Economic Indicators

"Economic Indicators: An Update for the 7 Rivers Region" reports on a long-term study of regional economic indicators. The research is ongoing and spans a period of time to enable us to understand and report trends. This project is expected to continuously build on a base of economic information and provide decision makers with valuable tools for strategic planning. The information will also provide a basis for comparison with other regions and a measure of our progress.

State Bank Financial sponsors this research project in collaboration with the University of Wisconsin-La Crosse College of Business Administration and the *La Crosse Tribune*. These programs will continuously build on a base of information and provide decision makers like you with valuable tools for strategic planning.

Specific goals of this project are:

- Support business owners in their business decisions by gathering key local economic indicators and trend information.
- Develop specific economic indicators for this region that are not readily available to decision makers.
- Develop tools to assess our progress in economic growth. Prepare baseline measures that will allow comparison with other regions and measure future progress of the region.
- Track the region's participation in the "new economy" and development in the high tech arena.
- Bring professionals together with business owners for discussion about the local economy and related critical issues.
- Create a business recruitment and retention tool by publishing the information.

Core economic indicators cover the following areas:

- Employment
- Income
- Cost of Living
- Consumer Attitude and Behavior
- Real Estate and Housing
- Interest Rates
- Equity Performance

Economic Indicators and Trends

Taggert 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. The special focus of the Spring meeting is healthcare reform and the Patient Protection and Affordable Care Act.

Please note: Dr. Brooks occasionally writes on the 7 Rivers Region Economics blog, which will contain ideas and writings that may or may not be included in this publication provided at the Economic Indicators breakfast meetings. Dr. Brooks will use the blog to track different topics and collect ideas. The Web address is: http://sevenriversecon.blogspot.com/

April 2011

Healthcare Reform

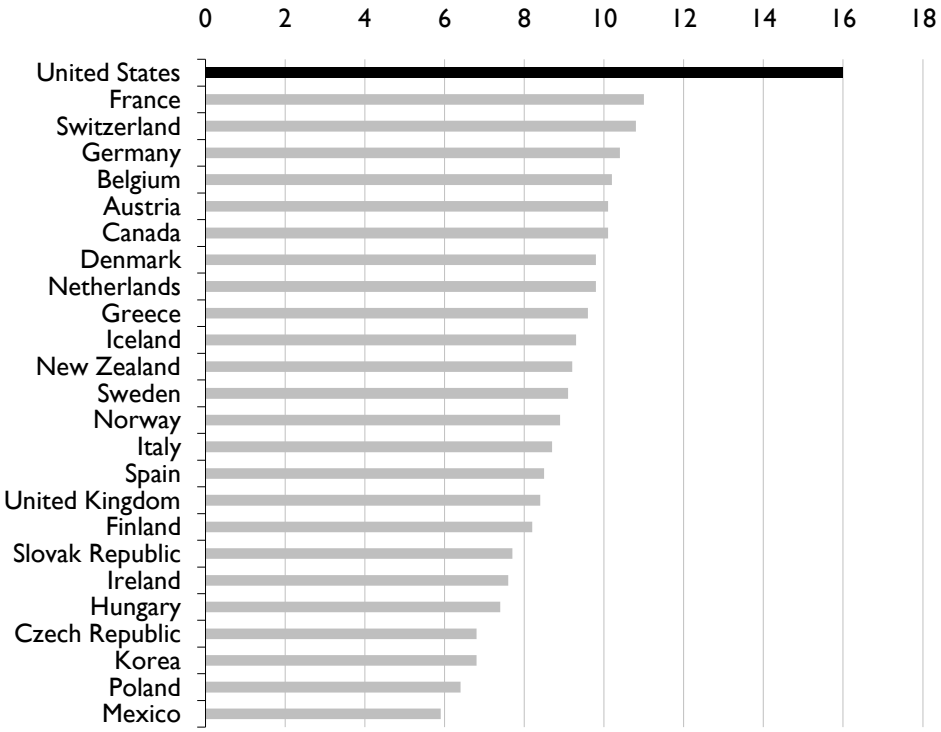
We recently observed the first anniversary of the passage of the Patient Protection and Affordable Care Act (ACA). It is arguably one of the largest reforms to healthcare in our country since the inception of Medicare in 1965. In my consumer sentiment survey I asked a few questions about your views on the ACA.

While I don't want to get mired in the details of this reform, nor any polemics on whether the reform is on average good or bad, I think it is important to note how divided the country is, and how divided the region is over the new law.

It is this aspect I would like to focus on, as I think it is the single most important economic issue facing us today. Let me be clear though, I don't think healthcare spending is the important issue per se, but rather how we handle healthcare spending, and how we change the rules, regulations

and incentives going forward. It is these changes that represent the largest economic uncertainty of our future.

To begin with let me start by defining some terms. Too often the discussions on healthcare are plagued with terms that are not useful. We often hear people talk about rising medical costs. As if in all cases the increase is purely inflationary, that is to say an increase in the price of a service without commensurate changes in quality. It turns out trying to determine pure price changes is very difficult, and we don't do a very good job[1]. Generally speaking we often use the term costs, when we really have in mind expenditures. It isn't that the same procedures costs more, but in fact we have new, different procedures and we often have more procedures, thus leading to an increase in expenditures. It is easy to fall into the trap of thinking about costs because we often compare our expenditures to other countries and find the U.S. spends far more, and we don't seem to get much for that extra spending. We do get much more healthcare, even if some of it is not effective. Below we have a graph of the total health expenditures as a percentage of GDP for the OECD countries for 2007. France is a distant second with spending at 11.0 percent compared to the U.S. with spending at 16.0 percent.



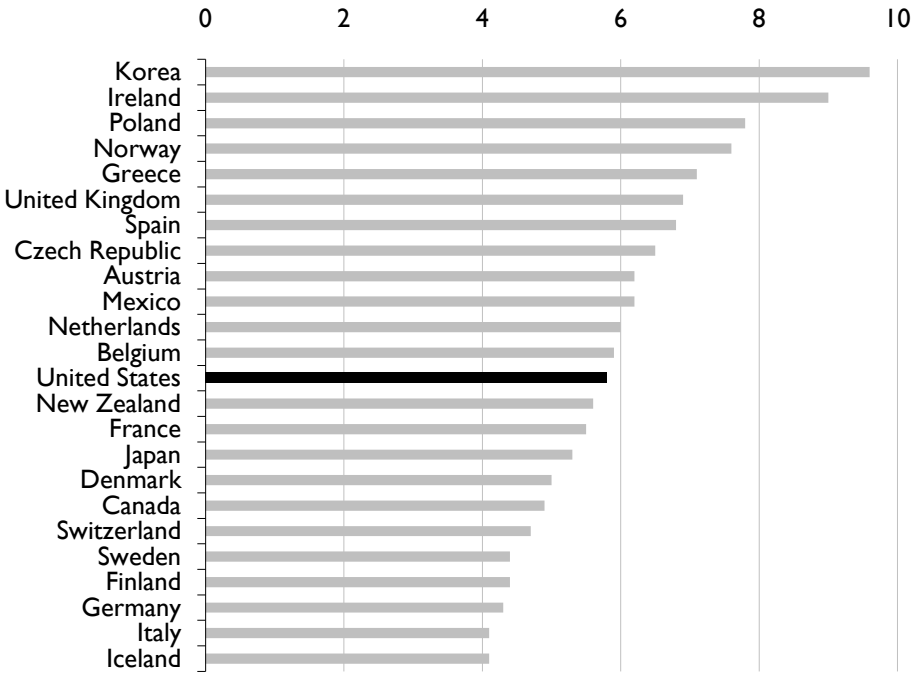
2007 Total Health Expenditure as a % of GDP

Just because we spend more than other countries, does not mean we have a crisis. We also spend more on ice cream consumption – 50 percent more than the next closest country - yet no one believes we have an ice cream crisis. Although now that I think about it, that might

[1] http://www.nber.org/reporter/fall01/newhouse.html

explain some of our health-related problems. So the crisis is not how much we spend, or as it is often described, it is not the level of spending, but maybe it's the growth in spending?

This rapid growth in expenditures has led some people to talk about the healthcare "crisis" in terms of the growth in spending. In 2009 we spent about 17.6 percent of GDP on healthcare while in 1960 we spent only 5.2 percent of GDP on healthcare[2]. If you look at the same countries we looked at previously, you can see that the growth in spending in the U.S. is rather unremarkable. If we are in a crisis, then the rest of the OECD is as well.



1990-2007 Average annual % change in total health expenditure per capita, $PPP (OECD)

This is not to say I don't believe there is a crisis, but it is likely not the same one you have in mind. The true crisis in my mind is the political and economic tensions caused by the rapid increases in health care expenditures, coupled with the peculiarities of how we fund those expenditures. If healthcare was funded entirely by the individual, out of pocket, it would probably not be causing the collateral damage we have recently witnessed on the political landscape. Fifty percent of our healthcare is paid for by the government, funded through taxes. This sets up a conflict between tax payers, and healthcare recipients. While, most, but not all of the rest of the expenditures are made by insurance companies paying for the health care of employed workers. Only about 13 percent of total healthcare costs are actually paid for out of pocket[3].

[2] https://www.cms.gov/NationalHealthExpendData/downloads/tables.pdf
[3] http://www.kff.org/insurance/upload/7692.pdf

There have been many explanations offered for the rapid increase in healthcare expenditures in the US and each of them has a kernel of truth. The political left argues that one source of growth in expenditures is due to the "death spiral" caused by adverse selection in insurance markets. Healthy people opt out of insurance, thus leading to only sick people seeking coverage, this leads to a death spiral, where only the sick and expensive seek health insurance raising costs for insurance companies. Some of this occurs, which is why the ACA mandates that everyone gets coverage in order to slow the growth in insurance premiums by spreading the risk to a larger pool.

The political right argues the problem is one of moral hazard. Once you have insurance, you over utilize healthcare because you do not face the true costs. They are also correct, in that there is evidence that not facing the true costs increases utilization. However, even areas for which we face the full cost of the expenditures we have seen similar increases in total expenditures. Some examples include LASIK eye surgery and cosmetic surgery, such as face lifts and tummy tucks. Health Savings Accounts and higher deductibles alone will not address this issue.

Every group in the healthcare sector has their favorite explanation, or scapegoat, for rising expenditures. Doctors like to blame medical malpractice insurance costs, and the subsequent practice of defensive medicine. At other times they blame pharmaceutical companies for direct-to-consumer marketing leading to increasing patient requests for unnecessary drugs. They have a point on both. The CBO estimates that tort reform could save 0.5 percent of healthcare spending (11 billion dollars in 2009)[4]. But that amount is still fairly trivial.

Pharmaceutical companies like to blame insurance companies for their high administrative costs. While insurance companies like to blame pharmaceutical companies for their excess returns and patent extension games. They all have legitimate points, but the amounts at stake are very small relative to total expenditures and likely not contributing to the rate of increase in spending.

A simple piece of serious evidence is to look at the rising expenditures on our pets. Veterinarian services have increased at roughly the same rate as health expenditures, yet there are many features of expenditures on our pets that are not shared by health expenditures[5]. Insurance hasn't really penetrated this market, neither has detailing by pharmaceutical reps. Malpractice is nearly a non-issue, and the government as third-party payer is also not relevant. Finally as is so often pointed out, much healthcare is consumed in the last years of people's lives, often without substantially extending life. In the case of our pets we often demonstrate much more sympathy for their quality of life by having them put down. Yet the growth in spending is nearly identical to the health expenditures on people. So it can't be the case that the source of growth in our spending can be blamed on end-of-life medical expenditures.

The real crisis in my opinion is that the rate of growth of healthcare expenditures has caused two areas of tension, recently felt quite acutely here in Wisconsin. The first is between employers and employees. As insurance costs have risen, employers have asked their employees to contribute an increasingly larger amount to the premiums. And even though we know in the aggregate, and on average, workers bear the full cost of their non-wage benefits, outside

[4] http://www.cbo.gov/ftpdocs/106xx/doc10641/10-09-Tort_Reform.pdf
[5] http://www.scottwinship.com/1/post/2009/07/that-veterinarian-services-vs-health-spending-chart.html

changes to premiums still creates short-run tension between employers and employees. That is to say from an economic perspective the burden of health insurance falls on workers. Even though the payment to insurance companies is made in part by employers, the employee's wages are lower by the amount of the employer contribution. It is still the case that the payment of insurance by firms can in the short run affect profits, and it can squeeze other operating margins, as the firm adjusts other parts of the employee's compensation slowly over time in response to the increased health insurance[6]. This tension has existed for some time, and continues to be embedded in the tax code through the preferred treatment health insurance premiums receive by being non-taxable.

The other area of tension is within the federal, and to a slightly lesser degree, the state's budgets. The rising expenditures have put pressure on other parts of the budget. A general unwillingness to raise revenues has resulted in a need to reduce expenditures on other areas of the budget. At the Federal level we recently escaped from a threatened government shut down, by cutting 38 billion dollars in spending. These cuts are small relative to the cuts that will need to be made if we do not alter the growth of federally funded healthcare expenditures. The forecasts provided by the CBO are sobering[7]. The CBO forecasts that by 2080 45 percent of GDP will be healthcare related expenditures. That means nearly half of what we produce, services, goods, with be healthcare related. More importantly the CBO predicts that Medicaid and Medicare spending alone will equal 18 percent of GDP by sometime before 2080. Since we have demonstrated a general unwillingness to raise taxes to fund these expenditures we will be, and have already been forced to reduce other areas of the budget. If the federal government were to adopt a hard cap of 18 percent on tax revenue – as has been proposed – then it would mean the only thing the government spends money on in 2070 is medical care for the elderly and poor.

As Herbert Stein once quipped: "If something cannot go on forever; it will stop."

It would have to because that would mean no defense spending, no education spending, no courts, no cops, no fire, no roads, nothing else the government does. The crisis is not necessarily that a country cannot survive just funding healthcare, but the real crises are the political battles we wage and general economic uncertainty we experience on the road to that world. I do not believe it will come to that, but there is no indication that the road ahead will be any smoother for some time.

Rising Gas and Commodity Prices.

Recent increases in gas and other commodity prices have people concerned that the consumer will curtail their consumption of other goods. And though it is very likely these are merely temporary increases, we might still be interested in thinking about how they affect expenditures[8]. We do not have access to good estimates of local consumer expenditure

[6] Figure 2 http://www.kff.org/insurance/snapshot/chcm012808oth.cfm demonstrates that the share of GDP which goes to compensation has been stable at about 56% of gdp, even though wage income has been relatively declining while non-wage (ie insurance) has been increasing.
[7] Figure 2-1 http://www.cbo.gov/ftpdocs/102xx/doc10297/Chapter2.5.1.shtml
[8] http://krugman.blogs.nytimes.com/2011/03/28/billion-price-preview/?nl=opinion&emc=tyb1

behavior, but we can look at national expenditure data to get a sense of the scope of the problem.

The data come from two sources. The consumer price index (CPI) which attempts to measure changes in prices holding quality fixed and the consumer expenditure survey (CEX), which attempts to measure our expenditures. It's important to note that expenditures are a function of the quantity of things you buy and the prices you pay. Expenditures can change because quantities rise, or prices rise, or some combination of the two. The surveys and numbers are below, but I've highlighted the relevant details here:

Food prices were up 0.5 percent last month (January which is the last month data was available at the time of this writing) and 1.8 percent over the last twelve months. Food at home (think buying groceries) was up 0.7 percent for the last month and 2.1 percent over last twelve months.

Food out and at home represents about 13 percent of our total expenditures for a typical household ($6,372 / $49067). So a 1.8 percent increase in prices represents about a 114 dollar increase in food costs (assuming you don't decrease the quantity of food you buy, which is a strong assumption).

In terms of gas and motor oil, we spend about $1,986 on average, or about 4 percent of our expenditures. It has risen about 13.4 percent in the last 12 months (again, this is as of January). So assuming we buy the same quantity and therefore the price increase directly translates to a $266 increase in "gas and oil" expenditures.

Apparel went up 1 percent last month, but for the year was unchanged. That 1 percent increase means about a $17.25 increase in clothing expenditures in just the last month.

Remember, price multiplied by quantity equals expenditures. If price goes up we often reduce the quantity we purchase. The numbers I have given above are for the average U.S. urban worker and they assume - rather unrealistically - that quantity purchased does not go down. So they can be viewed as an upper bound for the estimated increase in expenditures. The longer the horizon, the more time consumers have a chance to alter their purchasing behavior, and thus the effects above are further mitigated[9].

[9] This story was covered here http://www.wxow.com/Global/story.asp?S=14211763

Consumer Prices[10]:

Seasonally adjusted changes from preceding month

	July 2010	Aug. 2010	Sep. 2010	Oct. 2010	Nov. 2010	Dec. 2010	Jan. 2011	Un-adjusted 12-mos. ended Jan. 2011
All items	.3	.2	.2	.2	.1	.4	.4	1.6
Food	.0	.1	.3	.1	.2	.1	.5	1.8
Food at home	.0	.0	.4	.1	.2	.2	.7	2.1
Food away from home (1)	.0	.3	.3	.1	.1	.1	.2	1.5
Energy	3.3	1.6	1.1	2.5	.1	4.0	2.1	7.3
Energy commodities	5.6	2.6	2.2	4.4	.7	6.4	4.0	13.4
Gasoline (all types)	6.2	2.9	2.2	4.5	.7	6.7	3.5	13.4
Fuel oil (1)	-1.6	.9	.8	4.7	4.2	4.9	6.8	17.3
Energy services	.5	.4	-.4	.0	-.8	.6	-.6	-.7
Electricity	.4	.1	-.1	.2	.6	.3	-.5	1.2
Utility (piped) gas service	.8	1.4	-1.4	-.6	-5.3	1.7	-1.2	-6.4
All items less food and energy	.1	.1	.0	.0	.1	.1	.2	1.0
Commodities less food and energy commodities	.1	.1	-.2	-.2	.0	-.1	.2	-.2
New vehicles	.1	.2	.1	-.1	-.2	-.1	-.1	.1
Used cars and trucks	.5	.9	-.4	-.6	.1	-.1	-.3	2.4
Apparel	.1	.0	-.5	-.2	.1	.1	1.0	.0

Consumer Expenditures[11]:

Table A. Average annual expenditures and characteristics of all consumer units and percent changes, Consumer Expenditure Survey, 2007-2009

Item	2007	2008	2009	Percent change 2007-2008	Percent change 2008-2009
Number of consumer units (000's)	120,171	120,770	120,847		
Income before taxes	$63,091	$63,563	$62,857	0.7	-1.1
Average age of reference person	48.8	49.1	49.4		
Average number in consumer unit:					
Persons	2.5	2.5	2.5		
Earners	1.3	1.3	1.3		
Vehicles	1.9	2.0	2.0		
Percent homeowner	67	66	66		
Average annual expenditures	$49,638	$50,486	$49,067	1.7	-2.8
Food	6,133	6,443	6,372	5.1	-1.1
At home	3,465	3,744	3,753	8.1	0.2
Away from home	2,668	2,698	2,619	1.1	-2.9

[10] Current data are here http://www.bls.gov/news.release/cpi.nr0.htm
[11] Current Consumer Expenditure data here http://www.bls.gov/news.release/cesan.nr0.htm

Housing	16,920	17,109	16,895	1.1	-1.3
Apparel and services	1,881	1,801	1,725	-4.3	-4.2
Transportation	8,758	8,604	7,658	-1.8	-11.0
Healthcare	2,853	2,976	3,126	4.3	5.0
Entertainment	2,698	2,835	2,693	5.1	-5.0
Personal insurance and pensions	5,336	5,605	5,471	5.0	-2.4
All other expenditures	5,059	5,113	5,127	1.0	0.3

Table B. Average annual expenditures for selected components, Consumer Expenditure Survey, 2007-2009

Item	2007	2008	2009
Mortgage interest and charges	$3,890	$3,826	$3,594
Rented dwellings	2,602	2,724	2,860
Apparel and services	1,881	1,801	1,725
Gasoline and motor oil	2,384	2,715	1,986
Healthcare	2,853	2,976	3,126

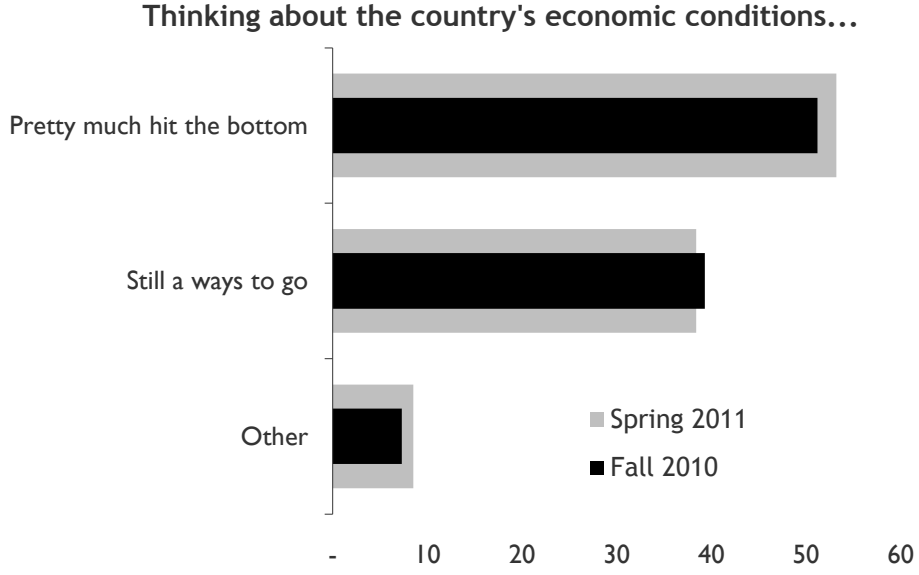
Consumer Sentiment

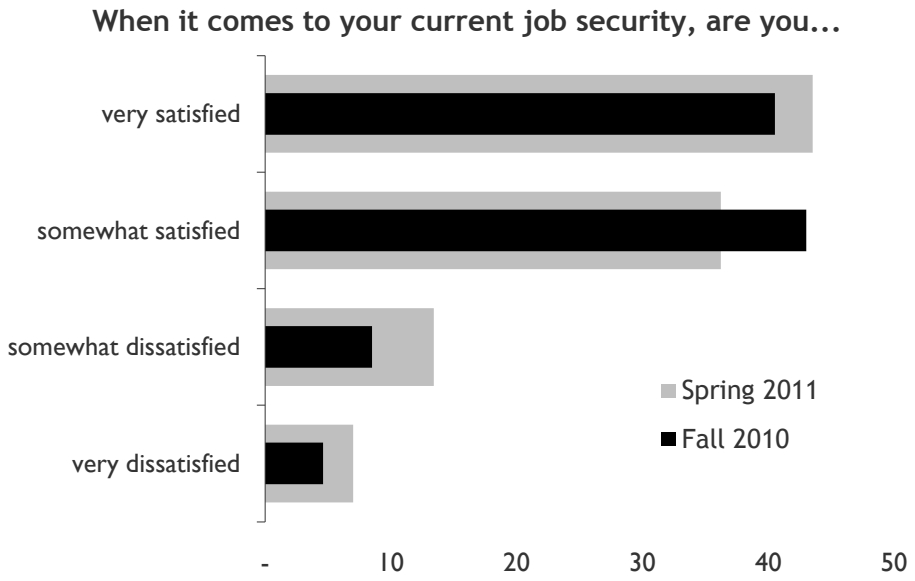
The first week of April, I distributed via email the semi-annual consumer sentiment survey to 1,466 past participants in programs related to the 7 Rivers Region. I received 353 responses for an overall response rate of 24.1 percent. The table below provides all the data since the inception of the regional survey. We see from August of 2010 to April 2011 the regional overall consumer sentiment index increased slightly from 79.0 to 80.5, while the national index fell slightly over the same period. The Expectations sub index has turned mildly more optimistic rising to 75.5 from 70.9, while the national expectations index over the same period actually fell.

	Consumer Sentiment		Current Conditions		Consumer Expectations	
	7 Rivers	**National**	**7 Rivers**	**National**	**7 Rivers**	**National**
April 2002	96.1	93	94.7	99.2	97.1	89.1
November 2002	85.8	84.2	97.0	93.1	78.6	78.5
April 2003	86.0	86	94.4	96.4	80.6	79.3
October 2003	102.0	89.6	104.6	99.9	100.4	83.0
April 2004	98.1	94.2	102.9	105	95.0	87.3
February 2005	87.9	94.1	100.7	109.2	79.6	84.4
March 2006	85.9	88.9	107.6	109.1	71.9	76.0
November 2006	90.8	92.1	96.7	106	86.9	83.2
April 2007***	102.7	89.2	113.7	111.1	95.7	75.1
February 2008***	79.1	70.8	91.3	83.8	71.2	62.4
August 2008***	69.9	61.2	76.5	73.1	65.6	53.5
December 2008***	70.9	60.1	87.0	69.5	60.6	57.8
February 2009***	59.7	56.3	75.9	65.5	49.2	50.5
July 2009***	75.2	66	83.7	70.5	69.7	63.2
February 2010***	79.2	73.7	91.8	84.1	71.2	66.9
August 2010***	79.0	69.6	91.5	69.0	70.9	64.1
April 2011* **	**80.5**	**68.2**	**88.2**	**83.6**	**75.5**	**58.3**

***** Survey moved to the web.**

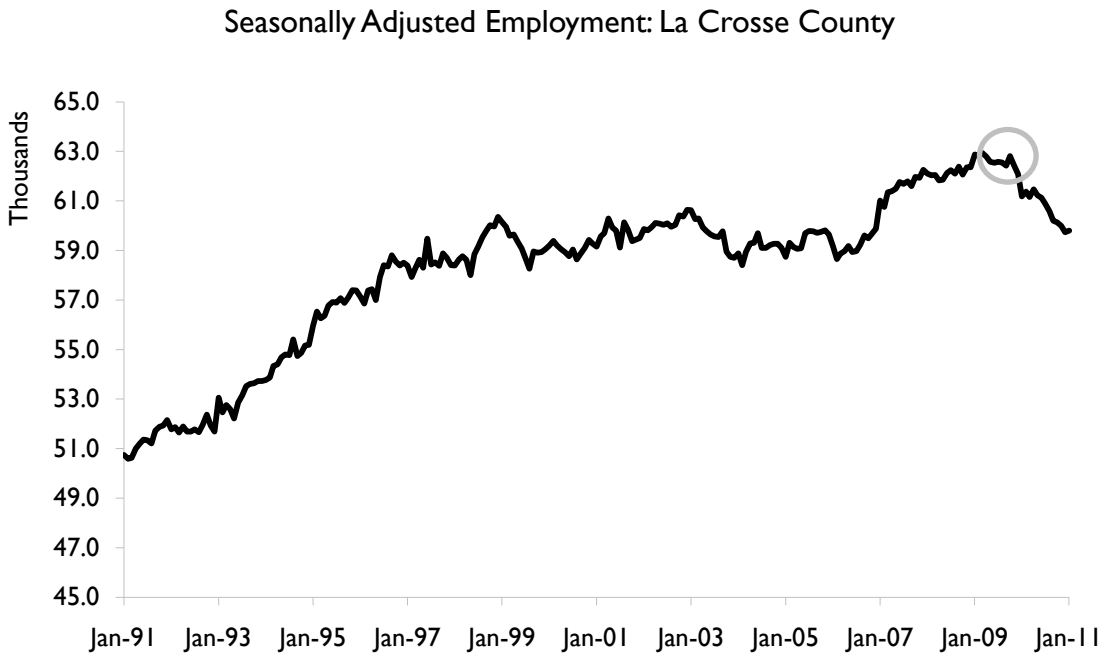
The consumer sentiment survey also included seven other questions, some of them were discussed above, but the rest we will turn to now. I asked two key questions about the economic recovery. First, whether you thought the economy has hit the bottom or still has a ways to go. We saw a very slight increase in the percentage of people who view the economy as having hit bottom. Finally, when it comes to job security, we find a bimodal response. There was an increase in those who were very satisfied with their job security and an increase in those who were dissatisfied with the job security. The change stems from the large reduction in those people that were somewhat satisfied with their job security. Though I do not have the data to directly test this, given that a large number of the survey participants are or have a public-sector relationship, I can only guess that the recent events in Wisconsin might in part be driving some of these responses.



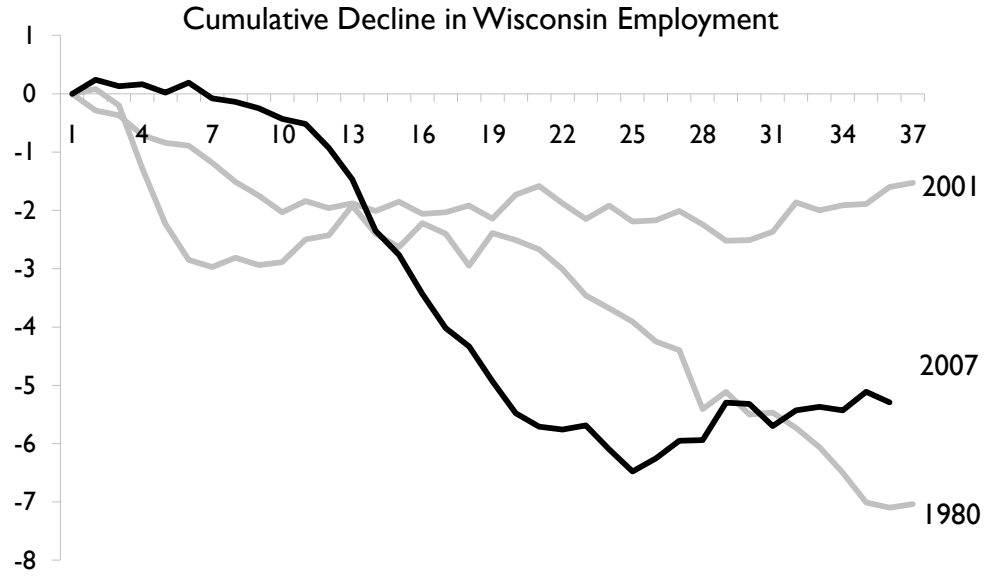


Dating the Local Business Cycle

I was recently asked to comment on whether or not the local economy has entered the recovery phase or are we still in a recession. The NBER dates the start of the national recession as December 2007, based in large part on the peak of non-farm employment. From the data, it looks like the contraction in employment in Wisconsin occurred about 6 months after, or around June 2008. Unfortunately, it is hard to get similar data on the local level. I've taken the employment level for La Crosse County and seasonally adjusted it with the same X-12 ARIMA Census method used for the state and national data and that suggests employment peaked about 12 months after the national peak (around December 2008).

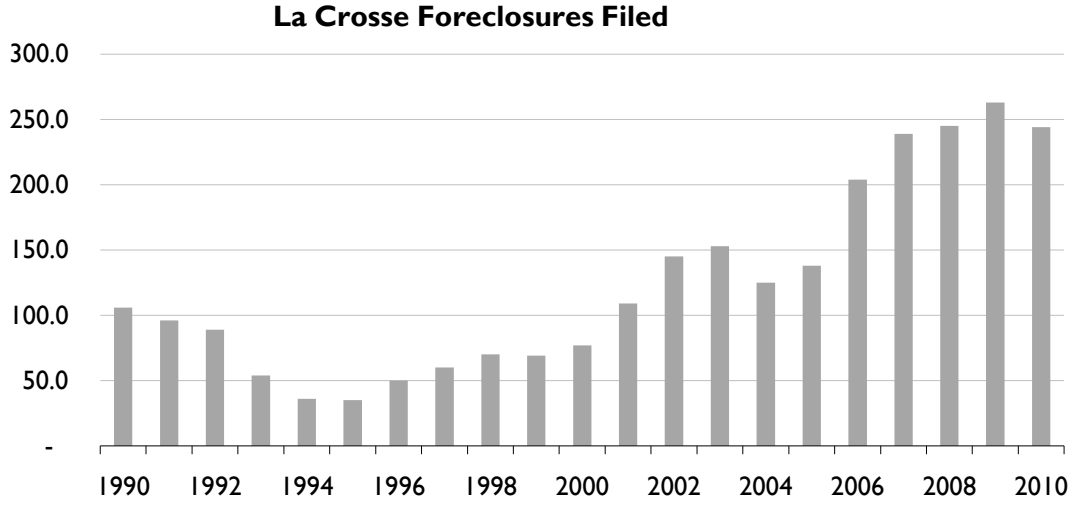


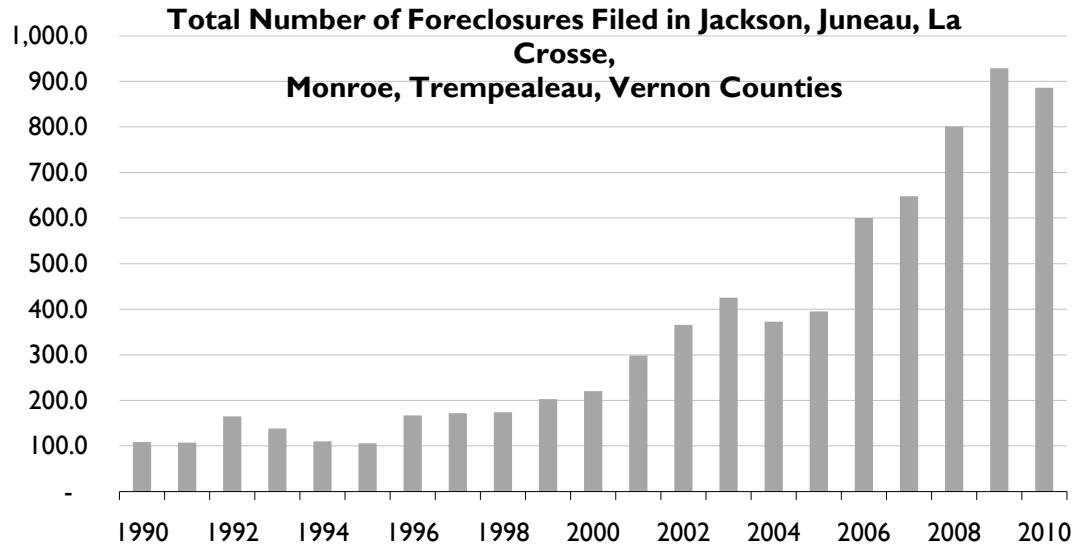
The recession was declared over nationally in June 2009. Wisconsin's employment is recovering slowly, and that looks to have begun about December 2009 or January 2010. It is approximately 24 or 25 months after the start of the national recession. So it looks like Wisconsin entered and exited the recession about 6 months later than the national economy.



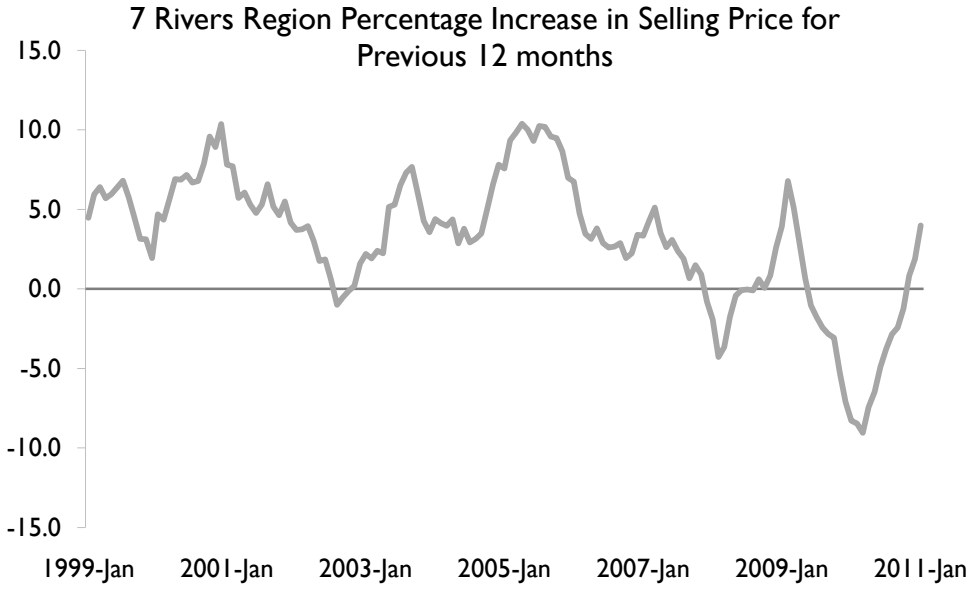
It is a little tougher to identify the start of the local recovery, in part because the recovery is much younger. Simply following the lag time - in and out - that we saw for the state would suggest the local recovery began 12 months after the national recovery, or about June of 2010.

Looking for some supporting evidence that a recovery is under way, we can turn to the foreclosure data. Foreclosures were off their peak in 2009 for the region and La Crosse County in particular. I track the foreclosures on an annual basis, even though the underlying data is monthly. Using the monthly reports I forecast the remainder of the year and during the late fall, the pace of foreclosures seems to have moderated.

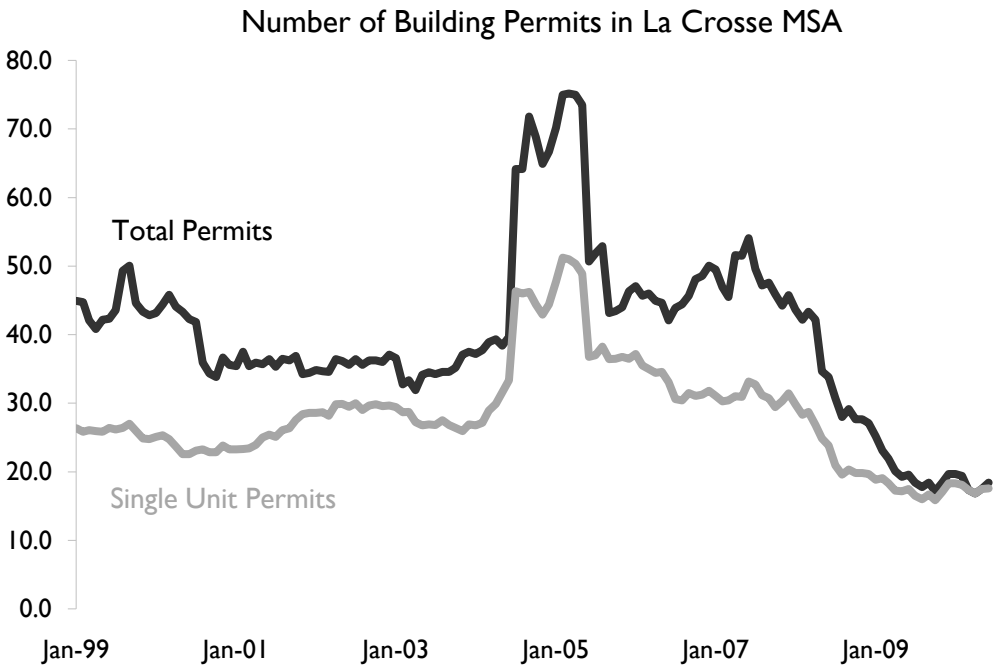




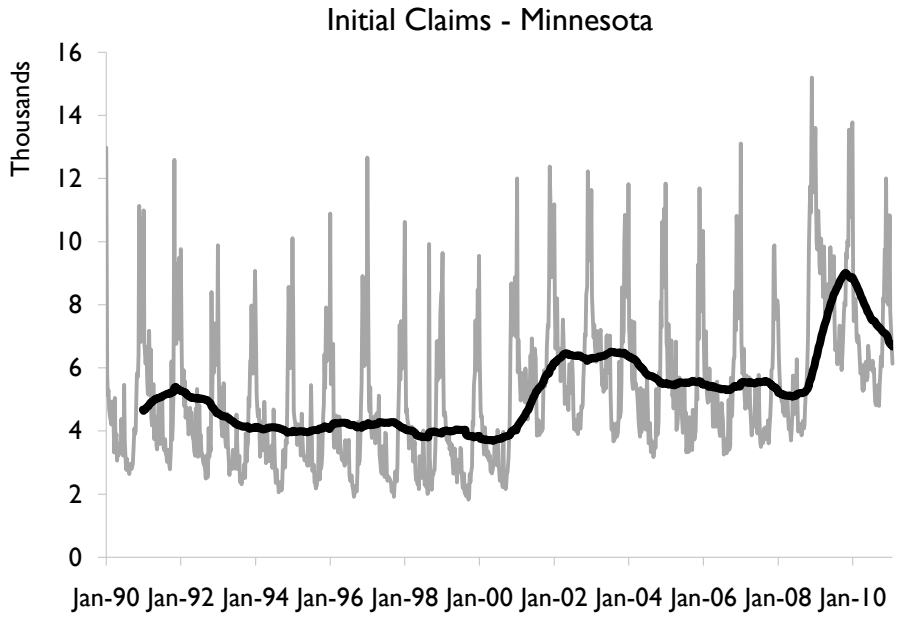
Home prices also seem to have rebounded, though we should be careful interpreting this data, since an unknown amount of the price decline we saw in the data is due to the change in the types of homes being sold as the first-time buyer tax credit resulted in an unusual portion of lower priced homes being sold. This lowered the average selling price. A better measure would have been repeated sales, but I do not have access to such a measure locally. The volume of sales is still off from its peak, but that is also true for the rest of the country.

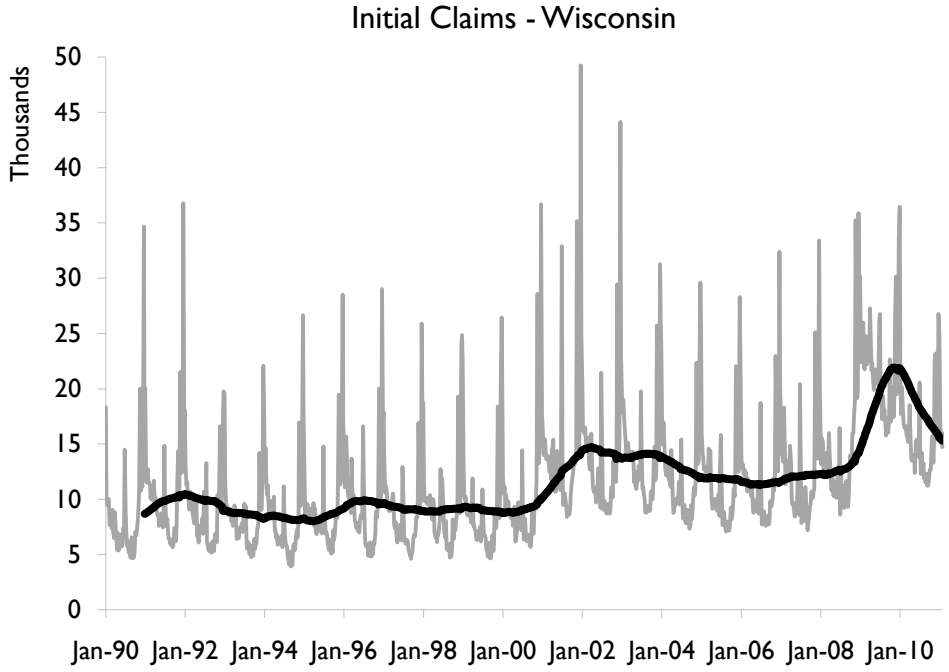


Another factor that suggests the economy has turned the corner is the slide in building permits appears to have stopped.



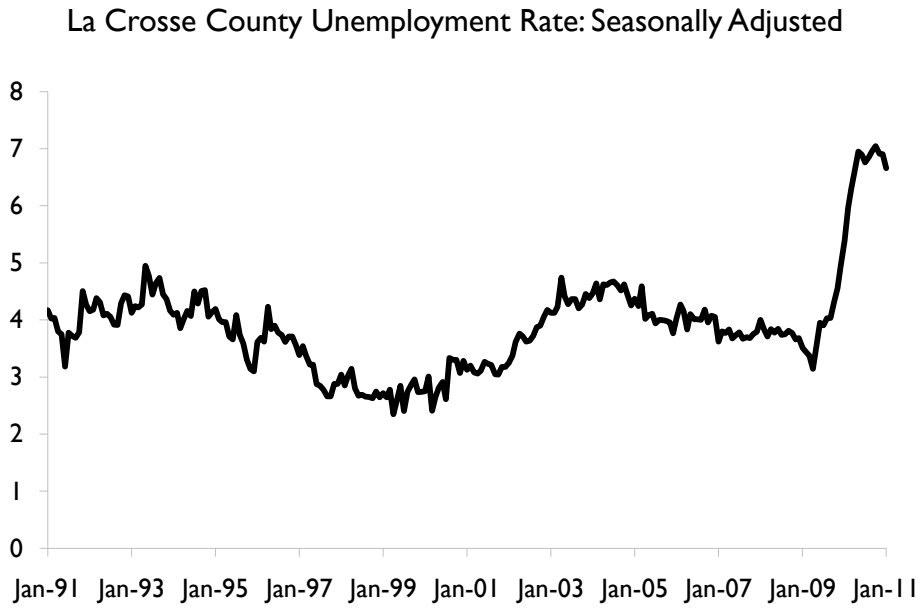
We can see at the State level initial claims for jobless benefits appears to have fallen.




Initial Claims - Wisconsin
Thousands
50
45
40
35
30
25
20
15
10
5
0
Jan-90 Jan-92 Jan-94 Jan-96 Jan-98 Jan-00 Jan-02 Jan-04 Jan-06 Jan-08 Jan-10


Comparison of National and State Unemployment Rates
12.0
10.0
8.0
6.0
4.0
2.0
0.0
US
WI
MN
Jan-99 Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10

Locally the seasonally adjusted unemployment rate appears to have peaked. Unemployment is generally a lagging indicator. It peaks after the recovery has begun, because people who were discouraged by the lack of job prospects, previously stayed out of the labor market, begin to re-enter the labor market as they become more optimistic about their chances at finding a job.



And though it might be a bit early to tell with certainty, my sense is that we could identify the end of the recession locally as late fall of 2010.

Budget Repair Bill

The other important issue we face in our local economy is the impact of the Budget Repair Bill. Specifically I have been asked about how this bill might affect the local economy through its impact on teachers. Here is how I think about the economic impact of these types of things.

There are basically four or so questions you need to ask yourself. The first thing is to think about the change in spending by the government. I would caution that unlike when the government changes spending by X, say for example when spending 10 million dollars on a road project. The change in this case is not directly a change in government spending on a project, but for the most part the changes in the budget repair bill are changes in wages. The actual change in spending will be something less, since some of the money was saved in the first place. A reduction in discretionary income does not lower spending by that full amount. The other thing you need to consider is how the change in spending is funded. In this case, if we would not have cut teachers and state employee's wages, how would we have raised the money to fund it? Property tax hikes? Income tax hikes? Less spending in other areas of the budget? Once we know the net effect – which is the economically relevant effect - the third thing we need to consider is the distributional consequences. For example, tax cuts to high income people have different effects than tax cuts to lower income people. Also changes in wages to teachers and state workers affect them directly, whereas changes to tax rates affect the payers of those taxes. This is an important consideration since sometimes the distributional consequences have

geographical effects. It is easy to think about a county where state income tax collection is low, but there is a high proportion of public-sector workers. Clearly, they will be a higher burden in the case of wage cuts to public workers than the case of income tax increases.

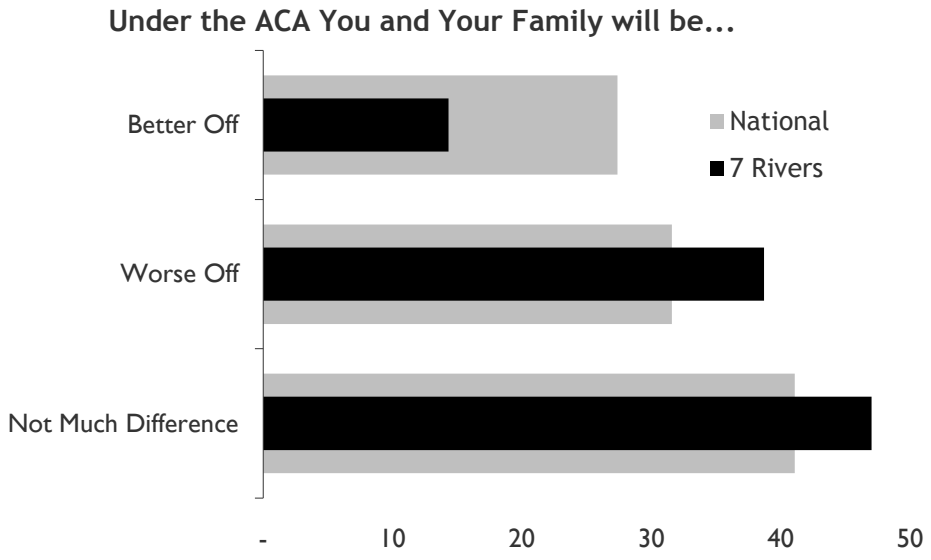
Finally you need to consider the size of the change, relative to the size of the local economy. By considering the size of the "shock" you can place it in context with other possible regional macro shocks. The La Crosse MSA is about a 5.4 billion dollar a year economy. So even if we only considered the reduction in spending – and we put that down to 7 million dollars (the approximate decline for public school teachers in the region) – then we have a 0.1 percent decline in spending. Our retail sector alone represents about 380 million dollars, meaning if that decrease in 7 million dollars came entirely out of our retail spending it would be only a 1.8 percent decline.

The problem with this simple analysis is that it fundamentally fails to capture the dynamics of the process. That is where the real economic challenges lie. As we transition from one state to the next, people are forced to abruptly make large changes in behavior. Those changes have temporary effects on the employment level, and consumption levels in the region, even if they have permanent effects on the proportion of jobs on the public sector. I'm not entirely convinced some districts still won't see some layoffs. Teachers will now consider other jobs as the income growth prospects have just been slashed. As our economy picks up growth, teaching will continue to look relatively less appealing.

Unfortunately, I can't provide more precise numbers, in part because our statistics do not separate local employment by state workers versus non-state workers. As a simple back of the envelope calculation we have about 72,000 non-farm jobs in the La Crosse MSA, while according to the Bureau of Labor and Statistics using the North American Industrial Classification System (NAICS) we have about 11,000 jobs in government, which represents about 15 percent of the workforce. Some of those jobs are federal and not subject to the budget repair bill, while some jobs counted in other industries might be subject to the details of the budget repair bill. Also, I cannot remove the number of police and fire, which are exempt from the fiscal effects of the budget repair bill.

I haven't given wildly precise numbers, but frankly I think producing precise numbers for these types of questions often hides lots of precarious assumptions. I think the important macroeconomic point is that the adjustment process from one equilibrium to another is often where the economic pain is felt, locally and regionally. This is why we generally try to mitigate the transitional effects.

Appendix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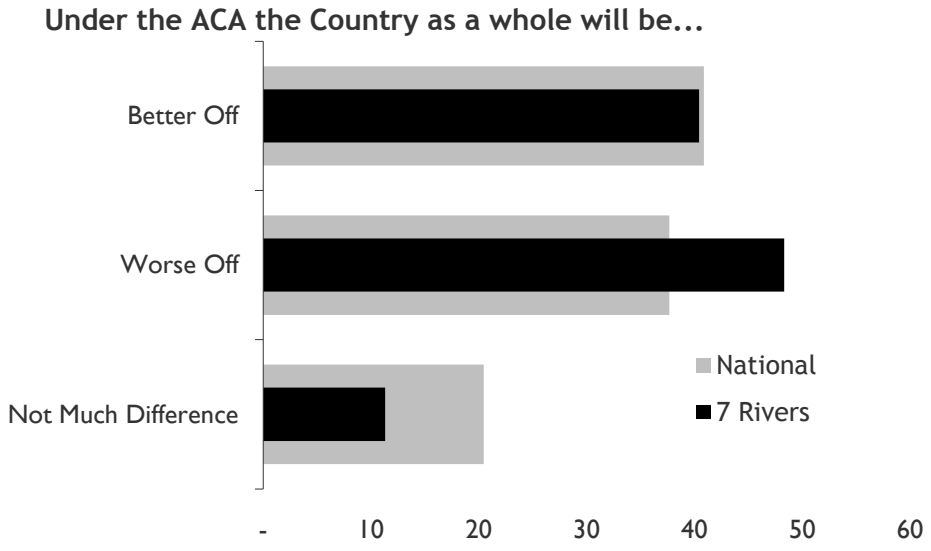
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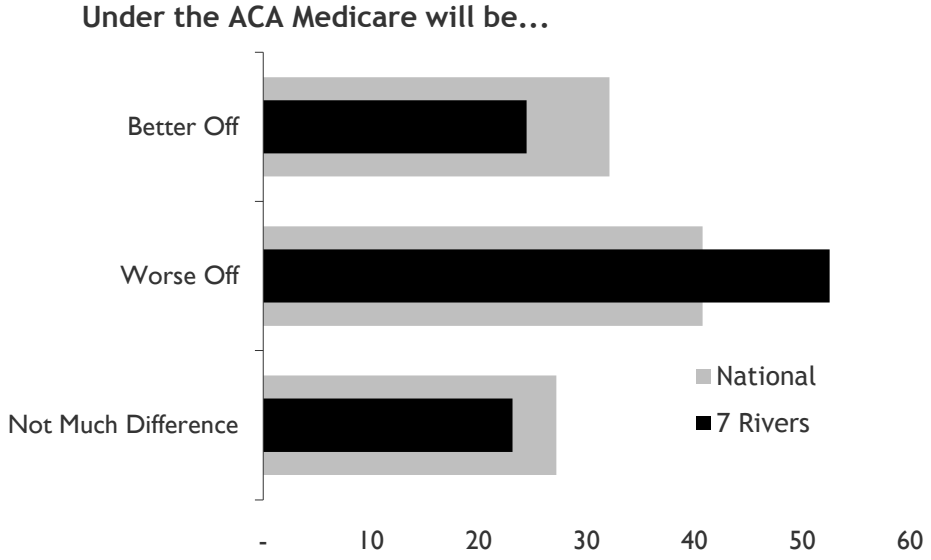
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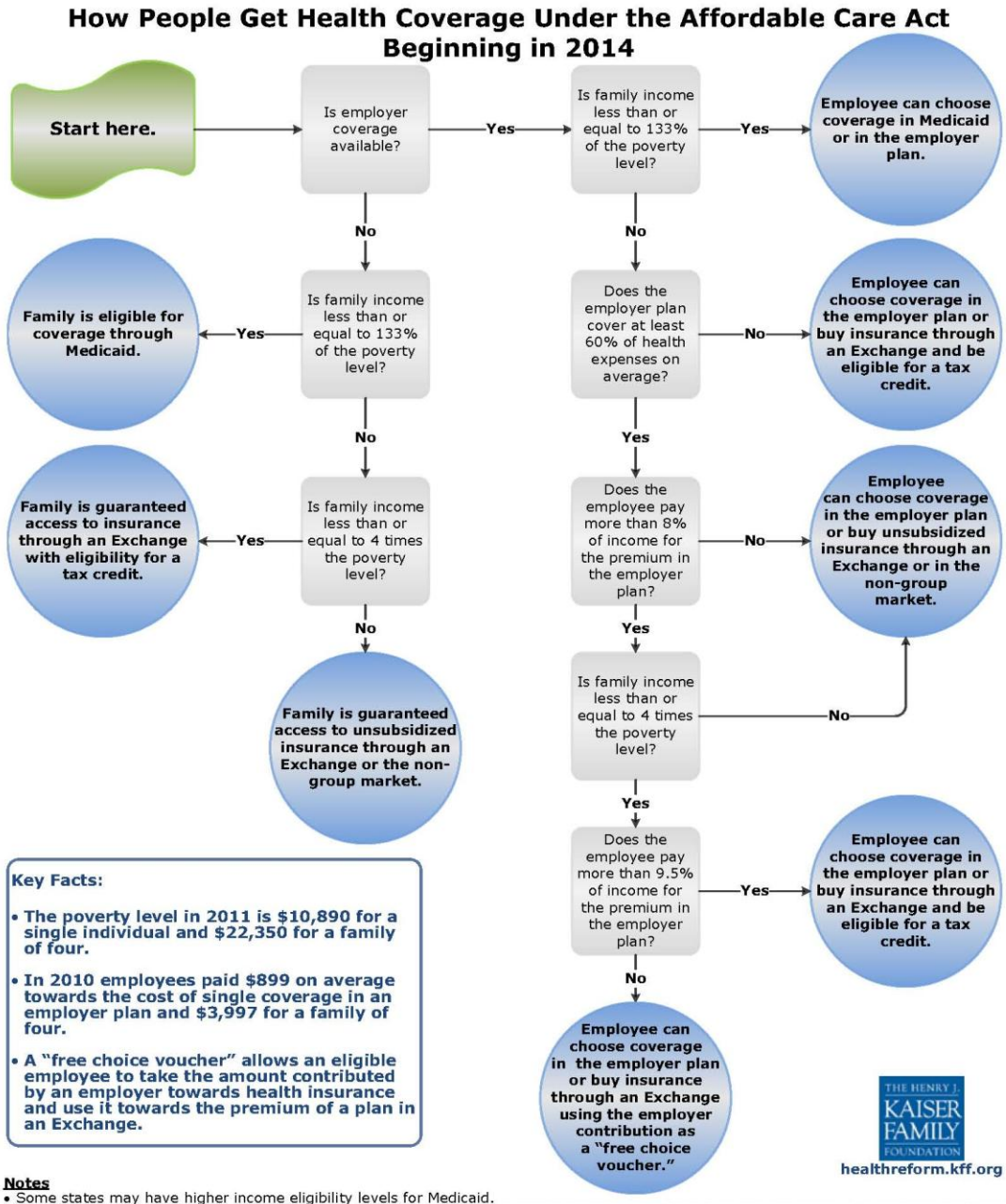


Notes
- Some states may have higher income eligibility levels for Medicaid.
- In some cases, children may be eligible for public coverage through Medicaid or CHIP while their parents are covered through an employer or an Exchange.
- Undocumented immigrants are ineligible for Medicaid and may not purchase coverage in an Exchange or receive a tax credit.
- In general, people are required to obtain coverage or pay a penalty, but those whose health insurance premiums exceed 8% of family income (after tax credits or employer contributions are taken into account) will not be penalized if they choose not to purchase coverage.
- Employees are eligible for "free choice vouchers" if they must pay 8-9.8% of income for employer coverage, so employees facing premiums of 9.5-9.8% of income under an employer plan are eligible to buy coverage in an Exchange using a free choice voucher or receive a tax credit.
- Regulations specifying how dependents of workers with employer coverage available are treated have not yet been issued.
- Small businesses may choose to buy insurance through newly created SHOP Exchanges or directly from insurers.

http://healthreform.kff.org/the-basics/~/media/Files/KHS/Flowcharts/coverage_flowchart_3.pdf

The 7 Rivers Equity Index: Uneven Post-Financial Crisis Performance

Thomas M. Krueger, Director of Research, Texas A&M University-Kingsville

Through the La Crosse Area Economic Review in the early 1990s, locally-published CommerceNow during the mid and latter 1990s and 7 Rivers Region: An Economic Update since it began publication in 2004, I have been privileged to cover the performance of companies within the7 Rivers Region. It is an honor to be able to bring you this addition of the 7 Rivers Equity Index, although I am no longer at UW-La Crosse. No matter how far I roam, UW-La Crosse, the 7 Rivers Indicator Breakfast, and 7 Rivers Equity Index will never be far from my heart.

I. Introduction

Yo-yos move up and down on a string. Seesaws allow the rider to first rise and then fall. Automobiles take the driver up hills and then down the backside. Wherever one looks, you can see cycles, some are more abrupt than others, but all tend to return one to something akin to their original position. That is, unless, the yo-yo string breaks, one falls off the teeter-totter, or the travel concludes at a coastline.

In like manner, the stock market tends to ebb and flow. However, unlike coastal tides, there is no recurring pattern that one can expect on all ocean beaches around the world. Different portfolios perform differently. In fact, while stocks in the 7 Rivers Region rose at a rate that was twice that of the Dow Jones Industrial Average, and fell only half as far as the Dow during the recent financial crisis, recent performance has lagged the overall market.

Furthermore, there have been incredible differences in the performance of 7 Rivers Region companies since the February 2009 market bottom. While some local companies have experienced a stock price rise of almost 200 percent, others have seen a continued sell-off of shares, resulting in share prices dropping by as much as 50 percent. This report updates the 7 Rivers Equity Index's performance in the aggregate and individual company basis, and investigates the performance of local companies using their financial statements. Analysis of varying managerial performance at 7 Rivers Region companies is accomplished through examination of nine financial ratios. Three popular ratios are taken from each of their most recent income statements, balance sheets, and statements of cash flows. (For the most recent analysis of security prices and local firm return forecasts, please refer to "The Seven Rivers Equity Index: Is This What a Recovery Feels Like?" in the 7 Rivers Region: An Economic Update, September 2010, pp. 32-46.)

II. The 7 Rivers 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 the financial press or Internet sources. Two, the company's headquarters must be within 100 miles of La Crosse, which includes the 7 Rivers Region. A listing of such companies is generated with the assistance of *ReferenceUSA*, a data service allowing one to screen public corporations by geographic location. *ReferenceUSA* offers a radius feature for screening companies on the basis of distance from a chosen location. There were no bankruptcies or acquisitions within the prior list of thirteen companies. All fifteen companies currently in the 7 Rivers Equity Index are listed in Table 1. As you can see on the

bottom of Table 1, eleven companies have dropped out of the 7 Rivers Index because they were acquired by other corporations, went private, or went bankrupt.

Table 1. 7 Rivers Equity Index

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

The Financial Crisis Period took place between November, 2007 and February 2009 (16 months), while the Post-Financial Crisis Period covered here runs from March 2009 to December 2010 (22 months). By comparison, the Dow Jones Industrial Average fell 49.3 percent during the crisis and rose 63.9 percent thereafter.

State / Company/ City/ Industry	Financial Crisis Price Change	Post-Financial Crisis Price Change
Wisconsin		
Baraboo Bancorporation (BAOB) Baraboo; Retail banking	-49%	-54%
Citizens Community Bank (CZWI) Eau Claire; Retail banking	-28%	-43%
Energy Composites Corporation (ENCC) Wisconsin Rapids; Fiberglass-based manufacturing	-24%	-72%
Marten Transportation (MRTN) Mondovi; Trucking	16%	29%
Mid-Wisconsin Financial Services Medford; Retail banking	-52%	- 24%
National Presto (NPK) Eau Claire; Cookware	10%	115%
Renaissance Learning (RLRN) Wisconsin Rapids; Educational software	-49%	66%
Wausau-Mosinee Paper (WPP) Mosinee; Paper products	-45%	55%
Minnesota		
Fastenal (FAST) Winona; Threaded fasteners	-32%	99%
HMN Financial (HMNF) Spring Valley; Savings & loan	-91%	25%
Hormel (HRL) Austin; Pork and turkey processing	-13%	61%
Merchants Financial Group (MFGI) Winona; Retail banking	-15%	-5%
Rochester Medical (ROCM) Stewartville; Urinary treatment products	-33%	14%
Iowa		
Flexsteel Industries (F LXS) Dubuque; Home furnishings	-57%	193%
Heartland Financial USA (HTLF) Dubuque; Retail banking	-43%	54%

Firms included in the 7 Rivers Equity Index that are no longer publically held	Price Change While in 7 Rivers Equity Index
Ag Services of America – acquired by Rabobank (1/2004)	-43%
Bone Care International – acquired by Genzyme Corporation (6/2005)	161%
Featherlite – acquired by Universal Trailer Holdings (10/06)	16%
First Federal Capital Corporation – acquired by Associated Banc-Corp (10/04)	127%
La Crosse Footwear – relocated to Oregon (3/2001)	-49%

Firms included in the 7 Rivers Equity Index that are no longer publically held	Price Change While in 7 Rivers Equity Index
Land's End – acquired by Sears (6/2002)	78%
Northland Cranberries – privatized (11/2005)	-97%
Pemstar – acquired by Benchmark Electronics (1/07)	-76%
Sheldahl – bankrupt (4/2002)	-100%
State Bank La Crosse – privatized (2/2003)	- 8%
TenderCare International – acquired by Hain Celestial (12/07)	100%

Local Company Performance across Economic Conditions

Given the dramatic stock market fall from November 2007 to March 2009 and seemingly as dramatic recovery from that point through the end of 2010, it is logical to wonder how local firms fared. This curiosity is addressed in Table 1, where the negative values in the first numeric column portray the widespread nature of the stock market decline. In fact, only Marten Transportation and National Presto registered gains during this period. Across the thirteen companies experiencing a share price decline, three dropped by over 50 percent. The yo-yo almost fell off the string at HMN Financial, which experienced a huge ninety-one percent swoon.

The yo-yo came back up over the next twenty-two mostly positive months. Locally, National Presto continued its winning ways with a return of over 100 percent. Fastenal's stock price almost doubled. However, both of these sizeable returns were overshadowed by Flexsteel's stock price surge of 193 percent! Although this return looks large, it would take a return of 133 percent for Flexsteel's share price to get back to its pre-financial crisis levels (i.e., (1 - 0.57) x (1 + 1.33) – 1 = 1). Despite the quick snap upward, this yo-yo did not get back to the hand.

Performance of the 7 Rivers Equity Index

Local companies are combined in the creation of the 7 Rivers Equity Index, an equally-weighted portfolio of regional companies. The performance of this portfolio is presented in the first column of Table 2 and illustrated in Figure 1. The index is based on share prices, excluding dividends, which are obtained from Yahoo! Finance. The values presented represent the monetary value of $100 invested in local shares on December 31, 1999. For instance, in December 2000 the value of the 7 Rivers Equity Index dropped 8.8 percent to 91.2, meaning that a $100 investment would have lost $8.80. Ever since 2003, the 7 Rivers Equity Index value has been above 100, denoting a positive return from investment in local companies. However, the highest year-end value was in 2006, when the 7 Rivers Equity Index stood at 158.7, or a $58.70 gain on the initial $100 investment. During 2010, the 7 Rivers Equity Index rose 10.4 percent, as exhibited in the brackets. Going back down during the first two months of 2011, the 7 Rivers Equity Index slightly dipped, falling from 140.8 to 139.8.

Table 2. Comparative Index Performance

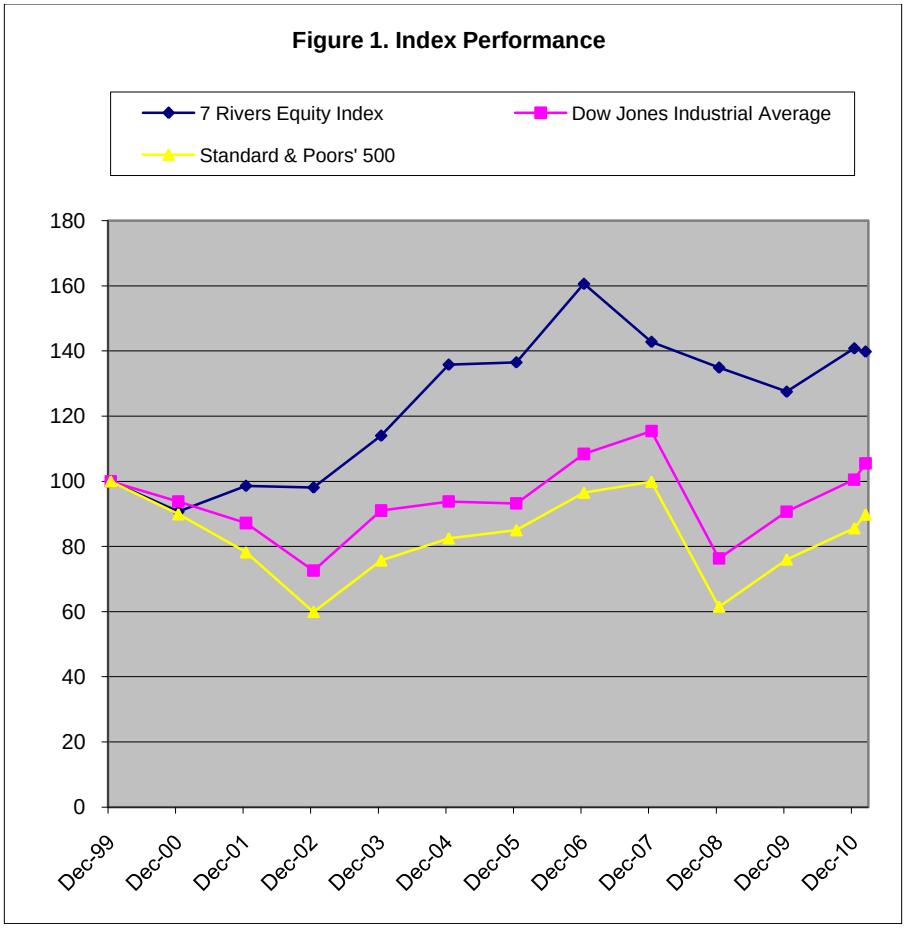
Since 12/31/1999 Index Value of 100
(Year-to-Year Change in Parentheses Through 12/2009)
[Change since 12/2009 in Brackets]

	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	91.2	(-8.8%)	93.8	(-6.2%)	89.9	(-10.1%)
12/2001	99.3	(8.7%)	87.2	(-7.0%)	78.2	(-13.0%)
12/2002	99.2	(-0.1%)	72.6	(-16.7%)	59.9	(-23.4%)
12/2003	115.4	(16.3%)	91.0	(25.3%)	75.7	(26.4%)
12/2004	136.7	(18.4%)	93.8	(3.1%)	82.5	(9.0%)
12/2005	137.9	(0.9%)	93.2	(-0.8%)	85.0	(3.0%)
12/2006	158.7	(15.1%)	108.4	(16.3%)	96.5	(13.5%)
12/2007	145.8	(-8.1%)	115.4	(6.5%)	99.9	(3.3%)
12/2008	131.5	(-9.8%)	76.3	(-33.8%)	61.5	(-38.5%)
12/2009	127.5	(-3.0%)	90.7	(18.9%)	76.0	(23.6%)
January 2010	129.6	[1.6%]	87.6	[-3.4%]	73.1	[-3.8%]
February 2010	134.5	[5.5%]	89.8	[-1.0%]	75.2	[-1.0%]
March 2010	137.0	[7.4%]	94.4	[4.1%]	79.6	[4.8%]
April 2010	139.8	[9.6%]	95.8	[5.6%]	80.9	[6.4%]
May 2010	133.5	[4.7%]	88.2	[-2.8%]	81.0	[6.6%]
June 2010	128.3	[0.6%]	85.0	[-6.3%]	70.3	[-7.5%]
July 2010	130.1	[2.0%]	91.1	[0.4%]	75.1	[-1.2%]
August 2010	123.2	[-3.4%]	87.1	[-4.0%]	71.4	[-6.1%]
September 2010	133.0	[4.3%]	93.8	[3.4%]	77.7	[2.2%]
October 2010	134.7	[5.6%]	96.7	[6.6%]	80.5	[5.9%]
November 2010	136.0	[6.7%]	95.7	[5.5%]	80.4	[5.8%]
December 2010	140.8	[10.4%]	100.5	[11.0%]	85.6	[12.6%]
January 2011	138.6	[8.7%]	103.4	[14.0%]	87.5	[15.1%]
February 2011	139.8	[9.6%]	105.5	[16.3%]	89.8	[18.2%]

Since its origin, the performance of the 7 Rivers Equity Index has surpassed both the Dow Jones Industrial Average and the Standard & Poor's 500. The values of these market indexes are calibrated using the assumption that $100 was invested in each at the end of December 1999. After the markets fell in the early portion of the century, the Dow surpassed $100 again by year-end 2006. The yo-yo effect continued though, with

the Dow falling 33.8 percent in 2008, as shown in parentheses. It took until December 2010 for the Dow to again get back to where it had been in December 1999, eleven years earlier. A similar down-up-down-up motion can be witnessed in the far right columns, with the Standard & Poor's 500 almost reaching 100 by the end of 2007. The Standard & Poor's February 2011 value, of 89.8, represents a $10.20 decline per $100 invested in December 1999. Although investors in the five hundred largest companies have lost money over the past twelve years, the Standard & Poor's 500 grew the quickest from January 2009 to February 2011. Its 18.2 percent surge, as exhibited in the bottom row of Table 2, is almost twice the 9.6 percent appreciation of the 7 Rivers Equity Index.

Figure 1. Index Performance



The 7 Rivers Index across Economic Conditions

While calendar years serve as the interval in Table 2, Table 3 divides the 2000-2010 period into three time frames: a) the period before the financial crisis (which began in November 2007), b) the period of the financial crisis (which ran until February 2009), and c) the period since the financial crisis (which for this analysis runs until December 2010). As shown in the top row of Table 3, local company performance greatly outpaced the market in the period from January 2000 to October 2007. Its 43.5 percent gain is

twice that of the Dow Jones Industrial Average and eight times that of the Standard & Poor's 500.

The relative value of local companies shined during the November 2007 to February 2009 financial crisis. As shown in the middle row of Table 3, local shares fell only 21.3 percent. Though undesirable in absolute terms, that decline is less than half of the drop of the stock market indexes.

Table 3. Comparative Performance Before and After the 2007-2009 Financial Crisis

	7 Rivers Equity Index	Dow Jones Industrial Average	Standard & Poor's 500 Index
Prior to November 2007	43.5%	21.1%	5.5%
November 2007 to February 2009	-21.3%	-49.3%	-52.5%
March 2009 to December 2010	24.7%	63.9%	72.2%

Partially redeeming itself over the March 2009 to December 2010 period, the Standard and Poor's 500 Index rose 72.2 percent. That return is nine percent higher than the Dow's recovery and three times the recent period's performance of the 7 Rivers Equity Index. However, one should bear in mind that the Standard & Poor's 72.2 percent gain followed a drop to a relatively low level. For example, if one assumes an investment of $1 in the 7 Rivers Equity Index at the end of November 2007, the 21.3 percent decline followed by a 24.7 percent gain would result in a December 2010 value of 98 cents. The fall and recovery of the Dow leaves the investor with only 83 cents. Meanwhile, the $1 investment in the Standard & Poor's 500 is worth 82 cents in December 2010. Or, an 18 cent loss, despite the 72 percent, post-financial crisis gain! Despite its rapid spinning and snap back from recent lows, the S&P 500 yo-yo was still well short of the hand from which it departed. The remainder of this report searches for reasons that local companies have offered higher return and lower risk.

III. Fundamental Characteristics of Local Firms

Explanation of the Financial Ratio Tables

Figure 1 illustrates the relatively better performance of local firms versus the Dow Jones Industrial Average and Standard & Poor's 500. However, closer inspection of the graph allows one to observe that most of this advantage came in the 2000-2006 period. From that point on, local firms have declined in value. Despite their yo-yoing down and back,

the market surrogates are at approximately the same levels they were at in 2006. Forecasting whether the 7 Rivers Equity Index will continue its current direction or recover to its earlier course requires careful analysis of the local firms' financial health. Following past precedent, this spring report studies the fundamental financial characteristics of firms in the 7 Rivers Equity Index.

Morningstar.com is the primary source of financial statement data. When data was not available there, the author sought information from the finance.yahoo.com, zacks.com and individual company financial statements. Values presented below are based on annual financial statements from 2004 to 2010. Ratio averages were calculated for each firm for the period before the financial crisis (2004-2006), period of the financial crisis (2007-2009), and most recent year (2010). As of March 3, annual data for 2010 had not yet been reported by National Presto and Heartland Financial. In these instances, data for the most recently reported four quarters, going back to the fourth quarter of 2009, was used to estimate 2010's results. Less than one-third of the possible years were available for Baraboo Bancorporation, Energy Composites, and Merchants Financial, which were consequently excluded from further analysis.

Table 4 is based on information found in firm income statements, Table 5 is based on balance sheet information, and Table 6 is based on cash flow statement information. Due to their financial business, financial ratios for the banks and savings and loan are reported in a separate, second panel of Table 4 through Table 6. Reported financial ratios may vary slightly between the non-financial group and financial group of firms due to the monetary nature of the latter's business. Medians for each group for each ratio are also reported. Medians are a more appropriate measure of performance than averages because the number of firms in each group is small, making it possible for a unique occurrence at a single company to significantly sway average values from a representative value.

Income Statement Insights

Gross profit margins (Gross Profits/Sales) represent the percentage of revenues not consumed in the process of producing goods and services. As shown in the first column and row of Table 4, over the 2004-2006 period, Fastenal's gross profit margin was 37 percent. Over this period, gross profit margins ranged from 8 percent at Wausau Mosinee Paper to 83 percent at Renaissance Learning. Obviously, production costs are much higher in the paper manufacturing industry than in the educational service industry. On an individual firm basis, the most dramatic growth is Fastenal's gross profit margin increase from 37 percent before the financial crisis, to 52 percent after it.

Net profit margins (Net income/Sales), which are presented in the center panel of Table 4, are surprisingly consistent across economic periods. For instance, Hormel's net profit margin is 5 percent in all three periods. An exception to this stability is Renaissance Learning's profit margin, which falls from a positive 20 percent, to a negative 5 percent, and then rises back to a positive 18 percent.

Return on equity (Net income/Total Stockholder Equity) measures the income provided per dollar invested by shareholders, and is presented in the right column of Table 4. The highest and lowest return on equity values were both registered by Renaissance Learning, which earned 24 cents per dollar of equity investment before the financial crisis and then lost 9 cents per dollar of equity investment during the 2007-2009 period.

All of the median values are consistent with what one would expect across a financial crisis and rebound. The median gross profit margin shrunk (30 percent to 28 percent), and then rebounded (28 percent to 36 percent). Net profit margin fell to half its original size (6 percent to 3 percent) and then recovered (3 percent to 4 percent). Finally, return on equity fell to about half of its original size (9 percent to 5 percent) and then snapped back to a higher level than the beginning level (5 percent to 14 percent).

The financial industry's equivalent measure for gross profit margin is net interest income, or the difference between what a bank can earn on the money put on deposit and the interest that has to be paid to those depositors. To adjust for firm size the difference between interest income and interest expense is divided by interest income. While net interest income fell to only 50 percent interest income during the financial crisis at Citizens Community Bank and HMN Financial, it subsequently surged to 64 percent and 62 percent, respectively, in 2010.

Non-interest expense, when dividend by net revenue, shown in the middle column of Table 4, indicates the percentage of the net interest income that is absorbed by bank operations. During the financial crisis, non-interest expense surged to 109 percent (over 100 percent!) of net interest income at Citizens Community Bank, meaning that the institution was unable to earn enough to cover its costs. Looking at the medians, one can see that 9 percent more (i.e., 76 percent – 67 percent) of total net interest revenue went to pay non-interest expenses during 2007-2009.

Return on equity can be calculated for both financial and non-financial companies. During the pre-financial crisis period return on equity ranged from 3 percent to 12 percent. During the financial crisis only Heartland Financial had a positive return on equity. The median return-on-equity values fell from 9 percent to 0 percent, underscoring the devastating nature of the financial crisis to 7 Rivers firms in the banking industry, but then rebounded to 7 percent.

Balance Sheet Insights

Current ratios (Current Assets/Current Liabilities) provide insight to a firm's liquidity. As shown in the first set of columns in Table 5, Fastenal's current assets were approximately seven times it current liabilities across all three financial conditions. By contrast, Renaissance Learning's current ratio is only 0.5 in 2010, indicating it only has the ability to pay about half its bills if it is able to liquidate its accounts payable and

inventory at book value. Renaissance Learning's lower current ratios led to higher total asset turnover, which will be covered below.

Median current asset values for non-financial companies reflect the concurrent economic condition. During the financial crisis, as current liabilities (i.e., unpaid bills) rose relative to assets, the current ratio fell by 25 percent. Median current ratios came charging back in 2010, rising by over 50 percent.

Long-term debt ratios (Long-Term Debt/Total Assets) indicate the amount of borrowing that has been used to obtain assets. Higher debt ratios result in more risk as companies add interest expenses to other costs encountered in the normal course of business operations. The trend towards less financial leverage is quite pronounced, with the median debt ratio dropping from 13 percent to 8 percent to 4 percent across the three periods under consideration. The only non-financial company to increase its long-term debt ratio is Renaissance Learning, perhaps in an attempt to obtain money to cover its losses during the financial crisis, as noted when discussing Table 4 earlier. By contrast, Fastenal and Rochester Medical have eliminated long-term debt from their capital structure. The most dramatic reduction in debt financing occurred at Marten Transportation, which reduced its reliance on debt financing from 31 percent to 2 percent of assets.

Total asset turnover (Revenues/Total Assets) provides insight to a firm's asset management. Comparison of total asset turnover across companies is problematic because different asset bases are necessary to generate sales. For instance, furnishing manufacturer Flexsteel consistently has an asset turnover ratio above 2.0. Meanwhile, Rochester Medical's asset turnover ratio is consistently approximately 0.5. Although there was a slight increase in median asset turnover ratios, from 1.4 times before the financial crisis to 1.6 in 2010, five of the eight non-financial companies experienced an asset turnover ratio decline. Only National Presto and Renaissance Learning experienced an increase. Careful asset management contributed to the surge in Renaissance Learning's net profit margin during 2010. However, with current liabilities greater than current assets, investment in Renaissance Learning would have to be done with caution.

Similar balance sheet-based financial ratios for local financial companies tended to be quite stable across the economic conditions. Ratio medians ranged by less than 15 percent across the time periods. The most concerning shifts on an individual company basis occurred at Citizens Community Bank, where operating leverage (Total Assets/Equity) rose significantly, from 8.7 to 11.9. Further contributing to Citizens Community Bank's operating risk, fixed asset turnover (Revenues/Plant & Equipment) fell from 4.2 to 3.9 times per year. Perhaps recognizing this growth in the risk of operations, Citizens Community Bank's managers cut its financial risk (Long Term Debt/Equity) in half. Taking an opposite path to profitability, Heartland Financial's 18 percent decline in operating leverage (from 14.8 to 12.2) was offset by an 11 percent rise in financial leverage (from 1.12 to 1.24).

Cash Flow Statement Insights

Given that cash is the monetary lubricant that allows business to function, it makes sense that a financial statement should be dedicated to cash flows. Unlike the prior financial statement analyses, the same cash flow statement ratios are relevant for non-financial and financial firms. The year-to-year growth rate in operating cash flows, which equals net Income plus depreciation adjusted for changes in current assets and current liabilities, is given in the first set of columns in Table 6. Ideally, this number would grow over time. Unfortunately, such is not the case when it comes to non-financial local companies. The number of 7 Rivers firms reporting declining operating cash flows rose from one in the 2004-2006 period, to two in the 2007-2009 period, to four in 2010. As a consequence, it is not surprising to see the median cash flow growth rate fall from a positive 15 percent per year to a negative value. In 2010, Wausau Mosinee Paper's 79 percent drop in operating cash flows offset Rochester Medical's 50 percent gain.

Capital expenditures, listed in the second set of columns in Table 6, are given as a percentage of sales to compensate for differences in firm size. Perhaps the most informative aspect of capital (i.e., fixed asset) spending is its consistency across periods. The only significant change seems to have occurred at Marten Transportation, which cut capital expenditures as a percentage of sales by 8 percent, from 26 to 18 percent. Nonetheless, Marten Transportation continues to aggressively spend money on fixed assets, and has a capital expenditure level that is three times the next highest level found in the local region.

Free cash flow, representing the amount of money earned for stockholders and bondholders net of their investment in stock and bonds, is presented in the third set of columns in Table 6. As with capital expenditures, it is given as a percentage of sales to compensate for differences in firm size. Ideally, investors would like to see this ratio growing over time. Non-financial firm median free cash flow rose over time, from 2 percent, to 3 percent, to 6 percent of sales. However, cash flow performance on an individual firm basis has varied significantly. Renaissance Learning generated money for investors at a rate of at least nineteen cents per dollar. Conversely, to finance the capital expenditures described in the prior paragraph, Marten Transportation has taken more money from investors than it has given them in all three periods. During 2010, for instance, Marten Transportation required fifteen cents per dollar of sales to fund its appetite for fixed assets.

Upon examination of financial firm cash flow statement medians, one could conclude that operating cash flows are growing rapidly, capital expenditures are rising slowly, and free cash flow is back from the brink of disaster. While that conclusion is true overall, individual firms have had varying experiences. On a positive note, three of the four local financial institutions had an operating growth rate of at least 40 percent in 2010. However, Mid-Wisconsin Financial reported a huge drop that in magnitude was almost

three times its 2009 growth. As a consequence, the savings and loan cut its capital expenditures by sixteen percent of sales.

One of the more positive interpretations regarding local companies concerns the rapid recovery of free cash flow levels at local banks. During the 2007-2009 financial crisis, they took an average of 36 cents per dollar of revenue from investors. In 2010, all three banks returned money to investors. At either 1 cent (HMNF Financial and Heartland Financial) or 3 cents (Citizens Community Bank) per dollar of revenue, the return is small, but it represents a great improvement on recent years.

Conclusion

Much like a yo-yo, the stock market has its ups and downs. Local shares have had their share of direction reversals, with the annual return of the 7 Rivers Equity Index reversing course six times since 2000. Over the past eleven years, the longest string of stock market advances was the four-year period from 2003 to 2006. That growth was followed by a financial crisis that ushered in three years of stock market declines from 2007 to 2009. Since then the yo-yoing 7 Rivers Equity Index rose in 2010 and has fallen in 2011. Despite the volatility, local companies have ended up rising to higher levels and retaining their advantage over the stock market in general. To gain some insight to the direction we might expect next, fundamental firm information was studied in this report.

Overall, 2010 appears to have been a good year for local firms on the basis of the median values constructed from income statement information. Gross profit margins rose to new heights, net profit margins recovered, and return on equity also reached new heights. In the banking industry, net interest income reach a new heights, non-interest expenses faded back toward earlier levels, and return on equity approached levels not seen since 2006.

Perceptions based on balance sheet ratios would lead one to believe that local companies have weathered the financial crisis. Management of bills has resulted in much higher current ratios, debt has been reduced, and total asset turnover is higher than it was prior to 2007. Acquisition of assets at local financial institutions appears to have been done with equity instead of debt, limiting financial risk.

Much like a yo-yo coming back from the end of a string, free cash flow has snapped back from negative values among both financial and non-financial companies. Continued capital expenditures suggest that managers at local companies expect the economic conditions will continue to improve. However, declining year-over-year operating cash flows at five local firms diminishes the certainty of robust local economic growth. Much like playing with a yo-yo, you are not sure if it will stop spinning back up in the hand or at the end of its string, but between now and then there are likely to be many ups and downs.