

Center for Economic & Business
Research
Donald L. Harrison College of
Business

SOUTHEAST
MISSOURI
BUSINESS
INDICATORS

Fall, 2005 Volume 8, No. 1

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Executive Summary

The economy continues to move along at a brisk pace, with analysts expecting a slight increase in growth in the second half of the year. Increasing energy prices, particularly in light of Hurricane Katrina, pose the biggest risk to the economy.

Southeast Missouri's economy is solid, though its unemployment rate in the second quarter of 5.7% is higher than the national rate of 5%. Employment is holding steady at nearly 395,000 and should increase slowly over the next two quarters.

Southeast Missouri Business Indicators

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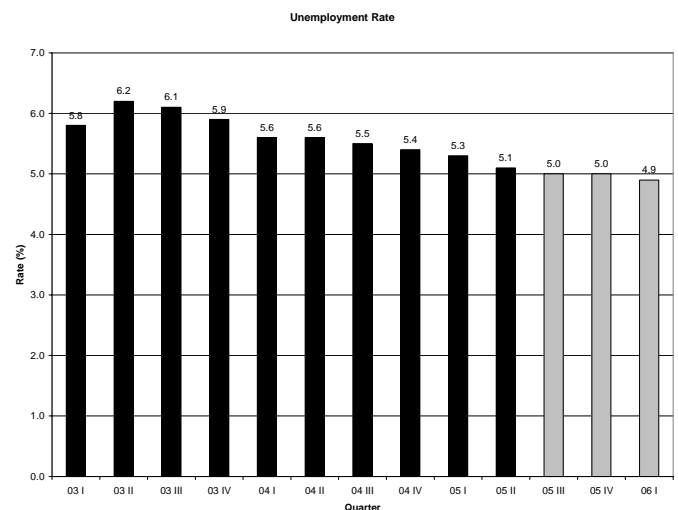
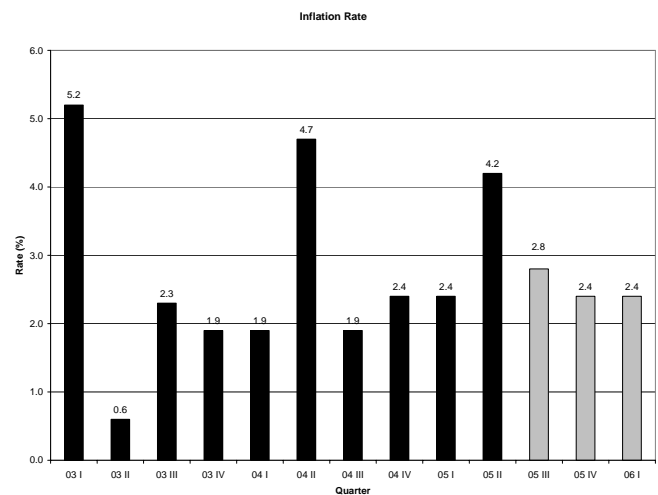
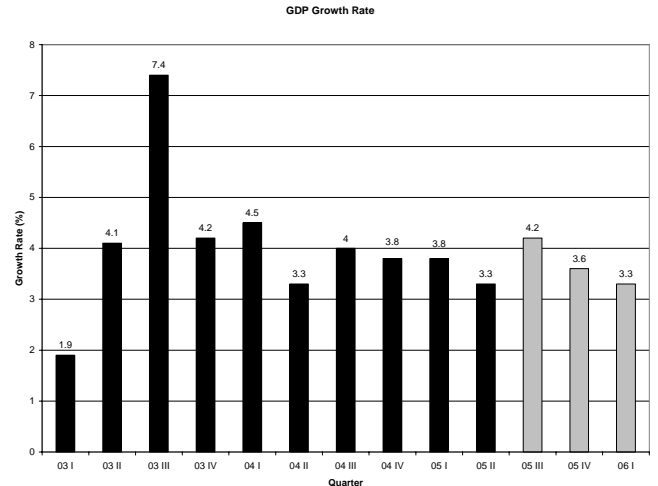
Economy Continues to Chug Along at a Brisk Pace

Economic growth slowed only slightly in the second quarter of 2005 to an average annual rate of 3.4%. The first-quarter rate had been 3.8%. The economy is clearly on pace for another year with growth exceeding 3.5%. Given that the long term average growth rate of the economy is in the neighborhood of 3% annually, a third consecutive year of more than 3.5% growth is a stellar achievement.

Forecasters see the third quarter achieving outstanding growth of 4.2% (average annual rate) and then some modest slowing of growth into the last quarter. If predictions hold true, the economy's growth rate will approach 3.8% for the entire year.

Except for the volatile energy and food sectors, inflation remains tame. Rising gasoline prices have resulted in a spike in the Consumer Price Index in the second quarter and will likely have some additional effect in the third quarter as well. However, even with rising gasoline prices, inflation is likely to come in at less than three percent for the year. Right now, there is no reason to expect a significant pick-up in inflation in the 2006, unless, of course, energy prices continue to climb beyond expectations.

The labor market remains strong as monthly job creation is solid. In July, over 200,000 jobs were created; this followed a healthy increase of 166,000 jobs in June. Unemployment remains at 5.0% and is projected to fall to 4.9% in early 2006. For 2005, something close to 2 million jobs are likely to be created.

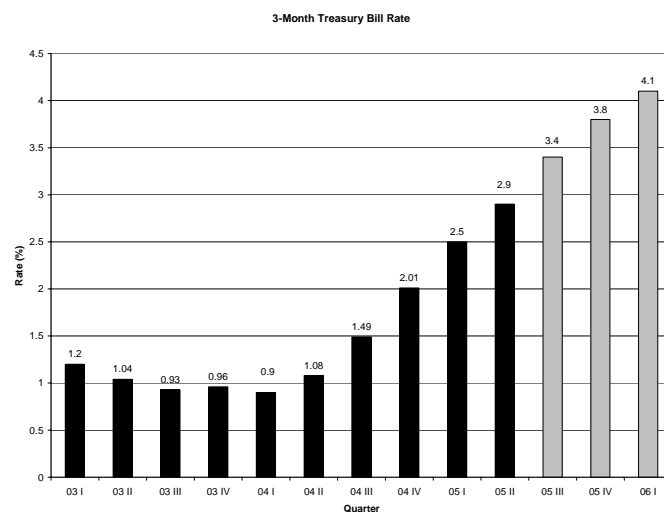
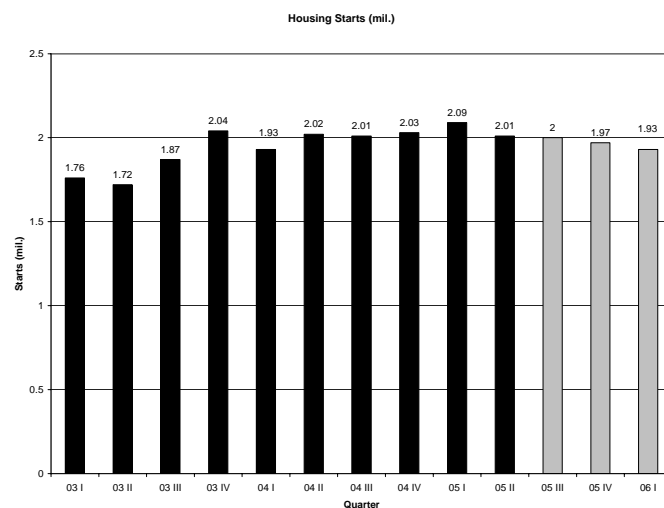
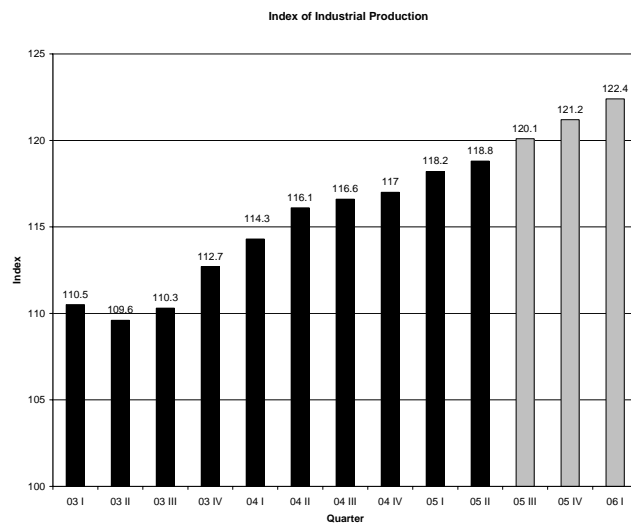


Industrial production continues to increase, which is the sign of a healthy economy. However, new orders for durable goods (goods designed to last at least three years) fell by 4.9% in July, a sharp drop that was unexpected by economists. Whether this is a sign that the economy will begin to slow or just a one month aberration is unclear at present. It does mean that economists will watch the August durable goods numbers very closely.

Housing starts show little sign of letting up. They did decline slightly in July but remain at a 2,000,000 per year pace. Even the forecast decline in housing starts by economists for the rest of the year still means that the sector is generating a lot of activity and providing a strong base to the economy.

Short-term interest rates, as represented by the three-month U.S. Treasury Bill rate, continue to climb as the Federal Reserve System attempts to move towards a more 'neutral' monetary policy that neither adds to nor subtracts from economic growth. It is likely that the Fed will raise rates a couple of more times yet before it decides to pause and assess the economy's performance.

Rising gasoline prices have definitely introduced a level of uncertainty into economic forecasts. One uncertainty is how much higher prices will go. With some analysts predicting oil at \$100 a barrel, this could get pretty scary. The more money consumers have to spend to fill their tanks, the less money they will have for spending on other goods and services. That is clearly a formula for a slowdown in the economy. For the present, consumers seem to be adjusting to the higher prices of gasoline and energy, but there are clearly some risks to the economy if the increases continue.



Southeast Missouri Data Point to a Solid Economy

Note: Revised estimates of employment and unemployment are now available for 2004 and 2005 (through May) for southeast Missouri. The lack of revised data before 2004 makes it impossible to generate employment forecasts at this time. My understanding is that revised employment and unemployment estimates will eventually be available for the 2000-2005 period, which will allow forecasting to once again to take place. In addition, since employment is an important input into making estimates of personal income for the region, such estimates cannot be made at the present time. A comparison of the revised estimates with previous estimates shows significant differences in some cases. Employment estimates for Bollinger County, for example, more than 300 higher. For Franklin County current estimates of employment are over 2,000 higher and for Jefferson County, they are more than 5,000 higher. On the other hand, for Perry County, the estimates of employment are about 1,000 lower. For the entire region, employment is estimated to be about 10,000 higher than originally thought.

Another fact that becomes clear when we look at the data for the last six quarters is the strong element of seasonality that is present. Employment generally tends to fall in the first and third quarters and to rise in the second and fourth quarters. This seasonality could be removed if we had more observations on employment.

Given the data that are currently available, we find that the unemployment rate in the second quarter was 5.7% in southeast Missouri, a full 0.7% higher than for the U.S. economy.

This was a considerable improvement over the 7.0% rate of the first quarter, but again, much of that improvement was due to seasonal factors. If we compare employment in the second quarter of 2005 with the second quarter of 2004 (this helps to eliminate seasonality problems), we find that it was about 2,000 lower in 2005. Given the margin of error in measuring employment at the count level, this is a trivial difference. But it does mean that employment growth is slow or nonexistent in our region right now. Given the erratic nature of employment growth at the national level over the last couple of years, this is probably not a surprising result. Only recently have we seen more consistent gains in employment at the national level, so expect some improvement in job growth locally as well.

Southeast Missouri Summary

	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II
Bollinger						
Employment	5,679	5,715	5,661	5,720	5,575	5,656
Change (%)		0.6	-0.9	1.0	-2.5	1.5
Unemployment (%)	6.2	5.5	5.8	5.2	6.2	5.3
Personal Income						
Change (%)						
Retail Sales	14,120	15,055	14,152	13,710	13,949	14,845
Last 4 Quarters	56,220	57,248	56,942	57,127	56,956	56,746
Butler						
Employment	19,687	20,092	19,830	20,155	20,039	20,471
Change (%)		2.1	-1.3	1.6	-0.6	2.2
Unemployment (%)	5.7	5.4	5.8	5.2	6.2	5.3
Personal Income						
Change (%)						
Retail Sales	131,424	138,604	136,673	131,344	136,546	140,119
Last 4 Quarters	500,409	512,243	523,462	532,955	538,077	539,592
Cape Girardeau						
Employment	36,904	37,135	36,787	37,170	36,230	36,753
Change (%)		0.6	-0.9	1.0	-2.5	1.5
Unemployment (%)	4.7	4.7	4.9	4.2	4.9	4.5
Personal Income						
Change (%)						
Retail Sales	292,634	288,017	286,903	280,013	305,110	288,783
Last 4 Quarters	1,122,862	1,139,353	1,144,832	1,147,567	1,160,313	1,161,079
Carter						
Employment	2,603	2,751	2,805	2,801	2,669	2,858
Change (%)		5.7	2.0	-0.1	-4.7	7.1
Unemployment (%)	7.4	6.3	6.5	6.5	8.3	5.5
Personal Income						
Change (%)						
Retail Sales	8,478	9,701	10,395	8,955	9,122	9,183
Last 4 Quarters	38,900	40,244	38,581	37,529	38,173	37,655
Crawford						
Employment	10,517	10,947	10,748	10,615	10,306	10,767
Change (%)		4.1	-1.8	-1.2	-2.9	4.5
Unemployment (%)	7.1	6.1	6.4	6.0	7.8	5.9
Personal Income						
Change (%)						
Retail Sales	41,711	43,960	51,675	45,864	42,287	47,254
Last 4 Quarters	179,874	179,814	181,531	183,210	183,986	187,180

(Note: Retail Sales are in thousands of dollars.)

	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II
Dent						
Employment	5,809	6,144	5,997	5,930	5,735	6,026
Change (%)		5.8	-2.4	-1.1	-3.3	5.1
Unemployment (%)	7.2	6.2	6.7	6.4	7.5	6.2
Personal Income						
Change (%)						
Retail Sales	32,085	33,974	35,278	32,785	34,213	34,827
Last 4 Quarters	131,432	132,513	133,730	134,122	136,250	137,103
Dunklin						
Employment	13,572	13,693	13,301	13,469	13,262	13,471
Change (%)		0.9	-2.9	1.3	-1.5	1.6
Unemployment (%)	7.8	7.3	7.9	7.0	8.4	7.3
Personal Income						
Change (%)						
Retail Sales	NA	NA	NA	NA	NA	NA
Last 4 Quarters	NA	NA	NA	NA	NA	NA
Franklin						
Employment	49,825	50,135	50,177	50,127	49,268	49,738
Change (%)		0.6	0.1	-0.1	-1.7	0.9
Unemployment (%)	5.9	5.4	6.3	5.3	7.0	5.5
Personal Income						
Change (%)						
Retail Sales	235,559	259,162	264,388	246,136	250,684	262,663
Last 4 Quarters	995,951	1,013,951	1,010,400	1,005,425	1,020,550	1,024,051
Gasconade						
Employment	7,069	7,269	7,073	7,080	6,916	7,078
Change (%)		2.8	-2.7	0.1	-2.3	2.3
Unemployment (%)	6.1	5.7	6.9	5.6	7.1	5.5
Personal Income						
Change (%)						
Retail Sales	33,953	37,076	37,980	37,282	35,822	38,502
Last 4 Quarters	145,338	146,230	144,845	146,291	148,160	149,586
Iron						
Employment	4,447	4,572	4,450	4,429	4,364	4,468
Change (%)		2.8	-2.7	-0.5	-1.5	2.4
Unemployment (%)	9.1	8.3	8.6	8.0	9.2	7.3
Personal Income						
Change (%)						
Retail Sales	15,082	16,271	17,386	15,783	22,375	20,757
Last 4 Quarters	63,178	64,261	64,395	64,522	71,815	76,301

(Note: Retail Sales are in thousands of dollars.)

	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II
Jefferson						
Employment	109,208	109,888	109,980	109,871	108,053	109,018
Change (%)		0.6	0.1	-0.1	-1.7	0.9
Unemployment (%)	5.7	5.3	5.9	5.2	6.6	5.1
Personal Income						
Change (%)						
Retail Sales	449,707	495,415	502,346	458,524	484,417	489,638
Last 4 Quarters	1,872,349	1,907,338	1,910,459	1,905,982	1,940,692	1,934,915
Madison						
Employment	5,394	5,464	5,411	5,414	5,337	5,515
Change (%)		1.3	-1.0	0.1	-1.4	3.3
Unemployment (%)	6.4	6.3	6.7	6.0	7.4	6.4
Personal Income						
Change (%)						
Retail Sales	20,157	21,249	21,778	20,015	20,118	21,616
Last 4 Quarters	82,037	82,532	83,170	83,099	83,060	83,427
Mississippi						
Employment	5,561	5,722	5,535	5,635	5,524	5,736
Change (%)		2.9	-3.3	1.8	-2.0	3.8
Unemployment (%)	7.4	6.9	8.0	7.7	8.0	6.6
Personal Income						
Change (%)						
Retail Sales	19,344	21,064	23,782	19,150	19,609	20,811
Last 4 Quarters	80,962	81,667	83,679	83,340	83,605	83,352
New Madrid						
Employment	7,804	7,936	7,687	7,743	7,557	7,752
Change (%)		1.7	-3.2	0.7	-2.4	2.6
Unemployment (%)	9.1	8.3	9.2	7.4	8.7	7.2
Personal Income						
Change (%)						
Retail Sales	72,815	71,082	73,467	67,493	74,050	72,817
Last 4 Quarters	276,589	281,877	283,171	285,307	286,542	288,277
Pemiscot						
Employment	7,183	7,204	6,936	6,980	6,895	7,076
Change (%)		0.3	-3.7	0.6	-1.2	2.6
Unemployment (%)	9.2	9.1	9.5	8.1	9.6	8.2
Personal Income						
Change (%)						
Retail Sales	32,269	30,610	29,525	29,578	31,477	31,432
Last 4 Quarters	121,157	122,968	121,681	121,982	121,190	122,012

(Note: Retail Sales are in thousands of dollars.)

	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II
Perry						
Employment	9,727	9,763	9,795	9,775	9,546	9,751
Change (%)		0.4	0.3	-0.2	-2.3	2.1
Unemployment (%)	4.0	4.0	4.3	4.0	4.8	4.2
Personal Income						
Change (%)						
Retail Sales	54,547	57,206	55,522	52,462	54,350	57,439
Last 4 Quarters	210,923	215,924	216,654	216,917	216,720	216,953
Reynolds						
Employment	2,319	2,592	2,425	2,359	2,324	2,517
Change (%)		11.7	-6.4	-2.7	-1.5	8.3
Unemployment (%)	9.6	7.6	8.1	8.2	10.0	7.2
Personal Income						
Change (%)						
Retail Sales	NA	NA	NA	NA	NA	NA
Last 4 Quarters	NA	NA	NA	NA	NA	NA
Ripley						
Employment	5,937	6,067	5,797	5,998	5,945	6,101
Change (%)		2.2	-4.4	3.5	-0.9	2.6
Unemployment (%)	6.7	6.1	6.5	5.8	6.7	5.9
Personal Income						
Change (%)						
Retail Sales	NA	NA	NA	NA	NA	NA
Last 4 Quarters	NA	NA	NA	NA	NA	NA
Scott						
Employment	19,029	19,479	19,208	19,305	18,949	19,471
Change (%)		2.4	-1.4	0.5	-1.8	2.8
Unemployment (%)	6.0	5.9	6.5	6.1	6.5	5.8
Personal Income						
Change (%)						
Retail Sales	76,871	82,805	86,275	75,029	80,257	80,085
Last 4 Quarters	309,177	316,281	320,856	321,980	325,366	319,646
Ste. Genevieve						
Employment	8,677	8,846	8,789	8,731	8,511	8,704
Change (%)		2.0	-0.6	-0.7	-2.5	2.3
Unemployment (%)	5.8	5.5	5.7	5.4	6.8	5.5
Personal Income						
Change (%)						
Retail Sales	32,711	34,919	37,354	36,278	33,485	36,710
Last 4 Quarters	125,599	127,162	128,726	131,443	132,217	134,008

(Note: Retail Sales are in thousands of dollars.)

	ACTUAL			FORECAST		
	2004 I	2004 II	2004 III	2004 IV	2005 I	2005 II
St. Francois						
Employment	25,321	25,940	25,743	25,833	25,544	26,121
Change (%)		2.4	-0.8	0.4	-1.1	2.3
Unemployment (%)	7.0	6.6	7.1	6.8	7.9	6.5
Personal Income						
Change (%)						
Retail Sales	157,546	157,163	162,372	156,296	165,182	166,969
Last 4 Quarters	611,988	619,562	627,460	632,897	640,533	650,339
Stoddard						
Employment	14,550	14,696	14,260	14,627	14,527	14,843
Change (%)		1.0	-3.0	2.6	-0.7	2.2
Unemployment (%)	6.3	5.7	6.2	5.9	7.1	5.6
Personal Income						
Change (%)						
Retail Sales	55,346	59,812	59,892	51,188	56,966	62,333
Last 4 Quarters	223,878	228,968	233,854	226,868	228,488	231,009
Washington						
Employment	9,350	9,409	9,417	9,407	9,251	9,334
Change (%)		0.6	0.1	-0.1	-1.7	0.9
Unemployment (%)	9.0	7.7	8.5	8.6	10.5	8.0
Personal Income						
Change (%)						
Retail Sales	32,909	35,020	36,766	33,720	34,435	35,256
Last 4 Quarters	134,644	137,594	137,825	138,145	139,671	139,907
Wayne						
Employment	5,106	5,273	5,143	5,182	5,056	5,261
Change (%)		3.3	-2.5	0.8	-2.4	4.0
Unemployment (%)	7.8	7.1	7.4	7.3	8.5	6.9
Personal Income						
Change (%)						
Retail Sales	20,138	21,918	23,562	20,927	20,887	22,080
Last 4 Quarters	83,948	85,361	86,402	86,546	87,295	87,457
Southeast Missouri						
Employment	391,278	396,732	392,855	394,356	387,383	394,486
Change (%)		1.4	-1.0	0.3	-1.8	1.8
Unemployment (%)	6.2	5.8	6.3	5.7	7.0	5.7
Personal Income						
Change (%)						
Retail Sales	1,826,406	1,929,984	1,967,654	1,832,532	1,925,541	1,954,158
Last 4 Quarters	7,367,415	7,498,093	7,532,835	7,543,254	7,654,389	7,678,563

(Note: Retail sales are in thousands of dollars.)

Modeling the Effects of Higher Gasoline Prices on Southeast Missouri Counties

Higher gasoline prices over the past few months and in the wake of Hurricane Katrina have not been pleasant for area motorists. As drivers fork over an extra \$1.00 or \$1.50 per gallon to fuel their tanks, one has to wonder about the effects on the local economy. After all, money spent on gasoline (all of which is imported into the region) cannot be spent on other goods and services. It is, in other words, equivalent to a reduction in people's incomes if they are forced to spend more for gasoline.

To measure this impact on some selected southeast Missouri counties, we used some data at the national level to make a rough estimate. We find at the national level that about two-thirds of the nation's population has a driver's license, there are 1.2 drivers per vehicle and that the average vehicle logs 15,000 miles per year. In addition, the average new car sold in 2004 achieved 24 miles per gallon. If we apply these numbers to Cape Girardeau County, which has a population of 70,700, we get a total of about 25,000,000 gallons of gasoline purchased per year. If gasoline is 'normally' priced at \$1.50 per gallon, we can estimate the impact of paying an additional \$1.00 per gallon and an additional \$1.50 per gallon. Therefore, if Cape residents spend an additional \$25,000,000 per year for gasoline, they have that much less to spend on other goods and services. The result is a lower output of \$32,100,000 for the region, a reduction in personal income of \$10,500,000 and a lower employment of 314, using the IMPLAN model of the county.

An important caveat here is that we have to assume people will not reduce their purchases of gasoline as the price increases, clearly an unrealistic assumption. Given what economists know about people's responsiveness to gasoline price changes, we can expect them to reduce their purchases of gasoline by about 10% for an increase of \$1. If true, that would, of course, reduce our impacts by 10% as well. In addition, rather than reduce their spending on other goods and services, people may decide to reduce their savings or even to use their savings to maintain their standard of living. However, since the savings rate is already so low in the United States, it's not likely that this will make much difference to our final estimates. With these caveats, we give the annual impact estimates for five southeast Missouri counties, realizing that these are upper bounds on the impacts and are likely to be at least 10-15% less as people adjust to the higher prices.

If gasoline is \$1.00 per gallon higher for the entire year:

	Cape	Butler	Scott	Perry	St. Francois
Output	\$32,100,000	\$17,400,000	\$17,700,000	\$6,900,000	\$25,300,000
Income	\$10,500,000	\$5,200,000	\$5,400,000	\$1,400,000	\$7,100,000
Employment	314	150	158	40	225

If gasoline is \$1.50 per gallon higher for the entire year:

	Cape	Butler	Scott	Perry	St. Francois
Output	\$48,200,000	\$26,100,000	\$26,600,000	\$10,400,000	\$37,900,000
Income	\$15,800,000	\$7,800,000	\$8,100,000	\$2,100,000	\$10,700,000
Employment	471	225	238	60	338

Note: These represent *reductions* in economic activity due to higher gasoline prices. This is a *static* analysis such that counties are most likely to experience reductions in their rates of growth as opposed to actual declines in economic activity.