



Prospects for Wisconsin in the Recovery and Beyond

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Three Aspects to Wisconsin's Economic Environment

- The U.S. (and global) recession and recovery
- The structural evolution in the U.S. economy over the last 30 years
 - Globalization and technology change have been main drivers of economic change
 - U.S. industry mix has shifted from manufacturing toward knowledge companies
- Wisconsin's history and public policy shapes our opportunities

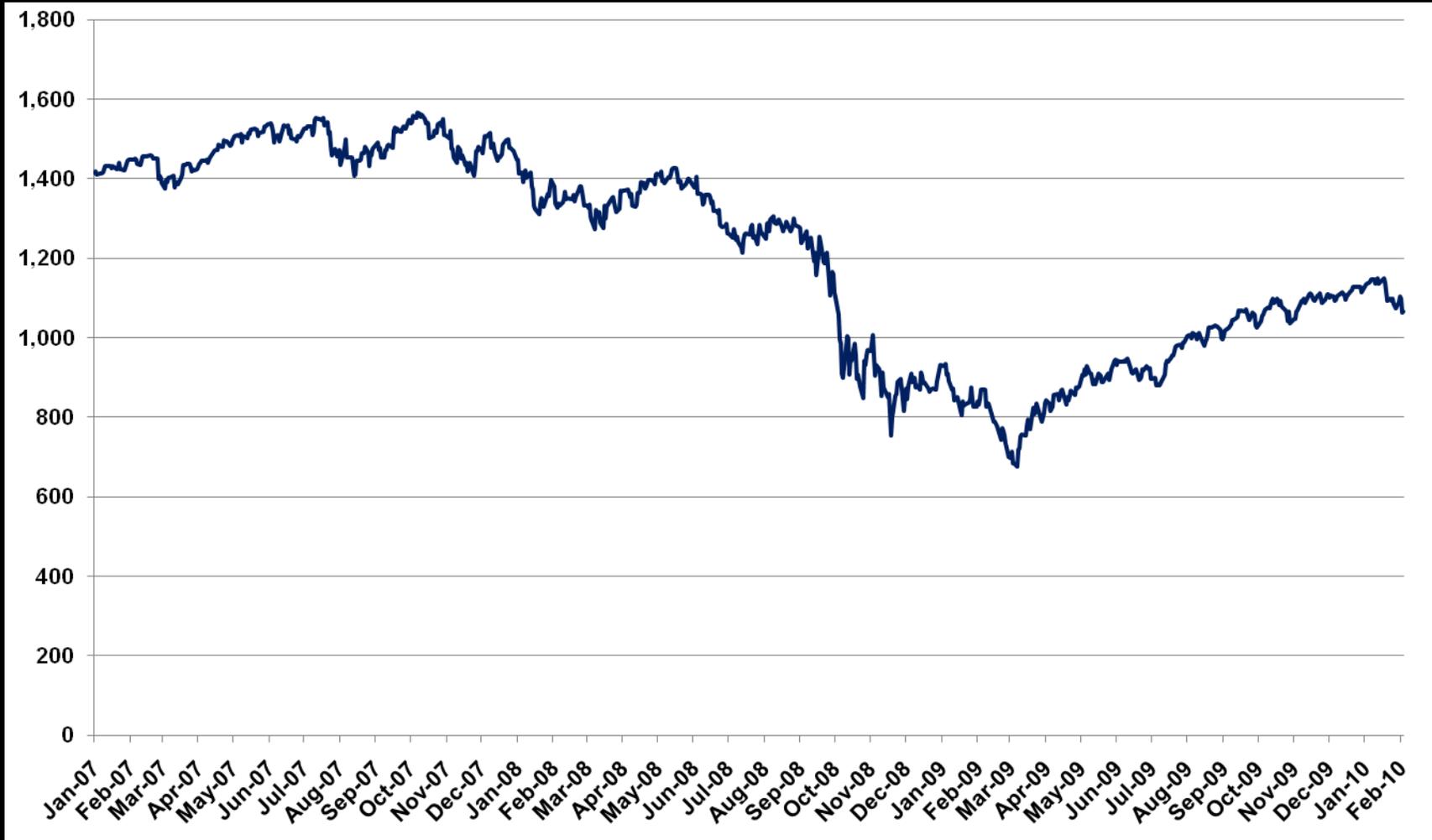




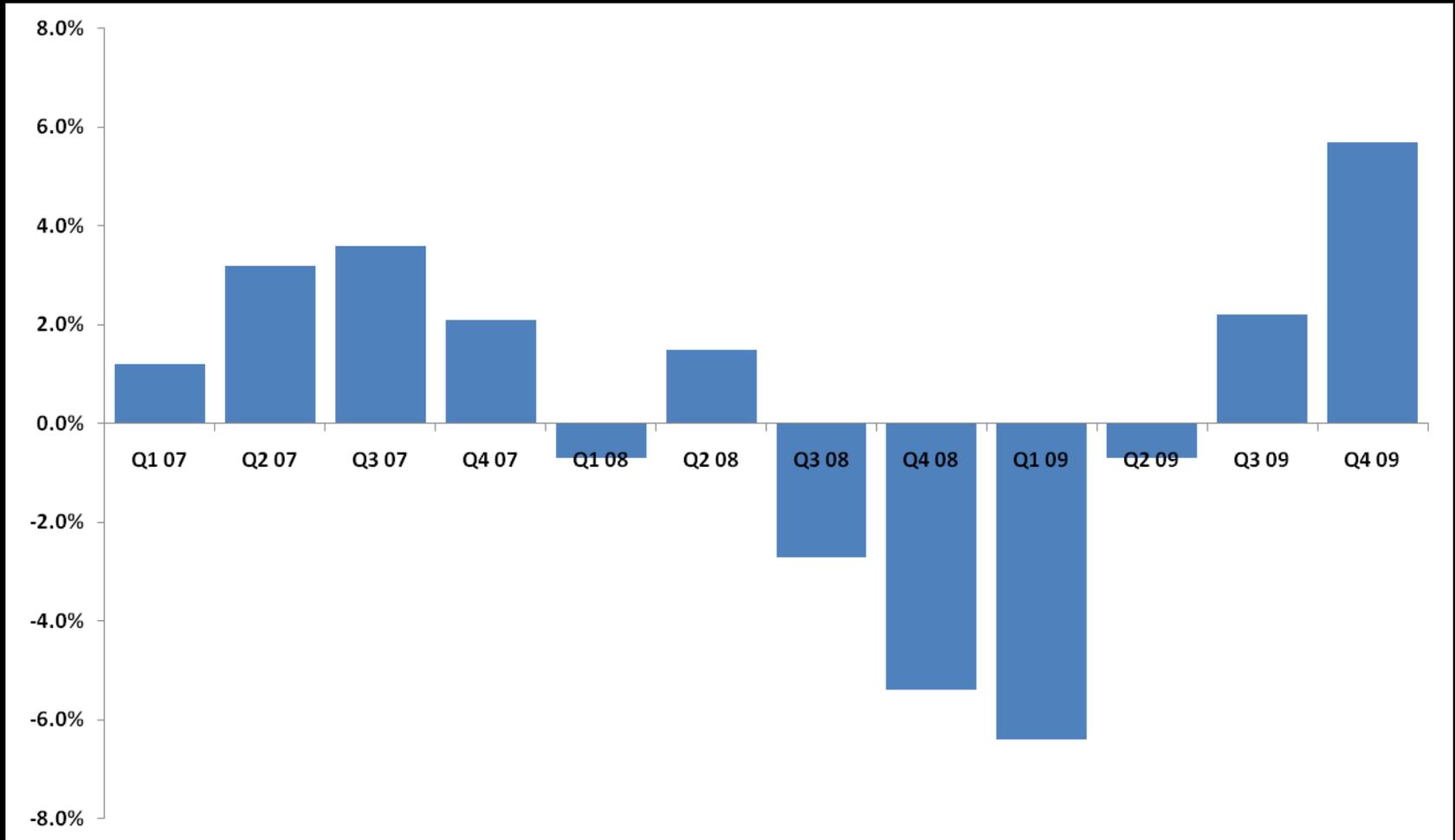
Recent Economic Events

- The U.S. economy experienced its sharpest contraction of post-WWII period:
 - Housing bubble burst, resulting deleveraging led to **financial crisis**
 - Contraction in spending and employment
 - Massive stimulus to avert Depression has now generated some signs of recovery
 - Now what? Will the private sector begin to grow again?

S&P 500 2007-present



GDP % Change (quarterly, 2007-present)



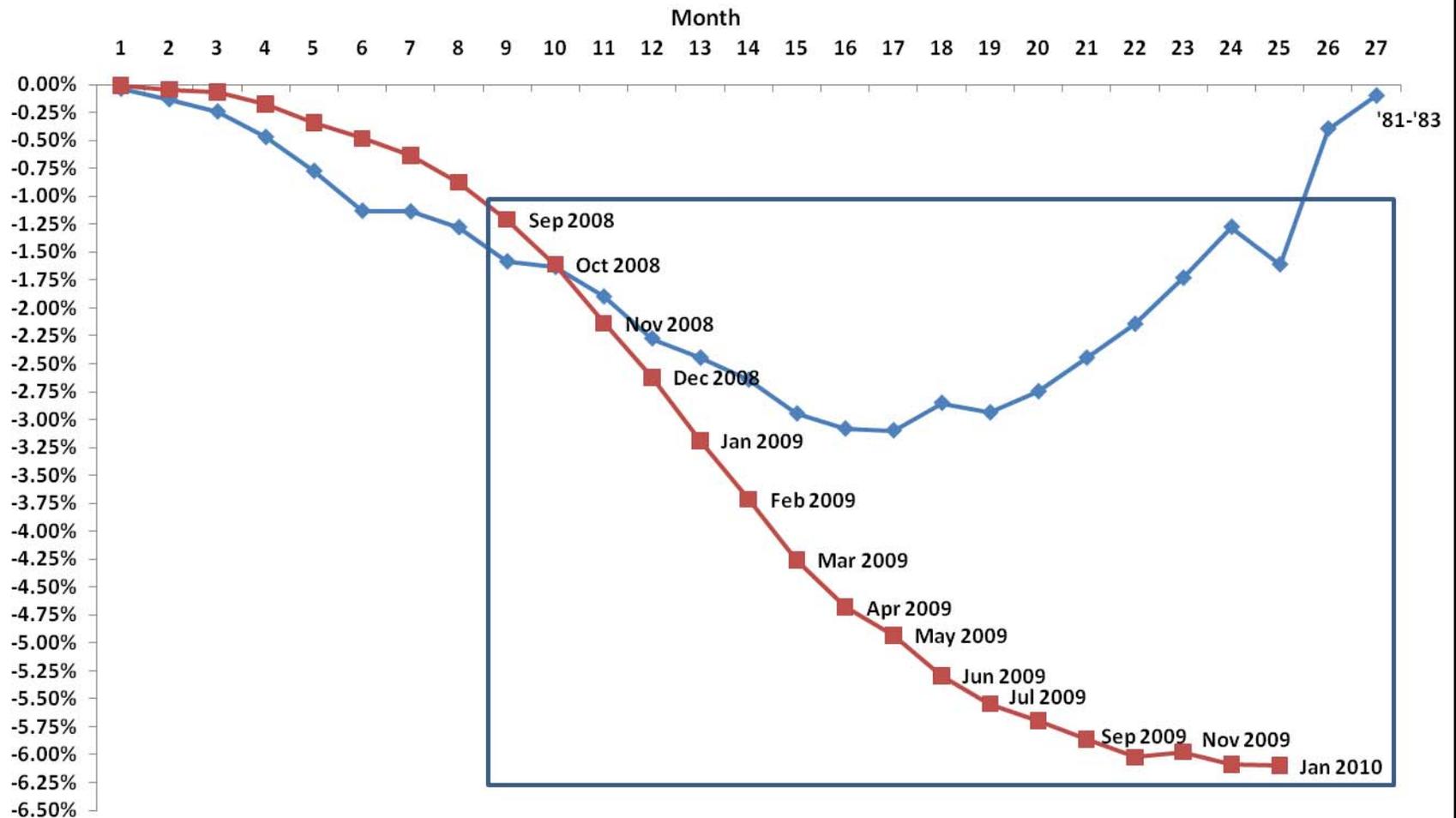
Source: U.S. Dept. of Commerce: Bureau of Economic Analysis

Unemployment Rate 1960-Present



Source: Bureau of Labor Statistics

Job Loss Comparison



Source: Bureau of Labor Statistics

Source: Bureau of Labor Statistics





Recession's Impact on Wisconsin

- Wisconsin a bystander with respect to the factors causing the financial crisis—overbuilding and excess lending
- Wisconsin suffered collateral damage from reduced spending by households
- Wisconsin fared reasonably well in the competition for stimulus funds
- Conclusion: We just need to ride out the recession, like everyone else. No special problems, but no magic either

My 2010 Forecast

- Stock market mainly sideways
 - Markets have priced in recovery
 - Downside risks remain
- GDP growth 3%
 - Muted for early recovery
 - Stimulus removal hurts; dollar may help
- Unemployment will end the year near 9%
 - Sluggish recovery
 - Many discouraged workers



U.S. Economic Trends: The Bad

- The common (media?) view today is that pre-recession U.S. growth was built on unsustainable demand:
 - Easy credit
 - Falling personal savings rate
 - Rising consumption relative to GDP
 - Growing federal budget deficits
 - Growing current account deficits—
borrowing from abroad



Personal Savings/Disposable Income 1960-Present



Source: U.S. Dept. of Commerce: Bureau of Economic Analysis



Current Account/GDP 1980-Present



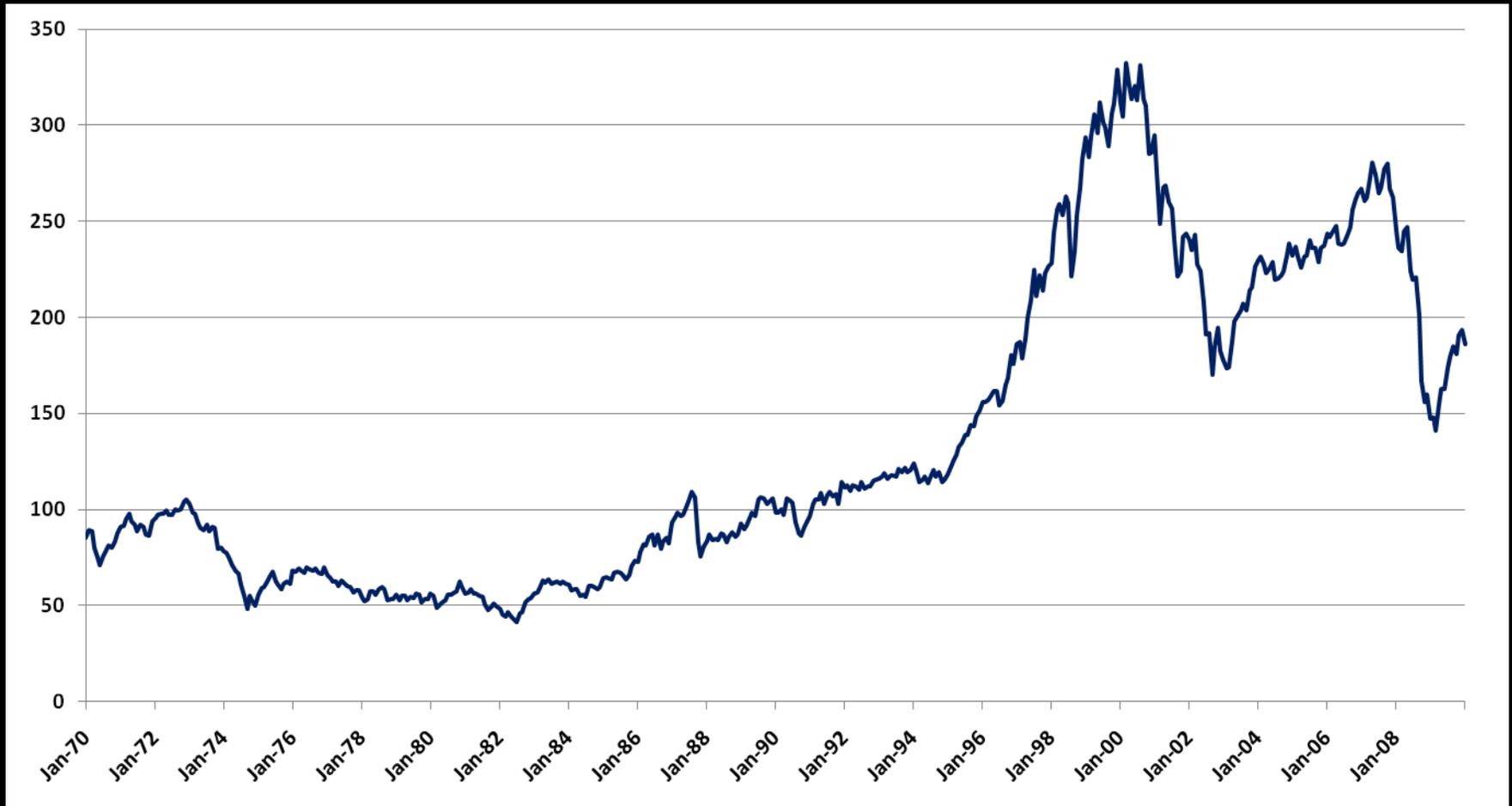
Source: Federal Reserve System

U.S. Economic Trends: The Good

- The U.S. economy performed extremely well after 1982-83 recession:
 - Solid real GDP growth
 - Strong underlying growth in productivity
 - Low unemployment rates
 - Robust stock market
 - Rapid rise in the stock of wealth
- U.S. firms capitalized on new opportunities and created “the new economy”:
 - Information technology, telecom, and connectivity
 - Global value creation



Inflation Adjusted S&P 500 Average 1970-Present



Household Net Worth/Income 1952-Present



Source: Federal Reserve System



Reconciling Positive & Negative Trends

- Income and investment returns grew faster than people expected after 1983:
 - Financial and real estate investments
 - Higher productivity = higher labor income
- Households with higher than expected wealth spend more and save less
- Foreign capital flows in both to capture returns and hold our reserve currency
- Creation of the knowledge economy was real and powered the U.S.



Interpreting Reality

- The 70s and early 80s were difficult:
 - Rising inflation, repeated oil price shocks
 - Loss of competitiveness in key sectors
 - High unemployment
 - High savings rates but erosion of wealth
- The mid to late 80s and 90s were an economic renaissance for the U.S.:
 - Falling inflation, moderate commodity prices
 - Development of new economy
 - High GDP growth, low unemployment
 - Falling savings rates but rapid, albeit uneven, growth in wealth





Interpreting Reality

- The 2000s have been confusing at best:
 - Moderate but rising inflation and commodity prices
 - Internet bubble and 9/11 attacks but continued dominance in new economy
 - Credit-induced housing bubble and bust have wreaked havoc
- How do we interpret this decade?
 - Smart people disagree



My Ten Year Forecast

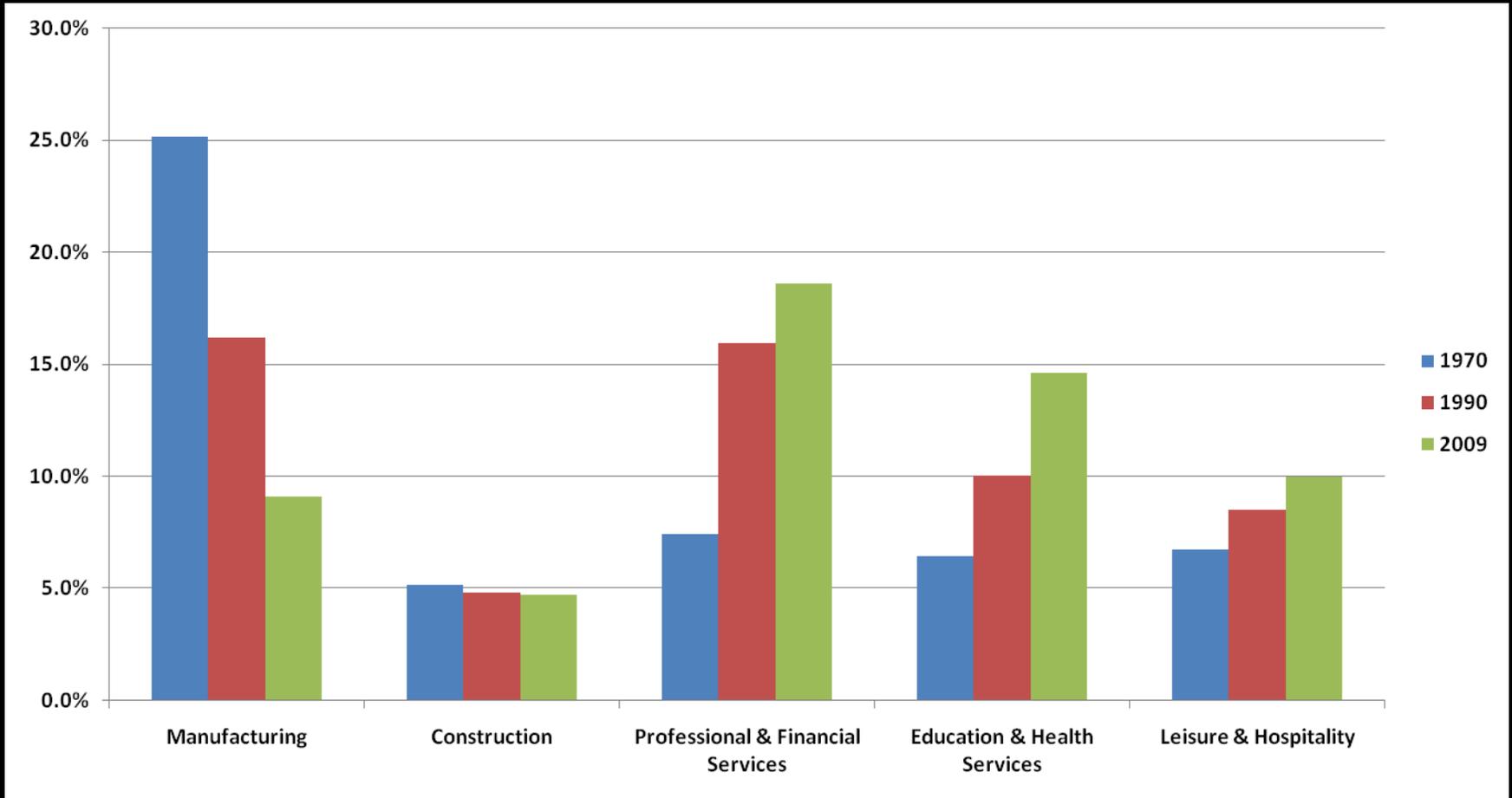
- Steady state growth in real GDP slows to about 2% per year
 - Labor force growth slows
 - Productivity growth tapers off
 - Capital accumulation challenging
- Human capital and knowledge management are critical to US growth
 - More industries being commoditized
 - Competitive advantages hard to sustain
 - Being smarter and nimbler will be important

Structural Impacts on Wisconsin

- The U.S. position in the world has shifted from manufacturing toward knowledge and service economy
- This shift has been beneficial to much of the nation but not as much for Wisconsin
- Wisconsin remains relatively heavy in manufacturing and agriculture and light in knowledge and high end services
- Hence, Wisconsin lags national average growth in income and wealth and our fiscal condition has deteriorated

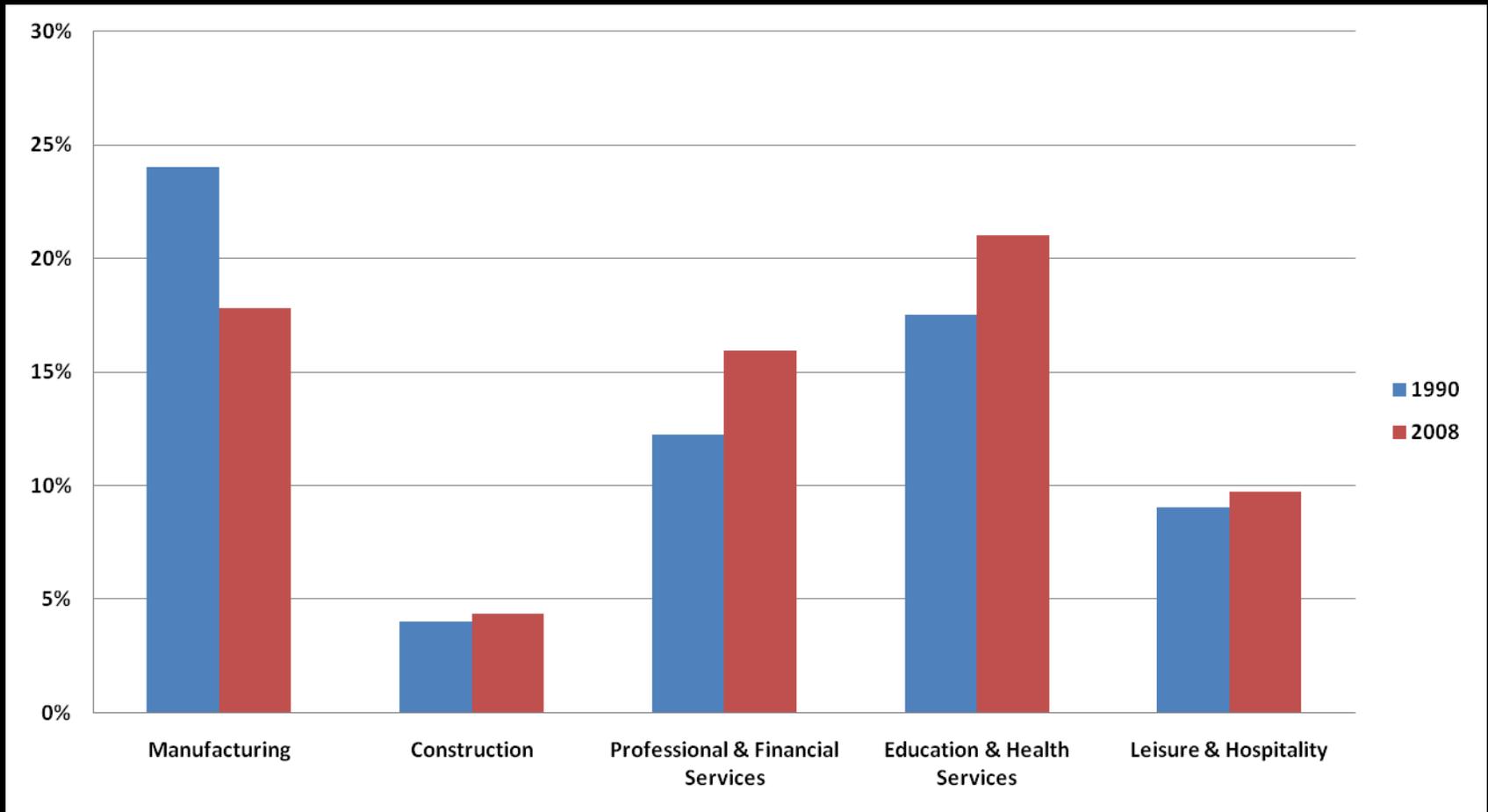


U.S. Detailed Share of Employment: 1970, 1990 and 2009



Source: Economic Report of the President

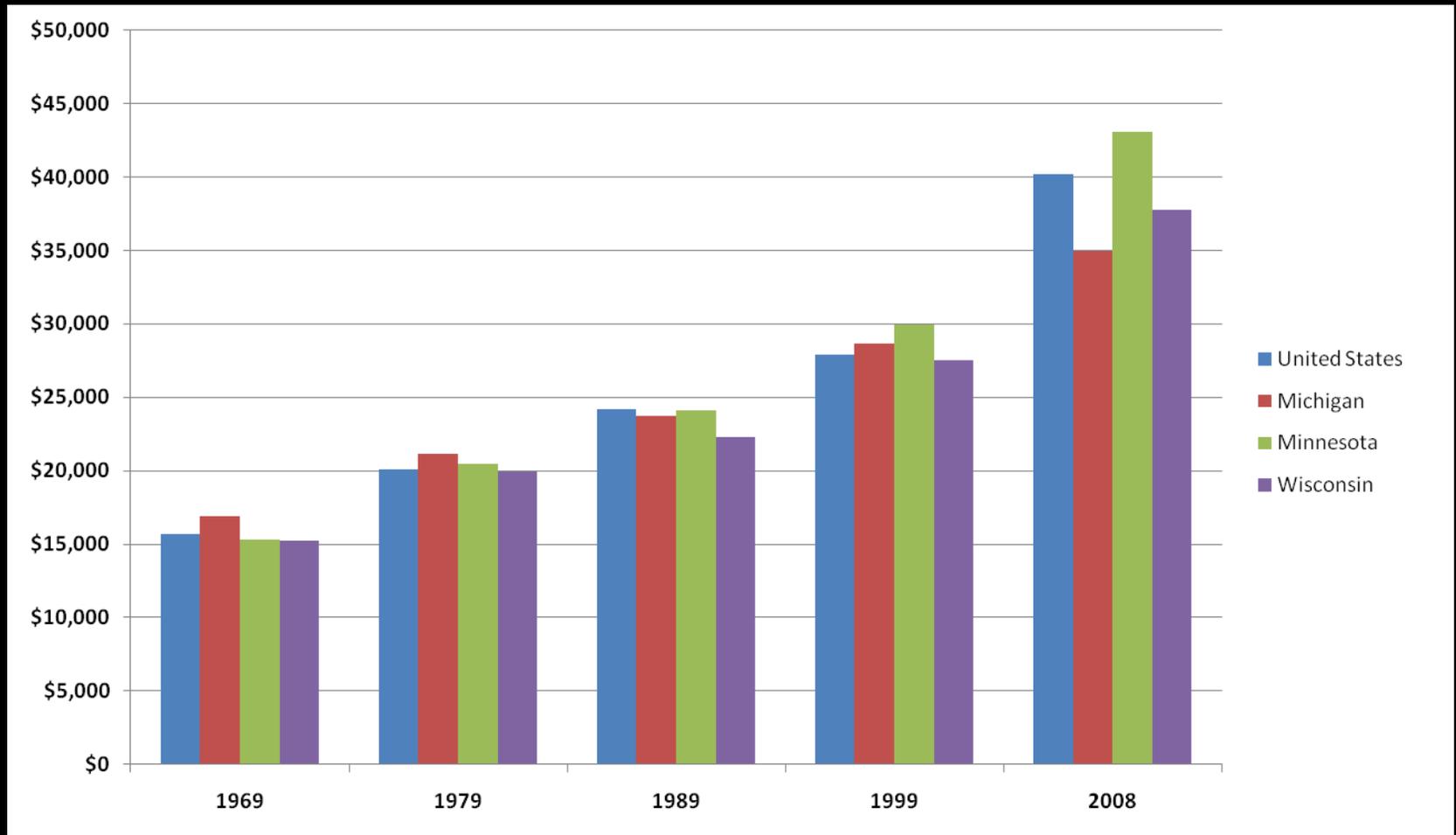
Wisconsin Detailed Share of Employment: 1990 vs. 2008



Source: Wisconsin Department of Workplace Development



Historical Per Capita Income for the U.S. and Selected States



Source: U.S. Census Bureau

Structural Impacts on Wisconsin



- Wisconsin is very good at manufacturing, but for reasons beyond our control, manufacturing has become a much more competitive business
 - Pressure on prices and profits
 - Productivity up, but employment down
 - Not unlike mechanization of agriculture
- Wisconsin must defend its strength but enter arenas with greater profits, wages and growth potential--knowledge/tech?
- How do we do that without being all things to all people?

A Diversified Regional Strategy

- Manufacturing: promote in SE up to Fox Cities—proximity to major markets, etc.
- Agriculture: promote move to R&D intensive high-value products
- Knowledge/Services: promote in Dane County (bio/educ) and SE Wisconsin
- Tourism: promote in the north and aim high—we are competing for Chicago \$!
- A strategy that promotes business and makes tough choices will take leadership



Questions?