U.S. and Wisconsin Economic Outlook 2015

Richard Mattoon
Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago
Wisconsin Legislative Council
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Themes for 2015

• Other than the first quarter, 2014 was a strong year for the US economy. GDP growth was 4.6% in Q2 and 5.0% in Q3.

• Headlines have included a much improved labor market with almost 3 million net new jobs (best since 1999). Stock market continued gains adding $1.1 trillion to US share prices.

• Oil price collapse—down more than 50%. Boost to middle and low-income households in particular. Gain to households is estimated at $550 for the year.

• U.S. strength in contrast to world weakness

• Turning to evidence...
Employment

- 2014 gain was big
- Above pre-recession peak
Wages and benefit cost increases remain low
The path of the current recovery is restrained compared with past deep recession recovery cycles.

Business cycle recovery path

- Index - Business cycle trough = 100
- Average annualized growth: 4.9%
- Average annualized growth: 4.3%
- Average annualized growth: 2.3%

1974-75
1981-82
2008-09
Other positive indicators

• US consumer confidence in December was 92.6, highest since February 2008. Boost to retail sales, another strong year for car sales (2014 auto sales were highest since 2002)

• Manufacturing ISM still strong at 55.5 in December despite concerns about foreign markets and impact of low energy prices on sales to mining operations

• Housing, while slowing in the rate of gain, Case-Schiller price index was up 4.4% (10 city) and 4.5% (20 city) through October (y over y). However, some expectation that better job gains and consumer confidence will lead to stronger increases in the November and December numbers. However, still a long way from the peak—national prices are still down 16% to 17% from peak and are hovering at 2004 levels.
What to watch for in 2015

• **Do wage gains finally become meaningful?**  This will broaden the base of the recovery away from just people with assets. Also, 21 states raised the minimum wage on January 1...estimated to pump $1.5 billion into the U.S. economy

• **International developments**—Japan is struggling (2 straight decline quarters), Europe isn’t much better (2015 forecast fro 1.3% growth) and China is a question mark with growth slowing to 7%. International demand may be hard to come by.

• **Watching the Fed**—desire to normalize, but the question is when and how much. Particularly important will be inflation...will it finally hit the 2% target

• **Infrastructure spending? Construction spending?**
The Current Forecast

• Last FOMC (December, 2014) central tendency projection for GDP growth in 2014 is 2.0% to 2.4%. 2015 projection is 2.6% to 3.0%, the 2016 projection is 2.5 to 3.0. Long-run 2.0% to 2.3%. However, growth for last 3 quarters would be 3.4%.

• Inflation appears contained. CPI and core have seen either declines or minimal growth, although gas/food prices might cause a blip. FOMC forecast has PCE at 1.2% to 1.3% (2014) and 1.0% to 1.6% (2015) and 1.7% to 2.0%. Long-run estimate is at 2%

• FOMC forecast has unemployment at 5.8% (2014), 5.2% to 5.3% (2015) and 5.0% to 5.2% (2016). Long-run—5.2% to 5.5%

• QE3 and low Fed Funds rate—taper concluded in 2014 and Fed funds rate has remained unchanged at essentially zero. Changes in policy will be data driven.
Turning to Wisconsin

• Great Recession hit state hard. Total employment still not back to pre-recession peak, but making progress. States recovery has looked similar to Illinois

• Estimates from Wisconsin DOR show key sectors of the economy making gains, particularly manufacturing, business and professional services and construction.
Wisconsin Real Gross State Product

Shaded areas indicate US recessions - 2015 research.stlouisfed.org
Philly Fed Coincident Index—Wisconsin (Blue), Illinois (Red), U.S. (Green) and Minnesota (Purple)
1992=100

Shaded areas indicate US recessions - 2015 research.stlouisfed.org
Wisconsin Personal Income (% change)

(Wisconsin Department of Revenue)
Sector outlook

- **Manufacturing**—growth in 2014 estimated at 1.6% and 2015 at 1.3%. However, only about half of the jobs lost in the recession have been recovered.
- **Trade, Transportation and Utilities**—largest employment sector at 18% of all jobs. 1.2% growth in ‘14 and 0.6% in ’15.
- **Education and Health Services**—only sector not to have contracted in the recession...growth of expected to average 1.5% from 2014 to 2017.
- **Professional and Business Services**—fastest to recover lost jobs from recession. Average annual growth from 2014 to 2017 of 2.5%
- **Financial activities**—6% of employment—flat forecast from 2014 to 2017.
- **Construction**—since 2006 peak has lost 46% of its jobs, but is now growing vigorously---5.5% growth 2014 to 2017.
- Turning to the relative position of the state...
## How does Wisconsin stack up?

**State Government Tax Revenue (2013)**

<table>
<thead>
<tr>
<th></th>
<th>Amount Per Capita</th>
<th>Per Capita Rank</th>
<th>Amount as a % of Personal Income</th>
<th>Personal Income Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wisconsin</td>
<td>$2,877</td>
<td>18</td>
<td>6.9</td>
<td>17</td>
</tr>
<tr>
<td>Illinois</td>
<td>3,005</td>
<td>14</td>
<td>6.6</td>
<td>22</td>
</tr>
<tr>
<td>Indiana</td>
<td>2,577</td>
<td>25</td>
<td>6.8</td>
<td>19</td>
</tr>
<tr>
<td>Iowa</td>
<td>2,710</td>
<td>20</td>
<td>6.2</td>
<td>27</td>
</tr>
<tr>
<td>Michigan</td>
<td>2,535</td>
<td>26</td>
<td>6.6</td>
<td>21</td>
</tr>
<tr>
<td>U.S.</td>
<td>2,677</td>
<td></td>
<td>6.2</td>
<td></td>
</tr>
</tbody>
</table>
## Local Government/Total State and Local Government (2011)

<table>
<thead>
<tr>
<th>State</th>
<th>Per Capita Local Revenue</th>
<th>Per Capita Rank</th>
<th>Total State/Local Expenditures</th>
<th>State/Local Expenditures Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wisconsin</td>
<td>$4,868</td>
<td>18</td>
<td>$9,926</td>
<td>23</td>
</tr>
<tr>
<td>Illinois</td>
<td>5,543</td>
<td>8</td>
<td>10,162</td>
<td>20</td>
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<td>Indiana</td>
<td>4,197</td>
<td>33</td>
<td>8,084</td>
<td>48</td>
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<tr>
<td>Iowa</td>
<td>4,977</td>
<td>15</td>
<td>9,903</td>
<td>24</td>
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<tr>
<td>Michigan</td>
<td>4,823</td>
<td>20</td>
<td>9,094</td>
<td>31</td>
</tr>
<tr>
<td>U.S.</td>
<td>5,358</td>
<td></td>
<td>10,150</td>
<td></td>
</tr>
</tbody>
</table>
How does Wisconsin rank in what it spends money on (2011)?

• K-12 education—17 ($1,902 per capita vs U.S. average of $1,813)
• Higher Education—12 ($1,028 per capita vs U.S. average of $810)
• Highways—14 ($644 per capita vs U.S. average of $491)
• State and Local Debt Outstanding—27 ($7,751 per capita vs U.S. average of $9,332)
• Perhaps good news, above average on education and highways, below average on debt.
# Wisconsin’s Rank on “Business Climate” Studies

<table>
<thead>
<tr>
<th>State</th>
<th>State Business Tax Climate Rank (Tax Foundation)</th>
<th>Small Business Policy Rank (Small Business and Entrepreneurship Council)</th>
<th>Competitiveness Rank (Beacon Hill)</th>
<th>Economic Outlook Rank (American Legislative Exchange Council)</th>
<th>Overall rank based on scores from all four studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wisconsin</td>
<td>43</td>
<td>29</td>
<td>22</td>
<td>17</td>
<td>27</td>
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<tr>
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<td>31</td>
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<tr>
<td>Indiana</td>
<td>10</td>
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<tr>
<td>Iowa</td>
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<tr>
<td>Michigan</td>
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<td>11</td>
<td>32</td>
<td>12</td>
<td>15</td>
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<tr>
<td>Minnesota</td>
<td>47</td>
<td>45</td>
<td>5</td>
<td>46</td>
<td>41</td>
</tr>
</tbody>
</table>
Interpreting the rankings

- **Economic Outlook Ranking** (American Legislative Council)—15 policy variables, generally gives higher ranks to states that spend less (particularly for income transfers) and tax less (particularly on wages and investments)

- **State Competitiveness Ranking** (Beacon Hill)—examines a wide range of variables broken into 8 categories. Includes; Government and Fiscal Policy, Security, Infrastructure, Human Resources, Technology, Business Incubation, Openness (mostly to investment), Environmental Policy

- **Small Business Policy Index** (Small Business and Entrepreneurship Council)—47 variables, 22 tax related, 14 regulation, 5 government spending and debt, remainder are government efficiency measures

- **Business Tax Climate** (Tax Foundation)—100 variables in five categories—Corporate Taxes, Individual Income Taxes, Sales Taxes, Unemployment Taxes, Property Taxes. Wisconsin’s rank for the five categories (FY14) is
  - Corporate (33), Personal Income (43), Sales (15), UI (25), Property (36)
Summary

• US economy shows momentum into 2015. GDP growth of 3% possible for both 2015 and 2016

• Biggest challenge will be US strength vs international weakness

• Wisconsin is making progress but was slow to come out of the recession. Recent activity however looks promising