

Center for Economic & Business
Research
Donald L. Harrison College of
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C O N T E N T S

- 3 The National Outlook
- 5 The Regional Outlook

Executive Summary

Second quarter growth in Gross Domestic Product increased to 3.4%. Increases in government spending and business investment led the way. The housing market continues to act as a drag on the economy and will likely continue to do so for the remainder of the year. Consumer spending is in the doldrums; as a result, GDP growth for the year is likely to be modest (2-2.5%).

Southeast Missouri experienced a good second quarter as personal income and retail sales grew strongly. Employment increased by 1.2% while unemployment fell to 5.2%. Retail sales and personal income both experienced healthy gains.

Southeast Missouri Business Indicators

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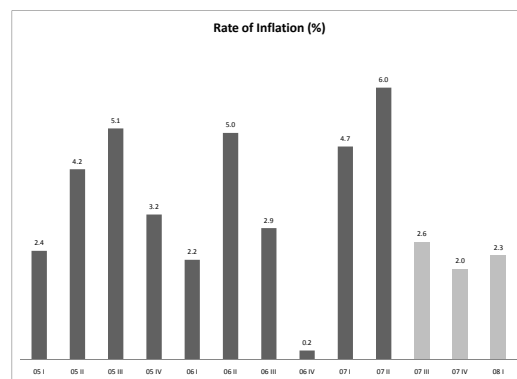
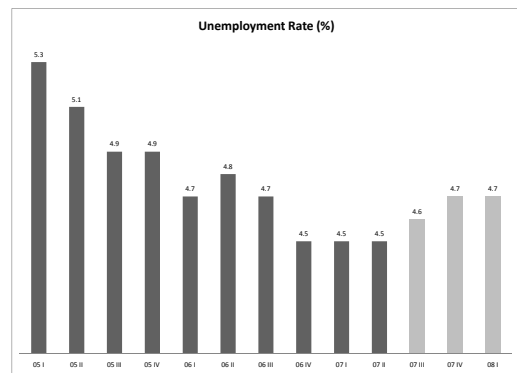
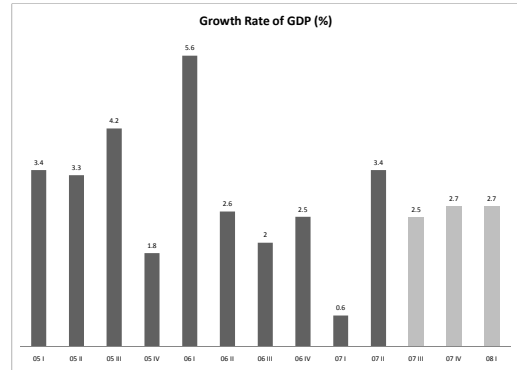
GDP Recovers in Second Quarter: Will it Continue to Grow?

After a rather abysmal growth rate of 0.6% in the first quarter of 2007, GDP growth increased to 3.4% in the second quarter (average annual rate). Much of the increase in the growth rate was due to increases in government spending and in business investment. The foreign trade deficit also narrowed a bit in the second quarter, which was also a positive development for GDP growth.

The second quarter growth spurt was widely anticipated by analysts, but now the question is whether the economy can sustain such growth. The short answer appears to be probably not. Consumer spending is growing too slowly, corporate profits are rising more slowly, which translates into slower growth rates of business investment, and the housing sector remains a mess. Add to that the credit crunch that the economy is now experiencing and it looks like growth will be much slower in the second half of the year (about 2.5%).

The housing market is being hit with a classic case of oversupply along with tightening credit standards. The end result is that housing starts have fallen by a third to an average annual rate of about 1.4 million homes, down from about 2.1 million homes just a little over a year ago. At the same time, due to losses in the subprime lending market, lenders have tightened eligibility requirements for new mortgages, making it more difficult for buyers to secure credit for home buying. It is quite likely that the problems in the housing sector will remain well into 2008.

Despite these problems, the official unemployment rate has remained low (4.5% for the quarter) and is forecast to rise only a couple of tenths over the next year or so. That may be a bit optimistic if the woes in the housing market spread even more into



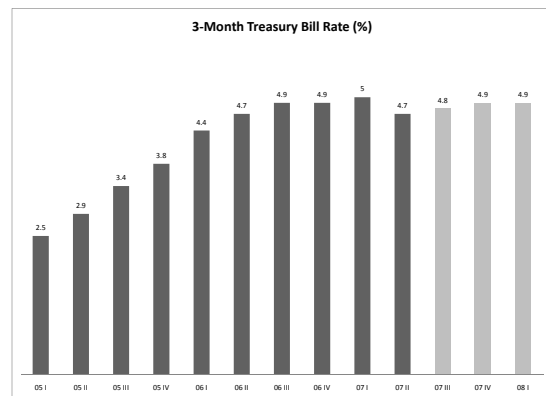
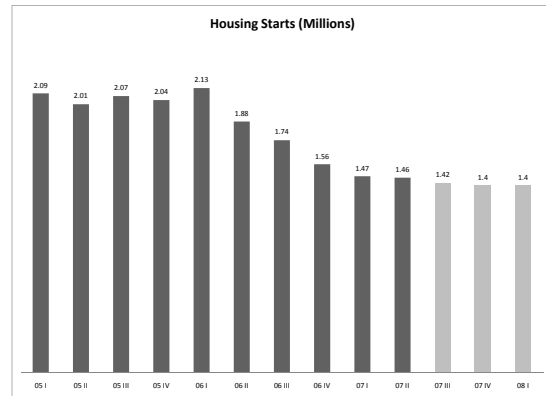
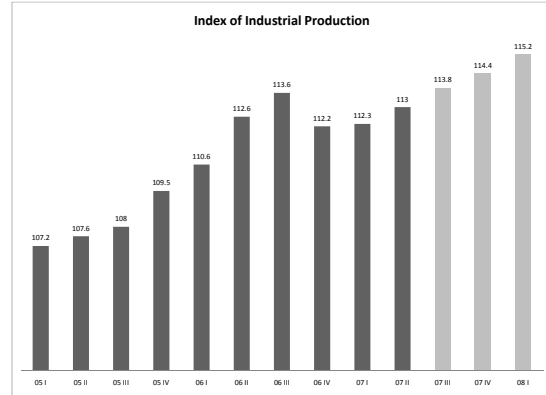
rest of the economy.

Inflation was quite high in the second quarter (6% on an average annual basis) as energy and food prices soared. If these sectors calm down a bit, it is expected that inflation as measured by the Consumer Price Index will be in the 2.0 – 2.5% range for the remainder of the year. We have already seen some moderation of gasoline prices, a trend that is welcomed by drivers everywhere.

Industrial production remains a bright spot in the economy as exports remain strong, allowing factories to keep their output growing steadily. However, there is some concern that the automobile industry may be a casualty of the problems in the housing market as credit becomes tighter and consumers pull back in the face of uncertainty. Steep drops in auto sales in the past couple of months are not encouraging.

The Federal Reserve System did lower the discount rate in August, which is the rate that it charges banks on loans from the Fed. Banks normally do not do a lot of borrowing from the Fed for a variety of reasons so the change is more psychological than substantive at this point. But there is a belief now that the Fed will lower the Fed funds rate (which the rate that banks charge each other on overnight loans) before the end of the year. But even that is not certain and it is not clear if that will help the credit crunch very much. The problem really is not lack of reserves as much as concern over risk and how much is being borne by whom. If lenders tighten their credit standards, it is not clear that giving bank more or cheaper reserves will make a big difference to the economy.

Will there be a recession? That seems unlikely right now, but there are enough concerns about the economy that the question deserves to be asked.



Southeast Missouri Continues Steady Pace

While the national economy seems to have been whipsawed around the past couple of quarters, the evidence for southeast Missouri seems to indicate steady, though not spectacular growth.

Employment has been subject to normal seasonal fluctuations over the past year, falling in the first and third quarters, rising in the second and fourth. But in the end, total employment is about one-half of one percent higher in the region at the end of the second quarter compared to a year ago. The unemployment rate at 5.2% is about the same as a year ago (5%) as well.

Similarly, personal income continues to grow steadily in the region. First quarter personal income for southeast Missouri was estimated to be almost \$23.8 billion (average annual rate), about a 6% increase over a year ago, when income stood at \$22.4 billion. Take out inflation of about 3% and we are left with a rise in real income (after inflation) of about 3%, which is quite good.

Retail sales have also risen during the past year, up 3.9% to about \$2.2 billion in the second quarter. This compares to \$2.09 billion for the second quarter of 2006. Overall, retail sales were \$8.2 billion the past four quarters (2006 III -2007 II). Given the steady growth in employment and personal income in the region, Southeast Missouri can anticipate further growth in retail sales of 3.5-4.0% this year.

All counties experienced increases in employment and reductions in the unemployment rate in the second quarter. Most of the improvement appears to be related to seasonal factors as economic activity typically increases in the second quarter in the region. Still, a comparison of county figures with the same period a year ago finds most counties with higher employment, retail sales and personal income.

Data on housing construction for the region are not easy to find, making it difficult to determine how the nationwide housing slump is playing out here. The Census Bureau does list building permits for new housing for some southeast Missouri cities. Two of the bigger cities are Cape Girardeau and Jackson. Through the first six months of 2007, building permits in Cape were issued for new 57 units, compared to 77 units through the first six months of 2006. However, the total value of the permits was about the same in both periods (approx. \$12.5 million). In Jackson, permits in the first six months of 2007 were issued for 30 new units at a value of about \$4 million compared to 51 units in the first six months of 2006 with a value of \$7 million. Therefore, these data do indicate some slowdown in construction in the county through the first half of 2007, but nothing as serious as is being experienced in many other parts of the country.

In Jefferson County, both Festus and Hillsboro have experienced slowdowns in housing construction. In those two cities, the number of permits has fallen from 86 to 57 from 2006 to 2007 (first six months) and the value of construction has fallen from \$7.3 million to \$4.7 million. These changes are pretty much in line with the drop of one-third in new housing starts at the national level over the past year.

It seems unlikely that the region will be affected as much by the housing slowdown as will other parts of the nation. This is mainly because southeast Missouri has not experienced the overbuilding that has characterized some markets, which has led to major declines in new construction. Sometimes, slow, but steady growth has its advantages.

Southeast Missouri Summary

	2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II
Bollinger						
Employment	5,666	5,716	5,594	5,703	5,743	5,758
Change (%)	0.9	0.9	-2.1	1.9	0.7	0.3
Unemployment (%)	5.7	5.0	5.3	5.3	5.9	4.4
Personal Income	265,852	269,148	270,833	275,379	281,457	
Change (%)	5.7	5.8	5.4	5.3	5.9	
Retail Sales	14,962	15,286	15,833	13,108	15,806	16,084
Last 4 Quarters	59,493	59,934	59,619	59,189	60,003	60,831
Butler						
Employment	20,046	20,376	19,862	19,920	20,044	20,315
Change (%)	-2.0	1.7	-2.5	0.3	0.6	1.4
Unemployment (%)	5.3	5.0	5.5	6.2	7.1	6.1
Personal Income	1,141,576	1,155,066	1,159,346	1,175,547	1,200,253	
Change (%)	6.6	6.1	5.3	4.6	5.1	
Retail Sales	139,029	145,907	143,724	130,371	146,507	146,943
Last 4 Quarters	553,845	559,633	562,383	559,031	566,509	567,545
Cape Girardeau						
Employment	37,472	37,806	37,000	37,717	37,985	38,082
Change (%)	1.6	0.9	-2.1	1.9	0.7	0.3
Unemployment (%)	4.2	4.1	4.2	3.7	4.3	3.9
Personal Income	2,111,641	2,138,844	2,151,068	2,187,822	2,238,271	
Change (%)	5.5	5.7	5.5	5.5	6.0	
Retail Sales	320,848	310,405	301,354	296,007	338,446	330,377
Last 4 Quarters	1,207,225	1,228,847	1,224,761	1,228,614	1,246,212	1,266,184
Carter						
Employment	2,565	2,673	2,784	2,863	2,714	2,848
Change (%)	-6.0	4.2	4.2	2.8	-5.2	4.9
Unemployment (%)	6.4	5.5	6.1	6.1	7.2	5.4
Personal Income	132,861	134,463	135,407	137,686	140,958	
Change (%)	5.8	5.7	5.3	5.2	5.8	
Retail Sales	9,677	10,334	11,908	8,972	9,134	11,294
Last 4 Quarters	39,622	40,773	41,043	40,891	40,348	41,308
Crawford						
Employment	10,790	11,334	11,299	11,120	11,034	11,425
Change (%)	-0.2	5.0	-0.3	-1.6	-0.8	3.5
Unemployment (%)	6.4	5.4	5.6	6.1	7.5	6.2
Personal Income	632,820	642,794	649,548	662,501	678,714	
Change (%)	7.3	7.2	6.8	6.7	7.2	
Retail Sales	45,456	49,153	53,260	45,520	47,677	46,518
Last 4 Quarters	192,334	194,143	193,422	193,389	195,610	192,975

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

	2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II
Dent						
Employment	5,991	6,170	5,993	6,105	6,062	6,253
Change (%)	3.4	3.0	-2.9	1.9	-0.7	3.2
Unemployment (%)	6.2	5.7	6.2	6.0	7.0	5.9
Personal Income	346,683	351,320	353,775	359,867	367,646	
Change (%)	5.8	5.9	5.5	5.5	6.0	
Retail Sales	34,469	39,208	40,090	34,228	37,660	37,892
Last 4 Quarters	140,840	145,221	148,281	147,995	151,186	149,870
Dunklin						
Employment	12,966	13,346	12,868	12,964	12,845	12,947
Change (%)	-3.1	2.9	-3.6	0.8	-0.9	0.8
Unemployment (%)	7.7	7.0	7.7	7.0	8.8	7.9
Personal Income	819,363	828,942	835,527	849,264	867,136	
Change (%)	5.9	5.7	5.4	5.3	5.8	
Retail Sales	NA	NA	NA	NA	NA	NA
Last 4 Quarters	NA	NA	NA	NA	NA	NA
Franklin						
Employment	49,674	50,521	50,635	50,698	50,384	50,911
Change (%)	-1.4	1.7	0.2	0.1	-0.6	1.1
Unemployment (%)	5.8	4.8	5.3	4.9	5.9	5.0
Personal Income	3,242,325	3,289,214	3,322,635	3,384,500	3,464,885	
Change (%)	7.6	7.3	6.7	6.4	6.9	
Retail Sales	246,743	269,144	278,682	244,137	262,472	280,621
Last 4 Quarters	1,049,430	1,055,911	1,050,839	1,038,706	1,054,435	1,065,912
Gasconade						
Employment	7,381	7,655	7,523	7,614	7,564	7,774
Change (%)	2.2	3.7	-1.7	1.2	-0.7	2.8
Unemployment (%)	6.0	5.3	6.0	4.8	5.6	5.1
Personal Income	413,138	418,678	421,977	429,510	438,944	
Change (%)	5.9	5.9	5.7	5.7	6.2	
Retail Sales	36,884	41,951	44,899	41,793	43,363	43,552
Last 4 Quarters	154,049	157,498	161,370	165,527	172,006	173,607
Iron						
Employment	4,566	4,629	4,519	4,567	4,619	4,674
Change (%)	3.5	1.4	-2.4	1.0	1.1	1.2
Unemployment (%)	6.3	5.2	5.6	5.5	6.5	5.5
Personal Income	237,954	240,824	242,327	246,144	251,212	
Change (%)	5.5	5.5	5.1	5.0	5.6	
Retail Sales	14,401	18,482	17,008	16,011	18,004	18,396
Last 4 Quarters	76,116	73,841	67,633	65,902	69,505	69,419

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

	2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II
Jefferson						
Employment	110,020	111,897	112,149	112,288	111,593	112,670
Change (%)	-0.7	1.7	0.2	0.1	-0.6	1.1
Unemployment (%)	5.3	4.5	4.9	4.5	5.5	4.7
Personal Income	6,510,974	6,229,701	6,276,245	6,385,176	6,523,429	
Change (%)	6.0	6.0	5.6	5.5	6.1	
Retail Sales	493,157	538,034	533,085	451,010	509,214	538,713
Last 4 Quarters	2,014,988	2,063,384	2,054,373	2,015,286	2,031,343	2,032,022
Madison						
Employment	5,482	5,609	5,451	5,595	5,561	5,618
Change (%)	-1.7	2.3	-2.8	2.6	-0.6	1.0
Unemployment (%)	5.9	5.3	5.5	5.3	6.3	5.3
Personal Income	269,235	273,429	276,013	281,455	288,239	
Change (%)	7.6	7.4	6.8	6.5	7.1	
Retail Sales	23,995	25,748	24,726	23,504	25,170	27,823
Last 4 Quarters	91,943	96,075	97,871	97,973	99,148	101,223
Mississippi						
Employment	5,326	5,488	5,269	5,407	5,232	5,325
Change (%)	-2.6	3.0	-4.0	2.6	-3.2	1.8
Unemployment (%)	6.8	6.3	7.0	6.6	7.0	6.5
Personal Income	293,216	294,862	293,552	296,346	299,419	
Change (%)	1.8	1.8	1.6	1.6	2.1	
Retail Sales	20,017	21,348	24,241	19,169	22,069	23,255
Last 4 Quarters	83,590	84,217	84,726	84,775	86,827	88,734
New Madrid						
Employment	7,927	8,051	7,772	7,904	7,908	7,978
Change (%)	4.5	1.6	-3.5	1.7	0.1	0.9
Unemployment (%)	6.8	6.4	6.9	6.8	7.7	6.9
Personal Income	463,439	469,997	473,868	482,530	493,917	
Change (%)	4.6	4.8	5.0	5.6	6.6	
Retail Sales	76,125	74,164	73,891	69,044	75,335	75,540
Last 4 Quarters	292,005	293,352	293,828	293,225	292,434	293,810
Pemiscot						
Employment	7,358	7,475	7,269	7,413	7,449	7,512
Change (%)	5.6	1.6	-2.8	2.0	0.5	0.8
Unemployment (%)	7.4	6.7	7.2	6.2	7.0	6.2
Personal Income	466,183	470,427	470,422	478,916	489,511	
Change (%)	6.1	6.0	5.5	5.6	5.0	
Retail Sales	33,092	36,268	37,646	32,340	38,066	46,601
Last 4 Quarters	128,883	133,719	137,572	139,346	144,320	154,653

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

	2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II
Perry						
Employment	9,773	9,903	9,846	9,906	9,882	9,911
Change (%)	-1.3	1.3	-0.6	0.6	-0.2	0.3
Unemployment (%)	3.7	3.5	3.7	3.3	4.0	3.6
Personal Income	478,057	484,449	488,531	497,370	508,492	
Change (%)	6.6	6.4	5.9	5.8	6.4	
Retail Sales	54,765	58,208	59,035	54,497	59,823	59,976
Last 4 Quarters	223,967	224,736	225,281	226,505	231,563	233,331
Reynolds						
Employment	2,142	2,313	2,396	2,359	2,332	2,538
Change (%)	-13.4	8.0	3.6	-1.5	-1.1	8.8
Unemployment (%)	8.2	6.3	6.4	7.2	7.7	6.0
Personal Income	147,525	149,288	150,312	152,799	156,011	
Change (%)	5.8	5.7	5.3	5.2	5.7	
Retail Sales	NA	NA	NA	NA	NA	NA
Last 4 Quarters	NA	NA	NA	NA	NA	NA
Ripley						
Employment	6,040	6,123	5,920	6,124	6,081	6,197
Change (%)	-1.2	1.4	-3.3	3.4	-0.7	1.9
Unemployment (%)	5.8	5.5	6.1	6.2	6.8	6.3
Personal Income	291,172	295,102	297,573	302,946	309,764	
Change (%)	6.5	6.4	5.9	5.8	6.4	
Retail Sales	NA	NA	NA	NA	NA	NA
Last 4 Quarters	NA	NA	NA	NA	NA	NA
Scott						
Employment	18,833	19,406	18,869	19,115	19,070	19,295
Change (%)	-0.8	3.1	-2.8	1.3	-0.2	1.2
Unemployment (%)	5.5	5.1	5.6	5.7	6.0	5.2
Personal Income	1,092,423	1,105,452	1,112,516	1,130,756	1,154,358	
Change (%)	5.7	5.6	5.2	5.1	5.7	
Retail Sales	76,789	84,278	91,367	76,347	85,967	105,050
Last 4 Quarters	324,486	328,680	329,757	328,781	337,959	358,967
Ste. Genevieve						
Employment	9,026	9,274	9,179	9,167	9,096	9,261
Change (%)	5.4	2.8	-1.0	-0.1	-0.8	1.8
Unemployment (%)	5.0	4.5	4.8	4.5	5.5	4.4
Personal Income	469,092	476,423	481,339	490,603	502,380	
Change (%)	5.8	6.2	6.4	5.9	6.4	
Retail Sales	36,171	39,791	43,037	36,211	38,846	43,195
Last 4 Quarters	148,329	151,410	151,683	155,210	157,885	161,289

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

	2006 I	2006 II	2006 III	2006 IV	2007 I	2007 II
St. Francois						
Employment	25,633	26,417	25,710	26,011	26,162	26,730
Change (%)	0.5	3.1	-2.7	1.2	0.6	2.2
Unemployment (%)	6.5	5.7	6.0	5.7	6.4	5.4
Personal Income	1,429,288	1,452,359	1,460,288	1,484,861	1,520,185	
Change (%)	6.3	6.5	6.0	5.9	6.4	
Retail Sales	169,198	179,714	173,832	161,573	173,091	184,315
Last 4 Quarters	667,862	680,607	682,229	684,317	688,230	692,811
Stoddard						
Employment	14,732	14,618	14,257	14,656	14,551	14,627
Change (%)	-1.8	-0.8	-2.5	2.8	-0.7	0.5
Unemployment (%)	5.9	5.5	5.9	5.8	7.2	6.0
Personal Income	743,937	754,967	760,870	773,132	789,758	
Change (%)	7.3	6.9	6.1	5.6	5.8	
Retail Sales	61,345	69,635	65,764	58,864	68,539	70,534
Last 4 Quarters	257,183	264,485	262,335	255,518	262,712	263,701
Washington						
Employment	9,173	9,329	9,350	9,362	9,304	9,401
Change (%)	-1.9	1.7	0.2	0.1	-0.6	1.1
Unemployment (%)	9.1	7.0	7.1	8.3	9.7	7.3
Personal Income	492,350	497,159	499,566	506,670	516,339	
Change (%)	5.5	5.2	4.6	4.3	4.9	
Retail Sales	35,179	38,222	39,458	33,773	39,757	39,111
Last 4 Quarters	145,262	148,228	148,754	146,632	151,210	152,099
Wayne						
Employment	5,167	5,304	5,139	5,156	5,120	5,250
Change (%)	-0.7	2.6	-3.1	0.3	-0.7	2.5
Unemployment (%)	6.7	6.1	6.6	6.8	7.9	6.7
Personal Income	283,393	287,249	289,688	294,955	301,632	
Change (%)	6.5	6.4	6.0	5.8	6.4	
Retail Sales	20,436	22,853	23,897	19,728	22,041	24,414
Last 4 Quarters	87,934	88,707	88,275	86,914	88,519	90,080
Southeast Missouri						
Employment	393,749	401,433	396,653	399,734	398,335	403,300
Change (%)	-0.4	2.0	-1.1	0.8	-0.3	1.2
Unemployment (%)	5.7	5.0	5.4	5.2	6.1	5.2
Personal Income	22,414,497	22,710,157	22,873,226	23,266,735	23,782,910	
Change (%)	6.2	6.2	5.7	5.6	6.1	
Retail Sales	1,962,738	2,088,133	2,096,717	1,866,207	2,076,795	2,170,204
Last 4 Quarters	7,939,386	8,073,361	8,069,014	8,013,795	8,128,044	8,210,371

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

CEBR to Expand its Activities Thanks to EDA Grant

The Missouri Research Corporation has received a grant that will allow the Center for Economic & Business Research in the Donald L. Harrison College of Business to increase its activities and services to the southeast Missouri region. The grant is from the Economic Development Administration, an agency in the U.S. Department of Commerce. The EDA has designated the CEBR as an EDA University Center. The grant is renewable for two additional years (three years total) and is for \$85,000 per year.

The expanded activities of the CEBR include the following:

- a) Complete research projects of local interest and present the results of the research at an annual conference targeted to community leaders and economic developers
- b) Host an annual workshop to provide technical support to local government officials and community planners
- c) Develop community profiles and written reports for communities
- d) Provide scenario planning studies that indicate the impact of hypothetical gains and losses of businesses to aid planning purposes
- e) Conduct Economic impact studies for proposed changes, new businesses, etc.
- f) Host at least one workshop annually devoted to geographic information systems (GIS) to aid local communities in their planning activities

The CEBR will work cooperatively with other agencies in the region to coordinate development activities and maximize the impact of such activities on the region.

The next three years promise to be very exciting for the CEBR as it expands its services and outreach to the region. It is hoped that as a result of the EDA grant, the CEBR will continue to make a positive contribution to the economic development of the region. In addition to the activities listed above, the CEBR will focus on improving its newsletter and website to increase their value to its constituents.