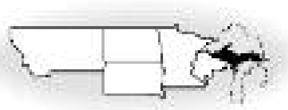
UPPER PENINSULA



## U.P.'s luck is changing, kind of

In tough times, some people still put their hopes in the one-armed bandit. At least that appears to be the case for the Sault Ste. Marie Tribe of Chippewa, which announced early this year that 2008 profits among its five casinos in the Upper Peninsula rose 2.5 percent, to $31 million, over a year earlier, despite unemployment that is among the nation's highest in both the U.P. and lower Michigan.

The success of U.P. casinos looks even better in light of the fact that the tribe's Greektown Casino in Detroit saw revenues fall more than 7 percent and went into bankruptcy last year. Casino revenues also fell nationwide, including a decline of 10 percent in Nevada, according to industry sources.

The U.P. casinos also saw overall revenues fall last year by 4 percent, but managed to earn higher profits through tighter budget control, as well as some layoffs. Through the first two months of this year, casino revenues were roughly in line with last year, tribal officials said.

## Stimulating trees and biofuel growth

The federal stimulus is hoping to kick-start many things, and funding is trickling to the U.P. to increase the horsepower of biofuel research at the Upper Peninsula Tree Improvement Center, a part of Michigan State University and located in Escanaba. In mid-March, the center received a $1.4 million grant to help scientists study barriers to forest-based cellulosic ethanol, which would use trees and other forest raw materials rather than corn and other food-based inputs.

The grant adds to other efforts to build a foundation for cellulosic ethanol in the U.P., which has a wealth of forest and forest byproducts from lumber and other wood-based industries. Last summer, for example, the Boston startup Mascoma Corp. announced its intention to build a $250 million to $300 million cellulosic plant in Chippewa County that could produce 40 million gallons annually. The announcement was enough to reportedly spur $2 million in research funding for MSU and several partners.

In March, Mascoma reported that it continues to seek funding for the plant. To date, it has secured $26 million from the Department of Energy and $23.5 million from the state of Michigan.

*—Ronald A. Wirtz*

# District Voices *What is the outlook for early season home sales in your community?*

*[W]hat we are seeing is a real decline over the last couple of years, but we're actually up over last year at this time. Part of it is due to the stimulus, the $8,000 (buyer's) credit, although we would have loved to have seen that not apply to just first-time home buyers, because our market is very much secondary homes and retirement. … We have people that live and work here year-round that aren't affected by the automotive industry. And we also have people that are still moving here because it's on the Great Lakes, and waterfront homes are still of interest.*

Cheryl Schlehuber, Broker/Owner
Mackinac Properties—St. Ignace, Mich.

*Our volume for our first-time home buyer programs is off some, but we would attribute that to the market more than anything. … We're not involved in the sales aspect, we're involved as a secondary market buying mortgages that are being done on homes. … We're optimistic that this year will be a good year for us.*

Brent Adney, Director of Homeownership Programs
South Dakota Housing Development Authority—Pierre, S.D.

*I am frankly amazed at the amount of first-time home buyers that are using this $8,000 stimulus. When it first came out, nobody understood it; they were afraid of it. They had to pay it back. Now that they don't have to pay it back and they can use it, everybody is on the street using this stimulus package. … The only area that I would hope would come around slightly is the nonconforming market. There's nowhere to sell the nonconforming loans, so those are all portfolio loans, and that area is still a little sluggish. But the conforming, $417,000 and below, is on fire.*

Steve Havig, President
Minneapolis Area Assoc. of Realtors—Minneapolis, Minn.

*Right now the outlook is pretty poor, I think, in this area. For some reason the rates aren't taking hold because it's more of a tourist area. Our clientele is more from Chicago, Milwaukee, Madison, and with the economic outlook, their jobs are in jeopardy too so they're not spending the money on their vacation homes. … Last year was bad, but this year right now we're probably worse. But it will pick up, I think it's just going to take a few more months.*

Dale Blank, Owner
Northern Design Services Inc.—Hazelhurst, Wis.

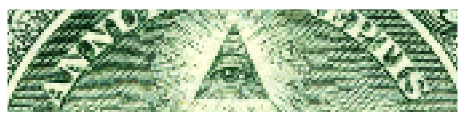
*[Y]ou never see interest rates down at the same time house prices are down. Now our house prices aren't down dramatically; they're only maybe a 5 percent depreciation off their peak prices. But still they're at the best values that they've been in probably a year and a half or two years. … I don't think it's going to be a major boom, but I think it's going to be a robust year, and I think it's going to be one of the better years. We never have had a boom, which is part of the reason we've never had a bust.*

Joe Sheehan, Vice President of Mortgage Operations
Cornerstone Bank—Bismarck, N.D.

*Through the first quarter, overall home sales (in the Flathead Valley) were down 45 percent from what they were a year ago [for] the same time period. Looking forward through the summer then I would expect them to be down. … Actually, if you take a look at the sales of family homes that would be typically purchased by a local resident, they're down but they're not down that 45 percent like it is overall. I've seen … a much higher slowdown in the higher-end properties or typical properties that end up going to out-of-area buyers.*

Jim Kelley, Owner
Kelley Appraisal Services—Kalispell, Mont.

# ECONOMIC **Myth Busters**



*If the money the government lays out doesn't get spent—if it just gets added to people's bank accounts or used to pay off debts—the plan will have failed.*

—Paul Krugman (*New York Times,* Jan. 25, 2008)

By TOBIAS MADDEN
Regional Economist

RYAN BATHE
Intern

Upon receiving income, consumers face two choices. They can spend their income, or they can save it. A widespread belief is that consumers must spend income to help the economy and that if people choose to save, the economy suffers. An economy is built on consumption, and too much saving detracts from growth. If people are saving their income, then they are not buying new things or paying for services, which help keep people employed, businesses running and the economy growing. The tax rebate checks sent out in 2008 were intended to help keep the U.S. economy out of a recession. Taxpayers were encouraged to spend the rebate rather than save it, which is right in line with this belief. Saving will not help as much as consumption in an attempt to avoid recession.

The truth is that saving does benefit the economy—consumers themselves are not spending their income, but their savings serve as secondary investments. There are many ways to save, including in a savings account at a bank or as an investment in the stock market, investing in a relative's small business, government bonds or certificates of deposit. Each of these methods is a way for consumers to save, but also allows others to invest saved income.

Saving provides an important source of capital to banks and companies. In particular, banks utilize consumer savings to make loans to individuals or companies, and public companies use consumer investments to build factories, hire new employees, research new products and so on. Saving drives all of the above. If an individual wants to take out a loan to buy a car, the bank can use the savings of consumers to make a loan to that individual. When a bank makes a loan, the person or business receiving the loan will spend the money, which is the secondary spending that takes place to aid economic growth. However, it may take time to make this investment and for the effects of the investment to roll through the economy.

Saving in the present creates stronger spending in the future. When consumers save, they earn interest on their savings and experience appreciation on their investments. When interest is received and profits are made, consumers have more income to spend than they had prior to the investment. When U.S. taxpayers received their tax rebate checks, spending them immediately may have had the greatest effect at the present; however, saving that check would have accrued interest and appreciation, creating greater spending power in the future.

The only form of saving that does not benefit the economy is saving that cannot be used by a secondary institution, such as a bank or public company, or if the secondary institution does not invest the proceeds. An example of this form of unbeneficial saving is storing money under a mattress. In such a case, a consumer's savings are not earning interest, nor can a secondary institution utilize those savings as a secondary investment. Not only are consumers not earning interest on their income, but they are also losing value to inflation. To lessen the effects of inflation, consumers and financial institutions should use funds in such a way that they expect to earn a return on investment.

While saving may not appear to be as helpful to the economy as direct consumer spending, saving does provide a number of benefits. Economies must strike a healthy balance between consumption and saving, and a certain degree of saving is beneficial for every consumer. Consumers must determine their own level of saving based on how much they are willing to give up at the present for future consumption. While immediate consumption may provide the greatest economic benefit at the present, consumers should never avoid saving in fear of stunting economic growth.