

Monday, June 28, 2004

Moneyline

Friday markets

Index	Close	Change
Dow Jones industrial average	10,371.84	↓ 71.97
Dow for the week		↓ 44.57
USA TODAY Internet 50	117.38	▲ 1.08
e-Business 25	101.01	▲ 0.94
e-Consumer 25	170.86	▲ 1.47
Nasdaq composite	2025.47	▲ 9.90
S&P 500	1134.43	↓ 6.22
T-bond, 30-year yield	5.34%	unch.
T-note, 10-year yield	4.64%	↓ 0.01
T-bill, 3-mo., discount rate	1.27%	▲ 0.02
Gold, oz. Comex	\$402.90	↓ 0.20
Oil, light sweet crude, barrel	\$37.55	↓ 0.38
Euro (dollars per euro)	\$1.2164	↓ 0.0004
Yen per dollar	107.63	▲ 0.40

Sources: USA TODAY research, MarketWatch.com

EU delays penalties against Microsoft

The European Union temporarily suspended antitrust penalties against Microsoft on Sunday, pending a judge's decision on whether they should be delayed until the U.S. software giant's appeals are exhausted. The European Commission had ordered Microsoft to separate its media player from Windows software by today. Also in its March 24 ruling, it fined the software giant \$613 million and ordered it to help rivals make their products more compatible with Windows. Microsoft asked the EU on Friday to suspend the decision. The EU said it agreed to ensure "a proper administration of justice" but sticks by its antitrust ruling.

SBC, union avert local phone strike

SBC Communications said Sunday that it reached a tentative deal with the International Brotherhood of Electrical Workers on a five-year contract, averting a strike by about 11,500 workers in Illinois and Indiana. SBC is the USA's second-largest local phone provider.

Lockheed scuttles \$1.7B deal with Titan

Lockheed Martin scrapped plans to buy Titan for \$1.66 billion Saturday after Titan failed to resolve a federal investigation of alleged overseas bribery that has dogged the deal for months. Friday, Titan missed a deadline, set by the two defense contractors, to settle with the Justice Department. Lockheed, which had extended the deadline twice, refused to do so a third time. Titan shares closed at \$14.53 Friday, down 22%.

Reports give mixed reviews of economy

The U.S. economy grew at a much slower pace than believed in the first quarter and inflation was higher, the government said Friday. The Commerce Department said gross domestic product, the broadest measure of goods and services, grew at a 3.9% annual rate, vs. 4.4% reported a month ago, and consumer prices rose at an annual rate of 2%. Other reports were brighter. The University of Michigan's index of consumer confidence rose to 95.6 in June from 90.2 in May, and existing-home sales jumped 2.6% to a record high rate as mortgage rates remained relatively low.

Southwest, flight attendants in accord

Southwest Airlines and its flight attendants union tentatively agreed on a new contract Friday, ending a two-year stalemate. The deal would run through mid-2008. Details were not disclosed, but union leaders said they received raises of more than 20% over the contract's term, offered by management in February. The Transport Workers Union had sought increases of more than 35%, including a first-ever stock option program for the attendants, the only work group at Southwest that doesn't have such a program.

MCI calls for another round of job cuts

MCI announced its third major round of job cuts this year Friday, trimming 2,000 jobs at four call centers. The long-distance company will close centers in Colorado Springs and Wichita. Operations in Greenville, S.C., and Iowa City will be reduced. The layoffs bring MCI's total job cuts to 13,500 since March.

Media: Entertainment looks promising

PricewaterhouseCoopers expects entertainment revenue to rise an average 6.3% through 2008. 4B

Technology: Hackers are back at it

A new type of Web attack could spread, just by Internet surfers clicking on an infected Web site. 4B

Money bookshelf: Advice for seniors

Savvy Senior offers tons of Web sites, toll-free numbers and addresses for everything from driver safety to shopping for assisted living options. 6B

Market trends: Stocks sit in neutral

Investors have been sitting on their hands, waiting for the Fed to meet and the power transfer in Iraq. 8B

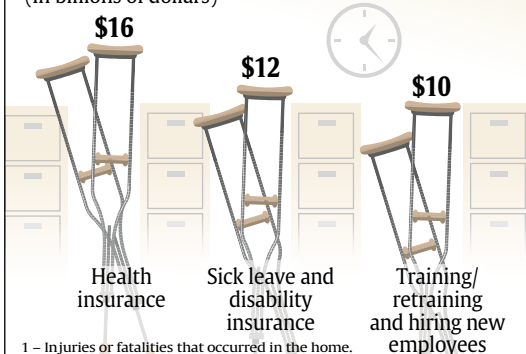
Compiled by Tracy Lucht from Reuters, Associated Press and staff reports

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USA TODAY Snapshots

What off-the-job injuries cost employers

Non-workplace¹ injuries cost employers \$38 billion. (in billions of dollars)



1 - Injuries or fatalities that occurred in the home. 2001 analysis, most recent data available. Source: Home Safety Council, The State of Home Safety in America Report (2004)

By Darryl Haralson and Alejandro Gonzalez, USA TODAY



By John Stubler for USA TODAY

Motivation: "I came into health care because it's an essential service," says Blue Shield CEO Bruce Bodaken.

Executive Suite

Which is better: Hope, optimism?

There's a difference, says Blue Shield of California CEO Bruce Bodaken. The onetime philosophy instructor says health costs will continue to rise unless the industry takes tough action. Yet, he's optimistic. Story, 7B

Rate hike could be good news or bad news for Bush

By Sue Kirchhoff
USA TODAY

WASHINGTON — The Federal Reserve is expected to raise interest rates this week, an election year move that is becoming something of a habit.

The economy Economists widely predict the Fed will raise its target for short-term interest rates Wednesday by a quarter-point to 1.25%.

If the central bank acts at the close of its two-day meeting, it will be the second presidential election year in a row that the Fed has raised rates and the sixth election year since 1956, according to Anthony Chan, chief economist of

Banc One Investment Advisors.

The good news for President Bush is the reason for the probable Fed action: a surging economy. The downside for Bush is that voters haven't given the White House much credit for the rebound and could feel some effects from rising rates. Mortgage rates are already up in anticipation of Fed action.

Still, economists and political analysts generally expect any rate increase to have little political impact, unlike in some past years. That's because the current 1% rate is the lowest in 45 years.

"The public does not expect rates to remain in that range indefinitely," Chan says. "If rates went up (a full point), that would still be viewed as something measured, something moderate."

▶ Setting Fed policy, 4B

He and others say the record shows rate increases don't always hurt the incumbent, and cuts don't always help.

The economy has brightened recently, with factory indexes at 20-year highs and the job market perking up. Still, a June 21-23 USA TODAY/CNN/Gallup poll found just 47% of voters approve of Bush's handling of the economy.

But the Fed operates from different survey numbers — including some showing rising inflation.

"They will raise, and have raised, interest rates in election years. Where they hesitate to do it is in the fall campaign season," says Nariman Behraves, chief economist at Global Insight.

Behraves, a former Fed staffer, expects the central bank to raise rates a quarter-point this week and again in August, then hold off until after the election in November and December.

The Fed raised rates by a percentage point in 2000, with the last half-point rise in May that year. In 1980, the Fed pushed rates up 1.5 percentage points in the last few weeks before Republican Ronald Reagan defeated incumbent President Jimmy Carter.

Republican pollster Whit Ayres says that it takes about six months for voters to feel the impact of an improving economy. That means Bush could be getting a boost right around Election Day — if other factors, such as Iraq, don't overshadow any good news.



By Tim Dillon, USA TODAY

Tiny, but mighty: Roanoke Rapids, N.C., anchors an area of 76,000 people.

Small-town USA goes 'micropolitan'

Not quite rural or metro, newly minted areas are ripe for growth

By Haya El Nasser
USA TODAY

ROANOKE RAPIDS, N.C. — For many travelers on Interstate 95, this old mill town is merely a pit stop halfway between New York and Florida.

They fill their tanks, satisfy their craving for Carolina barbecue, crash for the night at the Sleep Inn and drive away from the fields of peanuts, cotton and

tobacco. Avid fishermen sometimes stay an extra day to catch rockfish in the Roanoke River.

But for residents of two largely rural counties just south of the Virginia border, Roanoke Rapids is "the city" that anchors an area of 76,000 people. Wal-Mart and Lowe's just opened stores, helping replace jobs that vanished with the textile industry. A multiplex theater is on the way. Business is booming for Ruby Tuesday, Cracker Barrel and other chain restaurants. And in the ulti-

Cover story

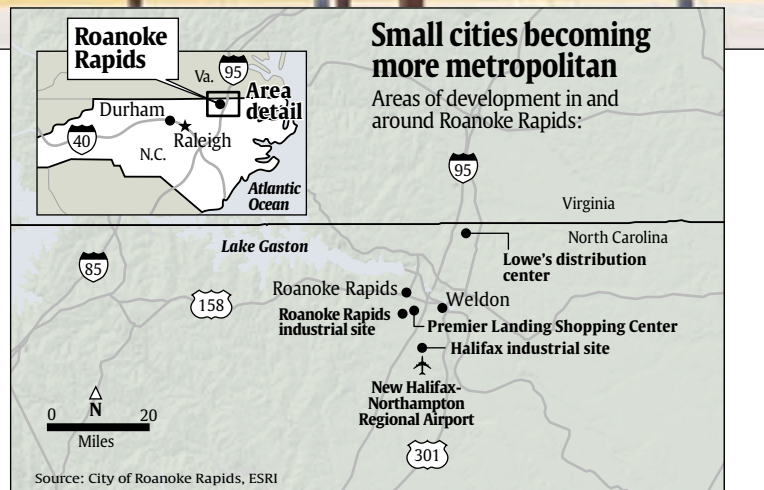
mate sign that this isn't the backwoods anymore, Starbucks is coming.

Roanoke Rapids and hundreds of small cities like it were long written off as rural outposts where population was sparse and the economy sleepy. They were known simply as "non-metropolitan" areas.

Until now.

The government has created a new label for these

Please see COVER STORY next page ▶



Source: City of Roanoke Rapids, ESRI

By Adrienne Lewis, USA TODAY

Prices of flat-panel TVs, monitors could drop more

By Michelle Kessler
USA TODAY

Supply of flat-panel TV sets and computer monitors is finally catching up with demand — which could mean big price drops.

Technology A 42-inch plasma TV that fetches about \$2,000 now will likely cost \$1,000 next year, says researcher Pacific Media Associates (PMA). A 40-inch liquid crystal display (LCD) TV, now about \$5,300, is expected to cost about \$4,200 by the holidays, researcher DisplaySearch says.

Even with the declines, flat panels will stay more expensive than traditional monitors and TVs. Analysts expect prices to fall through the decade as the technology matures.

But upcoming price drops should make flat panels — still high-priced tech toys today — more mainstream, says electronics analyst Tom Edwards of PMA.

Shortages have plagued flat panels since they first appeared in the late '90s. Factories struggled with flaws, at times discarding as many as 90% of the panels

they made.

New flat-panel factories and improving technology from Sharp, Samsung and Pioneer are fixing production problems. Rivals AU Optronics and Toshiba are boosting capacity by improving older factories. The result: a flood of new capacity that will hit the market between now and mid-2005.

That's already creating competition. Pacific Growth Equities analyst Brian Alger predicts wholesale prices for some LCD panels will fall \$5 to \$10 a month later this year.

But the price cuts aren't expected to be uniform:

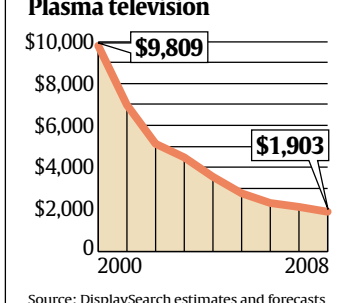
▶ Plasma TVs, which use charged gas to make a picture, will likely see the steepest declines.

Most large flat panels are plasma, such as Gateway's \$3,000, 46-inch set. But plasma can be hard to see in

Flat-panel prices fall

Average prices:

Plasma television



Source: DisplaySearch estimates and forecasts

By Frank Pempa, USA TODAY

bright light. And a faint outline may permanently appear if an image stays on screen for a long time.

LCD flat-panel TVs don't have these problems but until recently weren't practical to make in large sizes. That's changing, which means plasma makers will have to cut costs to stay competitive.

▶ LCD TVs' price drops will be steadier, but new sizes will give shoppers more choices. This month, Sharp lowered many flat-panel prices, dropping one 15-inch set to \$600 from \$650. It also announced a line of lower-end LCD TVs, available in the fall.

▶ Flat-panel LCD computer monitors cost about \$300 and already are within reach for many, says monitor analyst Chris Connery of DisplaySearch. Instead of cheaper monitors, Connery expects to see bigger models at the same price.

Don't expect market to heat up for rest of summer

Election, interest rates, inflation keep stocks flat

By Adam Shell
USA TODAY

NEW YORK — Looking for stock market ideas? Or help in divining where prices are headed next?

Here's a warning: Thumbing through research reports penned by Wall Street pros is not likely to generate a eureka moment, such as "buy stocks now" or "sell."

The reason: Few, if any, strategists are predicting a big move to the upside. Nor are they expecting a steep drop.

To paraphrase Wall Street's main message: Don't expect much from the market this summer, or until the presidential election is decided. "The market

is in neither a bull nor bear trend," RBC Dain Rauscher technical analyst Bob Dickey noted in a recent report.

Right now, the market appears to be suffering from the summer doldrums. There's not nearly enough trading going on to generate any market traction.

The market "lacks fuel," Dickey says. Using a gas-pump analogy, he says that fuel is being siphoned from the market by a lack of trading volume, the transition to higher interest rates and fears of rising inflation. Ned Davis of Ned Davis Research calls it a "trading range market": Stocks will go up and down but end up where they started.

As a result, market strategists are devoting lots of ink talking up a boring summer on Wall Street.

Don Straszheim, president of investment firm Straszheim Global Advisors, says the reluctance of strategists to take

a definitive stand on what the future holds for stocks is not unusual. He says there are three very powerful questions that investors simply cannot answer: Who will win the presidential election? How will the Iraq situation and terrorism play out? How aggressive will the Fed be in raising interest rates?

Until these questions are answered or resolved, the market will be paralyzed — and market gurus will be reluctant to make any bold market calls.

"It's like weather forecasting in the desert in the summer," Straszheim says. "It would be newsworthy to say a snowstorm is coming, but the likelihood is it will not."

For now, investors will be inundated with market advice ranging from "be patient" to "buy on the dips" in hopes of profiting when good times return.

In a midyear report, Al Goldman,

chief market strategist at A.G. Edwards, described the state of the stock market like this: "The bull market, which started in October 2002, is now 20 months old, and its personality is changing due to the aging process. The bull will advance much more slowly than last year and will need more periods of R&R."

Paul Chaucey, a financial adviser, is urging his clients to use the summer slowdown to fine-tune their portfolios.

Investors seem to understand that this bull market is not like the one that made investors rich in the 1990s before the bubble burst. A survey by S&P Select Sector SPDRs, a family of exchange-traded funds that track the S&P 500, found that clients of investment advisers expect annual stock market gains ranging from 6% to 10%, far less than the 20% gains they thought was their birthright in the last bull market.

Newly minted 'micropolitan' areas get noticed

Continued from 1B

communities, which increasingly fill the gaps on the map between major cities. The new term — Micropolitan Statistical Areas — recognizes that even small places far from metro areas are economic hubs that draw workers and shoppers from miles around.

For scholars and urban planners, the new category more accurately reflects changes across the country brought on by development, migration and the shift from farming and manufacturing to an economy dominated by service industries.

Cover story

For marketing experts who help companies decide where to expand, the "micropolitans" represent potentially lucrative — and untapped — markets. More than 28 million people, or one in 10 Americans, live in such areas.

"Businesses used to look at these places and see *Green Acres*," says Robert Lang, director of the Metropolitan Institute at Virginia Tech. "Now they look at them and just see 'green.'"

Finding new markets

Branding these places recognizes what Wal-Mart has known for years: It doesn't take a big city to create an urban economy.

For the 565 small U.S. cities at the center of these "micros," the official identity lets them market themselves as economic entities that extend far beyond city limits.

"A small town can anchor a lot of regional growth around it," says Lang, who analyzed the new micros. "Now, they're on the map. They've got names."

Names attached to population clusters get the attention of retailers in search of new markets, says George Whalin, chief executive of Retail Management Consultants in San Marcos, Calif. "They're going to look closely at them."

Every year at the International Council of Shopping Centers convention, mayors and councilmen from across the country lobby developers to come to their towns. "This gives them another tool," Whalin says.

The growth of these communities into an economic force comes as rural America continues to shrink. Lang's research shows that more than half of the land area in the continental USA lies in either metropolitan or micropolitan areas. "Rural areas now for the first time make up the minority share," he says.

"The new classification adds a really important new dimension in understanding what really goes on in rural and small-town America," says John Cromartie, geographer and population specialist at the U.S. Department of Agriculture.

Some of Lang's findings are surprising:

► **"Micro" doesn't always mean small.** The largest micropolitan areas have more people than many metro areas. The Torrington, Conn., micropolitan area is the largest, with a population of 183,000 — bigger than the population of 103 metropolitan areas. Torrington is a micro, not a metro, because the central city has fewer than 50,000 people, the threshold for a city anchoring a metro area. Cities at the centers of micropolitan areas have at least 10,000 people but no more than 49,999.

► **Sprawl is not just a big-city problem.** Because small cities outside metropolitan areas have a lot of open land around them, their suburbs can be miles away. "Micros are more suburban because they're born sprawling," Lang says.

► **Growth is occurring even in remote areas.** Some of the fastest-



Photos by Tim Dillon, USA TODAY

Up and coming: Groundbreaking for an airport for corporate jets is set for June in Roanoke Rapids. Big-box retailers have come in. And new homes are lining Lake Gaston. "We're blessed with a lot of infrastructure," says Ron Baker, in charge of economic development. "We've got lots of dirt."

Micropolitan areas across the nation

A new Census category bridges the gap between rural and metropolitan areas. These in-between communities — called "micropolitan areas" — each have a small city at their center. A sampling of such areas (city center and micropolitan population in 2000):

Most populated	
Torrington, Conn.	182,193
Lebanon, N.H.-White River Junction, Vt.	167,387
Seaford, Del.	156,638
Lake Havasu City-Kingman, Ariz.	155,032
Ottawa-Streator, Ill.	153,098
Least populated	
Andrews, Texas	13,004
Pecos, Texas	13,137
Vermillion, S.D.	13,537
Tallulah, La.	13,728
Vernon, Texas	14,676
Fastest growing	
	Percentage growth 1990-2000 (population)
Silverthorne, Colo.	23,548 83%
Pahrump, Nev.	32,485 83%
Edwards, Colo.	49,471 77%
Palm Coast, Fla.	49,832 74%
The Villages, Fla.	53,345 69%

Sources: Census Bureau, Metropolitan Institute at Virginia Tech (www.mivt.edu)

By Adrienne Lewis, USA TODAY

growing micropolitan areas are near mountain resorts and national parks or areas that are warm in winter. Tourists and retirees looking to escape congestion and cold have helped create some micros.

"We're a micropolitan area?" asks a puzzled Art Elkins, city clerk and treasurer of Sheridan, Wyo., population 15,804. "'Micro' I can understand. But we're very isolated. I would describe us as rural."

The pioneer town, which hosts an annual rodeo, is 15 miles from the Big Horn Mountains and Big Horn National Forest on the Montana border. Aside from methane gas development nearby, Sheridan was always largely agricultural.

But motels are opening. A Super Wal-Mart is luring shoppers from southern Montana. Retirees are building upscale homes on one-time farmland. And Sheridan's micropolitan area has more than 26,000 people.

Small-town advantages

Jack Schultz recently wrote *Boomtown USA: The 7½ Keys to Big Success in Small Towns*. As the head of Agracel, an industrial development company based in Effingham, Ill., Schultz recruits manufacturing and high-tech businesses to small towns he calls "agurbs."

He did it in his hometown of Effingham, a micropolitan area of more than 34,000 people. When the city lost major manufacturers, Schultz led an effort to build the

1.43-mile Effingham Railroad to create a connection with two major rail lines. As a result, Krispy Kreme came to town.

"We're too small to have a Krispy Kreme store, but we've got their national manufacturing facility," Schultz says. "People from large cities have the stereotype of small towns as being backward and not offering any advantages."

The advantages are plenty, he says: cheaper land, cheaper construction, lower labor rates and a small-town quality of life.

Small towns that have good highways and rail lines have huge advantages. It's no wonder that along the 1,907 miles of I-95 from the Canadian border in Maine to Miami, only five counties remain rural, too sparsely populated to qualify as a micro area. Two are in northern Maine, one in southern Virginia and two in South Carolina.

"Anybody who's been on the 1960s lonely ride down I-95 to Florida with their parents would recognize how much it's changed," Lang says. "Little cities have been built in the place of orange stands in Florida and peanut stands in the Carolinas. ... There was a time when most of I-95 was open, and now the openings are few and far between."

Rural and urban

The Census no longer lists Roanoke Rapids as just a small city of 17,000 people and less than 8



In Roanoke Rapids: Lori Medlin, Halifax County tourism director, and banker Ed Garris discuss the benefits of the new shops behind them.

square miles. It's now a micropolitan area of more than 76,000 people and 1,360 square miles that includes Halifax County and rural Northampton County next door.

City Manager Rick Benton didn't know until recently that he lives in a micro area, but he didn't need the federal government to tell him that economic growth is reshaping Roanoke Rapids.

"We're in a rural area, but Roanoke Rapids is really an urban center," he says.

With an unemployment rate around 9%, Halifax County is one of North Carolina's most economically depressed counties. The county recently hired an economic development director to market the region's connection to I-95, two small power plants, expanses of land, lakefront properties for vacationers and retirees and quality of life.

"We're blessed with a lot of infrastructure, with water, a wastewater-treatment plant and acres and acres," says Ron Baker, in charge of economic development. "We've got lots of dirt."

Groundbreaking for an airport with a runway long enough to accommodate corporate jets and private planes is scheduled in June. Big-box retailers and hotels have come in. Lowe's created 800 jobs when it opened a distribution center in Northampton County. And expensive, custom-built homes are filling lots along Lake Gaston.

The old mills that kept Roanoke Rapids going for decades were at the center of the movement to unionize textile workers, made famous by *Norma Rae*, a movie about a local worker.

The mills are gone, and the 100-year-old houses that workers lived

in are decrepit. Mayor Drewery Beale is using federal grants to refurbish the homes to encourage ownership among low-income families. "Whoever thought the sounds of looms and whistles at the mills would end?" says Beale, who grew up in the neighborhood. "We need to change our way of thinking."

On the other side of I-95, Johnny Draper, mayor of the neighboring town of Weldon, wants to revive a deserted downtown where six department stores once thrived. Only one variety store is left. The town of 1,400 wants to capitalize on its recreational and historical assets. The old train station is a public library. A broadcast group is in the old railroad warehouse. There is talk of turning a whole block into shops on the street level and loft apartments above.

"We need to push antiques and historic places," Draper says.

Joyce Ross is doing her share. A Roanoke Rapids native who had moved to Rocky Mount about 35 miles away, she recently bought two buildings in downtown Weldon. She's opening a home furnishings store, a bar and a restaurant.

"I'm 59 years old and didn't have a thing to do," Ross says.

Ross is targeting tourists and the upscale homeowners of lakefront homes, many who moved from Northern states. Her two sisters also have moved home.

"Somebody's finally going to recognize that communities of 50,000 or 60,000 have a lot to offer but don't have the problems of bigger cities," Draper says.

"We want our kids to have education and come back home to live. ... (This) may put us on the map."

Rules may raise fund competition, lower costs

SEC action aimed at control structure

By Elliot Blair Smith
USA TODAY

If Warren Buffett is right, a monkey with a typewriter — and possibly invested in mutual funds — should be working on a Shakespearean drama about now.

As the billionaire Buffett famously has said, "A monkey will type out a Shakespeare play before an 'independent' mutual fund director will suggest that his fund look at other managers."

Mutual funds But last week, the Securities and Exchange Commission instituted a controversial rule effective in early 2006 that requires fund boards to be independent from the advisers that create the funds, manage the money and until now, also had dominated the boards.

In a little noticed follow-up, the commission said it also will require fund boards to justify to shareholders their choice of advisers, beginning in October, "to encourage fair and reasonable fund fees."

Combined, the two initiatives could lead to greater competition and reduced costs, supporters say.

"It will definitely help fund investors and hurt advisory firms," says Stanford University researcher Camelia Mariana Kuhnén, the author of a new statistical study of fund performance for the years 1993-2002 that shows that "following a (management-fee) rate cut, performance increases."

"It is puzzling to see how few adviser changes take place, and how few times the rate is negotiated down," Kuhnén writes.

She found that changes in advisers and contract renegotiations are "very rare events," occurring at about 10% of the funds she examined.

"For most of the mutual funds that renegotiate down the advisory rate, or switch advisers following mediocre performance, these changes have economically and statistically significant positive effects on subsequent performance," Kuhnén's academic paper finds.

John Hill, independent chairman of Putnam Funds, told the SEC in May that management-appointed fund chairmen never could effectively represent shareholders' interests when negotiating fees the boards paid to their advisory firms.

"The dollars involved in these conflicting interests are massive," said Hill, estimating that fund companies pay their advisers more than \$2.5 billion a year.

An ad hoc group led by the Consumer Federation of America and Consumers Union told the SEC in March that fund boards had been captives of management that acted "as Robin Hoods in reverse."

Now, the SEC will require fund boards to appoint a chairman wholly independent of the advisory company and form a board that is three-quarters independent.

Former SEC attorney Mercer Bullard, now a University of Mississippi law professor and shareholder advocate, says fund advisers missed an opportunity to boldly redefine the debate.

"Why not do away with boards?" Bullard asks. He says advisers could have said: "These are my funds that I'm offering to the public. It's up to the public to decide if they want to buy it. I don't know if it would have been an effective argument, but it would have been an honest argument."