

## **Economic Indicators and Trends**

Taggart J. Brooks, Ph.D., UW-La Crosse Department of Economics

*Core economic indicators have been tracked since 2001 to have objective measures for our 7 Rivers Region economy. Dr. Brooks begins with some observations on the region's economy and then turns to some macroeconomic observations for the nation and the state.*

### **Housing Bubble**

I wish I lived in a bubble -- a housing bubble that is. I wish I had bought a house in Gilbert, Arizona, the 4th fastest growing city in the US last year. According to the *Arizona Republic*, median home prices in Gilbert have risen 49 percent in the last year, increasing from \$212,000 in July 2004 to \$315,000 in July 2005. With appreciation like that, you don't need a job, you could merely refinance every month. But if you are living in this bubble, you have to ask yourself two questions: what has caused such rapid appreciation and what are the likely consequences for the economy?

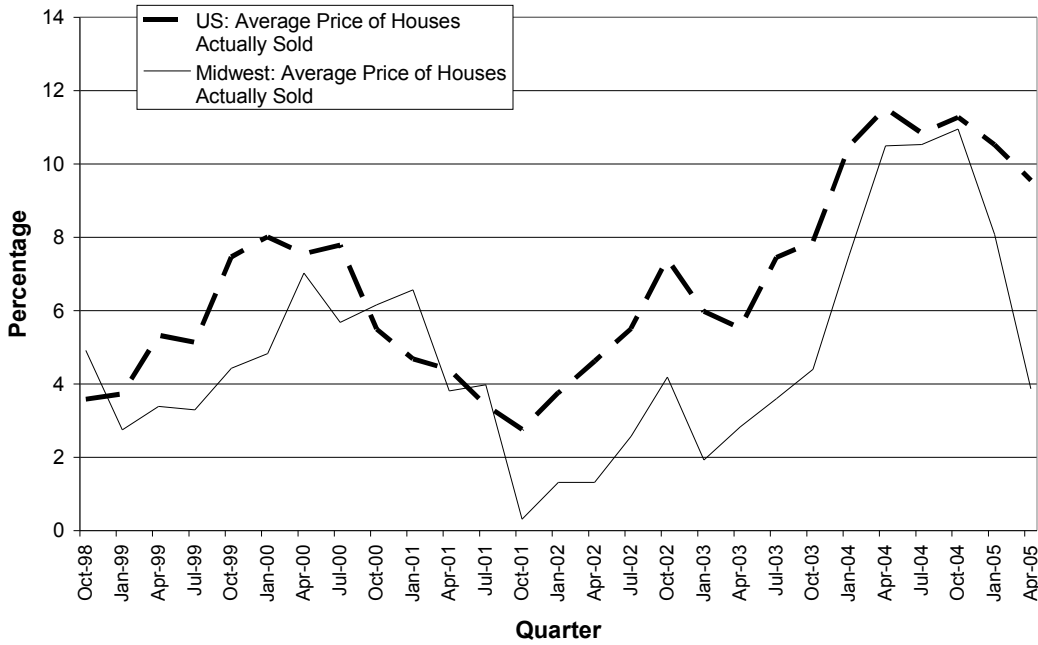
As any economist will tell you, price is merely a matter of supply and demand. What does Gilbert have that we don't and what makes it a potential bubble? First, look at the supply side. We have existing homes and new construction, provided there is land and the local government allows using it for housing. Clearly in the case of land, supply is fixed. It is the one thing that can't be made. Although growth can go upward, government regulations can be restrictive. Thus, supply is constrained. However, demand is determined by the number of people who want to move to a region, their income, and the desire to own a home.

As population expands on a fixed amount of land, it is a fair bet that prices will rise. When do they rise so fast that the price appreciation may be termed a bubble? Normally, people looking for a place to reside do not generate enough demand for a bubble. In order for a market to see unsustainable price appreciation, real estate speculators must be present. These are individuals or companies that are looking for an investment. They buy a property hoping for rapidly rising prices that will allow a future sale for profit.

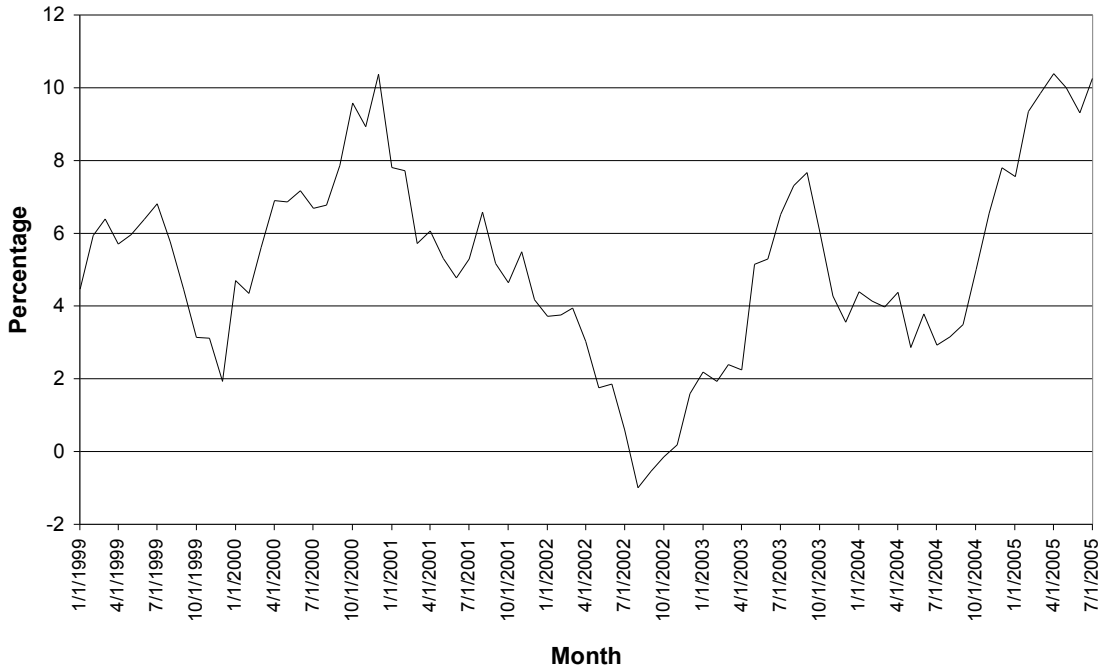
There is no housing bubble in the 7 Rivers Region. The Region has not seen the kind of population inflow that would warrant such dramatic increases in property values. Likewise, it has not seen the investment speculation that sometimes follows dramatic population shifts.

What the Region has seen is a fairly robust price appreciation in the housing market due to several factors. The appreciation can be attributed to continued low interest rates which have fueled first time home buyers, rising incomes, and continued population growth in the region. The average price of an existing home sold through MLS in the area has risen 10 percent from July 2004. This increase is well above the Midwest average of 4 percent and slightly above the rest of the nation of just under 10 percent.

**Percentage Increase in Average Price of Houses Actually Sold for Previous 4 Quarters**

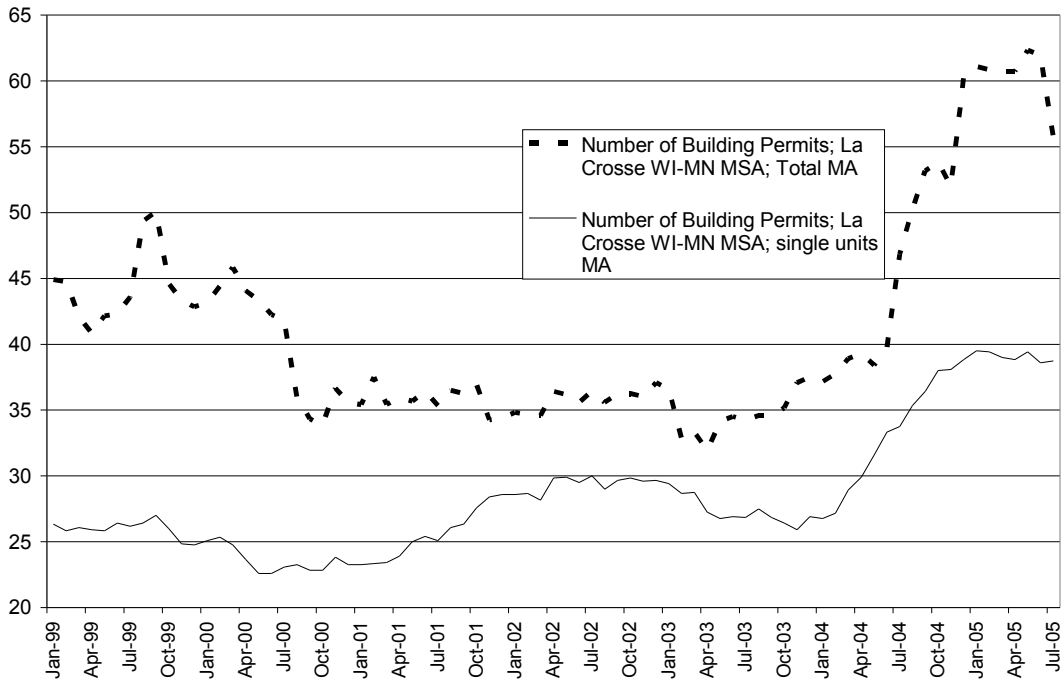


**7 Rivers Percentage Change in Mean Price for Previous 12 Months**



Building permit data suggests that the some of the recent price appreciation may be due to a slowing in supply growth. Generally speaking, permit data leads the rest of the housing industry which has shown additional signs of slowing. The 7 Rivers Region is not expected to maintain the recent price appreciation, but home values should not fall. The region should see a return to more modest appreciation of around 4 percent. Attention should be paid to other areas of the country, as home equity has been one of the primary factors keeping the recovery alive. Should a retrenchment in prices be seen, it could dramatically affect household balance sheets and affect consumer spending.

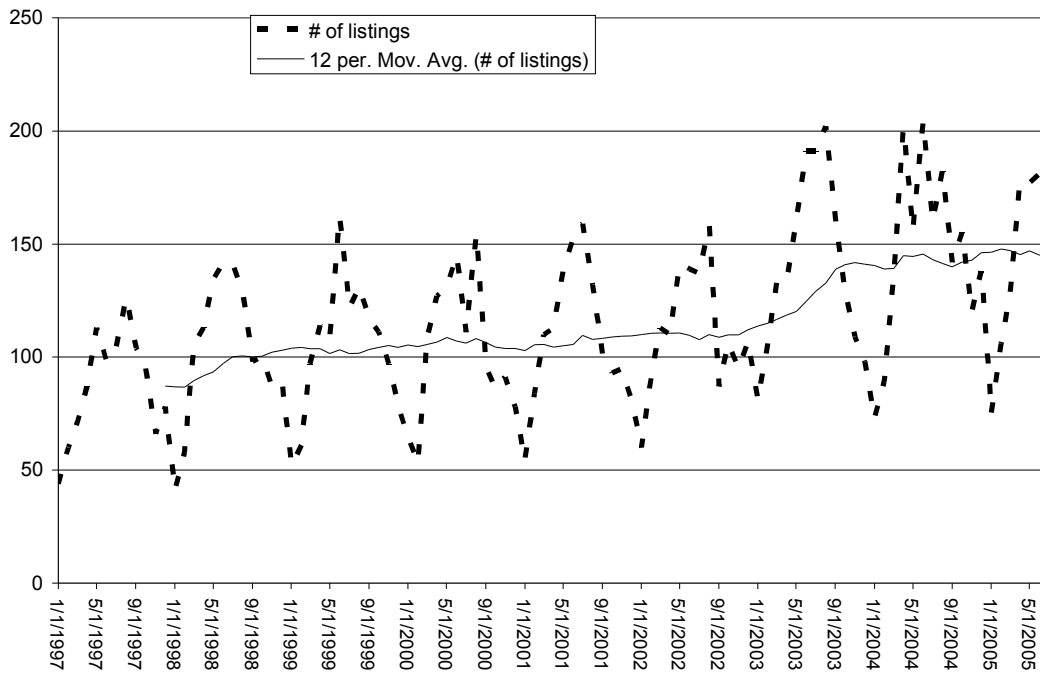
**Number of Building Permits in Metropolitan Area**



Further evidence of the robust regional housing market can be seen below in the number of listings sold in the 7 Rivers Region. On average, nearly 150 regional listings are sold each month, up from just over 100 two years ago.

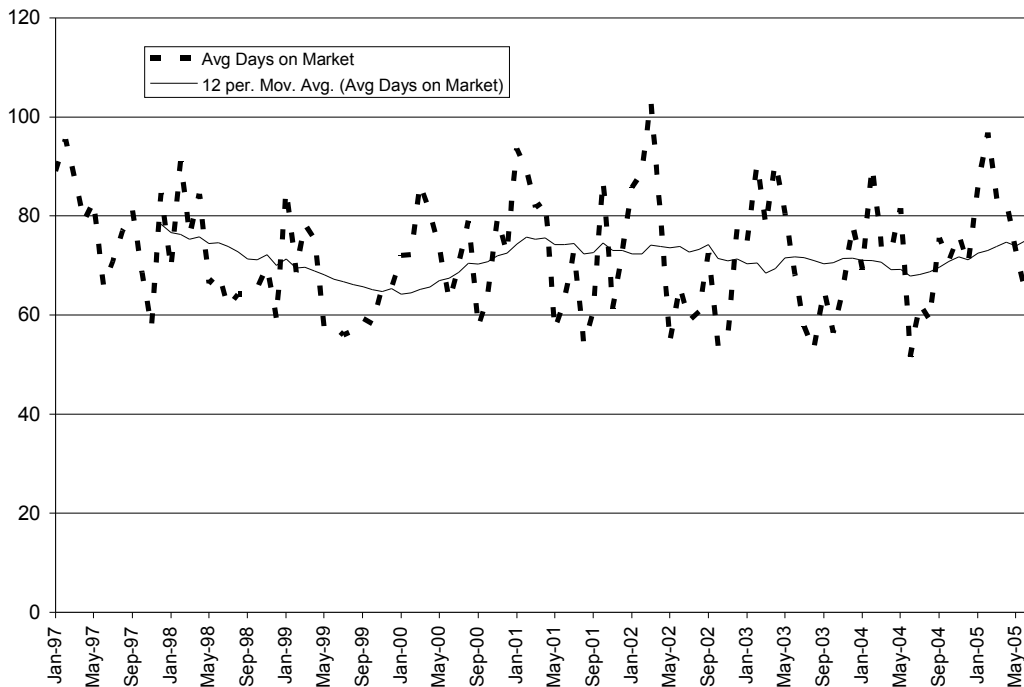
(Please note: in following graphs, “12 per. Mov. Avg. means 12 Period Moving Average.)

**Number of Single Family Listings Sold Monthly 7 Rivers Region**



Another hint of a slowing market can also be seen in each listing's average number of days on the market. As seen below, the average number of days on the market for each sold listing has begun to rise in the last 12 months.

**Average Number of Days on Market 7 Rivers Region**



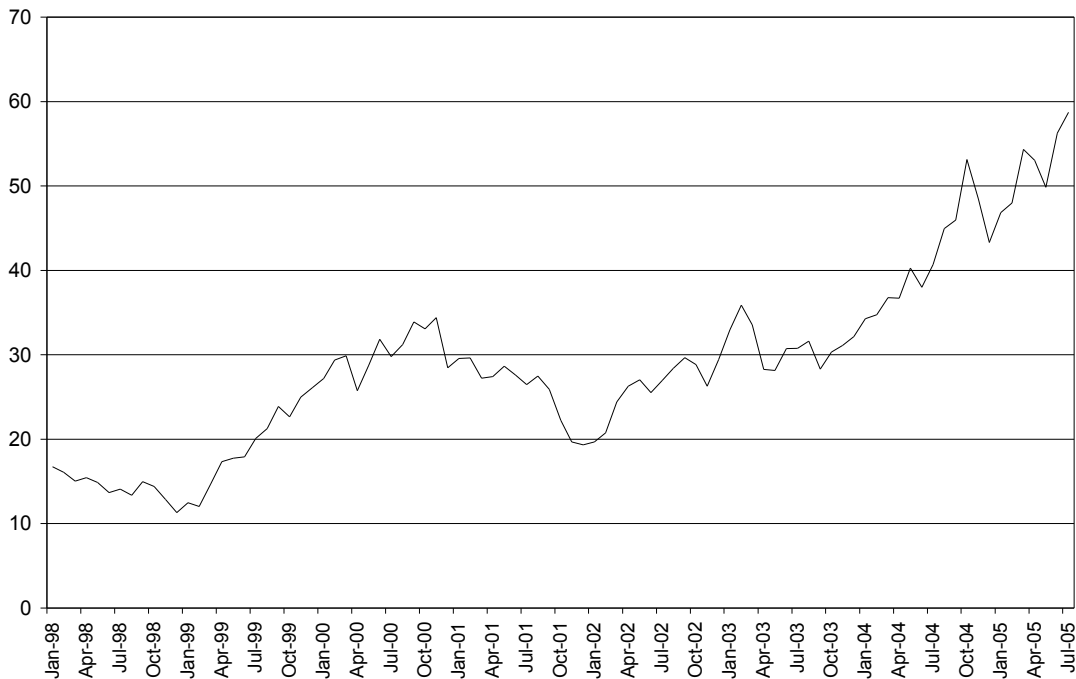
## Oil Prices

These days, people seem to want to talk about only two things: the ridiculous price their neighbor got for selling their house or the price of gasoline. While the 7 Rivers Region has less to fear from the housing market than perhaps San Francisco, Boston, Los Angeles or even Phoenix, there is more to worry about in the effects of rising oil prices.

Oil prices have risen above \$60 a barrel. In a recent report, Goldman Sachs has predicted prices would rise above \$100. Just a few years back, oil was as little as \$18 a barrel. Although the all-time high has yet to be reached, we are certainly headed that direction. The all-time high would be \$90 per barrel in today's terms which was set in the early 80's. The difference this time is that rising prices appear to be responding to increases in demand instead of shortfalls in supply.

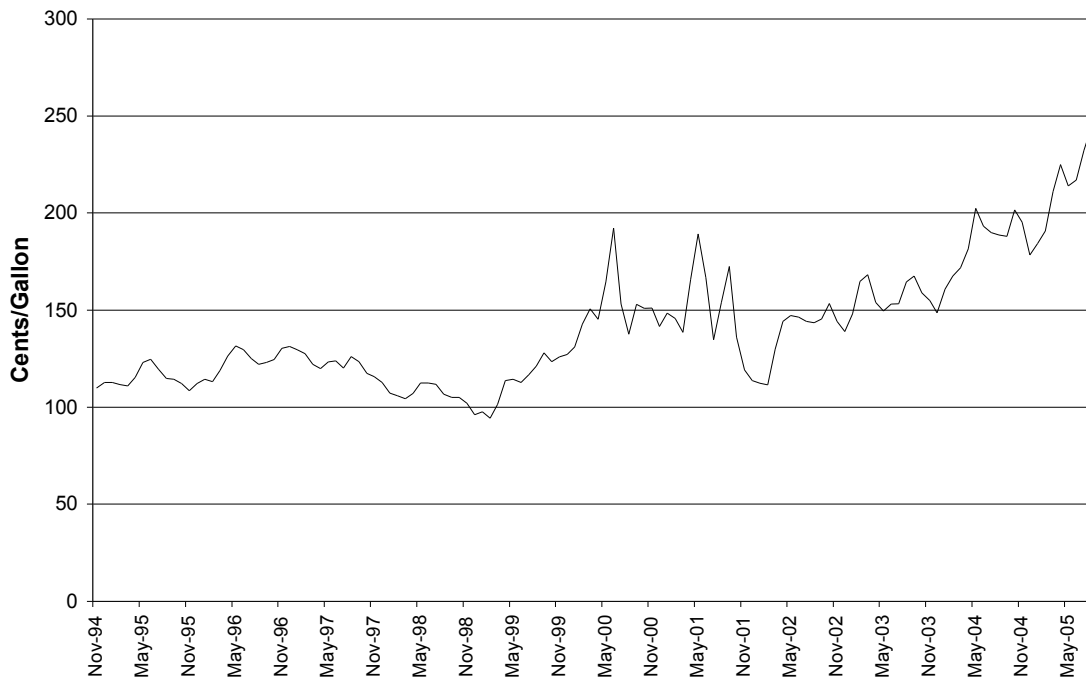
But whatever the reason, it is having an effect on our economy. Wal-Mart recently cited rising gas prices as the reason for their poor performance, citing a reduction in store traffic due to customers staying home. Target did not have the same problems, likely due to a very different customer mix. The difference in the two organizations is that Wal-Mart's customers tend to be lower income and more rural, a group that would likely feel the pinch of gas prices before the higher income urban consumer. The 7 Rivers Region and metro areas (La Crosse and Winona) in particular are likely to see a drop off in retail spending as customers from outlying areas reduce the number trips in to town and the amount they buy.

**Price of West Texas Intermediate Crude: Monthly NSA, Dollars Per Barrel**



Gas prices have surged to close \$2.50 on average, and are likely to rise further before subsiding after the end of the summer driving season.

**Midwest Regular Reformulated Retail Gasoline Prices (C/gal)**



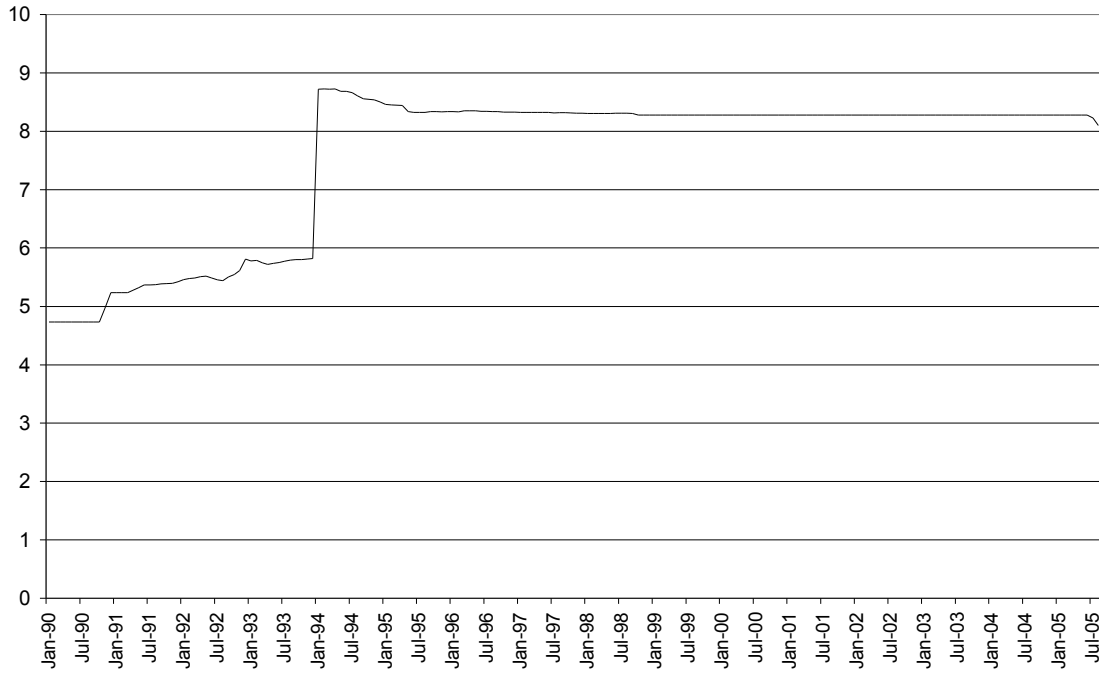
### **Chinese Yuan**

Wisconsin and Minnesota are both heavily involved in manufacturing and exporting throughout the world, making the local economies relatively more sensitive to exchange rate changes than other parts of the country. A recent announcement by the Bank of China to revalue its currency was met with much enthusiasm by the Bush administration and many manufacturers in import-competing industries. As depicted in the graph below, the problem is that the revaluation was less than 2 percent, a very small amount given the current estimates of nearly 40 percent misalignment. How has China been able to do this and why do they continue to push the value of their currency artificially low against the dollar?

The Bank of China has been buying dollars and selling Yuan in order to keep its value from appreciating against the dollar. In order to achieve this outcome, the Chinese have been buying US Treasury debt faster than anyone else. While this has been one of the major factors in keeping long term interest rates down, it is not likely to be sustainable. The Chinese will eventually be forced to make a decision, to either maintain the peg against the dollar and allow their domestic inflation to explode or to institute some austerity measures such as allowing the Yuan to appreciate. The open question is whether this will happen in a slow orderly fashion or an uncontrolled process. From readings of other economists, it appears to be a coin toss.

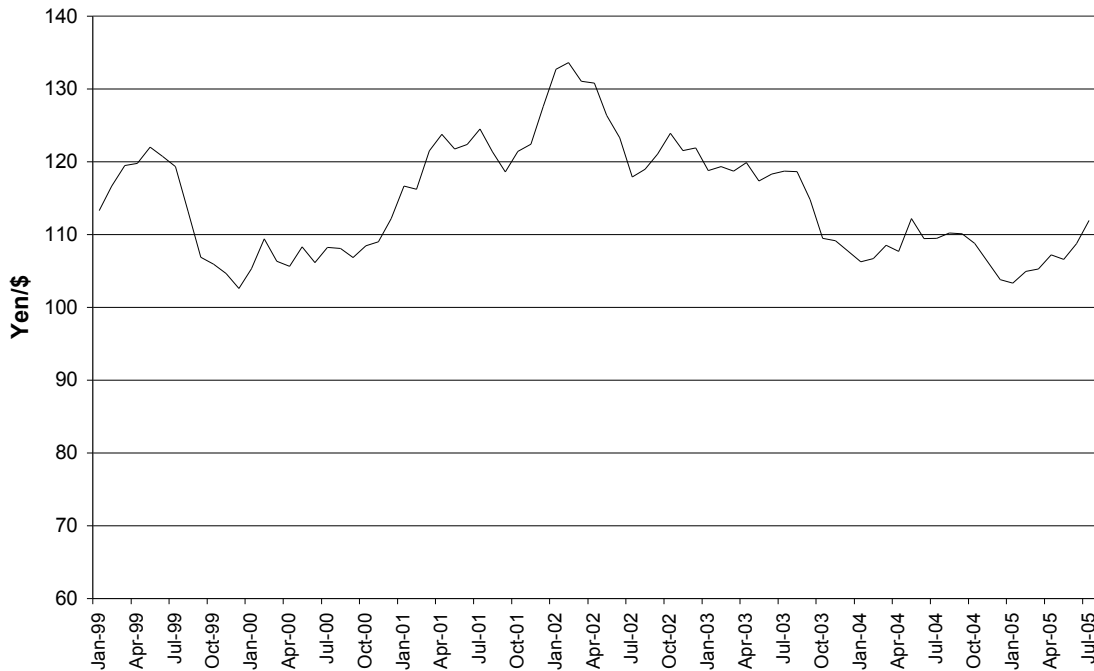
If you want to see the world as “glass half full,” then expect a continued slow appreciation of the Yuan, making US exports more competitive while domestic goods that compete with imports also picking up an advantage. If the glass is half empty, then there are many possibly doomsday scenarios. The worst scenario would be rapid increases in domestic long term interest rates.

### Chinese Yuan to One U.S. Dollar

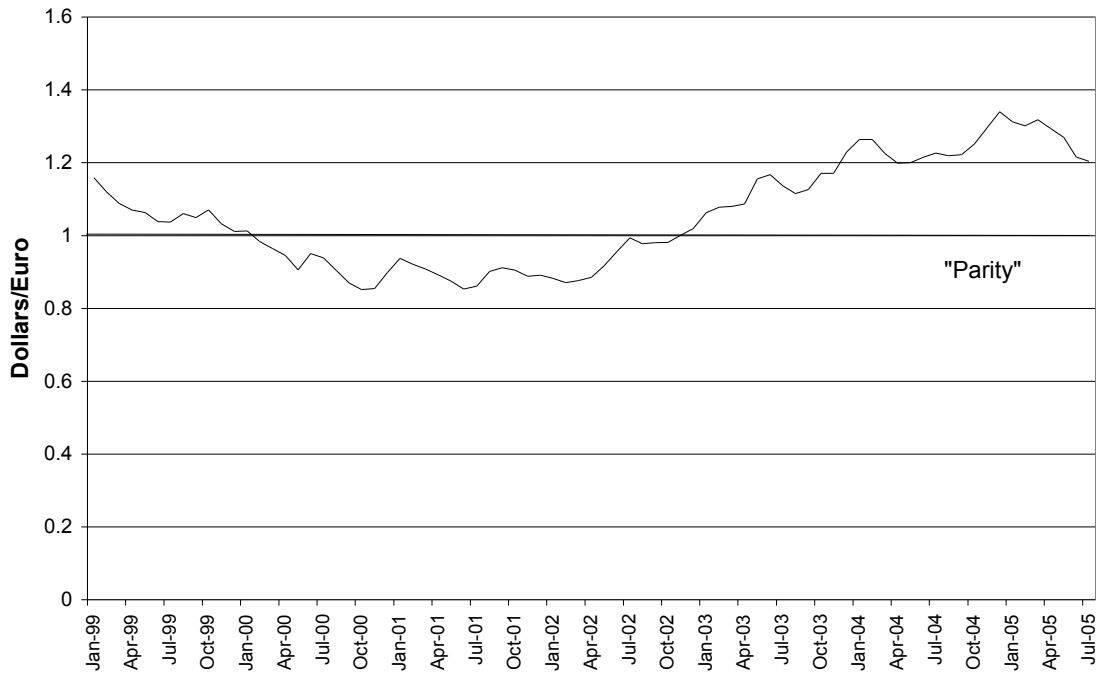


In the meantime, the dollar has quietly appreciated against the Yen and the Euro, due mostly to the continued poor performance of those economies.

### Japanese Yen to One U.S. Dollar



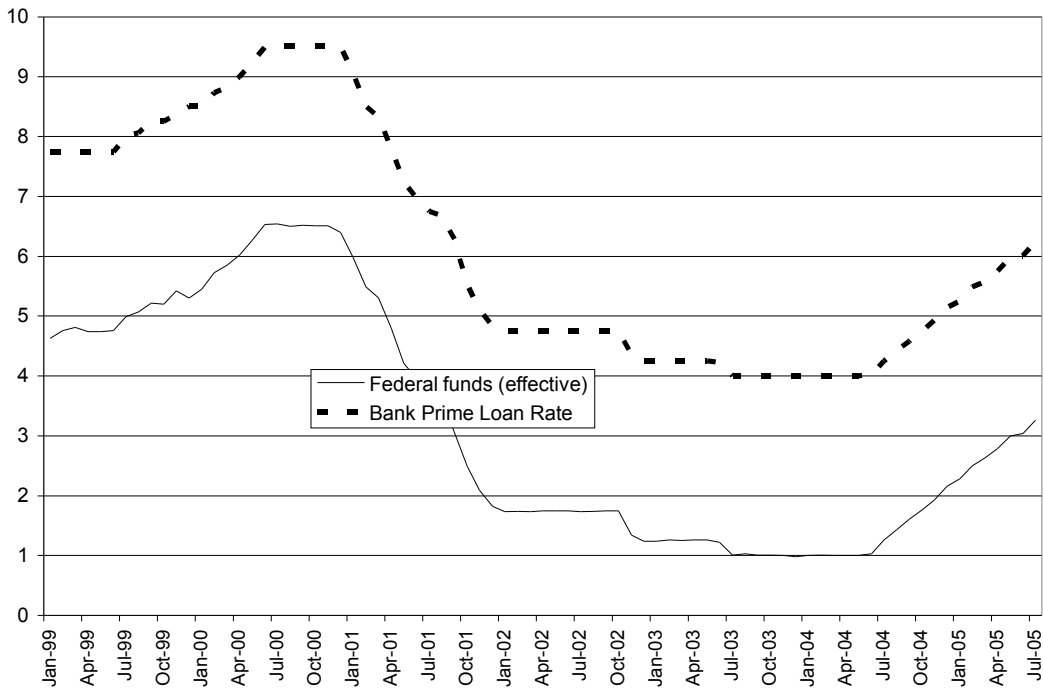
### U.S. Dollars to One Euro



### Who will take over for Greenspan?

The easy answer is I don't know and I don't care. One of Greenspan's greatest legacies is the increased transparency of the Federal Reserve. The incoming chairman, be it Ben Bernanke, Glenn Hubbard, Martin Feldstein or anyone else on the short list, is unlikely to change that. The beauty of the increased transparency is that there is a lot less room for the Fed to maneuver. We all know what the Fed has done, what it is doing and what it will most likely do in the future.

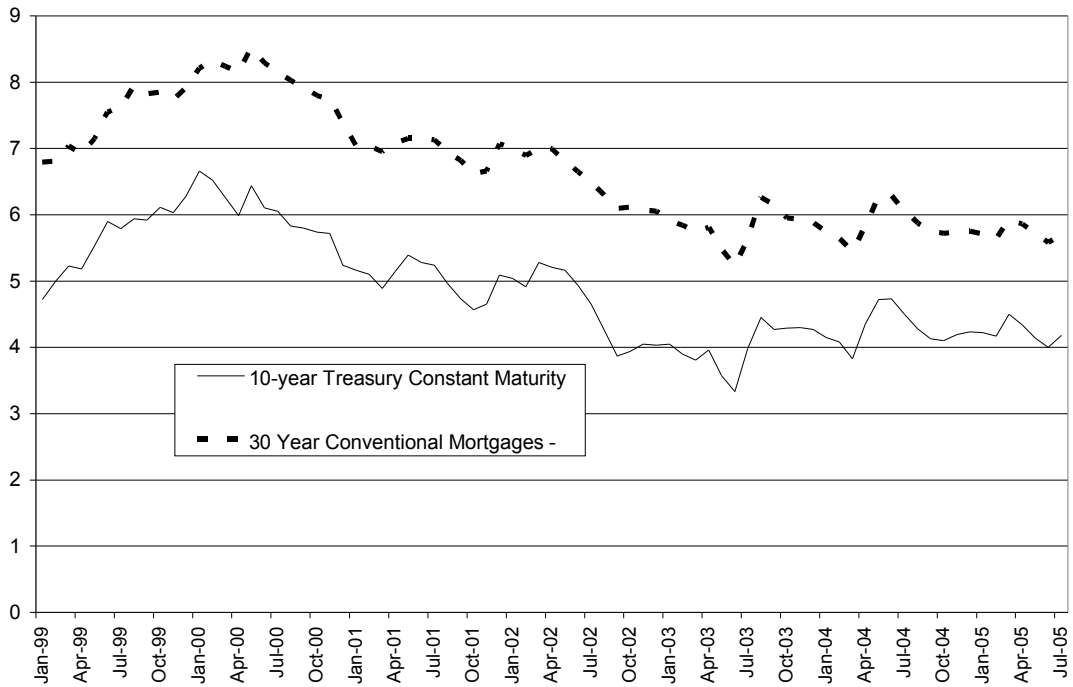
Short Term Interest Rates



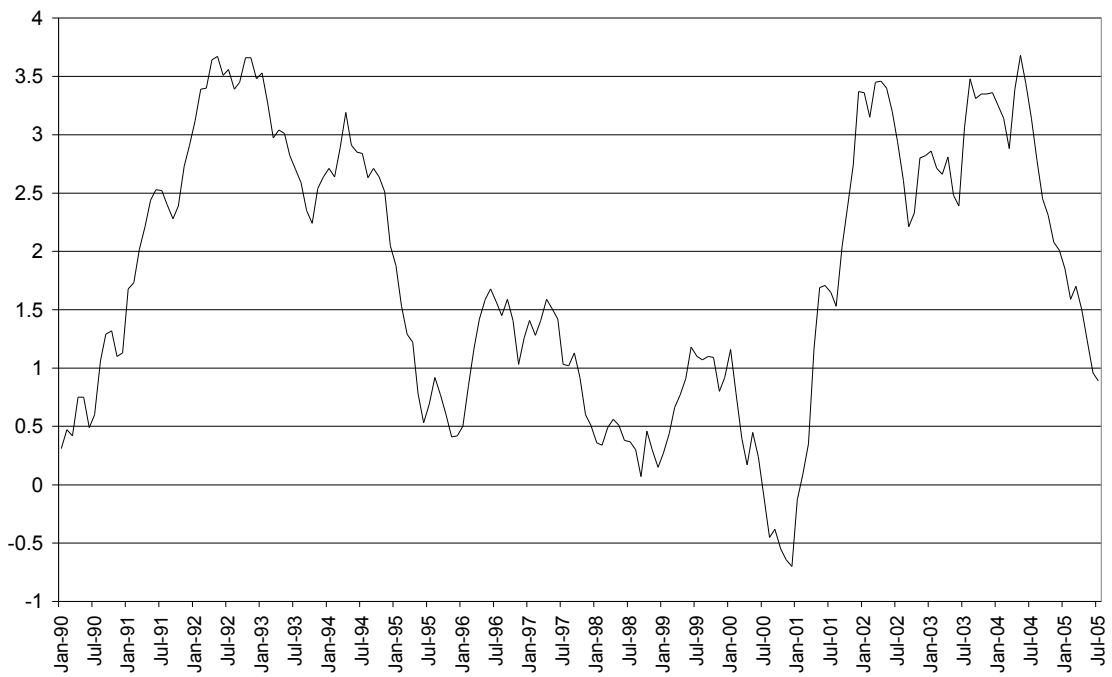
The Federal Reserve will continue to increase the fed funds rate, now at 3.5 percent, by 25 basis points at their next meeting September 20<sup>th</sup>. Greenspan doesn't like to surprise the markets. When his successor takes over in February of 2006, he or she will have a similar distaste for surprise.

Of course, all of this speculation is only focused on the Fed's tinkering with short term interest rates. The problem the Fed has faced recently is the complete disconnect with long term rates. The graph below looks nothing like the above graph's movement in short term rates. Some of this can be explained by the unusual generosity of the Bank of China and their willingness to hold long term US debt. But some of it also remains a bit of a mystery. Only time will tell, but it is hard to believe that long term interest rates will not begin climbing soon, helping to slow down the housing market.

### Long-Term Interest Rates



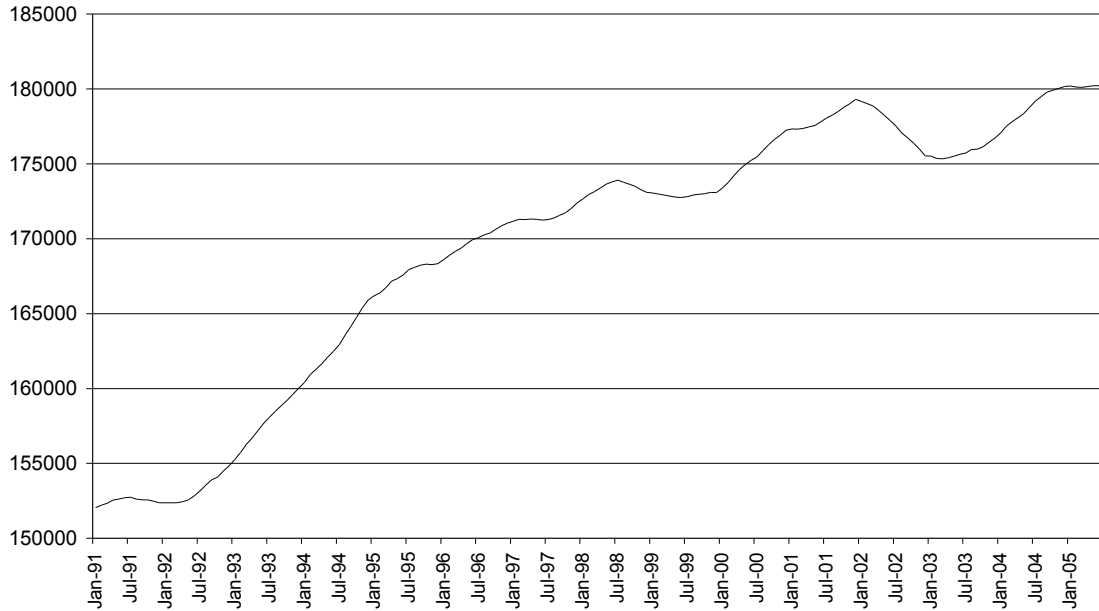
### Spread Between the 10-Year and 3-Month Treasuries



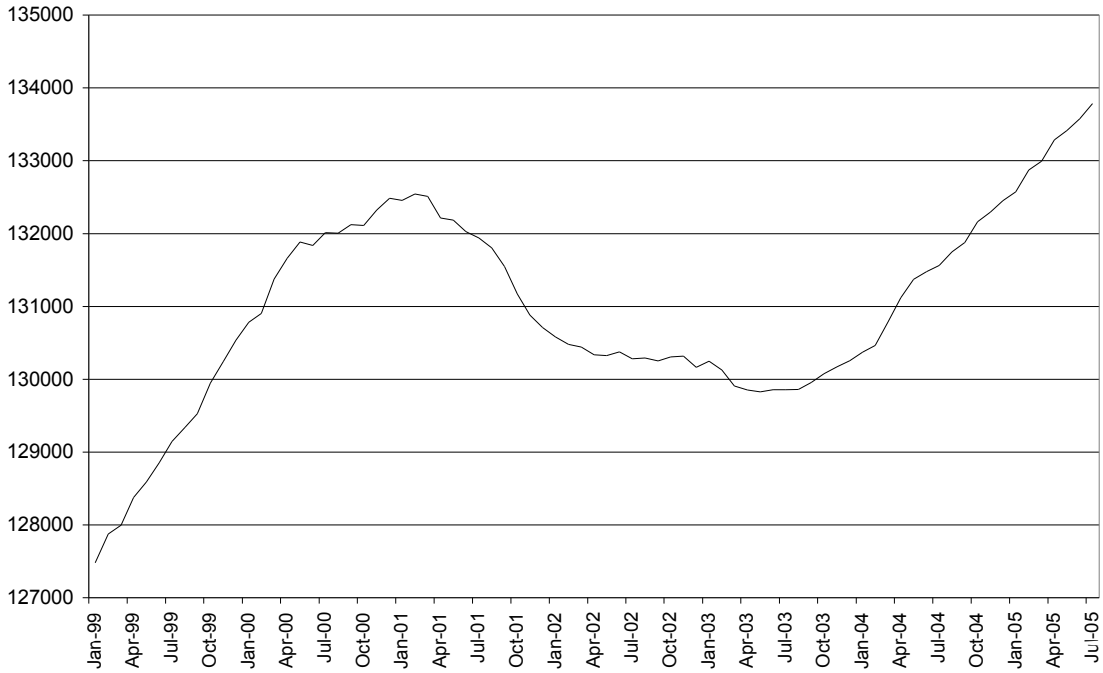
### Employment

The labor markets in the US have continued their steady performance. In the 7 Rivers Region, job growth has stalled a bit in the past few months. The US has seen growth below the pre-2001 rate, but well above the period of slow growth immediately after the recession. Growth has been sufficiently fast enough to bring the national unemployment rate to 5 percent, the lowest level since September of 2001. The State employment growth for Wisconsin and Minnesota appear to have picked up as well.

**7 Rivers Employment**  
**(WI: La Crosse, Trempealeau, Jackson, Juneau,**  
**Monroe, Vernon, MN: Houston, Winona, IA: Allamakee )**



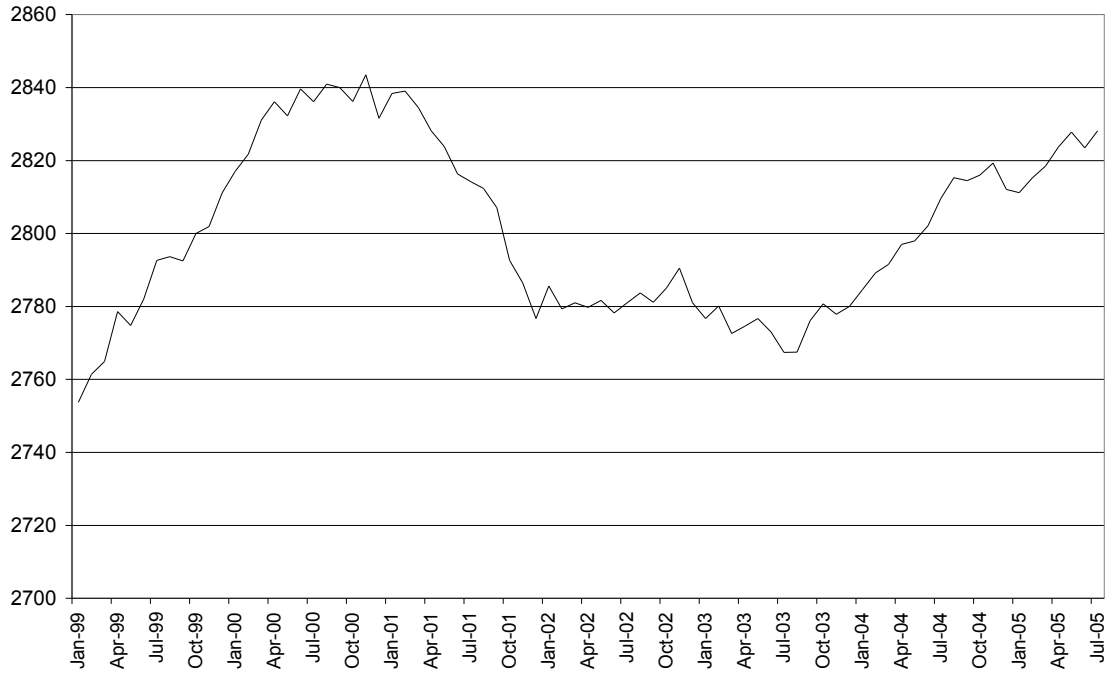
**Total Nonfarm: U.S. Total Employment (thousands), SA**



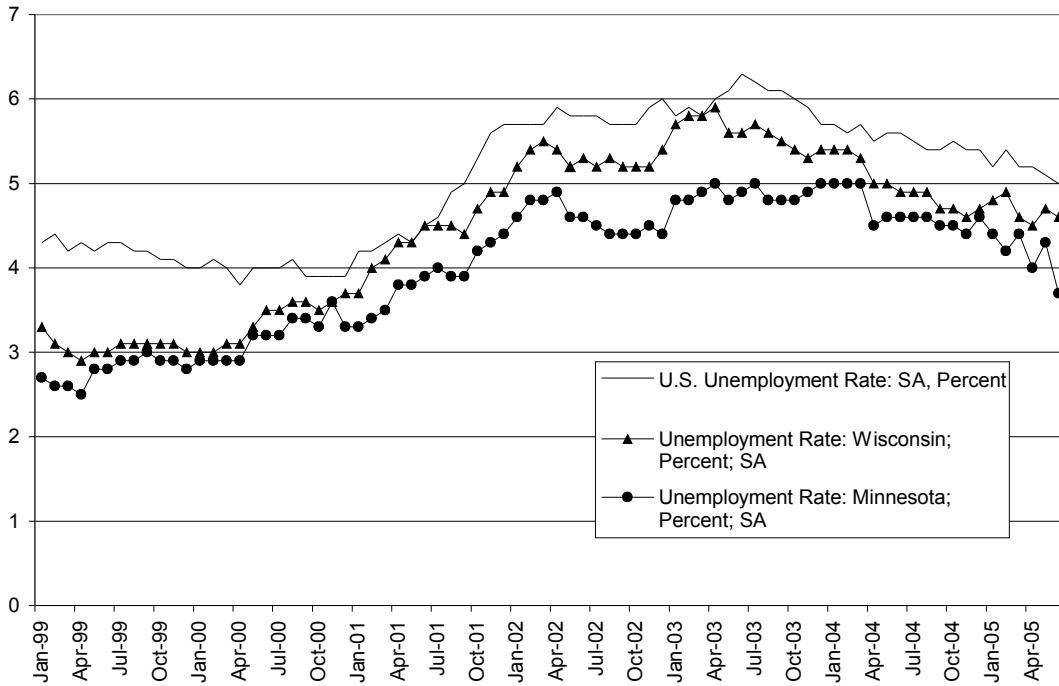
**Minnesota: Total Nonfarm Employment (thousands), SA**



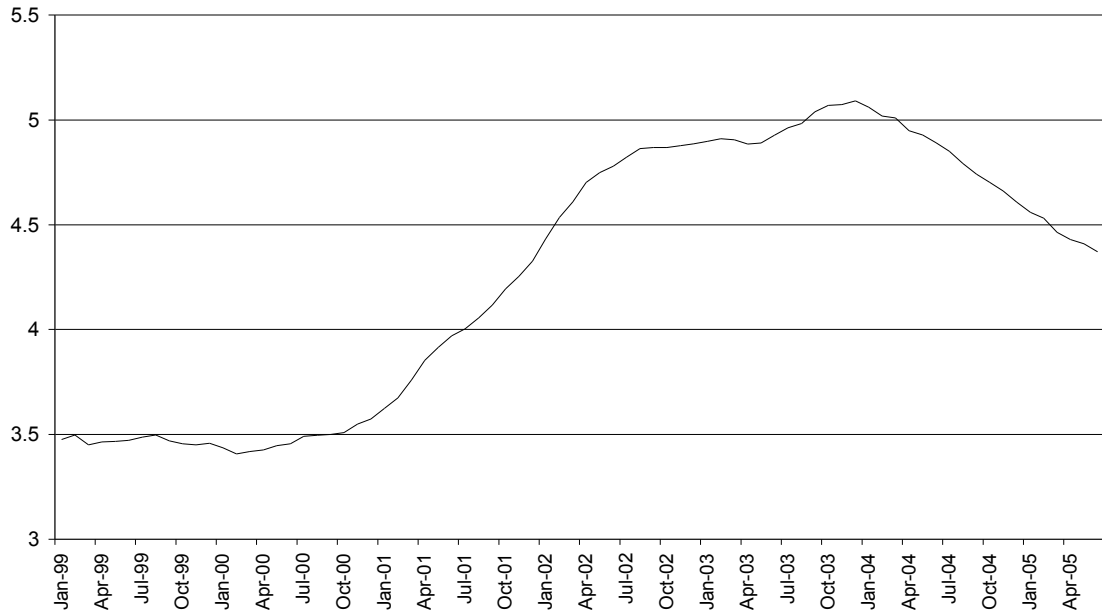
**Wisconsin: Total Nonfarm Employment (thousands), SA**



**Comparison of National and State Unemployment Rates**

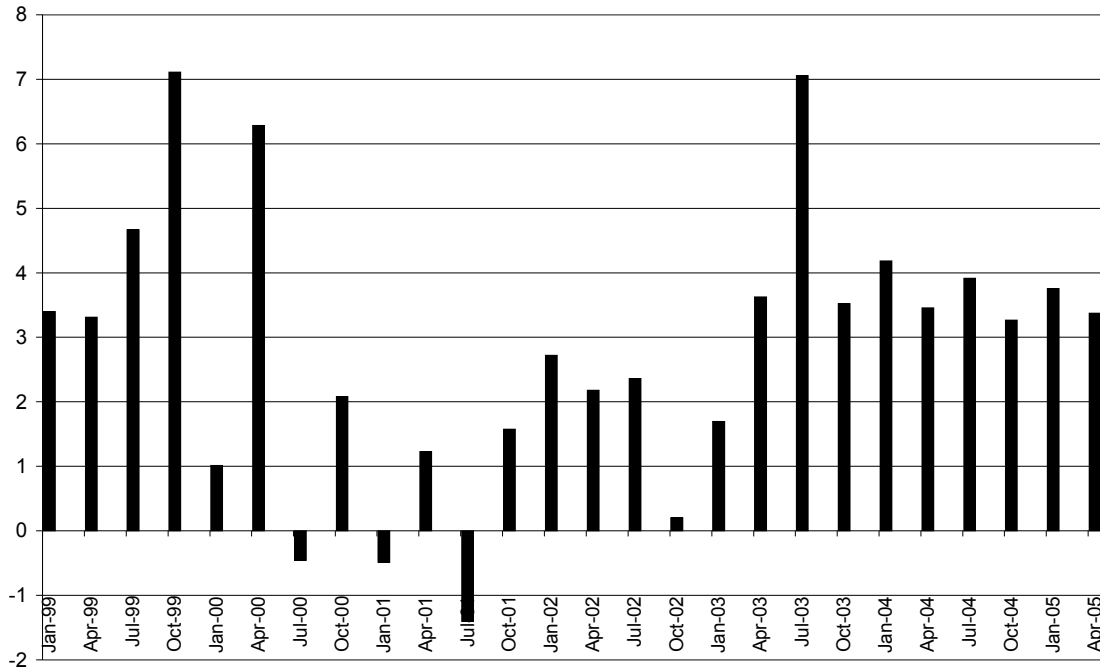


**Nine County Regional Unemployment Rate**  
**(WI: La Crosse, Trempealeau, Jackson, Juneau,**  
**Monroe, Vernon MN: Houston, Winona, IA: Allamakee)**



The continued job growth is likely due to a slowing in productivity growth. Output has not changed much in the past few quarters, as GDP growth continues to hover between 3 and 4 percent.

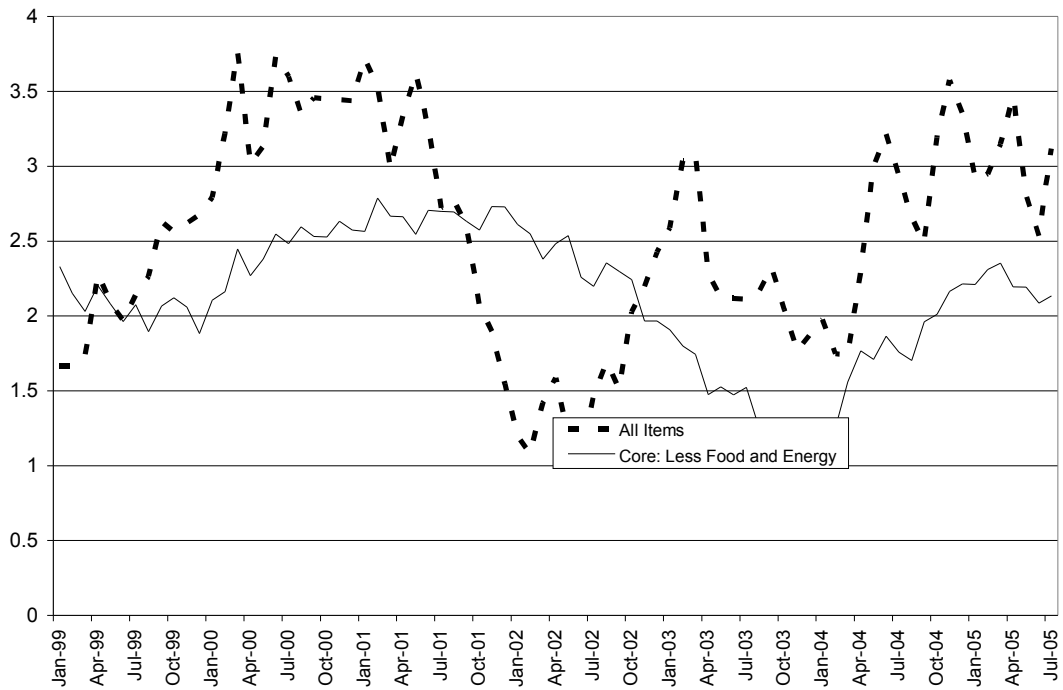
**Real GDP Percent Change at Annual Rates**



### **Inflation**

While core inflation has been pretty tame, energy prices continue to rise, increasing the overall rate of inflation above 3 percent. While not completely unacceptable to the Fed, it is also a level of prices they do not want to rise. Therefore, they will continue their vigilant watch and raise rates at a measured pace.

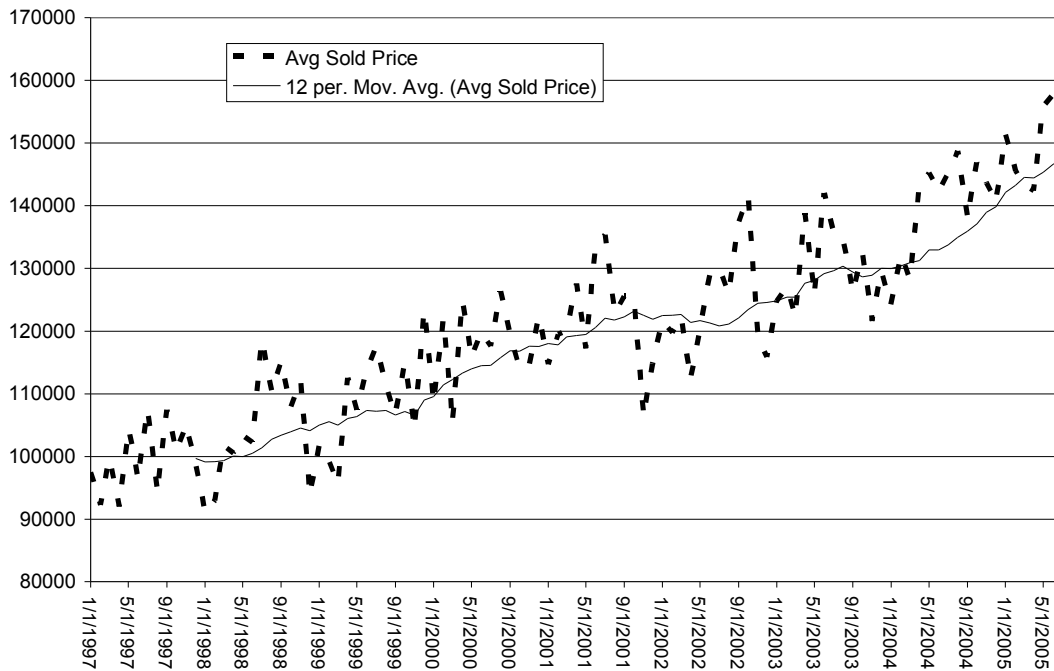
### Inflation



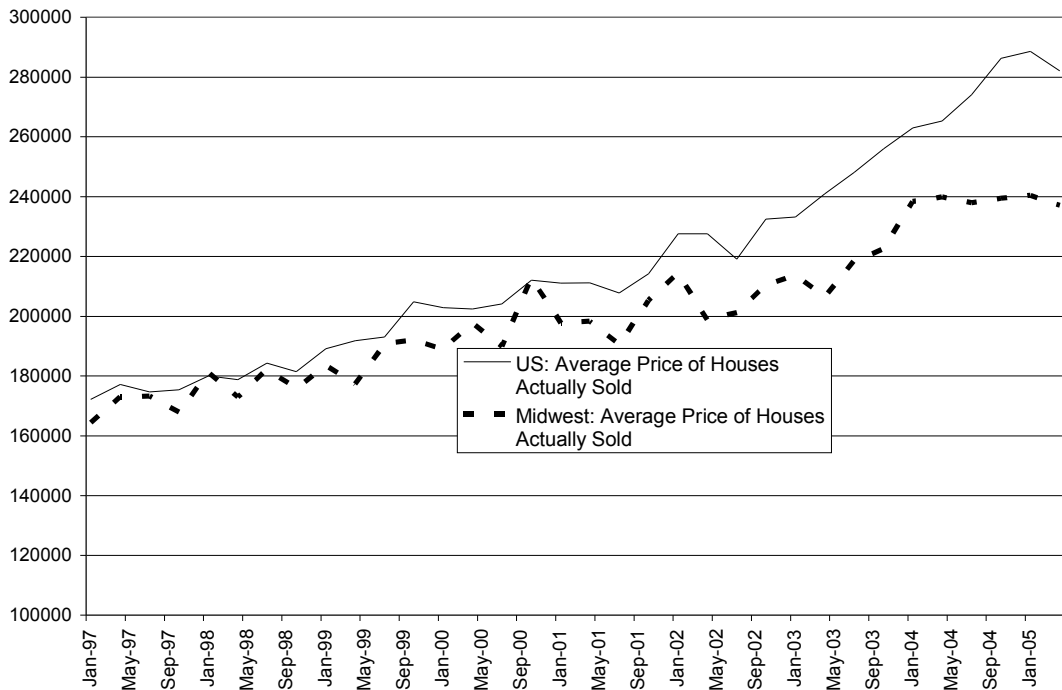
### Additional Data

(12 per. Mov. Avg. = 12 period Moving Average)

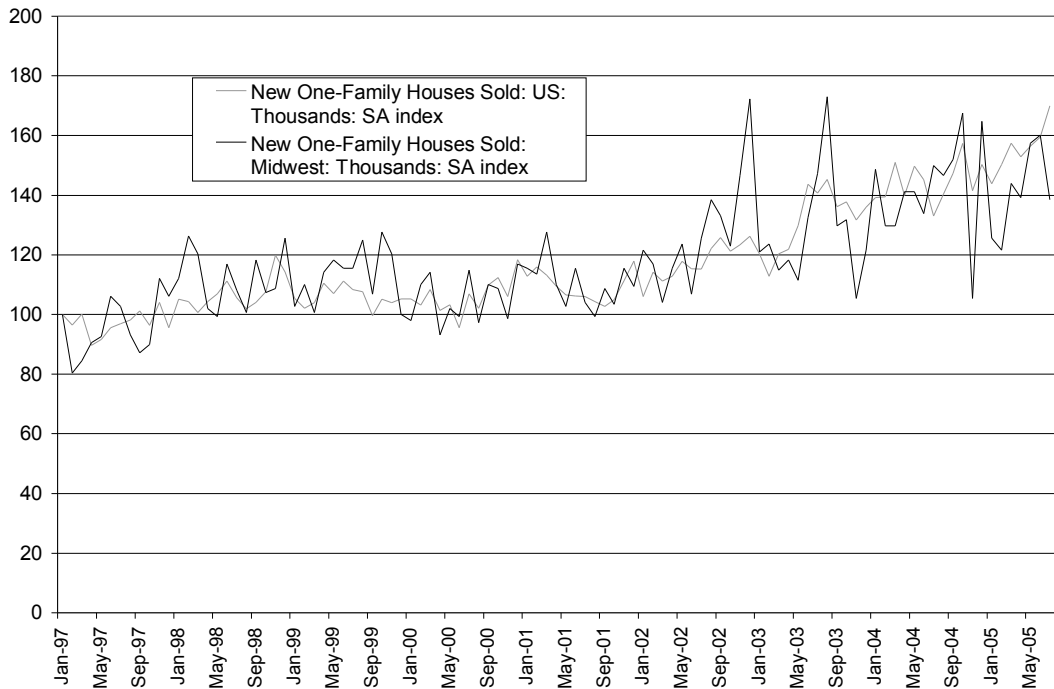
### Average Price of Single Family Homes Sold in 7 Rivers Region



### Average Prices of New Homes Sold



### Index Number of New Homes Sold



## **The 7 Rivers Equity Index: Treading Water in 2005**

Thomas M. Krueger, D.B.A., UW-La Crosse Department of Finance

### **Introduction**

Identifying the greatest challenges to the United States is difficult now in mid-summer of 2005. Is it the ongoing war in Iraq, or the larger war on terrorism? Is it record oil prices, which are reaching \$64 a barrel, or the incredibly dry, hot growing season facing much of the country? Is it whether President Bush had chosen the best persons for both the Supreme Court and United Nations? Are the nine increases in the federal funds rate enough, or are rising payrolls and employment numbers going to result in raising interest rates throughout the remainder of the year. Despite these uncertainties, stock markets were performing very well at the end of July, with the S&P 500 and NASDAQ indexes reaching four-year highs.

Have local companies been as successful? Through the first seven months of 2005, the 7 Rivers Equity Index posted a small loss. The first section of this report will examine the changes in the list of public local companies and note that despite the decline, the 7 Rivers Index at least outperformed the Dow Jones Industrial Average.

The following section will evaluate the investment merits of local firms, based on reports by two investment advisory services. (For the most recent synopsis of managerial performance in local companies, please refer to the April 2004 edition of [7 Rivers Region: An Economic Update](#).)

The final section of this report further examines the return performance of publicly held, local firms. In light of the regionalism topic of the fall 2005 Economic Indicators forum, special attention is paid to the geographic dispersion of this performance across Wisconsin's eight metropolitan statistical areas (MSAs). The 7 Rivers Region has underperformed the other regions of Wisconsin.

### **The 7 River's Equity Index**

Two criteria must be met for inclusion in the 7 Rivers Equity Index. One, the firm must be publicly held with share price data available from any of the print or Internet sites. Two, the company's headquarters has to be within 100 miles of La Crosse. Companies are identified on the basis of *ReferenceUSA*, a data service allowing one to screen both public and private corporations by state. The fourteen firms currently in the 7 Rivers Index are identified in Table I.

**Table I. 7 Rivers Equity Index**

The headquarters of each of these firms is within 100 miles of La Crosse

Wisconsin		
Citizens Community Bank (CZWI)	Eau Claire	
	Commercial banking	
Marten Transportation (MRTN)	Mondovi	
	Trucking	
National Presto (NPK)		Eau Claire
		Cookware
Northland Cranberries (NRCNA)	Wisconsin Rapids	Juice drinks
Renaissance Learning (RLRN)	Wisconsin Rapids	Educational software
Wausau-Mosinee Paper (WPP)	Mosinee	
	Paper products	
Minnesota		
Fastenal (FAST)		
	Winona	
	Threaded fasteners	
HMN Financial (HMNF)		Spring Valley
		Savings & loan
Hormel (HRL)		
	Austin	
		Pork and turkey processing
Pemstar (PMTR)		
	Rochester	
	Electronics manufacturer	
Rochester Medical (ROCM)		Stewartville
		Urinary treatment products
Iowa		
Featherlite (FTHR)		
	Cresco	
	Aluminum trailers	
Flexsteel Industries (F LXS)		Dubuque
		Home furnishings
Heartland Financial USA (HTLF)	Dubuque	
	Commercial banking	

Firms previously included in the La Crosse Equity Index that are no longer publicly held:

Ag Services of America – acquired by Rabobank (1/2004)

Bone Care International – acquired by Genzyme Corporation (6/30/2005)

First Federal Capital Corporation – acquired by Associated Banc-Corp (10/29/04)

La Crosse Footwear – relocated to Oregon (3/2001)

Land's End – acquired by Sears (6/2002)  
 Sheldahl – bankrupt (4/2002)  
 State Bank La Crosse – privatized (2/2003)

Although the Index has the same number of public firms as reported six months ago, the list of firms is not the same. Citizens Community Bancorp (WI) joins the list. This Eau Claire firm is the holding company for Citizens Community Federal, which has branch offices in Eau Claire, Buffalo, Jackson, Sauk, Barron, and Chippewa counties in Wisconsin and two counties in Minnesota. Citizens Community Bancorp's loan portfolio is approximately \$150 million, and

**Table II. Comparative Index Performance Since 12/31/1999**

(Year-to-year change in parentheses and percentages)  
 [Year-to-date change in brackets and percentages]

	7 Rivers Equity Index		Dow Jones Industrial Average		Standard & Poor's 500	
12/1999	100.0	n/a)	100.0	(n/a)	100.0	(n/a)
12/2000	90.7	(-9.3)	93.8	(-6.2)	89.9	(-10.1)
12/2001	98.6	(+8.7)	87.2	(-7.0)	78.2	(-13.0)
12/2002	98.1	(-0.4)	72.6	(-16.7)	59.9	(-23.4)
12/2003	114.1	(+16.2)	91.0	(+25.3)	75.7	(+26.4)
12/2004	134.6	(+18.0)	93.8	(+3.1)	82.5	(+9.0)
January 2005	132.4	[-1.6]	91.2	[-2.7]	80.4	[-2.6]
February 2005	133.1	[-1.1]	93.6	[-0.2]	82.0	[-0.7]
March 2005	131.8	[-2.1]	91.4	[-2.6]	80.4	[-2.6]
April 2005	128.1	[-4.8]	88.7	[-5.5]	78.8	[-4.5]
May 2005	127.7	[-5.1]	91.0	[-2.9]	81.1	[-1.6]
June 2005	129.2	[-4.0]	89.4	[-4.7]	81.8	[-0.8]
July 2005	133.3	[-1.0]	92.6	[-1.3]	84.0	[+1.8]

the firm has a market value of \$38 million. The 7 Rivers Index was adjusted to reflect the availability of Citizens Community Bancorp from the month in which it was originally available.

This firm replaces Bone Care International, which was acquired by Genzyme Corporation on June 30. Bone Care's acquisition resulted in the 7 Rivers Index losing one of Wisconsin's most prominent pharmaceutical companies. The \$33 purchase price represents an eighteen percent premium over where Bone Care International stood at the end of 2004.

Since 1999, seven 7 Rivers Region firms have been acquired or went bankrupt. The performance of these firms is included in the 7 Rivers Index calculations during the period that they were part of the 7 Rivers Index. Performance of the Index, an equally-weighted index of the local companies, is presented in the first column of Table II. Values in Table II represent the value of \$100 invested in local shares on 12/31/1999. For instance, in 2000, the value of the 7 Rivers Index dropped by 9.3 percent to 90.7. Since then, the 7 Rivers Index recovered most of the 2000 loss in 2001, and essentially held its ground in 2002. Then came 2003 and 2004, two years during which the 7 Rivers Equity Index roared ahead by an average of 16.5 percent annually.

The superior returns of recent years have not carried through into 2005. During the January – July period, the 7 Rivers Index dropped from 134.6 to 133.3, or about one percent.

By comparison, the Dow Jones Industrial Average and the Standard & Poor's 500 Index are still lower than they were at the beginning of this century. The Dow Jones Industrial Average, at 92.6 at the end of July, is 7.4 (92.6 – 100) percent where it was at the beginning of 2000 and has declined by 1.3 percent during 2005. The Standard & Poor 500 Index is off a much greater 16.0 (84 – 100) percent since the beginning of 2000, but actually rose by 1.8 percent over the first seven months of 2005.

The diversification effect of using a portfolio of stocks overlooks the outlying performance of some of the companies. During these seven months, the share prices of both Northland Cranberries and Pemstar have declined by over thirty percent. Meanwhile, Renaissance Learning and Marten Transportation experienced double-digit gains.

### **Local Common Stock Characteristics**

#### Risk and Return Insights from Value Line

Although local shares have performed markedly better since 2000 than the two aggregate measures of stock market performance, their performance during the first portion of 2005 lies between that of the Dow Jones Industrial Average and Standard and Poor's 500. Investors are wondering whether this typical performance is going to continue, or will local shares return to above-average performance behavior. In order to gain insight to this issue, information from Value Line Incorporated and Morningstar was obtained. Both firms are in the business of selling information. Hence, their focus is on producing accurate reports that are not necessarily biased towards the purchase of certain stocks.

Value Line publishes more than a dozen print and electronic products, but is best known for *The Value Line Investment Survey*. The survey is a comprehensive source of information and advice, with one-page of *Ratings and Reports* and reports devoted to each of 1700 large companies, plus a two-page discussion of 98 industries. The slightly larger *Small- and Mid-Cap Edition* provides almost as much information about 1800 more firms. A complete set of publications is available at both the La Crosse Public Library and UW-La Crosse's Murphy Library.

Several measures of stock price performance are provided. Table III contains those measures that will be covered in this report and individual firm rankings for the ten 7 Rivers firms covered by Value Line. Value Line measures were also examined in 2004, so changes in firm rankings over the past twelve months are noted. The following paragraphs describe each measure and how some of the 7 Rivers firms size up on that metric.

*Timeliness Ranking* is Value Line's rating of a stock's probable performance over the next six to twelve months. Stocks ranked 1 (the highest) and 2 (above average) are likely to outperform the market, while those ranked 4 (below average) and 5 (the lowest) are expected to underperform the market. As shown on the first row of Table III, none of the included firms are expected to outperform the market, while Flexsteel, Renaissance Learning, and Wausau-Mosinee Paper are expected to underperform the market. Wausau-Mosinee Paper experienced the largest drop in Timeliness Rank, going from a value of 2 in 2004 to 5 in 2005.

*Safety Ranking* is Value Line's measure of the potential risk associated with an individual stock's financial strength (e.g., financial leverage) and price stability (e.g., stock price variance). Safety rankings range from 1 (most secure) to 5 (most risky). As shown on the second row of Table III, HMN Financial and Hormel are secure investments while Pemstar has a large amount of price fluctuation. Flexsteel experienced the largest drop in Safety Rank, going from a value of 2 in 2004 to 3 in 2005.

*Technical Ranking* is Value Line's predictor of a stock's short-term (three to six months) relative price change. Technical rankings are based on ten relative price trends for a particular stock over different periods in the past year. As shown in the third row of Table III, Pemstar is expected to have the best performance over the next six months, which is the opposite of the ranking of 5 on this measure in 2004. Flexsteel and Hormel are expected to have above normal short-term performance, while Marten Transportation, Renaissance Learning, and Wausau-Mosinee Paper are expected to under perform the average company.

*Institution Buy/Sale Ratios* allow one to compare the performance and implied sentiment of professional money managers. The 1.7 value given for Rochester Medical indicates that seventy percent as many institutions (e.g., insurance companies, mutual funds, pensions) are buying as selling its shares. By comparison, only seven institutions are buying Flexsteel and Pemstar for every ten that are dumping these shares. On the plus side, both the Hormel and National Presto numbers represent six additional buyers in 2005 for every ten share sellers. However, Flexsteel experienced the largest drop in institutional interest, going from a positive 1.2 ratio (representing twelve buys for every ten sales) in 2004 to a 0.7 ratio in 2005.

<p><b>Table III. Common Stock Characteristics for 7 Rivers Equity Index Firms</b></p>
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<p>Data Provided by Value Line Investment Survey<sup>a</sup></p>
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	F a s t e n a l	F l e x s t e l	H M N F i n a n c i a l	H o r m e l	M a r t e n T r a n s p o r t a t i o n	N a t i o n a l P r e s t o	P e m s t a r	R e n a i s s a n c e L e a r n i n g	R o c h e s t e r M e d i c a l	W a u s a u - M o s i n e e P a p e r	<b>2 0 0 5 A V E R A G E</b>	<b>2 0 0 4 A V E R A G E</b>
Timeliness Ranking	3	4	3	3	3	3	3	4	3	5	<b>3.4</b>	<b>3.1</b>
Safety Ranking	3	3	1	1	3	2	5	3	3	3	<b>2.7</b>	<b>2.5</b>
Technical Ranking	3	2	3	2	4	3	1	4	3	4	<b>2.9</b>	<b>3.0</b>
Institution Buy/Sale Ratio	0.9	0.7	1.6	1.6	1.5	1.3	0.7	1.4	1.7	1.0	<b>1.2</b>	<b>1.1</b>
Price Stability	55	80	100	95	55	100	5	25	35	65	<b>62</b>	<b>63</b>
Price Growth Persistence	80	45	60	80	65	15	5	55	10	10	<b>42</b>	<b>37</b>
Beta	1.2	0.4	0.5	0.6	0.5	0.7	1.6	1.2	0.8	1.1	<b>0.9</b>	<b>0.8</b>
Dividend Yield	1.0 %	3.6%	2.8 %	1.7 %	0.0 %	4.1 %	0	1.3	0	2.8	<b>1.7</b>	<b>1.3</b>
<b>3- to 5-Year Projected Returns</b>												
Maximum	21	x	x	17	x	8	x	27	x	27	<b>20</b>	<b>32</b>
Minimum	10	x	x	11	x	0	x	13	x	14	<b>10</b>	<b>9</b>
<sup>a</sup> Value Line does not cover the other firms in the 7 Rivers Index. Specific 3- to 5-year projected returns are only provided for the 1700 largest firms.												

*Price Stability*, given in fifth row of Table III, is based on a ranking of the standard deviation of weekly price changes over the past five years. Value Line reports price stability on a scale from

100 (highest) to 5 (lowest) in increments of 5. While HMN Financial, Hormel, and National Presto have the highest possible price stability rating, Pemstar's price stability rating is at the other extreme. These values are approximately the same as they were in 2004, which is not a surprise because four of the five years used in creating the measure are identical.

*Price Growth Persistence*, exhibited in the sixth row of Table III, is Value Line's proprietary measure of the tendency of share prices to rise when compared to other stocks. It also is measured on a scale from 100 to 5, in increments of 5. With a rating of 80, Fastenal and Hormel have had the most persistent stock price growth. This value represents the same performance for Fastenal, but better performance for Hormel (which had a persistence value of only 65 in 2005). At the extremes, Marten Transportation's price growth persistence rose by 20 points while Renaissance Learning's persistence dropped by 15 points.

*Beta* measures, exhibited in the seventh row of Table III, are reported by Value Line with a regression towards the mean using a proprietary model. That is, Value Line does not expect firms that exhibit large deviations from general market performance to have the same abnormal level of performance in the following year. Pemstar is the most sensitive to market conditions, while Flexsteel is the least sensitive. Consistent with Value Line's regression defense, both of these beta values are down from 2004, when Pemstar's beta was 1.75 and Flexsteel's beta was 0.45.

*Dividend yield*, which is exhibited in the eighth row of Table III, is the ratio of the dividend payments over the next twelve months, as estimated by Value Line, divided by the current price. Several 7 Rivers companies pay dividends at a rate exceeding what local investors would receive on savings accounts, with National Presto and Flexsteel leading the way at 4.1 percent and 3.6 percent, respectively. These are significant increases from 2004, when the forecast dividend yield for both of these companies was 2.4 percent.

*Price projections*, given in the last two rows of Table III, are Value Line's estimate of the annual, compound total rate of return. Yields are based on appreciation from the current price to both the high and low ends of the anticipated price range in three to five years. Since the data being used was published in mid-2005, the forecast is for the period from July 2008 to June 2010. Unfortunately, Value Line makes these predictions only for a select group of typically larger firms. While share prices for Renaissance Learning and Wausau-Mosinee Paper might grow at a twenty-seven percent annual rate, the best projected annual performance of National Presto is only eight percent. Value Line thinks that, at worst, Wausau-Mosinee Paper will provide a capital gain of fourteen percent, while National Presto's price, at worst, might stay where it is today. These expectations are much below where they were in 2004, when Renaissance Learning had a projected return ranging from 45 percent to 110 percent and Hormel's expected Return range from 75 percent to 45 percent.

Beyond individual firms, this report is concerned about the likely performance of firms in the 7 Rivers Region overall. Consequently, the averages for 2005 and 2004 are presented bold to the right in Table III. Factors in favor of investing 7 Rivers companies include the increased price growth persistence and dividend yield. Factors that argue against 7 Rivers firm investment include the reduced timeliness ranking and lower maximum return projection.

Valuation Insights from Morningstar

Morningstar is an investment research firm providing commentary, portfolio management tools, and detailed reports on stocks and mutual funds. It can be accessed at [www.morningstar.com](http://www.morningstar.com). After signing up for a free membership, one can access a great deal of free information. This report studies the pricing of securities relative to earnings, sales, and cash flow. This information is presented in Table IV. There is an advantage of this investigation relative to the Value Line-based analysis above. Although financial analysts may not review small firms, all public firms have a share price and are likely to have earnings, sales, and positive cash flows.

*Price/Earnings ratios* divide a stock's current price by the company's trailing 12-month earnings per share. The higher the price/earnings ratio, generally the more confident the investor is that the firm will provide earnings growth in the future. As shown in the first column of Table IV, only Fastenal, Rochester Medical and Wausau-Mosinee Paper have price earnings ratios that exceed their industry average. The average for firms in the 7 Rivers Index, given in the second to the bottom row of Table IV, is 21.1. Meanwhile, the average price/earnings ratio and the average for the companies in the Standard & Poor's 500 are higher by at least one dollar per dollar of earnings.

*Price/Sales ratios*, exhibited in the center columns of Table IV, divide a company's current price by sales per share over the past twelve months. Price/sales ratios are commonly considered in conjunction with price/earnings ratios, because even companies with negative earnings are likely to produce sales. For instance, when looking at the row for Pemstar (PMTR), you can see that although no price/earnings ratio is provided, there is a price/sales ratio.

Generally, confident investors pay more for shares, which implies that they will pay more per dollar of sales. Among firms in the 7 Rivers Region, only Fastenal and National Presto have price/earnings ratios that exceed their industry's average. A review of the bottom two rows in the center columns indicates that investors are paying about sixty cents more per dollar of sales for firms in the same industry. Both of these averages are lower than the price/sales ratio of the Standard & Poor's 500, for which investors are paying \$2.90 per dollar of sales.

*Price/cash flow ratios*, presented in the right columns of Table IV, divide a company's current price by cash flow per share over the trailing 12 months. Price/cash flow ratios show the ability of a business to generate cash and can be an effective gauge of liquidity and solvency. Price/cash flow ratios are not calculated for banks, which deal in cash as a part of carrying on their business.

Fastenal, Hormel, National Presto, and Wausau-Mosinee Paper all have price/cash flow values that exceed their industry average. Only in the case of the price/cash flow ratio does the 7 Rivers Region's average exceed the industry average, which exceeds the Standard & Poor's 500's average price/earnings ratio. Looking across averages, only Fastenal had a valuation ratio that exceeded the industry average, whether one was examining share prices relative to earnings, sales, or cash flow. National Presto and Wausau-Mosinee Paper's valuation ratios were higher than their industry average in two instances.

**Table IV. Current Share Valuation  
As of August 10, 2005**

Data Provided by Morningstar.com<sup>a</sup>

	<u>Price/Earnings</u>		<u>Price/Sales</u>		<u>Price/Cash Flow</u>	
	<u>Firm</u>	<u>Industry</u>	<u>Firm</u>	<u>Industry</u>	<u>Firm</u>	<u>Industry</u>
FAST	<b>35.1</b>	24.2	<b>3.8</b>	1.8	<b>64.8</b>	29.8
FTHR	7.9	13.9	0.2	0.7	8.1	10.2
FLXS	13.4	24.2	0.2	0.8	11.1	13.4
HMNF	12.9	15.8	3.7	4.9	---	---
HRL	17.2	24.4	0.8	1.7	<b>14.8</b>	13.4
HTLF	15.8	17.1	2.7	4.4	---	---
MRTN	17.7	23.3	0.9	1.7	6.2	9.0
NPK	20.4	24.2	<b>1.8</b>	0.8	<b>64.7</b>	13.4
NRNCA	2.5	20.9	0.5	2.4	5.2	9.0
PMTR	Negative	25.1	0.1	0.6	1.8	12.7
RLRN	29.9	30.1	5.8	7.1	17.6	22.3
ROCM	<b>66.8</b>	34.5	3.3	5.0	Negative	22.0
WPP	<b>34.1</b>	20.4	0.6	0.9	<b>16.0</b>	10.4
Average	21.1	22.9	1.9	2.5	21.0	15.1
S&P 500	22.1		2.9		14.5	

<sup>a</sup>Citizens Community Bancorp (WI) is too new to be included in Morningstar.

### Regional Stock Performance

Regionalism is the focus of the Fall 2005 Economic Indicators forum. An underlying assumption of the 7 Rivers Equity Index is that local firms will perform differently from the remainder of the country. In order to further examine this phenomenon, Wisconsin's public firms were assigned to a set of portfolios based on geographic region. ReferenceUSA software allows one to screen firms on the basis of metropolitan statistical area (MSA). Firms not in a MSA were assigned to their closest MSA. So that the results are tied to the region, and not to a specific company, all MSAs with fewer than four firms were excluded from the study (which eliminated the La Crosse MSA from the study). Portfolio returns were then calculated for the same period that that 7 Rivers Region is examined (i.e., 12/31/1999 to 7/31/2005) and from 12/31/2004 to 5/31/2005. Results will overstate reality because this simple study excludes firms that went bankrupt.

If regionalism does not play a role, we would expect to see similar results across portfolios. As can be seen in Table V, there are some significant differences in company performance across Wisconsin MSAs. So far in this century, the six companies in the Oshkosh area have experienced an annualized 18.6 percent rate of return, while the eight companies in the Madison region have experienced a return of only 4.9 percent. So far this year, Oshkosh companies have done the best, with a 16.8 percent rate of return. Wausau-area firms have done worse, by posting a loss of 8.6 percent. Obviously, there are significant differences in company performance across regions.

**Table V. Analysis of Geographic Performance in Wisconsin**

Across Metropolitan Statistical Areas (MSAs) with at Least Four Public Companies (i.e., excludes La Crosse) on July 31, 2005

	Number of public firms	Annualized return since 1999 (or inception)	Return since December 2004
Eau Claire	4	14.4 %	7.4 %
Green Bay	7	6.8 %	7.0 %
Madison	8	4.9 %	-8.4 %
Milwaukee	37	18.3 %	9.5 %
Oshkosh	6	18.6 %	16.8 %
Racine/Kenosha	4	14.5 %	1.8 %
Wausau	5	8.6 %	-8.6 %
Entire State	71	15.1 %	6.1 %

Note: The author wishes to thank Sarah Krueger for assistance in collecting and inputting the data on which this table is based.

### Summary

This report covers the 7 Rivers Equity Index, a measure of the share price performance of firms located in the local area. Despite abnormally good years in 2003 and 2004, the index fell slightly during the first seven months of 2005. A comparison of equity performance across MSA regions in Wisconsin illustrates the great variation in regional equity performance and that the 7 Rivers Region has underperformed other areas in the state.

Looking forward, Value Line Investment Survey data was used in the determination that 7 Rivers Region firms are not as timely investments and typically have more risk than they did a year ago. Value Line's safety ranking has gotten worse, 7 Rivers firm betas have increased, and projected returns have declined from a year ago. Examining price, using Morningstar information, 7 Rivers firms tend to have lower share prices relative to earnings, sales, and cash flow per share. Although these findings might be viewed as an investment opportunity, it also suggests that the investing public is not as confident about local economic conditions as those found in other areas of the country.

## **International Business in the 7 Rivers Region**

College of Business Administration at UW-La Crosse

New efforts are under way to foster more international business opportunities and prepare more individuals to take advantage of these opportunities. The 7 Rivers Region will benefit from funding received by the University of Wisconsin-La Crosse College of Business Administration (CBA) from the U.S. Department of Education's Business and International Education program.

The goal of the federal funding is to promote the United States' capacity for international understanding and economic enterprise through innovative educational programs and activities. The recent \$175,000 grant will promote international business in our region with a variety of initiatives.

Specific activities of the grant will focus on business outreach, student and faculty enrichment opportunities and development of new courses and international relationships. Funding will be provided to assist in establishing a Wisconsin World Trade Center outreach office to be located in the university's Small Business Development Center. Business seminars and training on international business issues will be scheduled. New and updated course content will include international business applications for emerging geographic information systems (GIS) technology.

The international business activities will also reach area high schools. CBA faculty and students will establish a mentoring program with business teachers and students. University faculty and students will have stipends to teach and study abroad. The funding will also support further development of UW-L's international student internship program for business students currently coordinated by the Office of International Education.

### **Status of 7 Rivers International Trade: Businesses Surveyed**

In spring of 2004, almost 2,000 businesses in the 7 Rivers Region were surveyed to determine the extent and location of international business operations, future international activities, barriers to engaging in international business, training that is needed, and willingness to participate in a variety of activities such as workshops, seminars etc. The response to the survey was 5.1 percent.

- Most responding businesses (71 percent) were small manufacturing companies.
- Those that were engaged in export (43 percent) were primarily exporting to Western Europe, Mexico, and Canada (followed by Australia/New Zealand).
- These geographic targets were expected to remain the target of future activities.
- Importing companies (21 percent) ranked China first, followed by Western Europe and Canada), as the primary areas for import activity.
- Most of the companies responding (75 percent) handled functional activities such as sales, logistics, production, and marketing internally.

The major barriers to engaging in international business were reported to be lack of time, experience, expertise, and financial support. Respondents identified legal issues, sales, logistics, and finance as areas where more training was needed. Slightly over 90 percent reported no linkages with the university international programs while 41 percent indicated they were interested in developing a linkage. Businesses indicated they are most interested in attending and participating in conferences (53 percent) and workshops (59 percent).

Most of the respondents identified themselves as small manufacturers, and a significant portion (28.9 percent) reported being locally or regionally focused. Additionally, just over half reported fewer than 50 employees.

Clearly small businesses who intend to expand international trade could benefit from educational resources. Lean staffing of many companies requires efficiencies in acquiring information and expertise. Hopefully, this renewed focus will uncover more international business opportunities and prepare more individuals to take advantage of these opportunities.