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Donald L. Harrison College of  
Business

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**Executive Summary**

The economy grew at a robust 5.3% in the first quarter of 2006. Unemployment has fallen to 4.7%, while inflation shows some signs of picking up. Additional increases in interest rates may be forthcoming to keep inflation in check.

Southeast Missouri begins 2006 on a positive note as personal income and retail sales both exhibit strong growth. Employment dipped a bit in the first quarter, but all of the decrease is due to seasonal factors. Expect employment to rebound in the second quarter.

**Southeast Missouri Business Indicators**  
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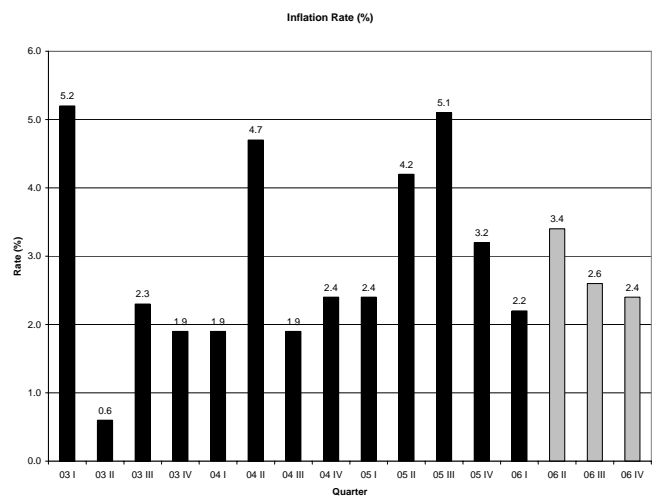
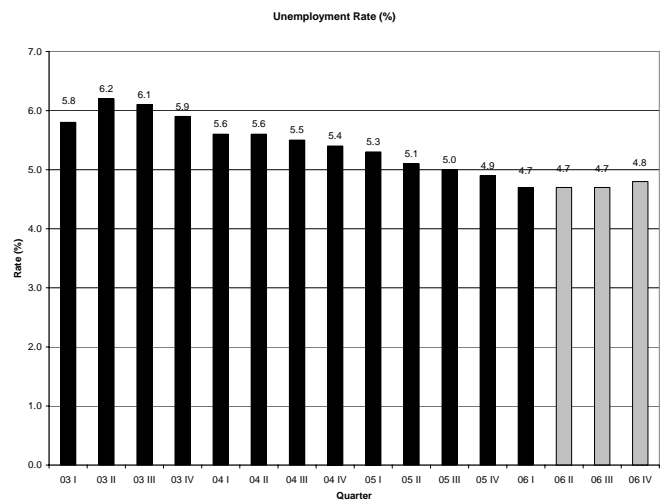
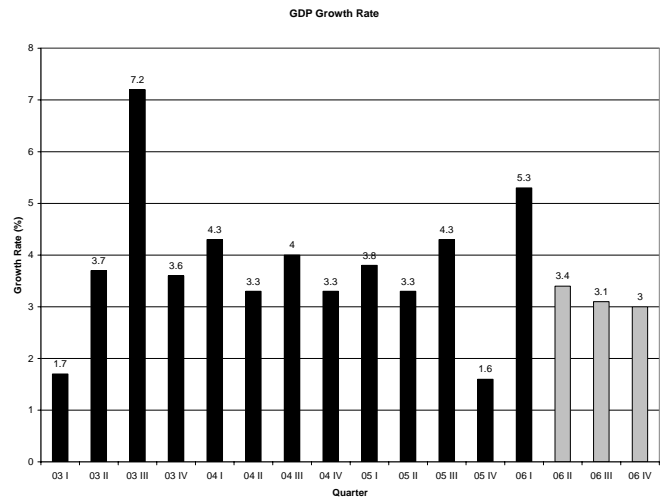
## Economy Registers Outstanding Quarter after Lackluster End to 2005

After an unimpressive end to 2005, economic growth as measured by real Gross Domestic Product (GDP) zoomed ahead at an average annual rate of 5.3% in the first quarter of 2006, the fastest growth rate since the third quarter of 2003. Buoyed by consumer spending as well as government spending, the economy started 2006 on a positive note. Growth is expected to moderate in the second quarter to a 3.4% rate and be down to a 3% average annual rate by the end of the year. Taken together, the growth rate for all of 2006 should come in around 3.6%. Consumer spending is already showing signs of slowing in the second quarter, which is actually a good sign since a 5.3% growth rate is not sustainable.

The labor market remains strong with unemployment at 4.7% for the first quarter and down to 4.6% in May. Most forecasts are for the unemployment rate to hover in the 4.7% range for the remainder of the year. Given past experience, it seems unlikely that a lower unemployment rate can be maintained without kicking off inflation, which has become the variable of focus, especially to the Federal Reserve System.

After several years of modest price increases (2-2.5% range), there are worrying signs that inflation is starting to build up. Recent increases in core inflation (after taking out volatile segments of energy and food) indicate an inflation rate closer to 3.5% for the year. While 3.5% is still a modest figure, the price level would double in a little over 20 years at that rate of increase.

As a result of inflationary concerns, the Federal Reserve System has continued its steady march to higher interest rates. The Fed's target interest rate, the Federal Funds rate, now stands at 5% and the Fed has made



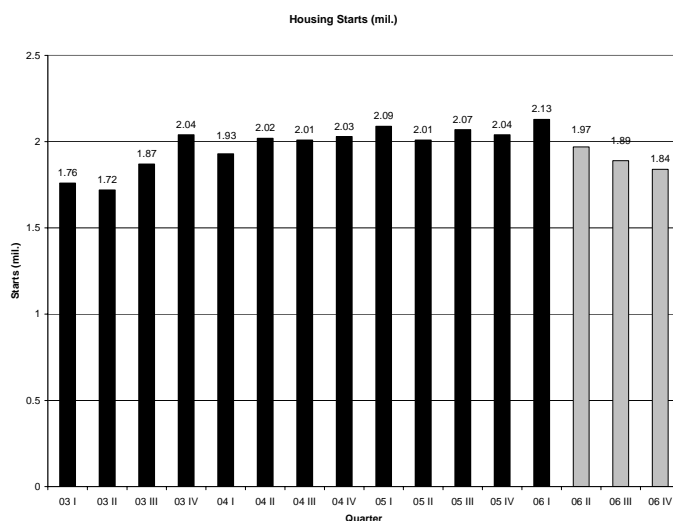
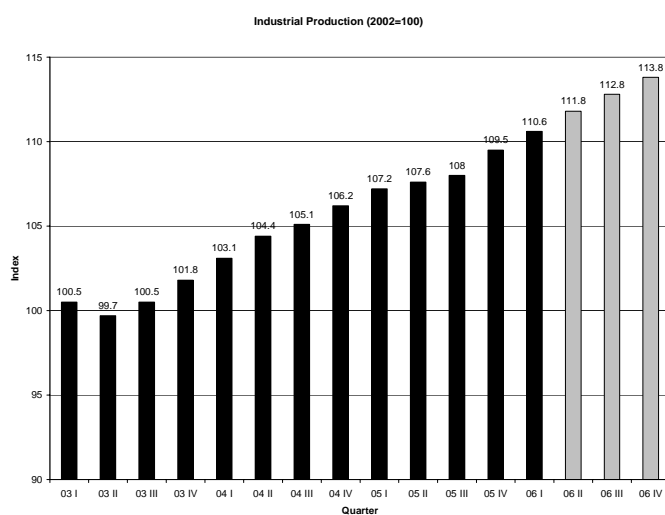
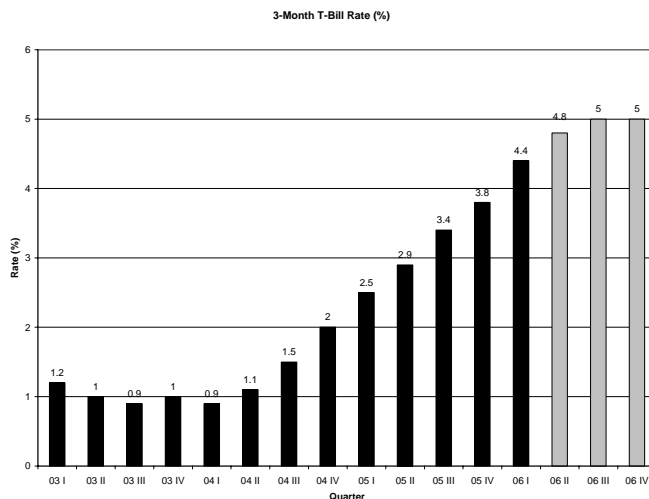
it clears to the markets (maybe too clear) that it stands ready to take whatever steps are necessary to head off inflation. It is quite likely that we will witness another rate hike at the next Fed meeting in late June.

Despite higher interest rates, industrial production and housing starts continue at a healthy pace. While some slowdown in housing starts is now seen as inevitable, 2006 still should be a good year for the housing sector. For the year, we can expect close to 2 million new units to be constructed.

Industrial production continues to increase (though it dipped slightly in May) and is a real bright spot in the economy at present. Exports have picked up a bit and have helped to whittle away at our trade deficit, however modestly.

The next 6-12 months will be very difficult for policymakers. The combination of a clearly slowing economy along with signs of a pickup in inflation makes it difficult to determine the correct policy. Raising interest rates too much and too fast could conceivably choke the economy so much as to send it into a tailspin. But on the other hand, failing to address higher prices can lead to an increase in inflation expectations and serious problems down the road. Add in the fact that policy tools, particularly monetary policy, work with a considerable lag (6-12 months in some cases), and one can see the difficult faced by policymakers.

The economy's greatest asset is its resiliency, and that could be severely tested over the coming months if interest rates are raised too high or not high enough.



## **Southeast Missouri Economy Looks to Be Poised for a Solid Year**

The year 2006 started off on a positive note for southeast Missouri. While employment dipped a bit from the previous quarter, it can all be attributed to seasonal factors. A better comparison is with the same quarter last year: employment is up 1.2%, a good sign of a growing economy. Unemployment is also up a bit over the previous quarter (5.8% v. 5.2%), but again, it compares favorably with the same period a year ago (5.8% v. 6.8%).

Personal income growth has slowed a bit from its torrid pace of a year ago, but is still growing at almost a five percent average annual rate. For all of 2005, personal income in the region was about \$21.7 billion, an increase of about 5.5% over 2004. For 2006, we can expect personal income growth to be in the neighborhood of 4.5-5.0%.

Retail sales continue to shine in the region. In the first quarter of 2006, retail sales increased by 2.1% over the previous quarter. Given the growth in personal income that is expected for 2006, retail sales should increase by about 3% over 2005. It is anticipated that retail sales for 2006 will exceed \$8 billion in southeast Missouri.

In summary, the region's economy is on solid ground right now and can expect a good year in 2006. While higher interest rates will likely act as a drag on the economy (just as at the national level), it is not likely to be enough to cause a significant slowdown in the near future.

## **Nonlabor Income in Southeast Missouri**

The table on page 11 gives nonlabor income for the 24 counties of southeast Missouri. There are two major components of nonlabor income to a region: earnings from capital and land: dividends interest and rent; and transfer payments from government. The latter include such items as Social Security payments, unemployment compensation, welfare payments, etc. Transfer payments do not include the value of nonmonetary items such as Medicaid and Medicare.

The receipt of dividends, rent and interest, to some extent can tell us about the wealth of a county. The more wealth that is in the hands of individuals, the more dividends, rent and interest they will receive. To a lesser extent, the age of the population is also reflected in this figure since older people tend to have more accumulated wealth than younger people.

Transfer payments also depend on the age of the population (an older population will receive more Social Security benefits, for example). But they also depend on the economic well-being of the population. A county with relatively poorer residents will receive more financial assistance from government, which is reflected in the amount of transfer payments in personal income. For example, in the relatively wealthy county of Cape Girardeau, transfer payments are only 16.6% of total personal income in the county. Contrast that with Wayne, Reynolds and Ripley counties where transfer payments are over 40% of total personal income.

If we use the table on page 11 with care, we can infer quite a bit about the region just by examining its nonlabor income. Note that the variation in transfer payments as a percent of personal income is much greater (16.6% - 43.3%) than it is for dividends, rent and interest (7.6% - 19.7%).

### Southeast Missouri Summary

	2004 IV	2005 I	2005 II	2005 III	2005 IV	2006 I
<b>Bollinger</b>						
Employment	5,615	5,521	5,568	5,496	5,616	5,561
Change (%)	0.9	-1.7	0.9	-1.3	2.2	-1.0
Unemployment (%)	6.1	7.2	5.9	5.4	5.6	6.0
Personal Income	253,923	255,434	258,470	260,714	265,077	
Change (%)	63.5	5.5	5.6	5.4	4.4	
Retail Sales	13,710	13,949	14,845	16,148	13,538	14,962
Last 4 Quarters	57,127	56,956	56,746	58,652	58,390	59,493
<b>Butler</b>						
Employment	19,886	19,994	20,404	20,235	20,452	20,578
Change (%)	-0.3	0.5	2.1	-0.8	1.1	0.6
Unemployment (%)	5.4	6.0	5.4	5.0	5.0	5.3
Personal Income	1,081,279	1,092,043	1,109,016	1,121,399	1,142,763	
Change (%)	8.5	7.2	7.1	6.7	5.7	
Retail Sales	131,344	136,546	140,119	140,974	133,723	139,029
Last 4 Quarters	532,955	538,077	539,592	548,893	551,272	553,8454
<b>Cape Girardeau</b>						
Employment	36,863	36,245	36,558	36,084	36,876	36,508
Change (%)	0.9	-1.7	0.9	-1.3	2.2	-1.0
Unemployment (%)	4.3	4.8	4.6	4.2	4.0	4.3
Personal Income	2,044,679	2,055,523	2,079,950	2,093,279	2,127,638	
Change (%)	6.6	5.3	5.3	5.0	4.1	
Retail Sales	280,013	305,110	288,783	305,440	292,154	320,848
Last 4 Quarters	1,147,567	1,160,313	1,161,079	1,179,346	1,191,487	1,207,225
<b>Carter</b>						
Employment	2,668	2,532	2,718	2,721	2,729	2,626
Change (%)	-0.4	-5.1	7.4	0.1	0.3	-3.7
Unemployment (%)	7.0	8.5	6.0	5.6	5.9	6.4
Personal Income	125,699	126,473	128,102	129,428	131,621	
Change (%)	6.7	5.6	5.8	5.7	4.7	
Retail Sales	8,955	9,122	9,183	11,638	9,124	9,677
Last 4 Quarters	38,581	37,529	38,173	38,898	39,067	39,622
<b>Crawford</b>						
Employment	10,734	10,583	11,034	11,004	10,817	10,695
Change (%)	-0.9	-1.4	4.3	-0.3	-1.7	-1.1
Unemployment (%)	6.1	7.4	5.8	5.5	5.7	6.5
Personal Income	599,309	605,179	615,325	623,991	636,737	
Change (%)	8.3	7.2	7.4	7.2	6.2	
Retail Sales	45,864	42,287	47,254	53,981	45,643	45,456
Last 4 Quarters	183,210	183,986	187,180	189,386	189,165	192,334

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

	2004 IV	2005 I	2005 II	2005 III	2005 IV	2006 I
<b>Dent</b>						
Employment	5,806	5,706	5,919	5,807	5,797	5,718
Change (%)	-1.8	-1.7	3.7	-1.9	-0.2	-1.4
Unemployment (%)	6.6	7.4	6.4	6.2	6.1	6.6
Personal Income	328,909	330,773	335,025	338,280	343,803	
Change (%)	6.9	5.7	5.7	5.5	4.5	
Retail Sales	32,785	34,213	34,827	37,030	34,514	34,469
Last 4 Quarters	134,122	136,250	137,103	138,855	140,584	140,840
<b>Dunklin</b>						
Employment	13,329	13,284	13,463	13,209	13,374	13,298
Change (%)	0.1	-0.3	1.4	-1.9	1.2	-0.6
Unemployment (%)	7.2	8.1	7.4	7.1	7.1	7.8
Personal Income	787,207	791,806	802,149	811,056	824,244	
Change (%)	6.7	5.6	5.8	5.7	4.7	
Retail Sales	NA	NA	NA	NA	NA	NA
Last 4 Quarters	NA	NA	NA	NA	NA	NA
<b>Franklin</b>						
Employment	50,016	49,599	50,339	50,653	50,367	50,151
Change (%)	-0.2	-0.8	1.5	0.6	-0.6	-0.4
Unemployment (%)	5.4	6.8	5.4	5.4	4.8	5.8
Personal Income	2,826,599	2,839,919	2,873,496	2,899,221	2,945,421	
Change (%)	6.1	5.0	5.2	5.1	4.2	
Retail Sales	246,136	250,684	262,663	283,754	256,270	246,743
Last 4 Quarters	1,005,425	1,020,550	1,024,051	1,043,237	1,053,371	1,049,430
<b>Gasconade</b>						
Employment	7,219	7,082	7,239	7,181	7,222	7,118
Change (%)	1.1	-1.9	2.2	-0.8	0.6	-1.4
Unemployment (%)	5.6	6.7	5.4	5.3	5.0	6.3
Personal Income	392,928	394,980	399,944	403,661	410,392	
Change (%)	6.3	5.3	5.5	5.4	4.4	
Retail Sales	37,282	35,822	38,502	41,027	37,636	36,884
Last 4 Quarters	146,291	148,160	149,586	152,633	152,987	154,049
<b>Iron</b>						
Employment	4,464	4,404	4,481	4,426	4,412	4,425
Change (%)	0.3	-1.3	1.7	-1.2	-0.3	0.3
Unemployment (%)	8.1	8.9	7.3	6.7	6.8	6.7
Personal Income	223,131	224,243	226,829	228,882	232,431	
Change (%)	6.2	5.0	5.3	5.1	4.2	
Retail Sales	15,783	22,375	20,757	23,216	17,742	14,401
Last 4 Quarters	64,522	71,815	76,301	82,131	84,090	76,116

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

	2004 IV	2005 I	2005 II	2005 III	2005 IV	2006 I
<b>Jefferson</b>						
Employment	110,033	109,115	110,743	111,433	110,804	110,330
Change (%)	-0.2	-0.8	1.5	0.6	-0.6	-0.4
Unemployment (%)	5.3	6.3	5.0	5.1	4.5	5.3
Personal Income	5,878,491	5,912,160	5,988,409	6,047,816	6,150,323	
Change (%)	6.6	5.5	5.7	5.6	4.6	
Retail Sales	458,524	484,417	489,638	542,096	490,097	493,157
Last 4 Quarters	1,905,982	1,940,692	1,934,515	1,974,675	2,006,248	2,014,988
<b>Madison</b>						
Employment	5,447	5,475	5,693	5,562	5,578	5,600
Change (%)	0.7	0.5	3.0	-1.4	0.3	0.4
Unemployment (%)	6.1	7.0	6.3	6.0	5.8	5.9
Personal Income	251,636	254,444	258,991	262,789	268,360	
Change (%)	7.8	7.6	6.8	6.7	6.6	
Retail Sales	20,015	20,118	21,616	22,930	23,402	23,995
Last 4 Quarters	83,099	83,060	83,427	84,679	88,156	91,943
<b>Mississippi</b>						
Employment	5,479	5,337	5,521	5,330	5,471	5,317
Change (%)	0.3	-2.6	3.4	-3.4	2.6	-2.8
Unemployment (%)	8.0	8.1	7.1	7.0	6.5	6.8
Personal Income	295,842	294,422	295,617	294,372	296,628	
Change (%)	4.8	2.9	2.3	1.4	0.3	
Retail Sales	19,150	19,609	20,811	23,732	19,030	20,017
Last 4 Quarters	83,340	83,605	83,352	83,302	83,182	83,590
<b>New Madrid</b>						
Employment	7,706	7,643	7,808	7,465	7,585	7,547
Change (%)	2.0	-0.8	2.2	-4.4	1.6	-0.5
Unemployment (%)	7.6	8.3	7.3	7.2	6.8	7.4
Personal Income	449,100	452,047	457,907	460,938	466,481	
Change (%)	7.6	6.2	6.0	5.4	3.9	
Retail Sales	67,493	74,050	72,817	73,415	69,648	76,125
Last 4 Quarters	285,307	286,542	288,217	287,775	289,930	292,005
<b>Pemiscot</b>						
Employment	7,008	6,972	7,079	6,912	6,965	6,933
Change (%)	1.1	-0.5	1.5	-2.4	0.8	-0.5
Unemployment (%)	8.1	9.3	8.3	7.9	7.8	8.2
Personal Income	446,652	449,115	453,600	455,253	463,030	
Change (%)	5.6	4.4	4.7	4.7	3.7	
Retail Sales	29,578	31,477	31,432	33,793	30,566	33,092
Last 4 Quarters	121,982	121,190	122,012	126,280	127,268	128,883

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

	2004 IV	2005 I	2005 II	2005 III	2005 IV	2006 I
<b>Perry</b>						
Employment	9,775	9,546	9,779	9,993	9,901	9,745
Change (%)	-0.2	-2.3	2.4	2.2	-0.9	-1.6
Unemployment (%)	4.0	4.8	4.4	3.8	3.6	3.8
Personal Income	454,230	458,700	466,499	472,968	481,966	
Change (%)	8.1	7.4	7.5	7.3	6.1	
Retail Sales	52,462	54,350	57,439	58,490	53,273	54,765
Last 4 Quarters	216,917	216,720	216,953	222,921	223,732	223,967
<b>Reynolds</b>						
Employment	2,384	2,404	2,600	2,524	2,474	2,455
Change (%)	-1.9	0.8	8.2	-2.9	-2.0	-0.8
Unemployment (%)	8.3	9.4	7.1	6.3	7.3	7.4
Personal Income	141,052	141,921	143,737	145,220	147,670	
Change (%)	6.7	5.6	5.8	5.6	4.7	
Retail Sales	NA	NA	NA	NA	NA	NA
Last 4 Quarters	NA	NA	NA	NA	NA	NA
<b>Ripley</b>						
Employment	5,698	5,956	6,105	5,892	6,115	6,133
Change (%)	4.1	0.2	2.5	-3.5	3.8	0.3
Unemployment (%)	5.9	6.6	6.1	6.0	5.5	5.9
Personal Income	272,486	274,427	278,195	281,318	286,316	
Change (%)	7.1	6.0	6.2	6.1	5.1	
Retail Sales	NA	NA	NA	NA	NA	NA
Last 4 Quarters	NA	NA	NA	NA	NA	NA
<b>Scott</b>						
Employment	18,885	18,750	19,242	18,862	18,986	18,833
Change (%)	0.2	-0.7	2.6	-2.0	0.7	-0.8
Unemployment (%)	6.3	6.4	5.9	5.6	5.2	5.5
Personal Income	1,036,491	1,042,133	1,055,149	1,064,265	1,081,682	
Change (%)	6.4	5.3	5.4	5.3	4.4	
Retail Sales	75,029	80,257	80,085	90,290	77,322	76,789
Last 4 Quarters	321,980	325,366	319,646	325,661	327,954	324,486
<b>Ste. Genevieve</b>						
Employment	8,575	8,439	8,638	8,617	8,565	8,437
Change (%)	-1.6	-1.6	2.4	-0.2	-0.6	-1.5
Unemployment (%)	5.4	6.8	5.7	5.0	5.0	5.4
Personal Income	447,872	449,620	454,554	458,131	464,588	
Change (%)	6.5	5.2	5.1	4.8	3.7	
Retail Sales	36,278	33,485	36,710	42,764	32,684	36,171
Last 4 Quarters	131,443	132,217	134,008	149,237	148,643	148,329

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

	2004 IV	2005 I	2005 II	2005 III	2005 IV	2006 I
<b>St. Francois</b>						
Employment	25,122	25,053	25,609	25,392	25,500	25,642
Change (%)	0.1	-0.3	2.2	-0.9	0.4	0.6
Unemployment (%)	7.1	7.9	6.5	6.0	6.0	6.4
Personal Income	1,367,259	1,377,880	1,397,425	1,410,865	1,435,444	
Change (%)	8.1	6.4	6.1	5.9	5.0	
Retail Sales	156,296	165,182	166,969	172,210	159,485	169,198
Last 4 Quarters	632,897	640,533	650,339	660,567	663,756	667,862
<b>Stoddard</b>						
Employment	14,666	14,602	14,823	14,581	14,994	14,900
Change (%)	2.2	-0.4	1.5	-1.6	2.8	-0.6
Unemployment (%)	6.0	6.9	5.6	5.4	5.3	5.9
Personal Income	749,783	760,470	776,170	788,949	804,864	
Change (%)	8.4	7.2	7.1	6.6	7.3	
Retail Sales	51,188	56,966	62,333	67,914	65,591	61,345
Last 4 Quarters	226,868	228,488	231,009	238,401	252,804	257,183
<b>Washington</b>						
Employment	9,287	9,209	9,346	9,405	9,352	9,311
Change (%)	-0.2	-0.8	1.5	0.6	-0.6	-0.4
Unemployment (%)	8.9	10.3	7.9	8.0	8.2	9.2
Personal Income	467,554	470,609	476,278	480,816	488,187	
Change (%)	7.7	6.2	6.0	5.6	4.4	
Retail Sales	33,720	34,435	35,256	38,932	35,895	35,179
Last 4 Quarters	138,145	139,671	139,907	142,343	144,518	145,262
<b>Wayne</b>						
Employment	5,122	5,079	5,275	5,184	5,202	5,177
Change (%)	-0.3	-0.8	3.9	-1.7	0.3	-0.5
Unemployment (%)	6.4	8.5	7.1	6.2	6.4	6.8
Personal Income	264,531	266,422	270,091	273,133	277,998	
Change (%)	7.1	6.0	6.2	6.1	5.1	
Retail Sales	20,927	30,887	22,080	24,329	21,089	20,436
Last 4 Quarters	86,546	87,295	87,457	88,223	88,385	87,934
<b>Southeast Missouri</b>						
Employment	391,787	388,530	395,984	393,968	395,154	393,038
Change (%)	0.3	-0.9	1.9	-0.5	0.3	-0.5
Unemployment (%)	5.8	6.8	5.7	5.5	5.2	5.8
Personal Income	21,286,642	21,320,743	21,598,928	21,806,744	22,173,664	
Change (%)	6.9	5.7	5.8	5.6	4.7	
Retail Sales	1,832,532	1,925,541	1,954,158	2,104,013	1,921,426	1,962,738
Last 4 Quarters	7,543,254	7,654,389	7,678,563	7,816,244	7,904,989	7,939,386

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

## Nonlabor Income, 2004

County	Personal Income	Dividends, Rent, Interest	Percent (%)	Transfer Payments	Percent (%)
Bollinger	\$249,453	\$30,263	12.1	\$68,516	27.5
Butler	1,062,896	129,581	12.2	309,184	29.1
Cape Girardeau	2,009,864	395,058	19.7	333,535	16.6
Carter	126,522	18,847	14.9	45,998	36.4
Crawford	576,296	67,856	11.8	141,280	24.5
Dent	311,615	43,941	14.1	99,020	31.8
Dunklin	764,433	85,615	11.2	254,758	33.3
Franklin	2,757,570	381,946	13.8	434,795	15.8
Gasconade	376,335	74,123	19.7	86,813	23.1
Iron	216,918	24,140	11.1	81,892	37.8
Jefferson	5,717,143	600,600	10.5	829,580	14.5
Madison	240,481	31,492	13.1	81,636	33.9
Mississippi	295,677	39,241	13.3	98,935	33.5
New Madrid	451,456	47,040	10.4	133,844	29.6
Pemiscot	453,010	55,760	12.3	154,143	34.0
Perry	443,036	60,529	13.7	89,423	20.2
Reynolds	137,030	16,454	12.0	56,536	41.3
Ripley	266,721	29,132	10.9	109,833	41.2
Scott	1,009,881	129,441	12.8	260,754	25.8
Ste. Genevieve	433,947	72,921	16.8	83,894	19.3
St. Francois	1,333,221	180,306	13.5	362,008	27.2
Stoddard	711,737	81,709	11.5	199,059	28.0
Washington	451,099	34,159	7.6	139,482	30.9
Wayne	258,603	26,698	10.3	112,075	43.3
SE Missouri	20,654,944	2,656,852	12.8	4,566,993	22.1

Source: Bureau of Economic Analysis, <http://www.bea.gov>