

*Moderate Economic Growth for Missouri in 2006*

The Simon Center for Regional Forecasting at Saint Louis University's John Cook School of Business projects Missouri employment to grow by 0.7% in 2006, adding over 19,000 jobs to the state during the year. The projected growth rate is somewhat below the 1.0% average growth rate for 1991–2005. Employment for the St. Louis region is expected to grow by 0.6% in 2006, contributing more than 8,000 jobs to the region, and the forecast is slightly below the 0.8 average for 1991–2005. For the U.S. economy, the Simon Center predicts a 1.5% increase in employment, which is slightly above the 1.3% average for 1991–2005.

The Simon Center expects both the Missouri and St. Louis unemployment rates to remain unchanged over 2006. (The Missouri and St. Louis unemployment rates were 5.6% and 5.7%, respectively, in November of 2005). The U.S. unemployment rate is projected to decline by 0.2 percentage points during 2006. (The U.S. unemployment rate was 5.0% in November of 2005.)

The Simon Center also predicts Missouri real personal income to increase by 2.7% in 2006, which equals the 2.7% average for 1991–2005. For the U.S. economy, the Simon Center also projects real personal income to grow by 2.7% in 2006. This forecast is just below the 1991–2005 average of 2.8%.

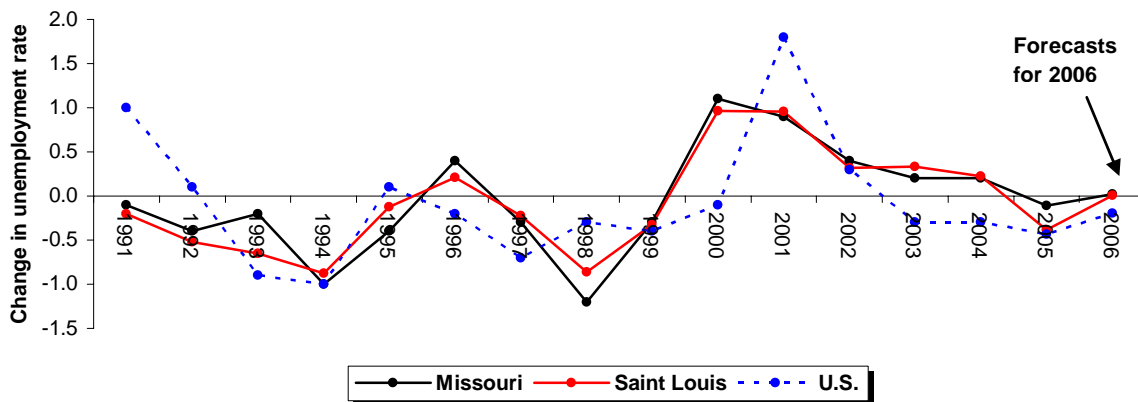
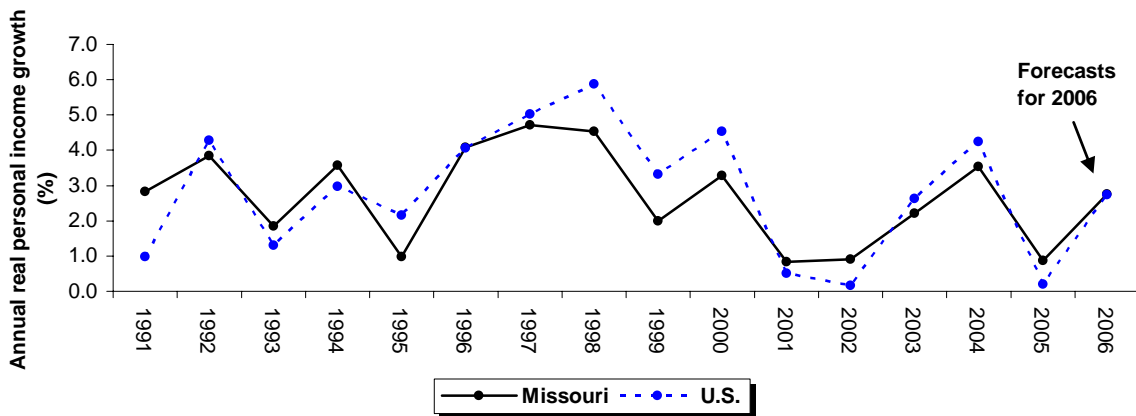
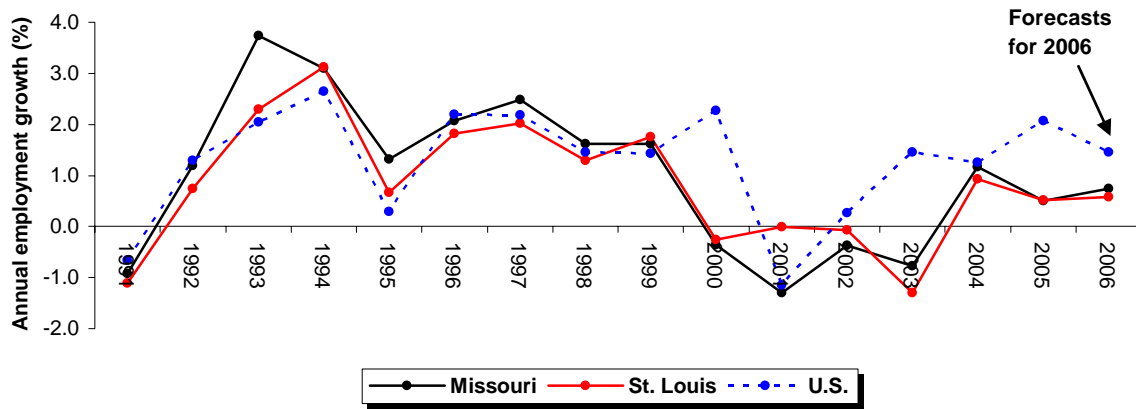
**Simon Center Forecasts for 2006**

	Missouri			St. Louis			U.S.		
	1991–2005 Average	2005	2006	1991–2005 Average	2005	2006	1991–2005 Average	2005	2006
Employment growth	1.0%	0.5%	<b>0.7%</b>	0.8%	0.5%	<b>0.6%</b>	1.3%	2.1%	<b>1.5%</b>
Change in unemployment rate	-0.1	-0.1	<b>0</b>	-0.1	-0.4%	<b>0</b>	-0.1	-0.4	<b>-0.2</b>
Real personal income growth	2.7%	0.9%	<b>2.7%</b>	-	-	-	2.8%	0.2%	<b>2.7%</b>

*Notes: figures for 2005 are based on data through November of 2005; - indicates data not available*

The figures on page 2 show the behavior of the variables listed in Table 1 for 1991–2005, along with the forecasts for 2006. As the figures indicate, the variables exhibit considerable volatility, and this contributes to a significant degree of uncertainty in the 2006 forecasts reported above. This uncertainty can be quantified by reporting one-standard-deviation (68%) forecast intervals, and the forecast intervals appear in the table below. The table also reports the probability that employment growth, the change in the unemployment rate, and real income growth will be positive in 2006. Even with the forecast uncertainty, the reported probabilities indicate that there is a reasonably high likelihood of positive growth in 2006 for Missouri and St. Louis employment and a very high likelihood of positive growth in 2006 for U.S. employment and personal income, as well as Missouri personal income.

	Missouri		St. Louis		U.S.	
	Confidence Interval	Prob.>0	Confidence Interval	Prob.>0	Confidence Interval	Prob.>0
Employment growth	[-0.7%, 2.2%]	69%	[-0.9%, 2.0%]	66%	[0.4%, 2.5%]	92%
Change in unemployment rate	[-0.8, 0.8]	51%	[-0.5, 0.6]	51%	[-1.0, 0.6]	40%
Real personal income growth	[0.8%, 4.7%]	92%	-	-	[1.1%, 5.4%]	93%



The Simon Center forecasts are generated using time-series econometric models and forecast combining methods. The combining methods extract information that is potentially useful for forecasting from a large number of individual models based on both regional and national economic variables. Forecast combining methods are especially valuable in realistic environment with substantial model instability and uncertainty, making them particularly relevant for forecasting regional variables. The effectiveness of combining methods for forecasting Missouri employment growth is demonstrated in a recent paper by David E. Rapach (Research Economist at the Simon Center) and Jack K. Strauss (Director of the Simon Center), "Forecasting Employment Growth in Missouri with Many Potentially Relevant Predictors: An Analysis of Forecast Combining Methods," which appears in the inaugural issue of the Federal Reserve Bank of St. Louis publication, *Regional Economic Development*.<sup>1</sup>

Visit the Simon Center for Regional Forecasting web page at [http://business.slu.edu/centers/Simon\\_Center/index.html](http://business.slu.edu/centers/Simon_Center/index.html).

<sup>1</sup> The paper is available at <http://research.stlouisfed.org/publications/red/2005/01/RapachStrauss.pdf>. Additional research in time-series econometrics and forecasting by Rapach is available on his web page at <http://pages.slu.edu/faculty/rapachde> and by Strauss on his web page at <http://pages.slu.edu/faculty/straussjk>.