

RESURGENT MIDWEST, INSURGENT GROWTH: AN ASSESSMENT OF STATE AND REGIONAL ECONOMIC PERFORMANCE

*A project of the
Midwestern Legislative Conference of The Council of State Governments'
Economic Development Committee
and
GrowthEconomics Inc.*

*In collaboration with The Institute for Work and the Economy's
Midwestern Innovation Initiative*

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WISCONSIN ECONOMIC DASHBOARD (JANUARY 2010)

How has the State economy been doing lately?

This Council of State Governments' Economic Dashboard provides state legislators and decision-makers with trends data that is generally no more than three quarters behind the time of publication, in this case January 2010. This release constraint restricts the data that is available at the state level. However, sufficient data is available to provide useful intelligence on current economic conditions. While some data has only a two month lag, other sources are up to three quarters behind. The Dashboard is prepared in such a way that the graph or table tells the story. Only brief interpretations are provided.

Long Term Trends: Jobs and Income/Prosperity

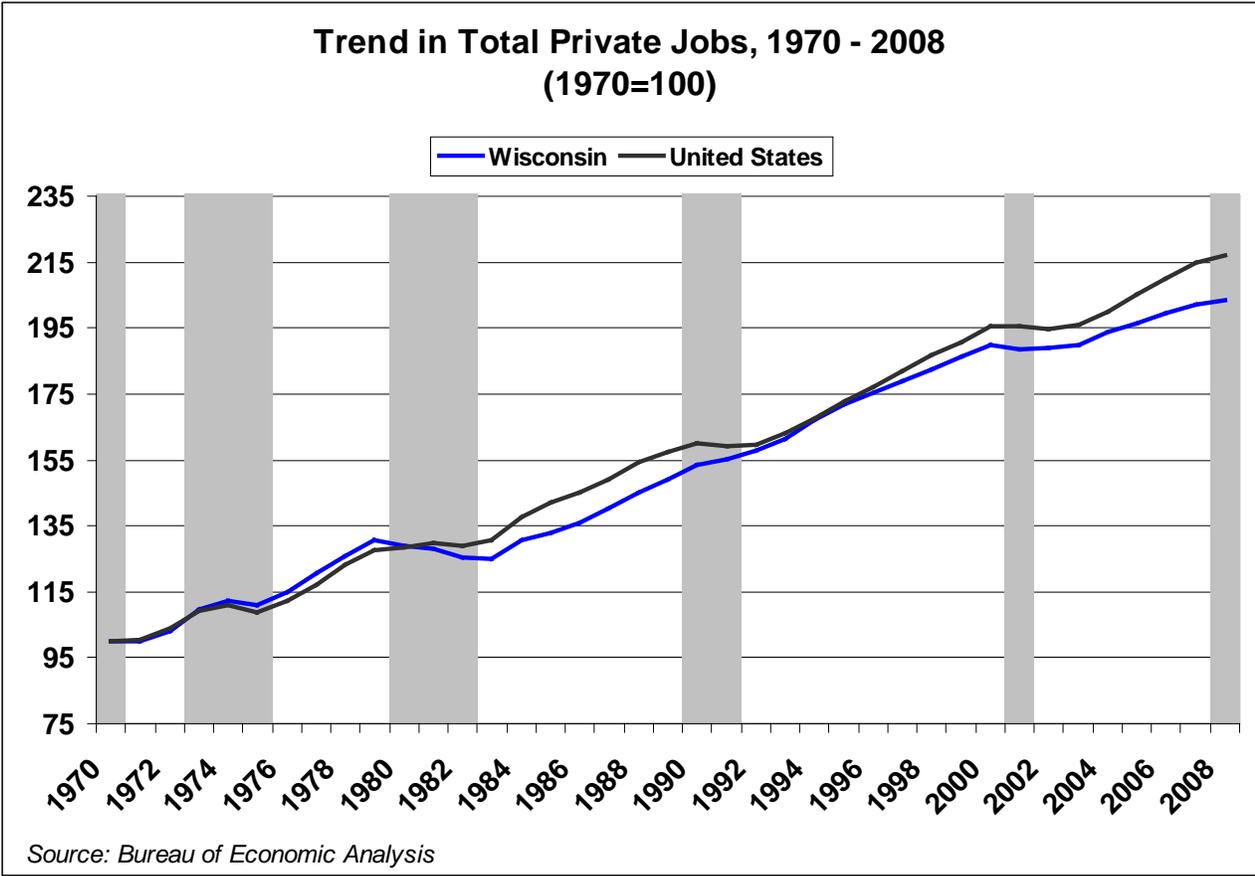
First, four longer term profiles can help put recent changes in perspective.

Note: shaded lines in graphs/charts below show National Bureau of Economic Research 'official' recessionary periods.

Long Term Private Employment

Why important

Private sector jobs are the building blocks to state economic prosperity. While total employment counts are helpful, trends in private sector employment better capture a state's 'engine of growth'. The long-term private job growth graphs below capture Wisconsin's path relative to the U.S.



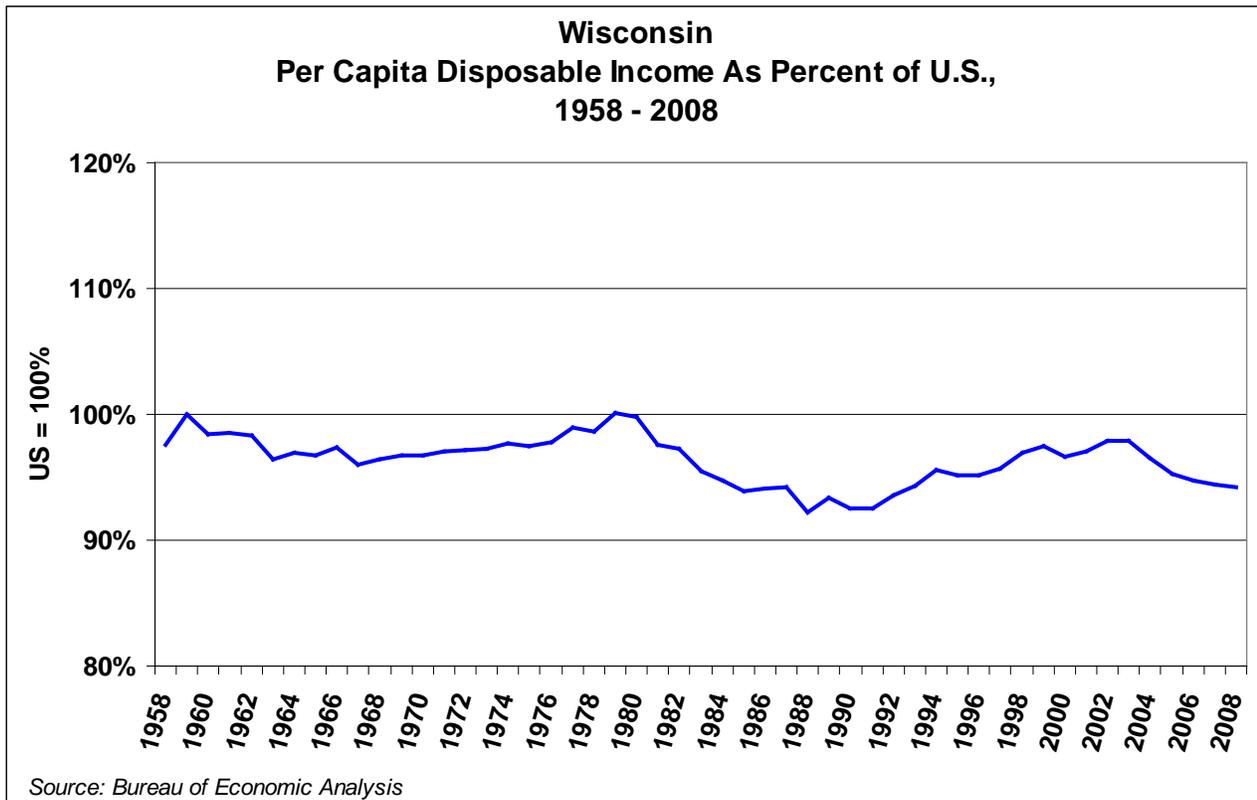
What it means

Wisconsin has not kept pace with the U.S. in private job creation for over three decades. Most notably it has been hurt by three national recessions (80-82, 2002 and now 2007-09). In each of these cases the state has been unable to recover immediately after the recession in such a way as to catch up with the U.S. trend. For most business cycles Wisconsin has kept pace with the U.S. once the expansion phase of the business cycle is established (i.e. similarly sloped lines in 1976-79, 1983-90, and 1992-2000). However, its private job growth was considerably slower between 2004 and 2008, setting up challenges for the 2007-09 recession and the next expansion leg beginning 2010.

Long Term per Capita Income as a Percent of the U.S. (PCPI)

Why important

Per capita income is the simplest, most widely understood measure of economic progress. It is a good proxy for wealth creation. Income includes earned, investment and pension income as well as transfer payments like social security. Disposable per capita income narrows to those discretionary dollars available to be spent or saved. It is gross income less tax payments. Using the percent of the U.S. shows relative change to the nation as a whole.



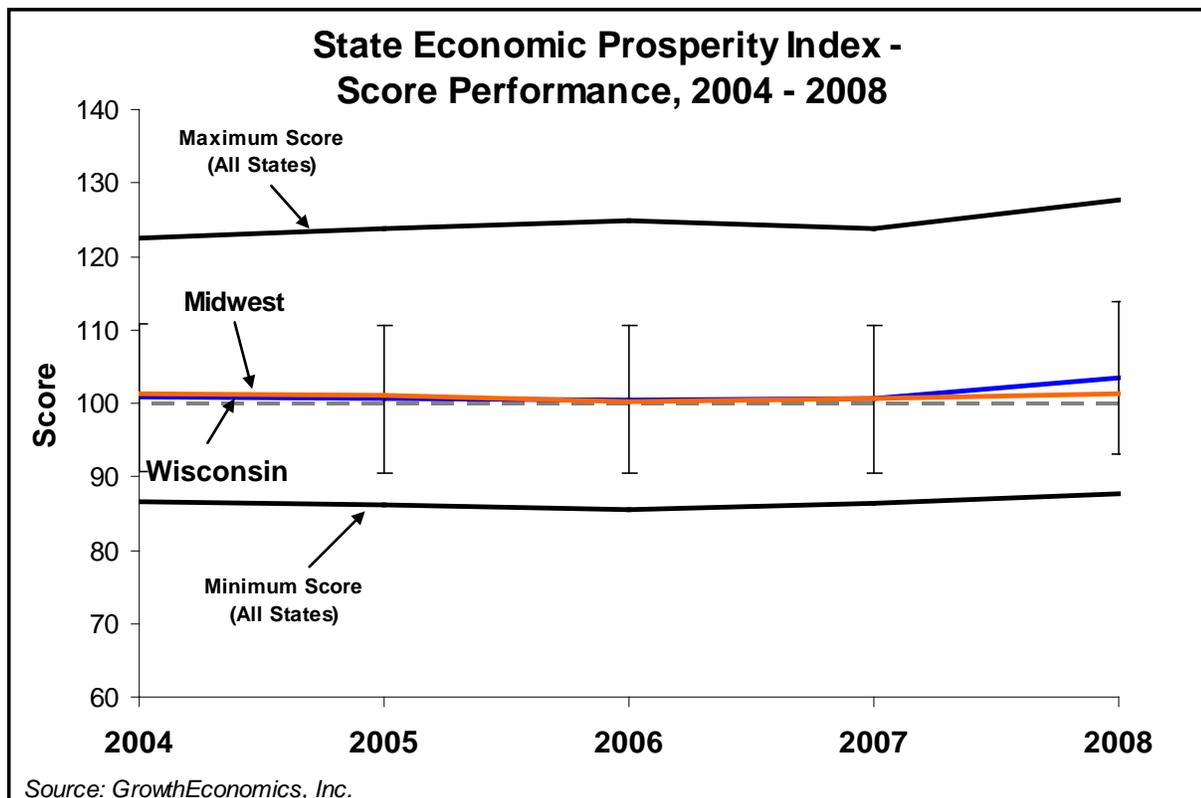
What it means

Remaining below the U.S. average, Wisconsin has gradually lost ground in per capita income since the 50's with temporary improvements in the late 70's and between 2002 and 2004.

Five-Year State Economic Prosperity Index

Why Important

Income is but one measure of overall prosperity. The State Economic Prosperity Index (SEPI) goes deeper. It is GrowthEconomics' composite measure of prosperity. It includes such measures of income and wealth as earnings per job, income from rents /investments, proprietor income, percent of the population with a sustainable income (defined as at least twice the poverty level), long term unemployment and state and local tax burden.



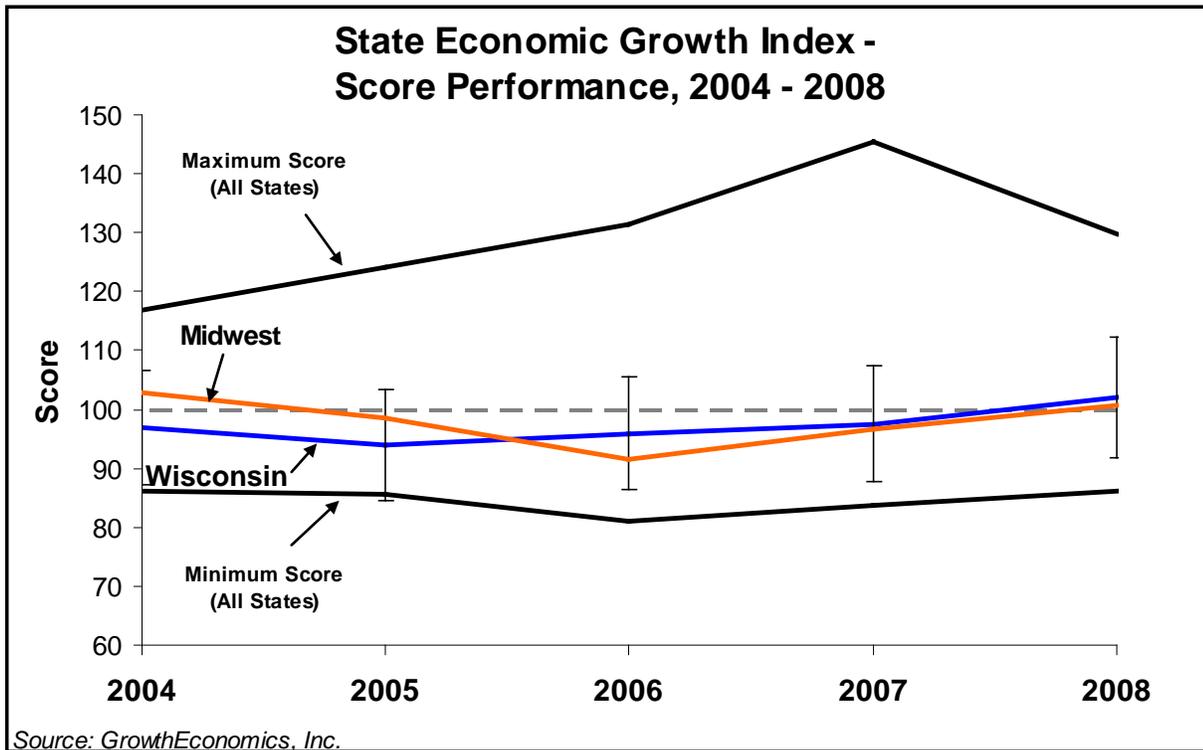
What it means

Overall, Wisconsin's wealth/prosperity has remained much at the U.S. mid point. It has not kept up with the Midwestern state average since 2007.

Five-Year State Economic Growth Index (SEGI)

Why Important

The State Economic Growth Index (SEGI) captures recent change (last 3 years) in the SEPI, the Prosperity Index. It is a way of observing which states are gaining /losing on each other.



What it means

Wisconsin shows some improvement in economic growth since 2005, catching up close to Midwest growth.

Recent Economic Snapshot of the State

LEADING, COINCIDENT AND LAGGING INDICATORS

Why Important

Every month the Conference Board releases the nation's Leading Economic Index. The same is not available for states. However, a similar structure of leading, coincident and lagging indicators can be built as shown below. Organizing key data releases this way helps legislators and state decision-makers better interpret such data in relation to other releases.

Green boxes are positive change, red negative

| WISCONSIN DASHBOARD INDICATORS, JANUARY 2010 | | | | | |
|---|-----------------------------|------------------------|--------------------------|------------------------|-------------------|
| | Current Period | Previous Period | % Change Previous Period | Year Ago | % Change Year Ago |
| LEADING | | | | | |
| Residential housing permits (1) | 653 (Dec. 09, prel.) | 817 (Nov. 09) | -20.1% | 341 (Dec. 08) | 91.5% |
| Weekly Hours of Production Workers (2) | 39.9 (Dec. 09, prel.) | 40.2 (Nov. 09) | -0.7% | 40.5 (Dec. 08) | -1.5% |
| Exports of Goods (millions) (3) | \$1,775.5 (Dec. 09) | \$1,656.0 (Nov. 09) | 7.2% | \$1,678.6 (Dec. 08) | 5.8% |
| Industrial Production Index (4) | n/a | n/a | -7.8% (Nov.-Dec. 09) | n/a | n/a |
| Initial Unemployment Insurance claims (5) | 26,916 (Jan. 2010) | 23,591 (Dec. 09) | 14.1% | 25,389 (Jan. 09) | 6.0% |
| COINCIDENT | | | | | |
| Private Employment (thousands) (6) | 2,292.3 (Dec. 09, prel.) | 2,315.8 (Nov. 09) | -1.0% | 2,410.5 (Dec. 08) | -4.9% |
| Personal Income (7) (millions, seasonally adj.) | \$210,893 (Q3_09) | \$209,587 (Q2_09) | 0.6% | \$211,588 (Q3_08) | -0.3% |
| Hourly Private Earnings (8) | \$18.42 (Dec. 09, prel.) | \$18.49 (Nov. 09) | -0.4% | \$18.07 (Dec. 08) | 1.9% |
| Sales Tax Collections (9) (thousands) | \$679,781 (Q3_09) | \$1,337,877 (Q2_08) | -49.2% | \$748,328 (Q3_08) | -9.2% |

| LAGGING | | | | | |
|---|--------------------------|----------------------|---------|----------------------|--------|
| Unemployment Rate (10) | 8.3% (Dec. 09, prel.) | 7.9% (Oct. 09) | 5.1% | 5.8% (Nov. 08) | 43.1% |
| Average Duration of Unemployment (weeks) (11) | 15.7 (Q3_09) | 14.5 (Q2_09) | 8.3% | 13.6 (Q3_08) | 15.4% |
| Unemployment Insurance continued claims (12) | 177,295 (Jan. 2010) | 155,018 (Dec. 09) | 14.4% | 169,045 (Jan. 09) | 4.9% |
| Bankruptcy Filings (13) | 7,279 (Q3_09) | 7,721 (Q2_09) | -5.7% | 5,475 (Q3_08) | 32.9% |
| Foreclosure Filings (14) | 3,710 (Jan. 2010) | 4,199 (Dec. 09) | -11.65% | 2,699 (Jan. 09) | 37.46% |
| <p><i>Source: All data is not seasonally adjusted unless indicated otherwise</i></p> <p>(1) SOCDs Building Permits Database; http://socds.huduser.org/permits/</p> <p>(2) BLS, CES; average weekly hours worked by production workers in private manufacturing; http://www.bls.gov/sae/home.htm</p> <p>(3) U.S. Census Bureau, Foreign Trade Statistics; http://www.census.gov/foreign-trade/statistics/state/zip/index.html</p> <p>(4) Adversity Index, MSNBC and Moody's Economy.com, 3-month moving average in inflation- and seasonally-adjusted index; http://www.msnbc.msn.com/id/29976394</p> <p>(5) U.S. DOL, ETA, 4-week moving average; http://www.ows.doleta.gov/unemploy/claims.asp</p> <p>(6) BLS, CES; http://www.bls.gov/sae/home.htm</p> <p>(7) BEA; http://www.bea.gov/regional</p> <p>(8) BLS, CES; production and nonsupervisory workers on private nonfarm payrolls, http://www.bls.gov/sae/home.htm</p> <p>(9) U.S. Census Bureau, General sales and gross receipts; http://www.census.gov/govs/www/qtax.html</p> <p>(10) BLS, LAUS; http://www.bls.gov/lau/#data</p> <p>(11) U.S. DOL, ETA; http://www.ows.doleta.gov/unemploy/content/data.asp</p> <p>(12) U.S. DOL, ETA, 4-week moving average; http://www.ows.doleta.gov/unemploy/claims.asp</p> <p>(13) ABI World; http://www.abiworld.org/Content/NavigationMenu/NewsRoom/BankruptcyStatistics/Bankruptcy_Filings_1.htm</p> <p>(14) RealtyTrac; http://www.realtytrac.com/ContentManagement/PressRelease.aspx</p> | | | | | |

What it means

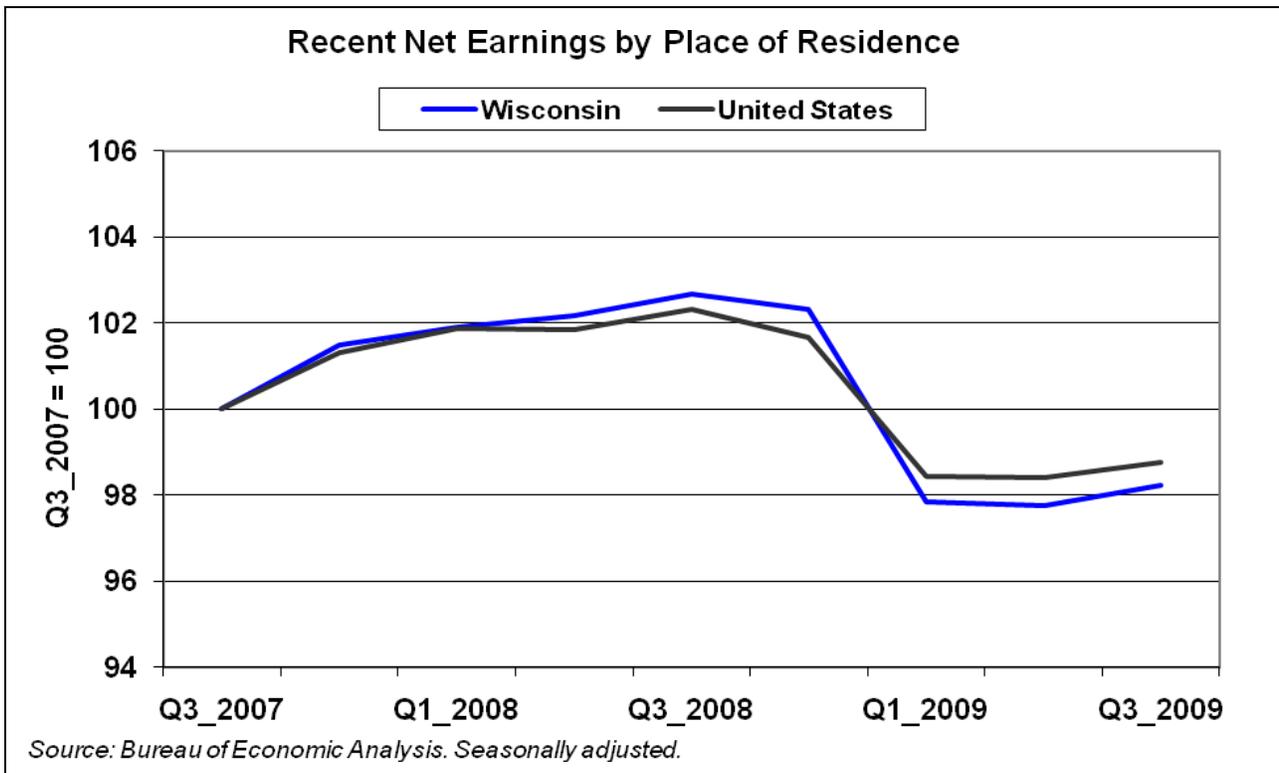
Wisconsin shows slow progress on lagging indicators but positive movements on leading indicators remain weak. According to Moody's economy.com Adversity Index Wisconsin was not yet out of recession in Dec 2009.

RECENT INCOME TRENDS

Recent Net Earnings by Wisconsin Residence

Why Important

This metric isolates total earnings gains/losses to those who live in Wisconsin versus the nation as a whole. It is quarterly data indexed in the graph below to mid 2007.



What it means

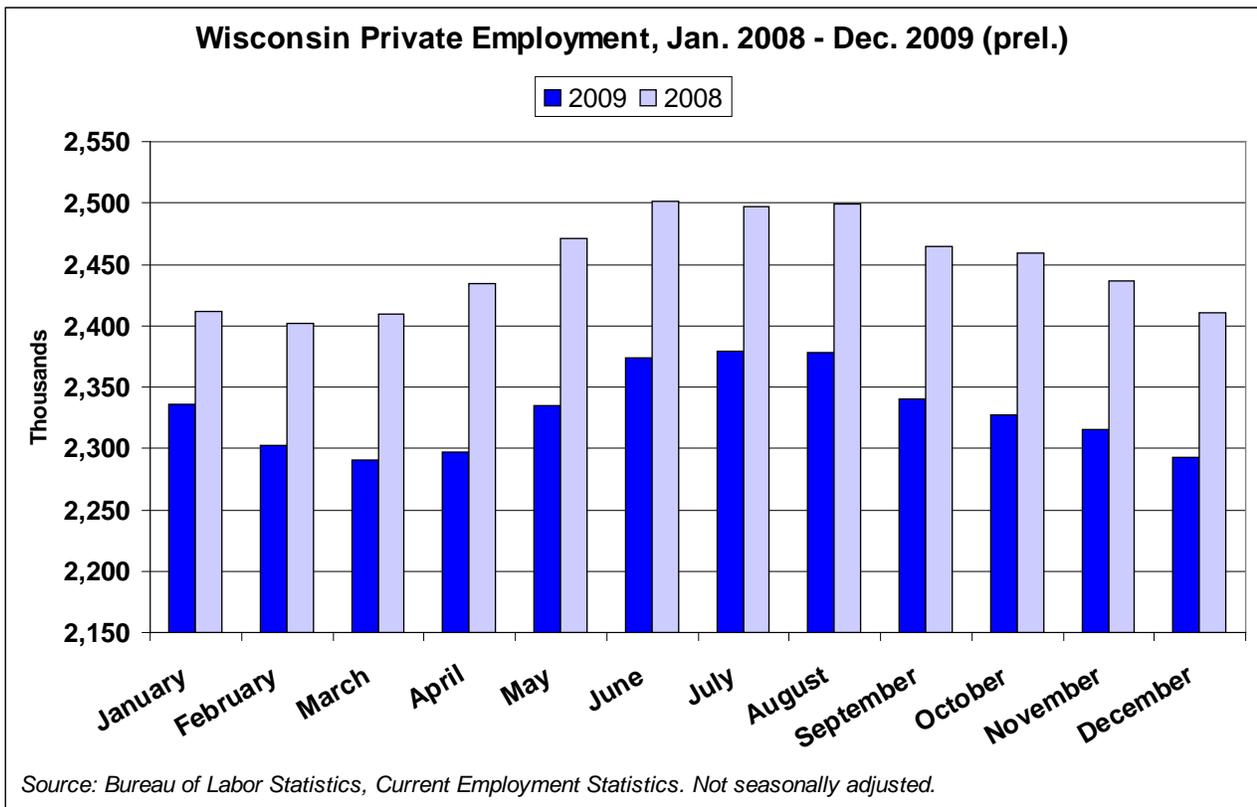
Wisconsin's total earnings began declining faster than the U.S. in early 2009. Catch up will be required during the state's recovery and expansions phases of the business cycle in 2010 and beyond.

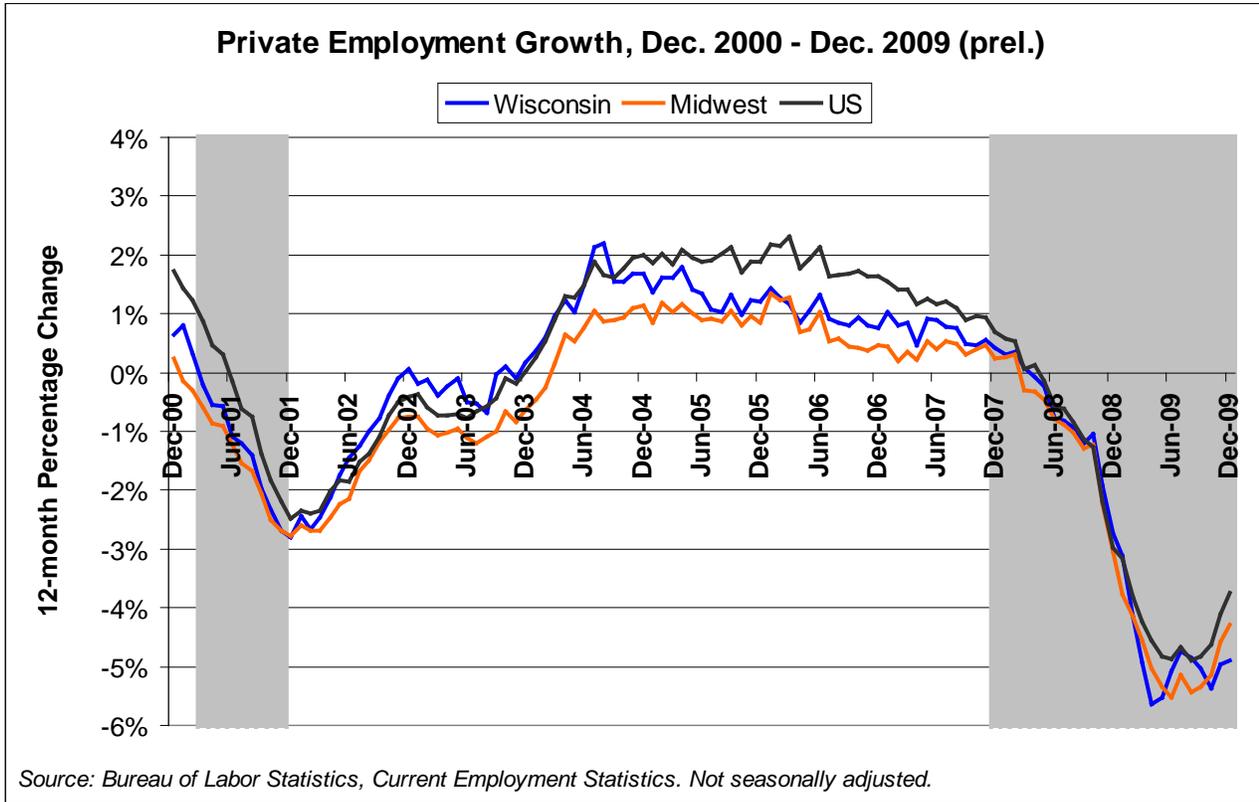
RECENT JOB TRENDS

Private Employment

Why Important

As stated above, private sector jobs are the building blocks to state economic prosperity. While total employment counts are helpful trends in private sector employment better capture a state's 'engine of growth'. To provide recent trends, the charts below use monthly data with a two month lag.





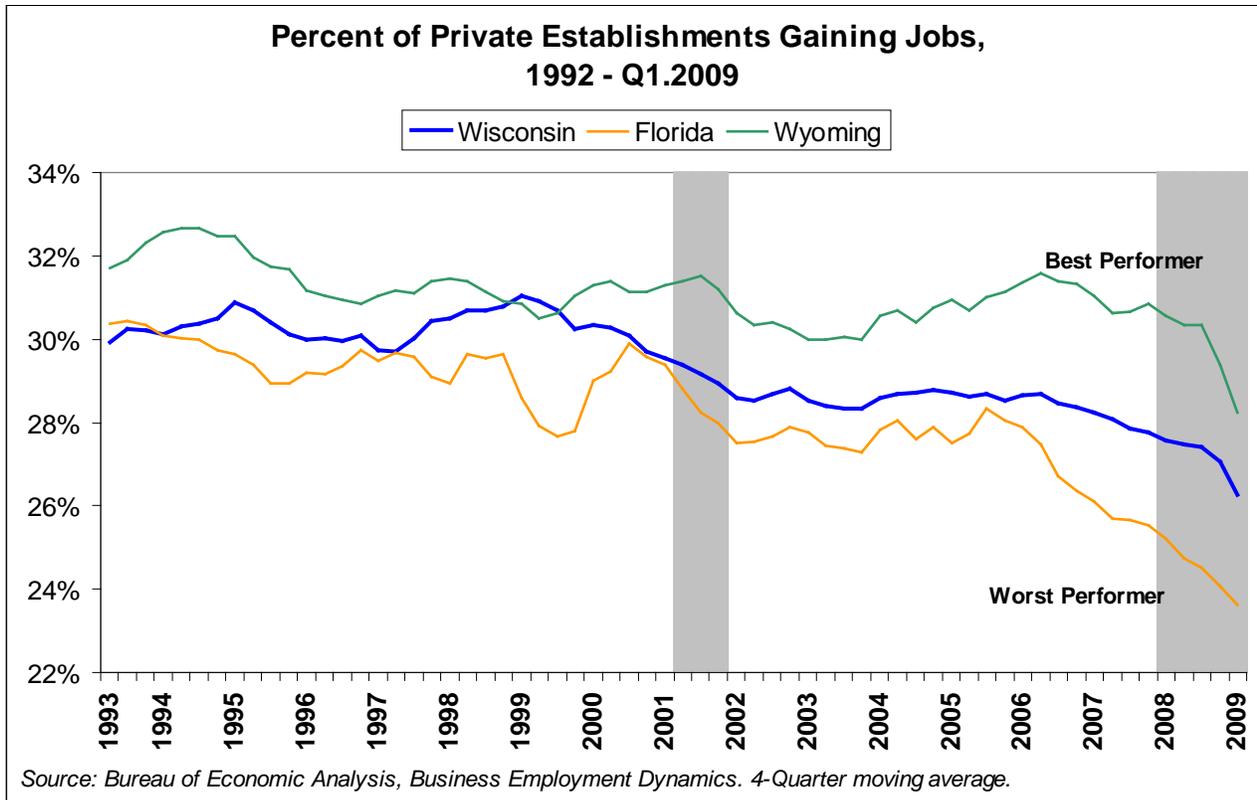
What it means

Compared with 2008, private employment in 2009 is down approximately 125,000. And the usual spike in summer employment was not as evident in 2009 meaning fewer temporary jobs, especially for youth. Also the year-over-year decline rate in private employment is currently greater than that of the U.S.

Breadth of Job Creation

Why Important

The percent of businesses creating jobs in any quarter is a good measure of the job-creating dynamism of a state's economy. In good times 30-32% of businesses are creating jobs in any quarter. The graph below compares Wisconsin over time with the best performing state, Wyoming, and the worst performing state, Florida. These data have a three-quarter lag so the graph below is up to Q1 2009.



What it means

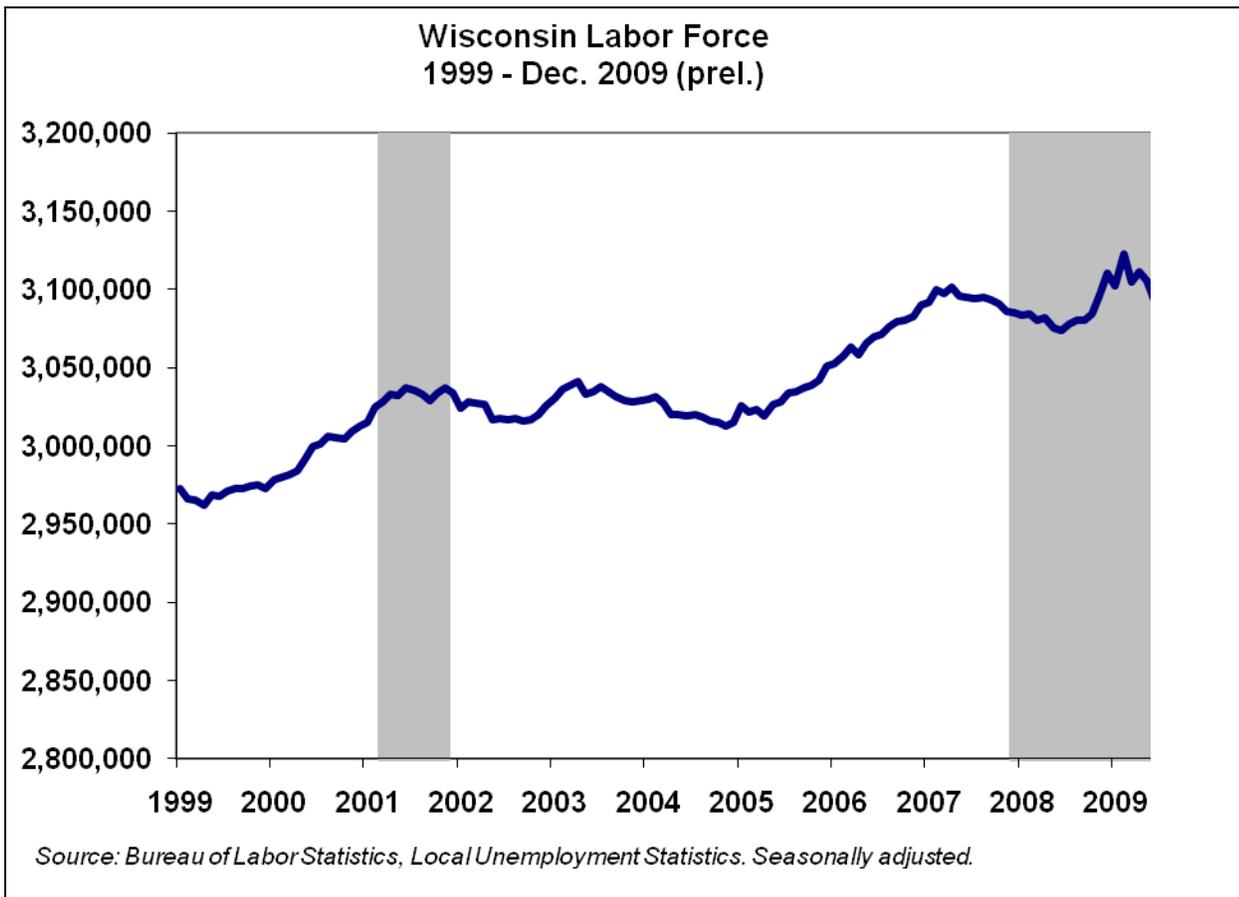
In the 90's Wisconsin was doing well, keeping close to state leaders, like Wyoming. Its job-creating engine began to sputter in late 1999. Since then the state presents gradual decline, with a significant drop off in the 2008-09.

RECENT UNEMPLOYMENT AND LABOR FORCE PARTICIPATION

Why Important

To understand the jobs scene it is insufficient to know how many jobs there are. One must also know how many working-age adults choose to participate in the labor force, and how many of these are unemployed, leading to an estimate of unemployment rate and total underemployment rate.

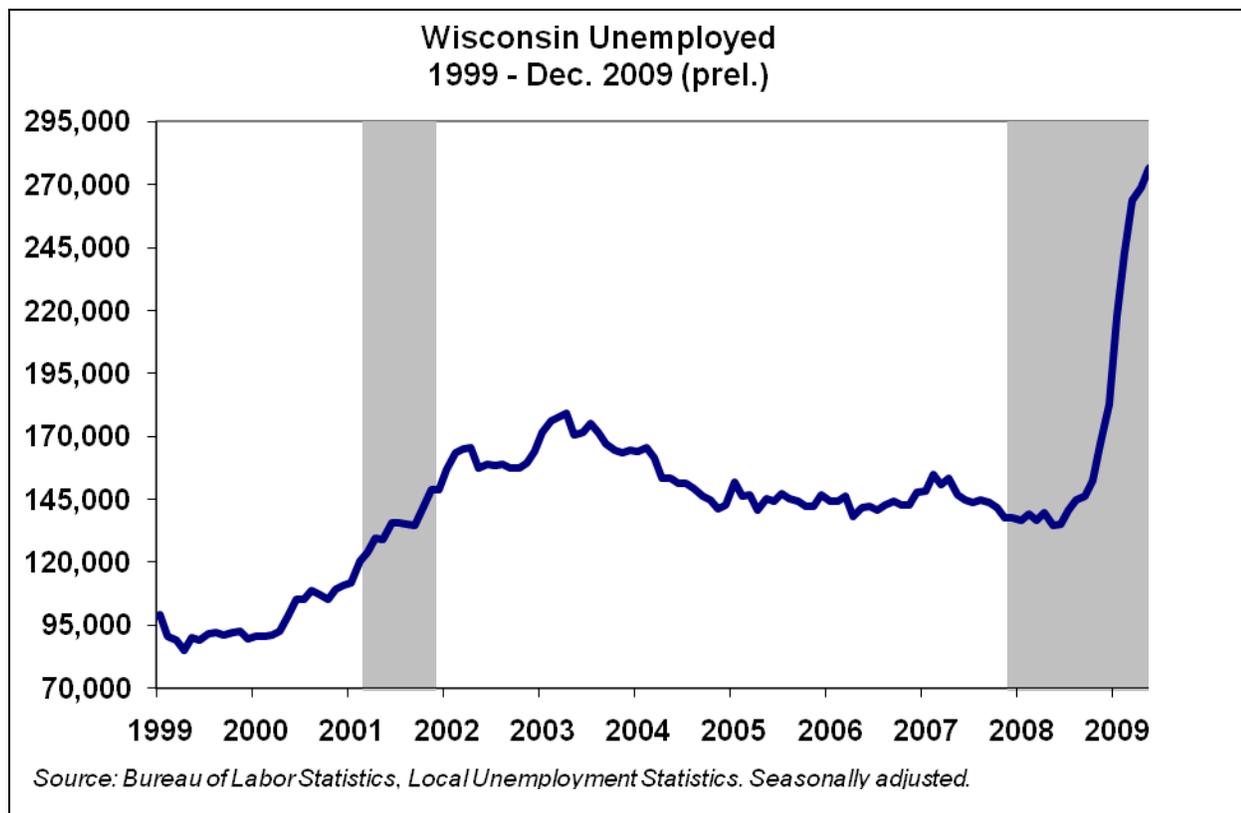
The labor force



What it means

The pool of workers in Wisconsin has shrunk noticeably during this recession. The labor force is back to where it was in 2003-04.

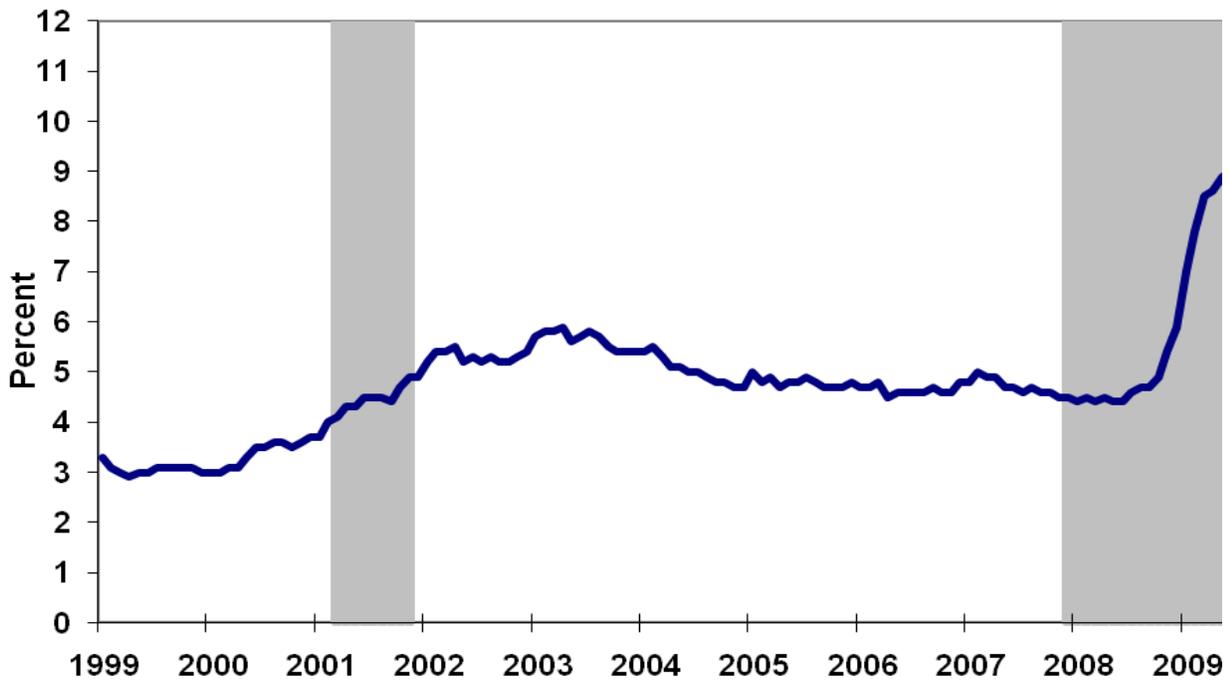
Unemployment and unemployment rates



What it means

Of those remaining in the labor force, the number unemployed has risen by nearly 100,000 above the number unemployed after the 2001 recession.

Wisconsin Unemployment Rate 1999 - Dec. 2009 (prel.)



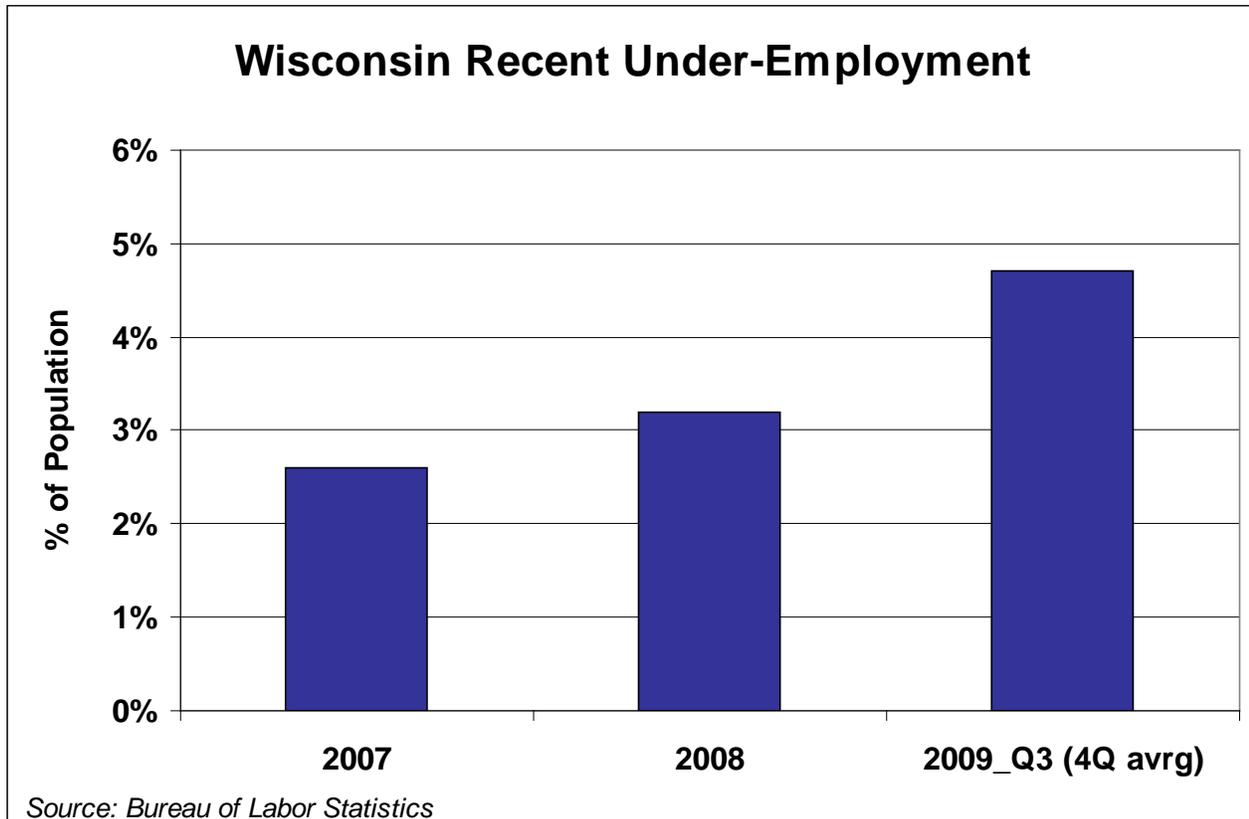
Source: Bureau of Labor Statistics, Local Unemployment Statistics. Seasonally adjusted.

What it means

Likewise Wisconsin's unemployment rate has taken a major spike: 8.7% in December, but below the national December rate of 10.0%. Wisconsin's December figure was significantly different statistically from one year earlier at 5.7%. It appears Wisconsin's hurt has been less with the unemployment rate but more with declining labor force participation, indicating a high number of discouraged workers.

Underemployment Differential

(The percent of workers over and above those officially unemployed or marginally attached to the workforce who must take part-time instead of full time.)



What it means

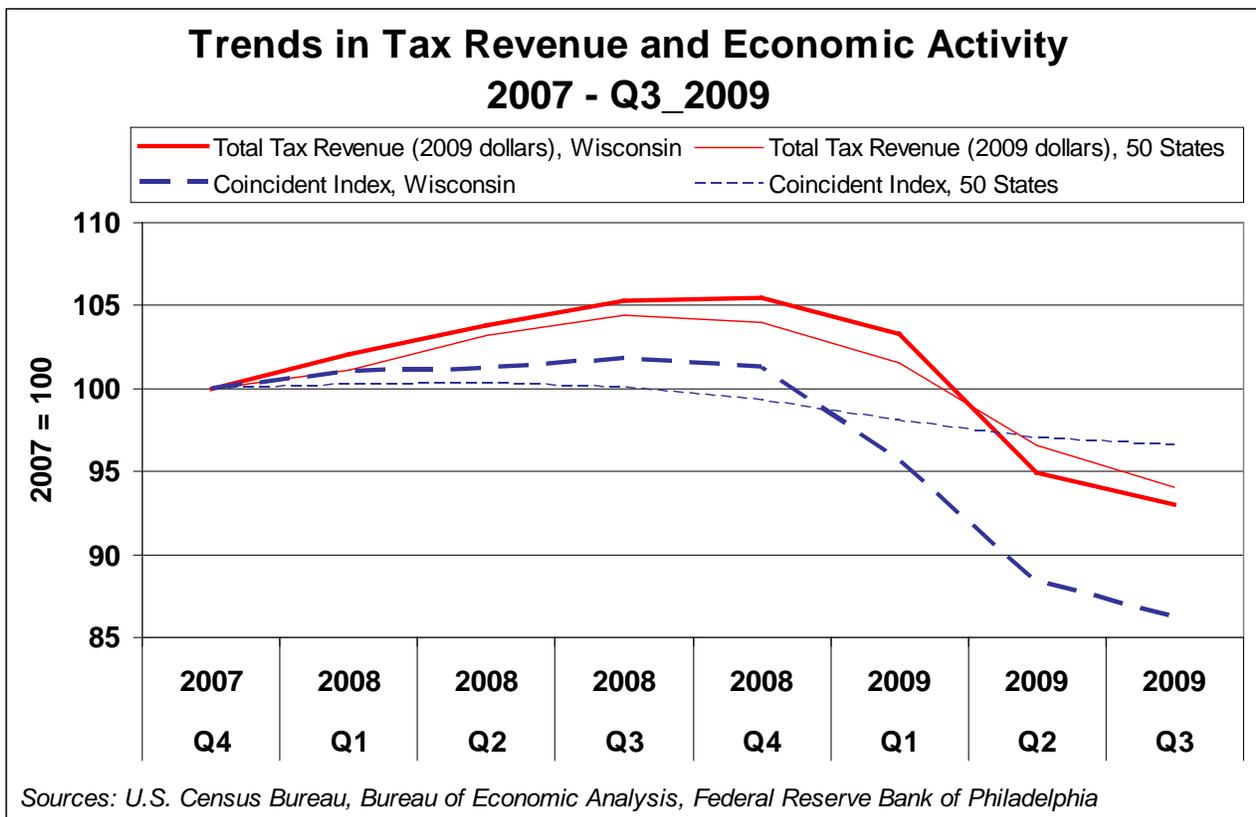
Over the most recent four quarters through Q3 2009 the underemployment differential has almost doubled that of 2007. While posing personal and family anguish and state economic stress, on the positive side these experienced and willing workers are a pool of labor for immediate hire as the economy recovers.

RECENT ECONOMIC ACTIVITY VS. TAX REVENUE

Tax revenue growth compared to economic growth

Why Important

One issue of central importance to businesses and state leaders in times of economic downturn is: ‘What taxing capacity does the state have to address budget shortfalls without jeopardizing economic recovery?’ The chart below provides a combined picture of tax revenue and economic activity in Wisconsin indexed to 2007 (4 quarter moving average). The Federal Reserve Bank’s State Coincident Index is used as a measure of state growth since it captures very recent growth data (released monthly with a one month lag). The tax revenue is released on a quarterly basis with a one quarter lag.



Note: The Coincident Economic Activity Index includes four indicators: nonfarm payroll employment, the unemployment rate, average hours worked in manufacturing and wages and salaries. The trend for each state's index is set to match the trend for gross state product.

What it means

Over the past eight quarters the Wisconsin Coincident Index has declined more dramatically than the 50–state composite (blue dashed lines) indicating that the state’s economy is probably not out of the woods by any means.

Over this same period Wisconsin tax revenue (heavy solid red line) grew faster than economic growth and to a greater degree than the 50-state path. In 2009, tax revenue have seen some slowdown, pointing to a possible convergence with economic growth. These charts still indicate that Wisconsin is at or near its upper limit in taxing capacity. Maintaining Wisconsin tax competitiveness for economic growth calls for a joint strategy of restrained growth in tax burden coupled with pro-growth economic policies.

THE COUNCIL OF STATE GOVERNMENTS' MIDWESTERN LEGISLATIVE CONFERENCE

The Council of State Governments (CSG) has served state government officials from all 50 states and the territories since 1933. As the only nonpartisan, nonprofit association representing all three branches of state government, CSG is committed to helping implement the best policy solutions and ideas. The Council advocates multi-state problem solving, highlights policy trends and innovations in state government, provides leadership training and support, and champions state sovereignty. CSG is supported by the states and governed by their officials. CSG has a national office located in Lexington, Kentucky, and regional offices in Atlanta, Lombard (Illinois), New York City, and Sacramento. The regional structure of CSG allows the organization to tailor services to the special concerns of policymakers. The mission of the Midwestern Office is to focus on those issues of greatest interest to policymakers in our nation's heartland – providing state leaders with the resources and tools they need to effectively address today's public policy challenges. To that end, CSG Midwest supports the efforts of state legislators and their staff through the Midwestern Legislative Conference and of the region's governors and their staff through the Midwestern Governors Association.

Established in 1945, **CSG's Midwestern Legislative Conference (MLC)** promotes regional, interstate cooperation and facilitates the exchange of information and ideas between the legislatures of 11 Midwestern states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. The Canadian provinces of Manitoba, Ontario and Saskatchewan are affiliate members of the MLC. Through its meetings, publications and policy work, the MLC provides lawmakers and their staff throughout the region with a variety of opportunities to learn from each other by sharing best practices and innovative solutions to common problems. Over the years, the MLC has addressed numerous issues ranging from agriculture, fiscal affairs, and economic development to health care, education and the environment. The MLC has also played a key role in launching several regional cooperative efforts, including the Midwestern Higher Education Compact and the Midwestern Interstate Passenger Rail Compact.

GROWTHECONOMICS INC.

Graham S. Toft Ph.D. is founder and president of **GrowthEconomics**, of Sarasota, Florida, and Indianapolis Indiana, focused on the growth dynamics of states and regions. The firm seeks to understand how good pay jobs grow, growth companies multiply, and self-reliant families prosper in today's super-charged, disruptive economy. He likes to call this fast-paced, open, green-conscious, global economy, the 'flex-economy'. He spends much of his time with leaders striving to grow their economies through entrepreneurship, innovation development, and pro-growth strategies -- solutions sought by many localities, regions, states, nations, educational institutions, business civic organizations and industries in today's post recessionary uptake. GrowthEconomics has a bias toward the measurement and monitoring of competitive position as a means to grab attention and focus on actionable strategies. To that end, Graham prepares annual state Competitiveness ScoreCards for several state Chambers of Commerce. In these circles, he has become known as 'Dr. Benchmark'. Also, annually GrowthEconomics prepares the state Entrepreneurship Score Card in collaboration

with the Small Business Foundation of Michigan. Other specialty benchmarking reports include a Technology Index on Indiana and Kansas. The GrowthEconomics team works out of Florida, Indiana and Ireland.

Graham Toft brings over 20 years experience preparing state benchmark and competitiveness assessments. He has strong Midwest ties and familiarity, including service as President of the Indiana Economic Development Council for 13 years from 1989 to 2002. Along with team member, Dr. Nadine Jeserich, resident in Ireland, he draws on state-of-the-art methods from both the U.S. and Europe.

GrowthEconomics has taken care to build a comprehensive set of over 200 metrics measuring all 50 U.S. states over the past seven years. These data are routinely updated and revised when back data become available. This 'live' dataset now makes it possible for the GrowthEconomics team to undertake sophisticated statistical analyses to determine 'Key Indicators to Watch' and 'Super – Drivers' which prove to be highly correlated with state economic growth. GrowthEconomics is now in the process of developing causal models for use in growth planning and policy development. Empirical work of this type will transform the practice of economic development over the next 10 years, offering decision-makers and practitioners greater confidence that the actions they take will have higher probabilities of success.

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