of less than \$10,000. Forty-seven new firms report revenues in excess of \$50,000.



# MAPS

The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in the first quarter of 2019. The densest areas of new business formation are in the Duluth metro as well as along the region's well-traveled roadways. There was a noticeable cluster of new business formation along Highway 169 (in the Virginia-Hibbing-Grand Rapids corridor), in Ely, International Falls, and along Highway 61.

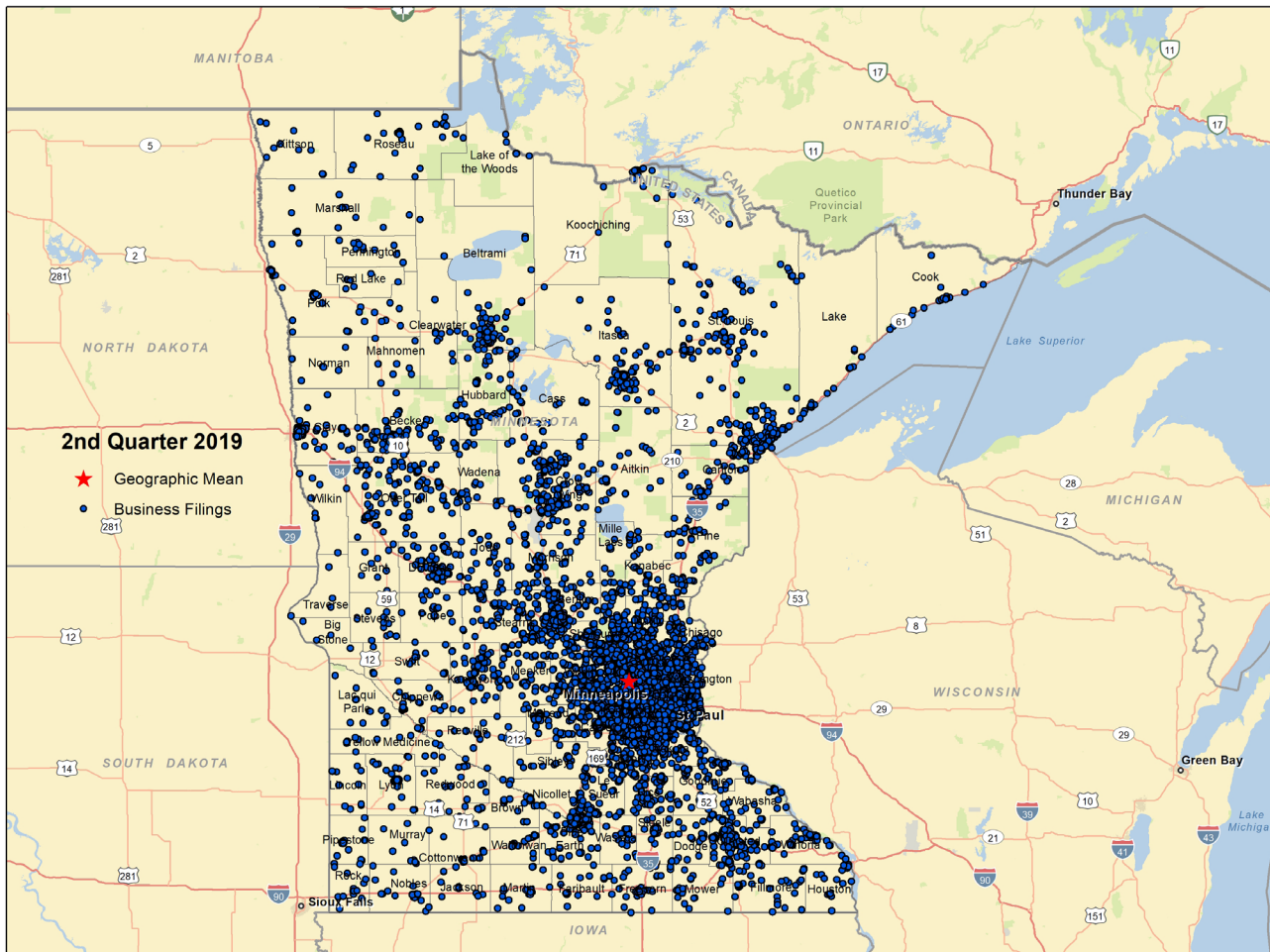
## Northeast Minnesota Planning Area--New Business Formation--Quarter 2: 2019





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: 2019

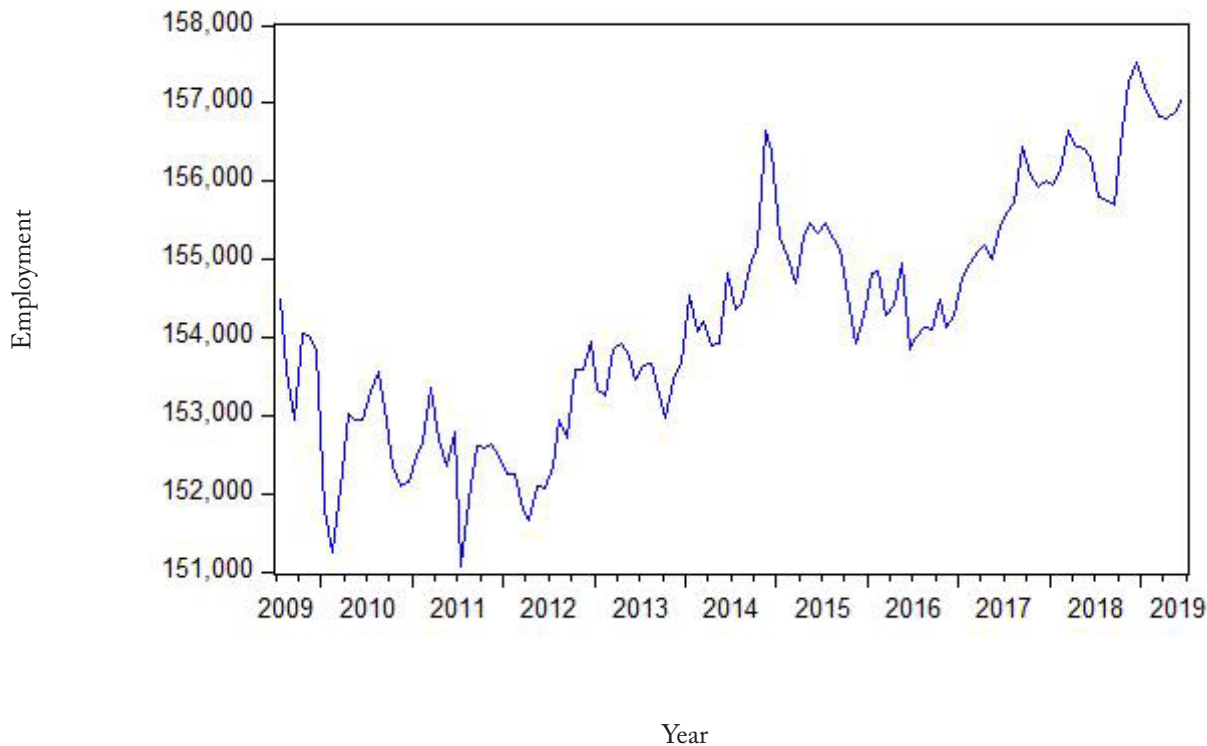


## NORTHEAST MINNESOTA LABOR MARKET CONDITIONS

March 2019 employment in the Northeast Minnesota planning area was 0.3 percent higher than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment had been rising rapidly since the beginning of 2017, but has been volatile since the beginning of last 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—Northeast Minnesota Planning Area (12-month moving average)



Month	June 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
Employment (Not seasonally adjusted)	155,045	157,797	157,335	155,979	154,005	155,511	155,456

There was an increase in the region’s seasonally adjusted unemployment rate in the first quarter of 2019 (see accompanying graph) and, at 5.6 percent, the non-seasonally adjusted rate is considerably higher than one year earlier (when it was 5.2 percent).

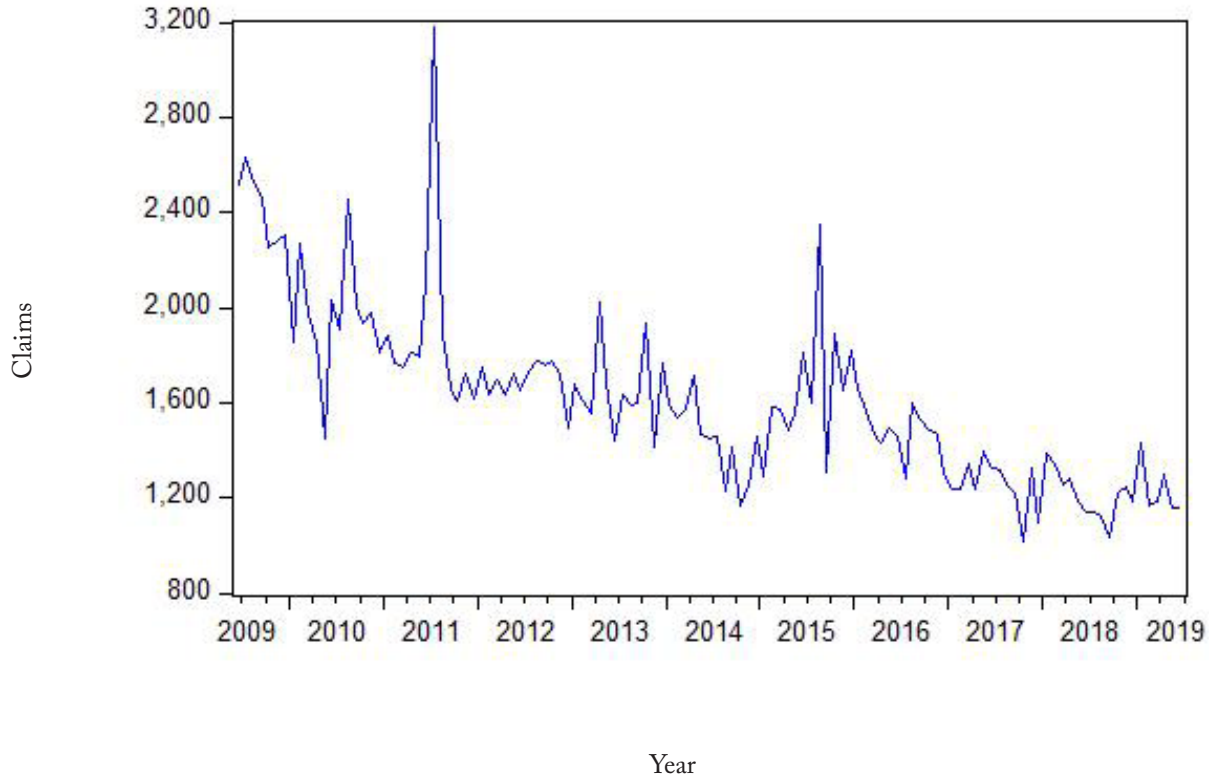
### Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	June 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
Unemployment Rate (Not seasonally adjusted)	5.2%	3.0%	3.5%	4.6%	6.1%	5.4%	5.6%

On a seasonally adjusted basis, initial jobless claims in the Northeast region have been flat for the last couple of years. This quarter's non-seasonally adjusted initial jobless claims fell by 5.9% compared to one year earlier.

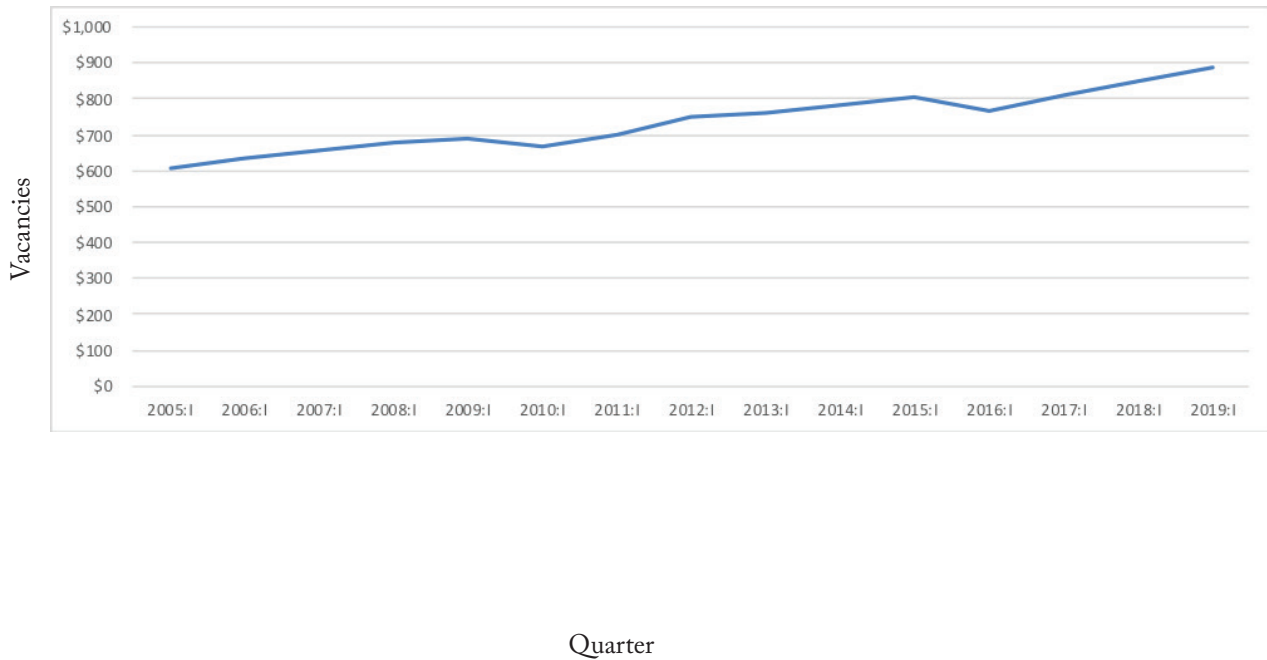
### Total Initial Claims for Unemployment Insurance, seasonally adjusted— Northeast Minnesota Planning Area



Period	June 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
Initial claims (Not seasonally adjusted)	1,178	1,361	2,357	1,778	1,749	971	1,108

With continuing labor shortages being reported across the state, it is no surprise that job vacancy rates are elevated. With approximately 135 job vacancies for every 100 people who are unemployed, Northeast Minnesota employers are experiencing historic difficulty attracting qualified workers. High job vacancy rates are being observed throughout Minnesota. With a rate of 283 Average Weekly Wages, Southeast Minnesota has the highest job vacancy rate in the state.

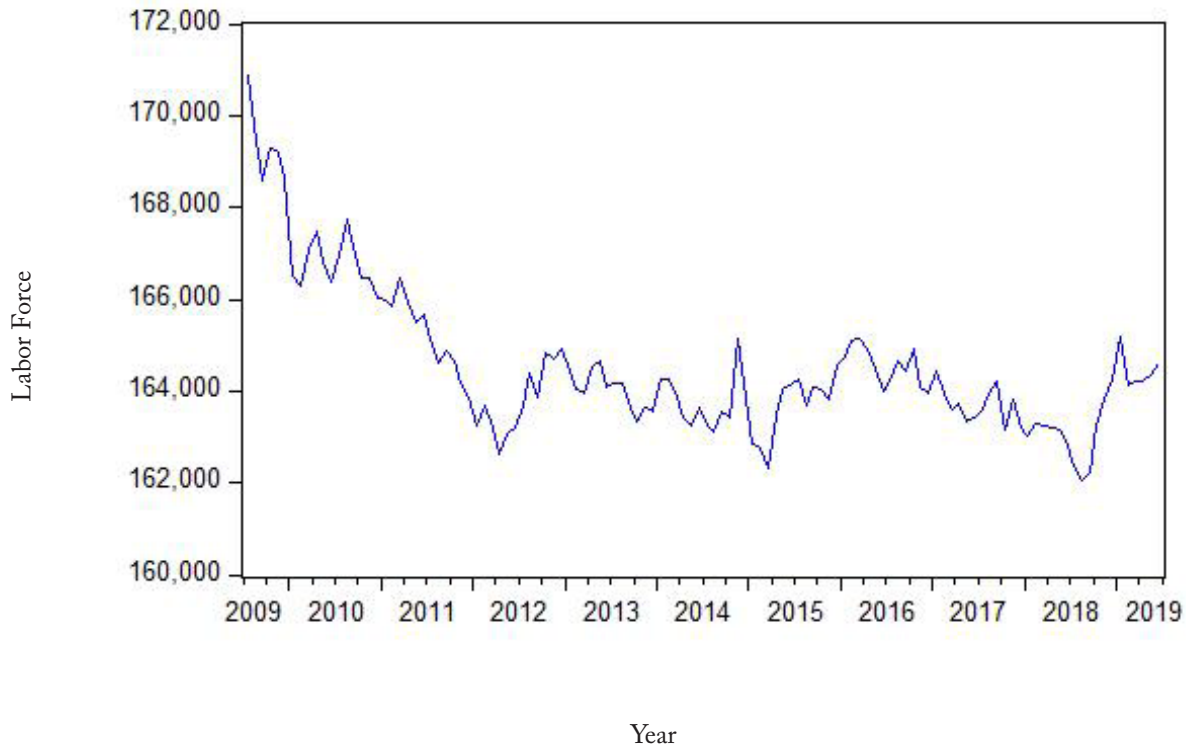
### Average Weekly Wages---Northeast Minnesota Planning Area



Quarter	2014:I	2015:I	2016:I	2017:I	2018:I	2019:I
Average Weekly Wages	74.11	65.88	92.12	79.18	134.13	134.78

The Northeast Minnesota labor force rose by 0.7 percent in the first quarter of 2019 compared to one year earlier. Using a 12-month moving average to account for seasonality, the regional labor force appears to have increased over the past three quarters.

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

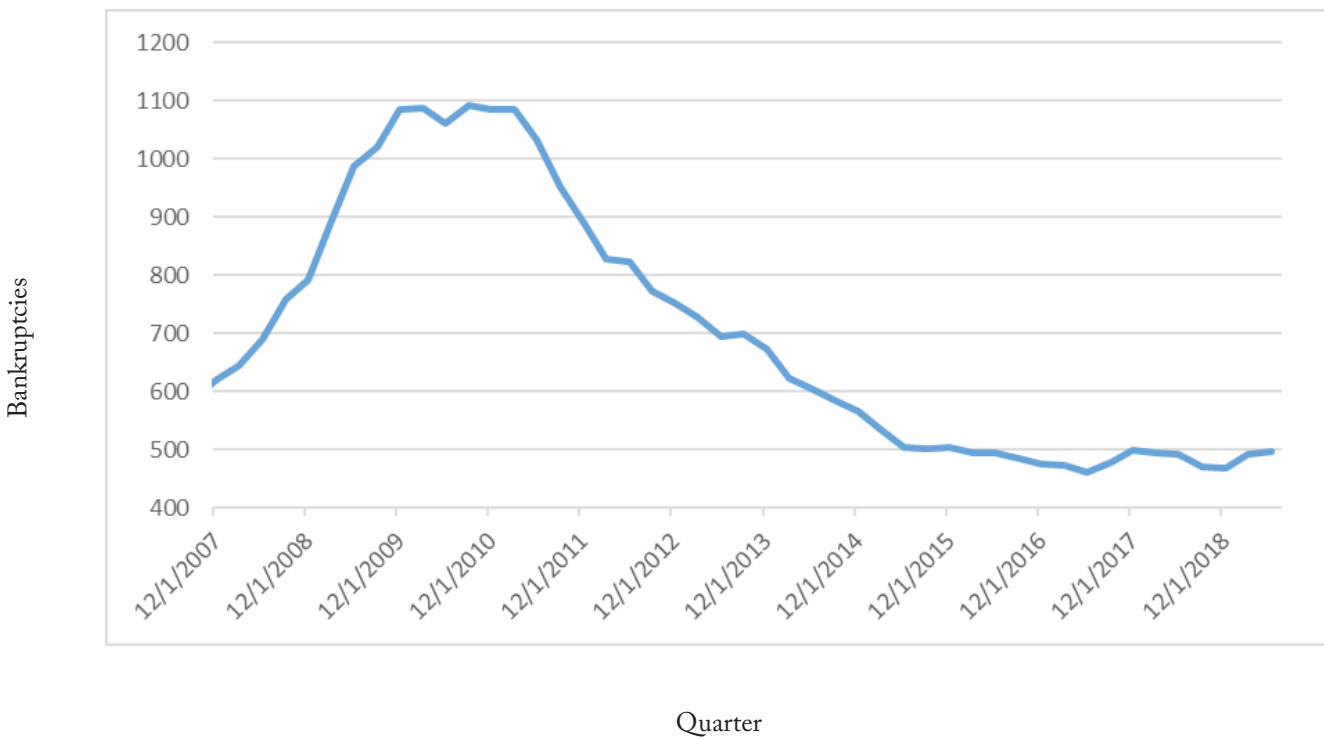


Year (June)	2014	2015	2016	2017	2018	2019
Labor Force (Not seasonally adjusted)	163,728	162,292	165,279	163,852	163,544	164,639

## NORTHEAST MINNESOTA BANKRUPTCIES

The figure below shows the 12-month moving total for Northeast 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 until the third quarter of 2009, then leveled out for a few quarters. The series had gradually declined since the beginning of 2011, but has basically flattened out over the past three years.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2014	2015	2016	2017	2018	2019
Annual Bankruptcies (Not seasonally adjusted)	624	534	495	472	495	491

## ECONOMIC INDICATORS

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	March 2019 (m)	134,989	135,703	-0.5% ↓	0.3%
Manufacturing Employment	March 2019 (m)	7,750	7,777	-0.3% ↓	-1.1%
Educational and Health Sector Employment	March 2019 (m)	32,485	32,669	-0.7% ↓	2.5%
Average Weekly Work Hours--Private Sector	March 2019 (m)	32.7	33.0	-0.9% ↓	32.3 (since 2007)
Average Earnings Per Hour--Private Sector	March 2019 (m)	\$25.79	\$24.88	3.7% ↑	2.6% (since 2007)
Unemployment Rate	March 2019 (m)	4.9%	4.8%	NA ↑	6.6%
Labor Force	March 2019 (m)	144,208	146,916	-1.8% ↓	0.1%
Duluth-Superior Residential Building Permit Valuation	March 2019 (m)	423	1,252	-66.2% ↓	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was mostly weaker in the recent quarter. Overall employment fell by 0.5 percent over the year ending March 2019, and employment growth in the manufacturing and educational/health sectors turned negative. Average weekly work hours fell, the labor force contracted, and the unemployment rate rose. The value of residential building permits fell by 66.2 percent. On a positive note, average hourly earnings rose 3.7 percent compared to one year ago.



## STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Jun 2019	Mar 2019	Jun 2018	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,963,700	2,958,200	2,954,300	0.2%	0.3%
Average weekly hours worked, private sector	34.5	33.4	34.1	3.3%	1.2%
Unemployment rate, seasonally adjusted	3.3%	3.2%	2.8%	NA	NA
Earnings per hour, private sector	\$29.92	\$29.85	\$28.77	0.2%	4.0%
Philadelphia Fed Coincident Indicator, MN	138.54	138.12	137.15	0.3%	1.0%
Philadelphia Fed Leading Indicator, MN	1.00	-0.11	2.59	NA	-61.4%
Minnesota Business Conditions Index	53.4	53.0	58.8	0.8%	-9.2%
Price of milk received by farmers (cwt)	\$18.20	\$17.80	\$16.30	2.2%	11.7%
Enplanements, MSP airport, thousands	1,827.5	1,778.3	1,753.0	2.8%	4.2%
NATIONAL Indicators	Jun 2019	Mar 2019	Jun 2018	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA, thousands	151,267	150,796	149,007	0.3%	1.5%
Industrial production, index, SA	109.6	109.7	108.2	-0.1%	1.3%
Real retail sales, SA, millions (\$)	203,633	202,090	200,167	0.8%	1.7%
Real personal income less transfers, billions	14,144.0	14,042.7	13,704.4	0.7%	3.2%
Real personal consumption expenditures, bill.	13,270.2	13,162.2	12,946.2	0.8%	2.5%
Unemployment rate, SA	3.7%	3.8%	4.0%	NA	NA
New building permits, thousands of units	111.0	105.7	123.3	5.0%	-10.0%
Standard and Poor's 500 stock price index	2,890.2	2,804.0	2,754.4	3.1%	4.9%
Oil, price per barrel in Cushing, OK	\$54.66	\$58.15	\$67.87	-6.0%	-19.5%

Economic performance found in the State and National Indicators table is mostly favorable. For the state as a whole, there was growth in employment and improved earnings over the past year. Hours worked rose, while enplanements at the Minneapolis-St. Paul airport were higher. Milk prices rose. The Federal Reserve Bank of Philadelphia's Coincident Indicators series was higher, but its leading economic indicators fell. The state's seasonally adjusted unemployment rate rose and the Minnesota Business Conditions index was lower than one year ago.

The national economic indicators found in the table are largely favorable. Employment, income, industrial production, retail sales and consumer spending are all improved over the past twelve months (although one of these measures experienced a quarterly decline), and the unemployment rate is lower. Stock prices have rebounded from their low point at the end of 2018. However, new building permits are lower than they were in last year's second quarter. Oil prices fell in the second quarter, and are considerably lower than one year ago.

The Northeast 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 Nicholas Gross Kotschevar. Professor David Wall of the SCSU Geography Department provided GIS assistance.

## *Sources*

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*Creighton University Heider College of Business: Minnesota Business Conditions Index, Rural MainStreet Index.*

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

*Federal Reserve Board of Governors: Industrial Production.*

*Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.*

*Metropolitan Airports Commission: MSP Enplanements.*

*Minnesota Department of Employment and Economic Development (and U.S. Department of Labor Bureau of Labor Statistics): Average Hourly Earnings, Average Weekly Work Hours, Employment, Initial Claims for Unemployment Insurance, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.*

*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: Bankruptcies*

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

*U.S. Department of Agriculture: Milk Prices.*

*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.*