

The US and Wisconsin Economic Outlook

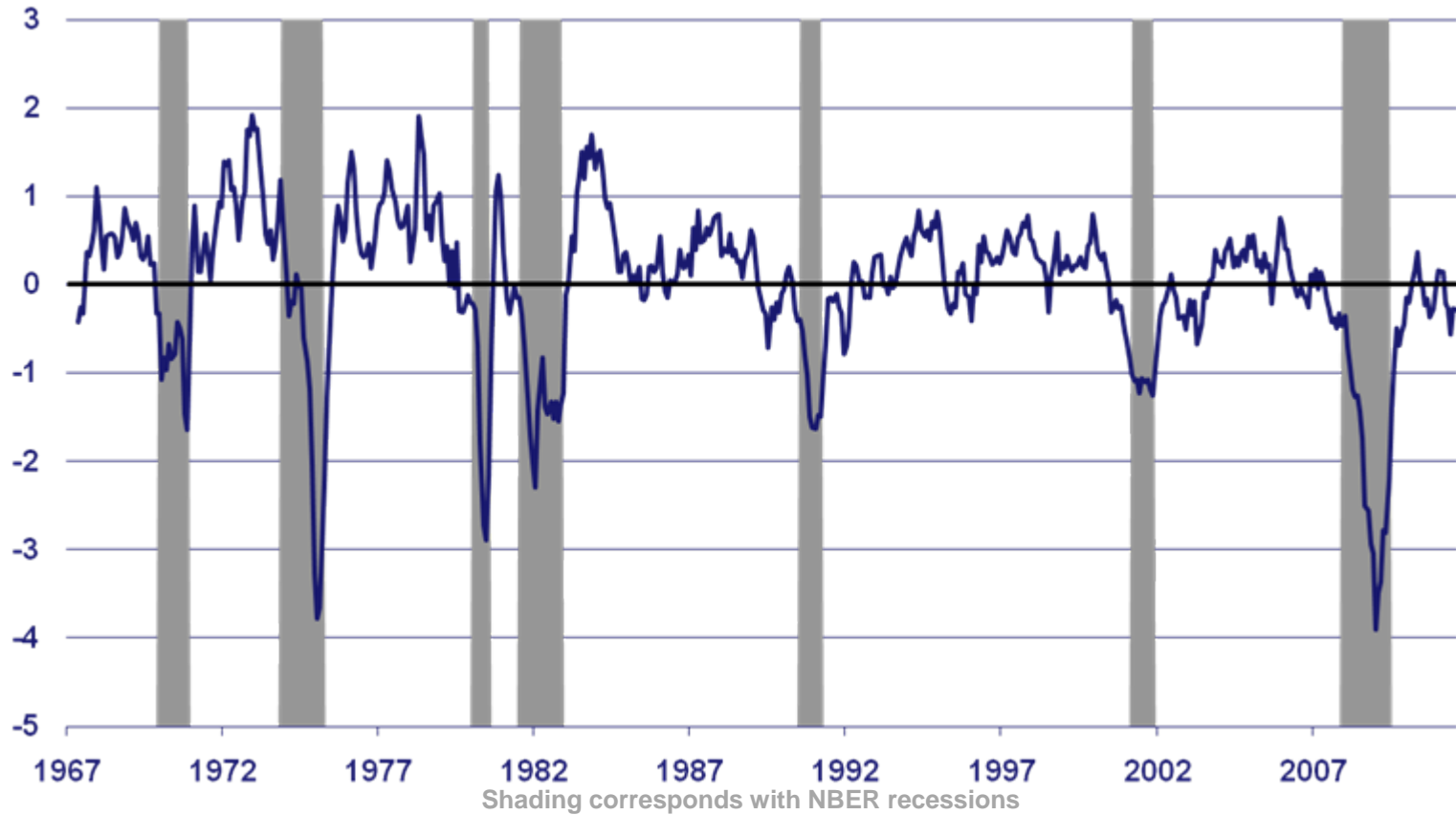
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Roadmap

- Part 1—understanding the “Great Recession” and its influence on the path of economic recovery
- Part 2—putting Wisconsin in the context of the national economy
- Part 3—longer-term issues facing Wisconsin

Economic Activity

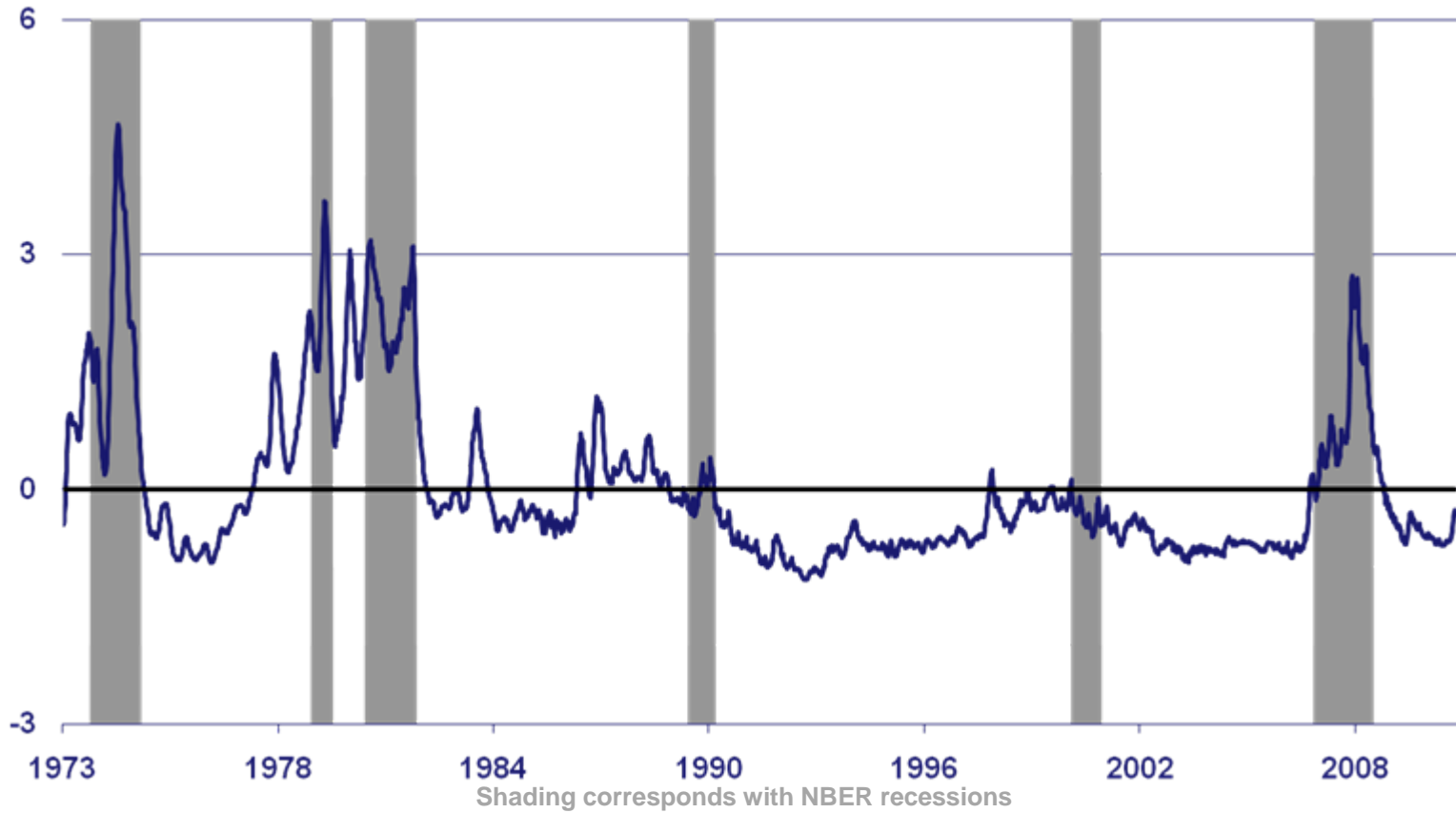
Chicago Fed National Activity Index (standard deviation from trend, 3-month average)



Financial Conditions

Financial Conditions Index

(deviation from trend, 100-variable index)



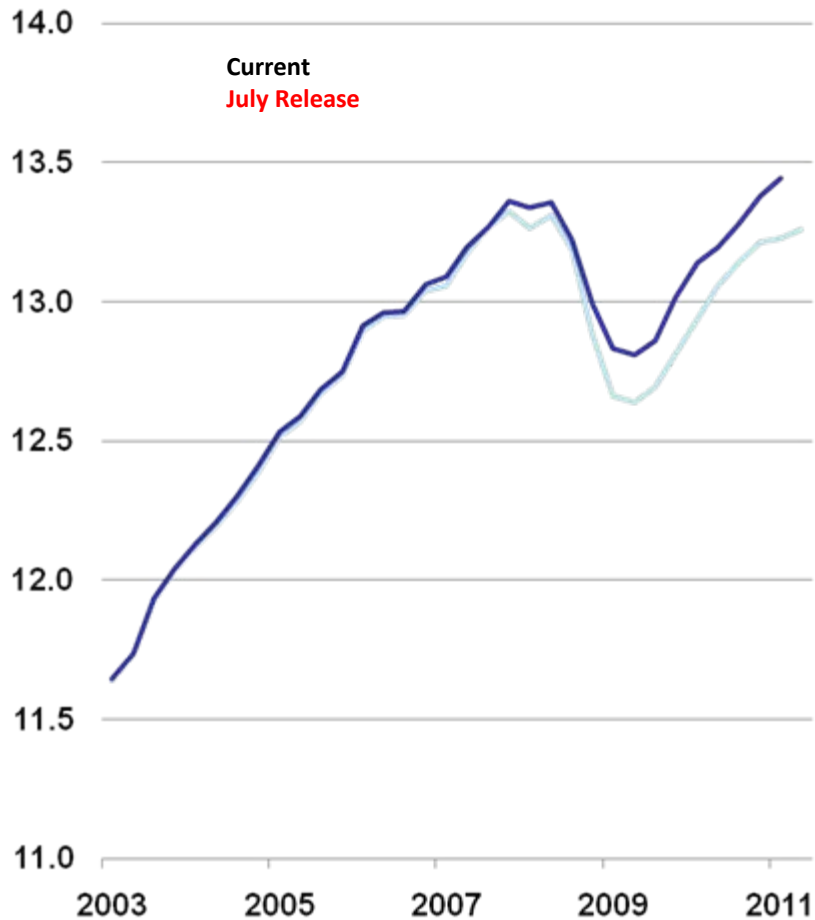
GDP growth has been disappointing

- Q1 was revised down to 0.4% (originally 1.8%)
- Q2 didn't show much of a rebound...1.3%
- Q3 was better...2.5%
- Revisions also showed that recession was far worse than originally thought
- (some impact from special factors, Japan, supply chain disruption, Greece, oil prices)
- NABE GDP forecast has been cut to 1.7% vs 2.8% (May) for 2011 and 2.3% vs 3.2% (May) for 2012
- Certainly not the usual pattern

GDP Revisions

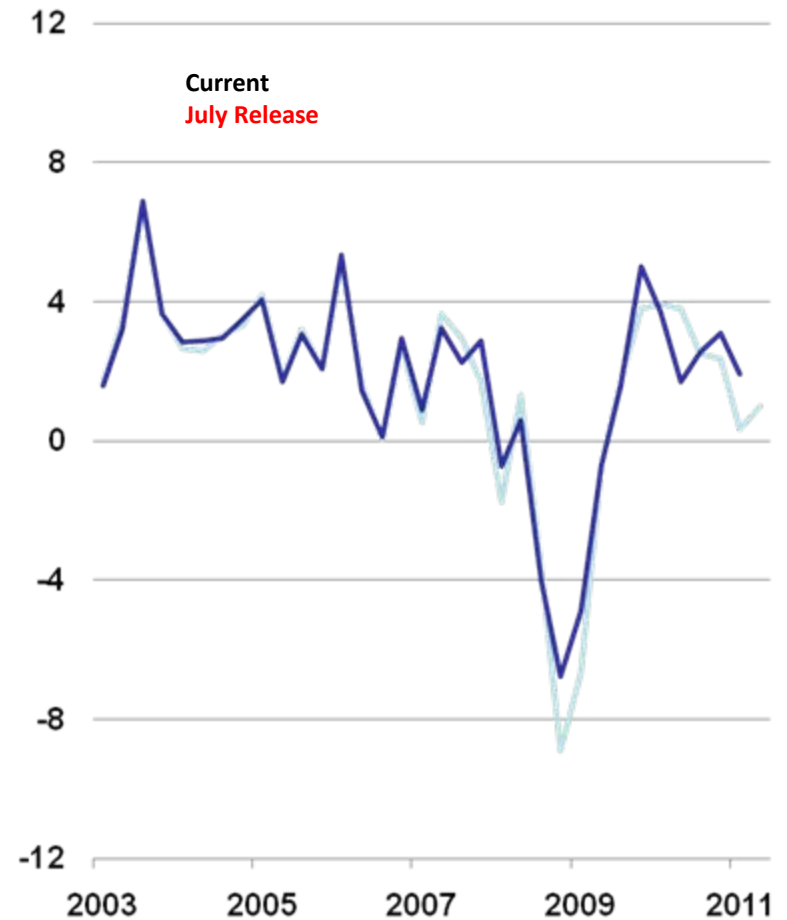
Real GDP

(trillions of \$2005)



Real GDP Growth

(annualized percent change)



Why was this recession so different?

- One word—"leverage"
- Why will the recovery be so different?
 - One hyphenated word—de-leverage
- Big issue—repricing risk
- The New Normal

All adds up to a slower climb out

- Financial recessions are different (Rogoff/Reinhart)
- Still lots of slack in labor and housing and soft demand
- Everyone is still repairing their balance sheet

CDOs of subprime mortgage backed securities

(issued 2006-07, McKenzie)

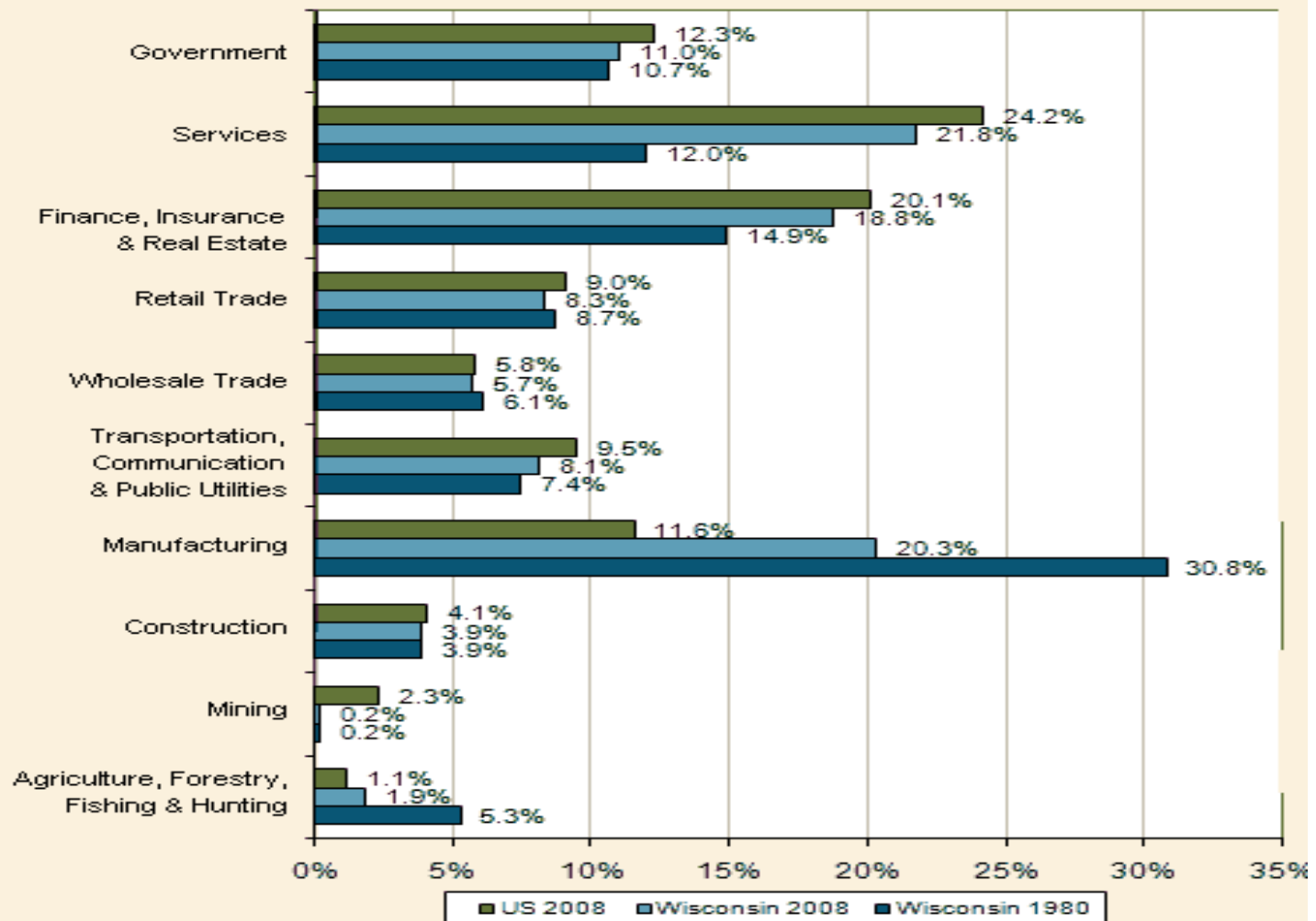
	Estimated 3-year Default Rate	Actual Default Rate
AAA	0.001	0.10
AA+	0.01	1.68
AA	0.04	8.16
AA-	0.05	12.03
A+	0.06	20.96
A	0.09	29.21
A-	0.12	36.65
BBB+	0.34	48.73
BBB	0.49	56.10
BBB-	0.88	66.67

A word about Wisconsin current performance

- In a very bad economy, Wisconsin's performance was "less bad"
- Within the Seventh Federal Reserve District Wisconsin out-performed, Illinois, Michigan and Indiana
- Why was it less bad? Certain sectors did better (less bad) than the US, particularly manufacturing and agriculture
- State didn't have as far to fall as high flying regions with significant exposure to housing and commercial real estate
- A quick look at Wisconsin performance....

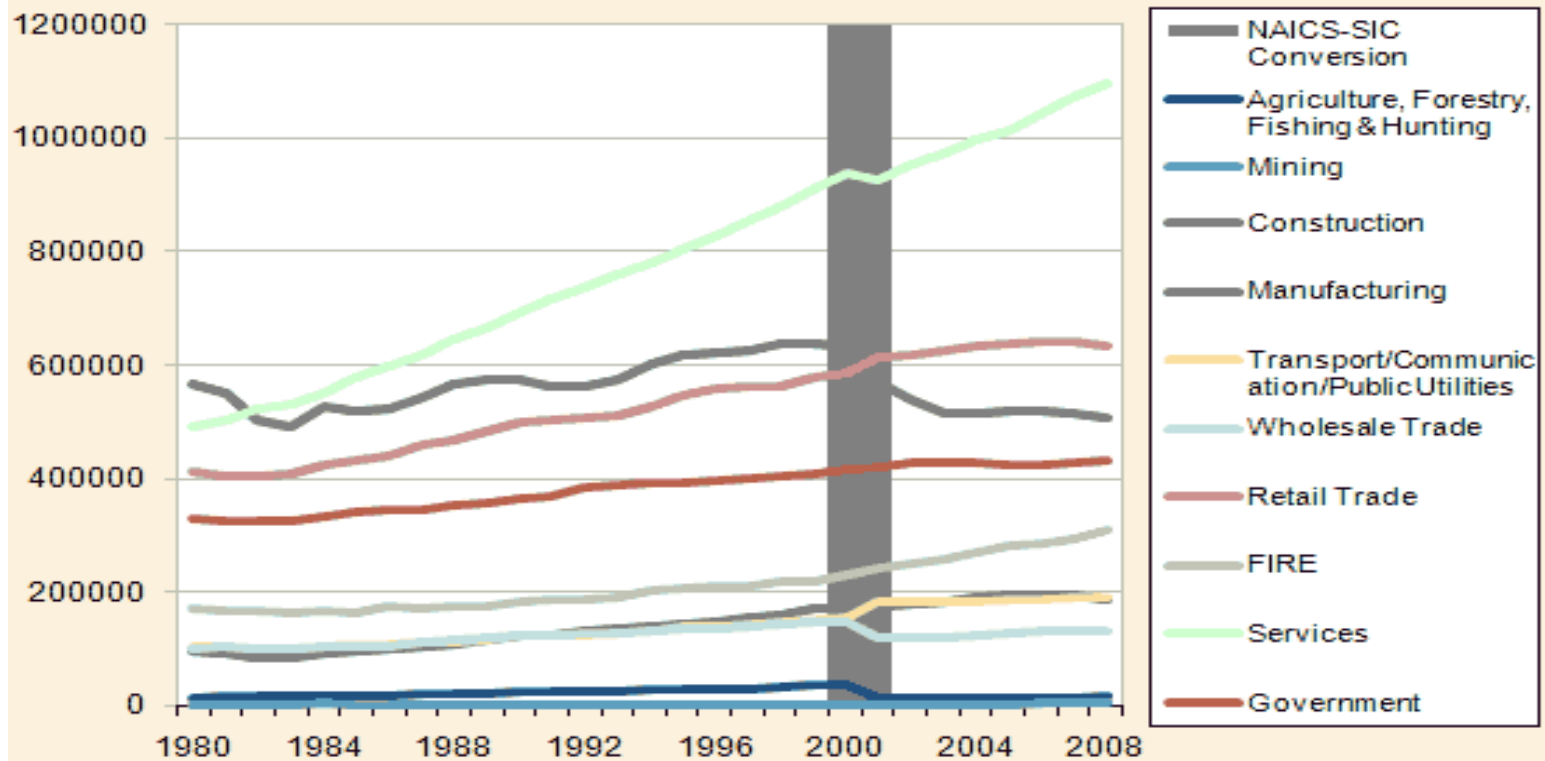
Structure of the state's economy

Wisconsin:
Percent of Total Gross State Product by Industry and Comparison to the US

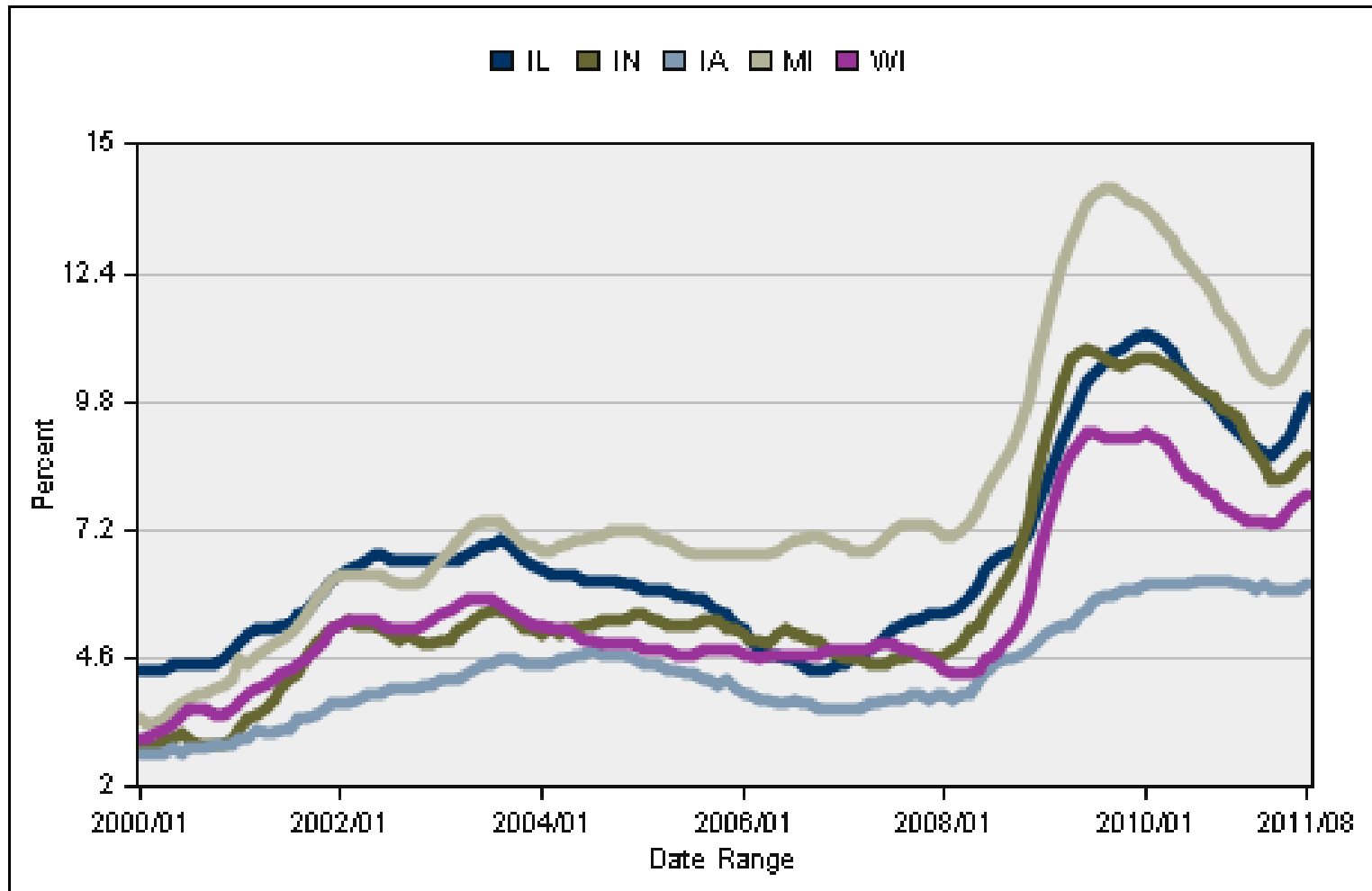


The restructuring of the state's economy

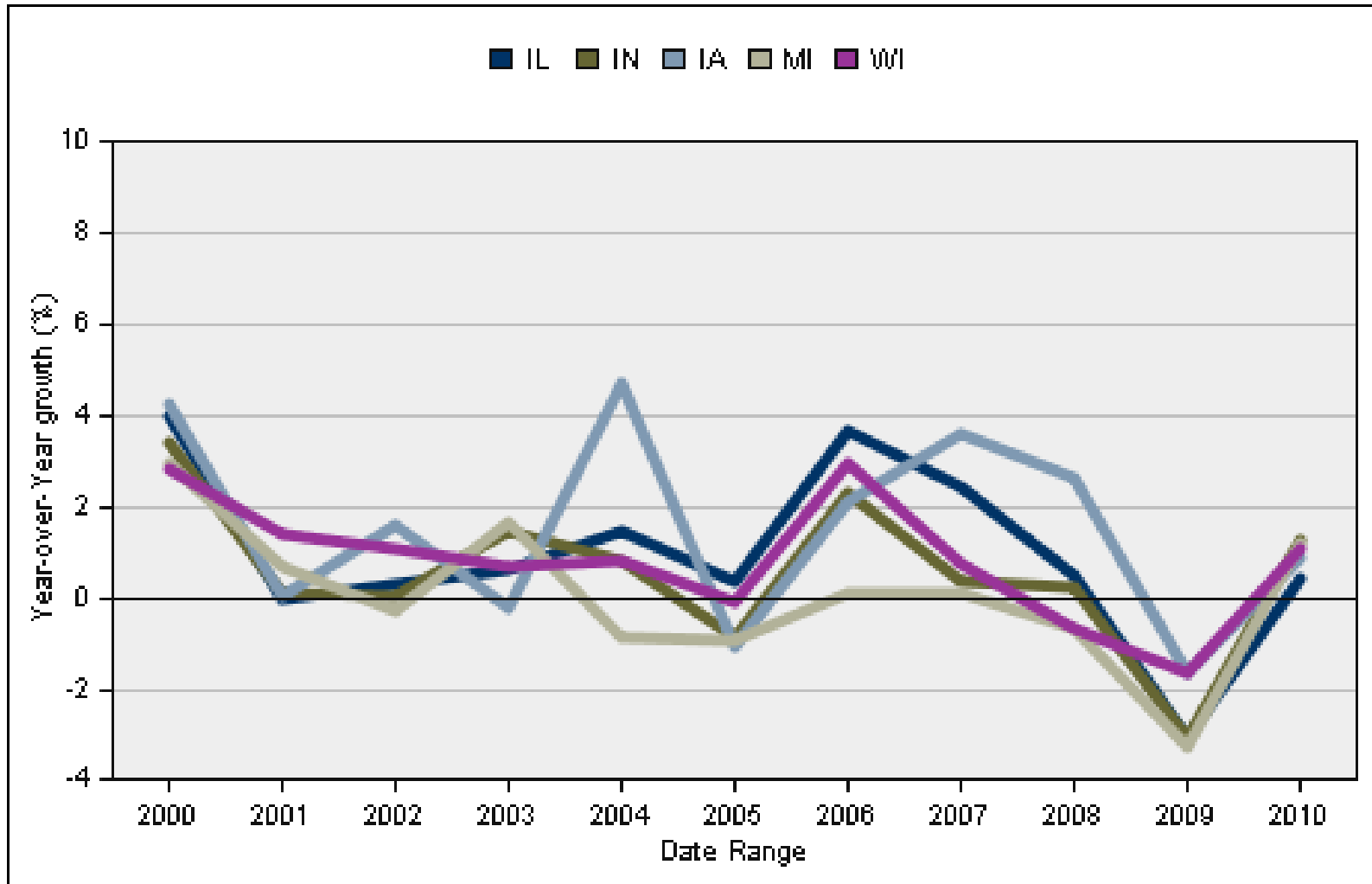
Wisconsin Employment by Industry, 1980- 2008



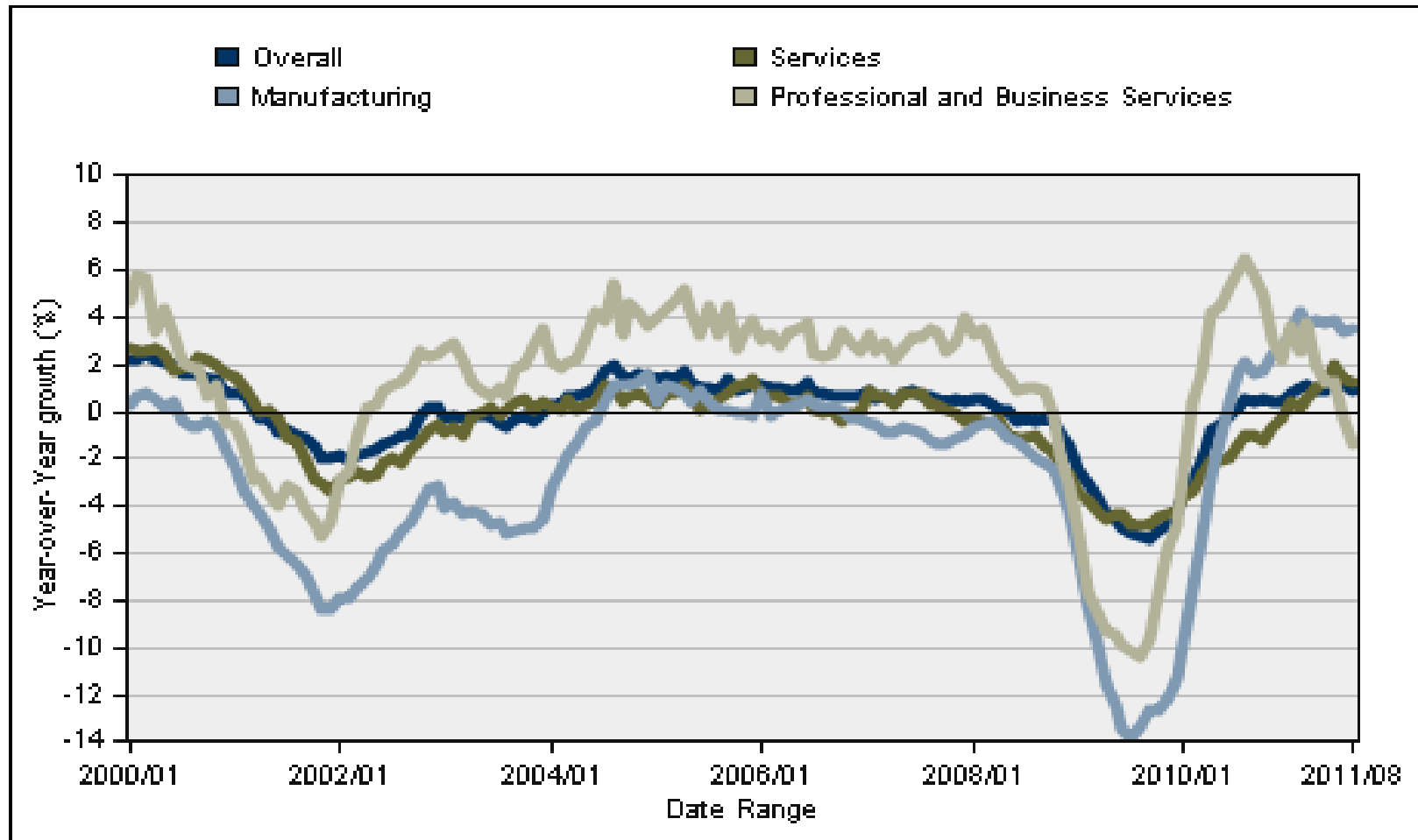
Unemployment Rate



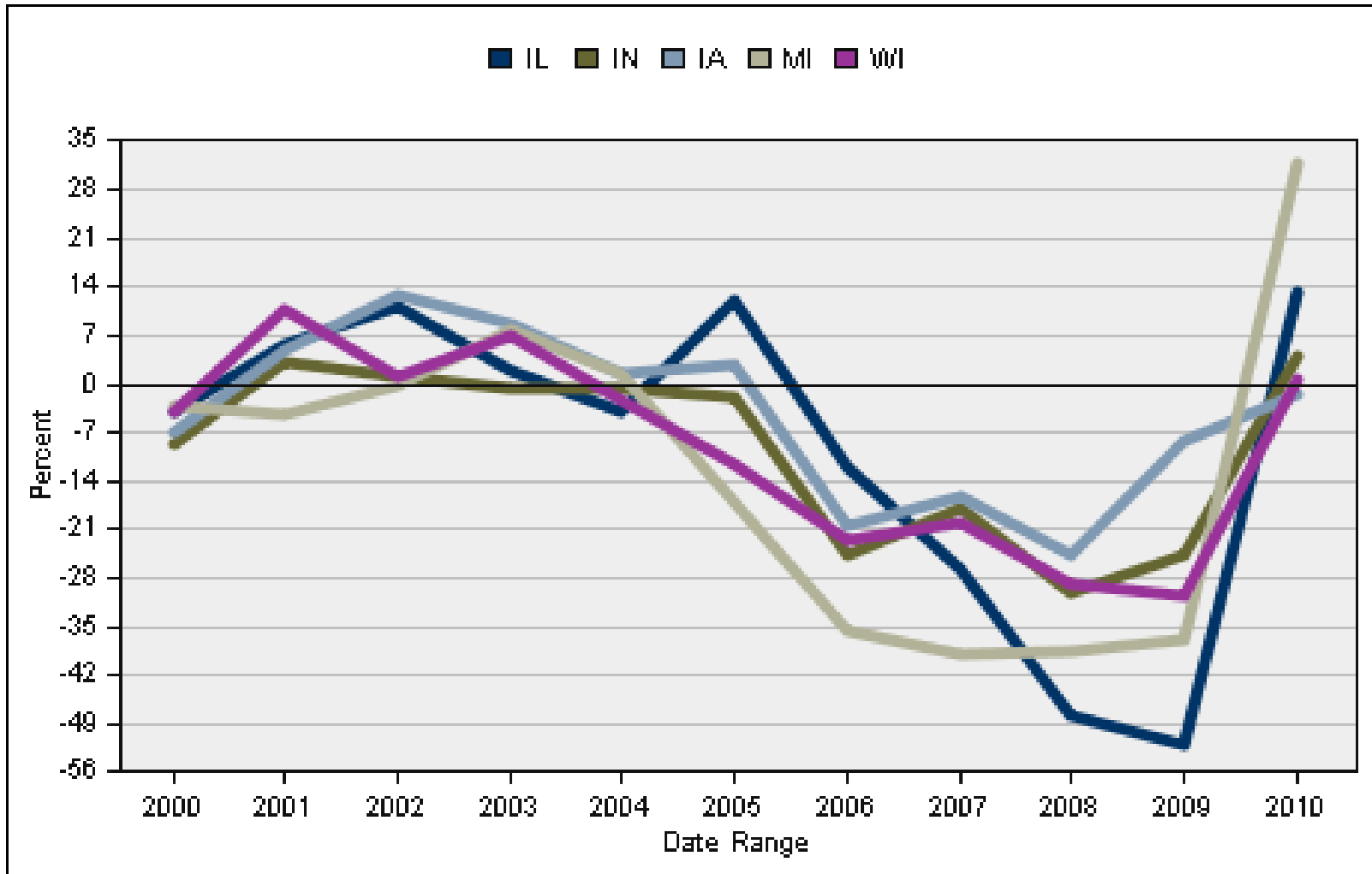
Personal income



Year over Year employment growth



Building Permits



Housing Bubble?

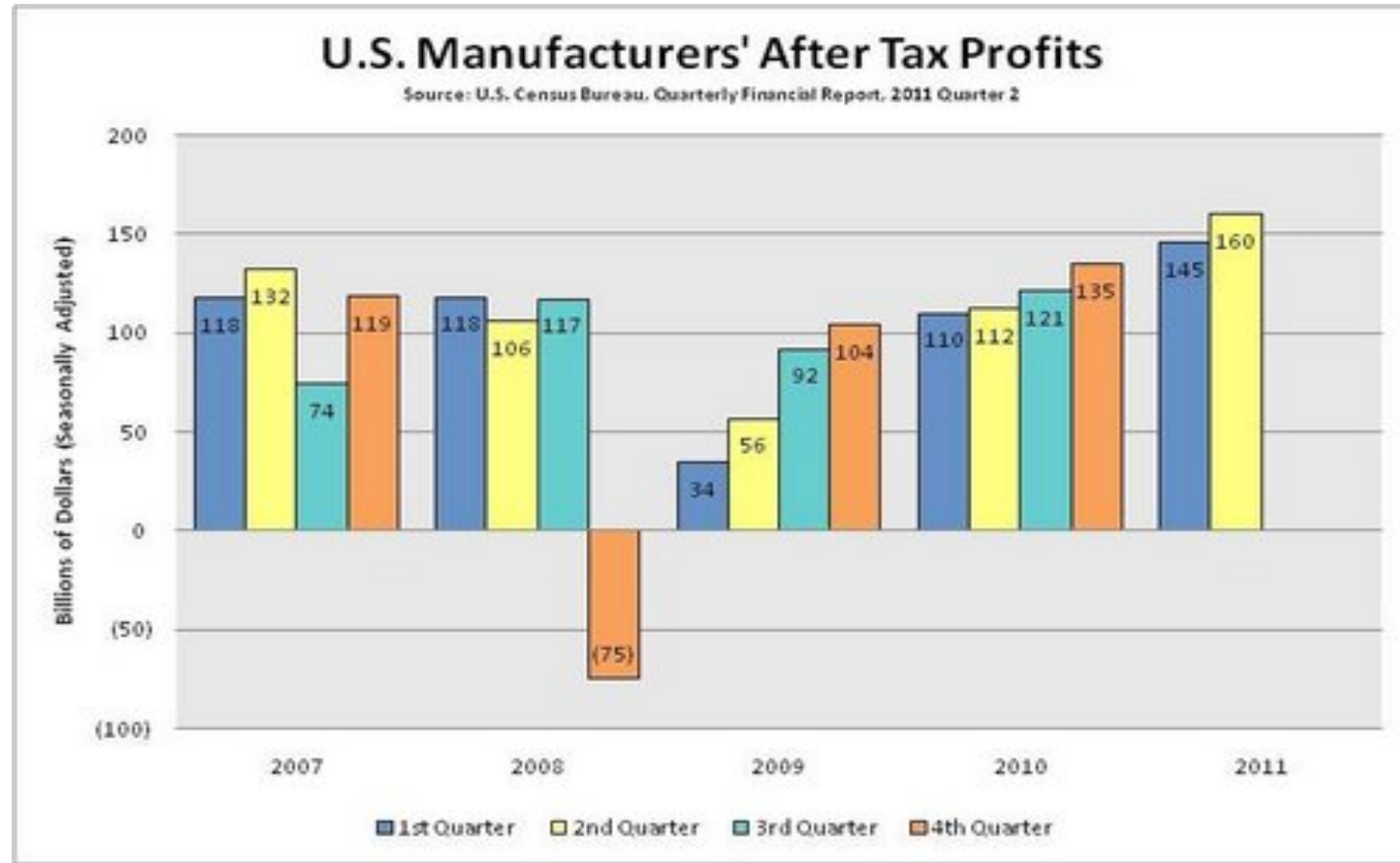
(CoreLogic, Q2 2011 Negative Equity)

State	Negative equity properties as a share of all properties with mortgages
Wisconsin	14.6%
U.S.	22.5%
Illinois	21.7%
Iowa	9.0%
Indiana	10.9%
Michigan	35.6%
Nevada	60.4%
Florida	45.1%
Arizona	48.7%

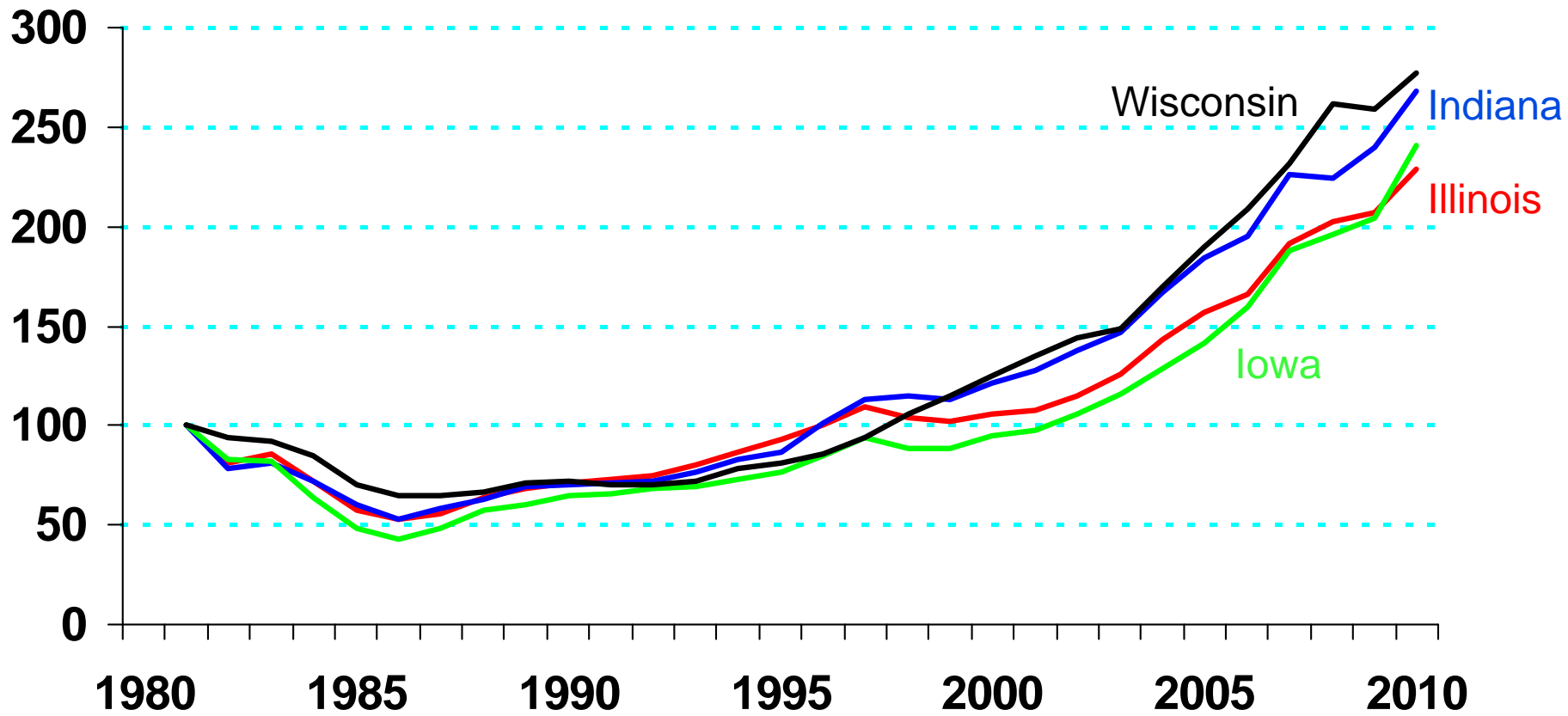
Wisconsin outlook

- Current indicators for employment and housing suggest state's economy is growing at a modest pace. Department of Revenue forecast suggests that total job losses was 171,000 between January 2008 and January 2010. However, job growth has exceeded 40,000 since January 2010. Department projects that peak employment will not return until first quarter 2014.
- Largest employment sector—Trade, Transportation and Utilities (19%) is forecasted by DOR to grow by 1.4% in 2011, 2.6% in 2012 and 1.7% in 2013.
- Manufacturing has outperformed US. Outlook is strong even for employment. 3.0% in 2011, 3.5% in 2012 and 3.3% in 2013. Despite this total employment will still be below 2006 peak by 2014.
- Professional and Business Services—recovered over 60% of lost jobs but many are in temp services. DOR forecast calls for employment growth of 3.9% in 2011 and 3.1% in 2012.

Manufacturing Bounce Back



***Farmland Value Indexes
for Seventh District States
(1981=100)***



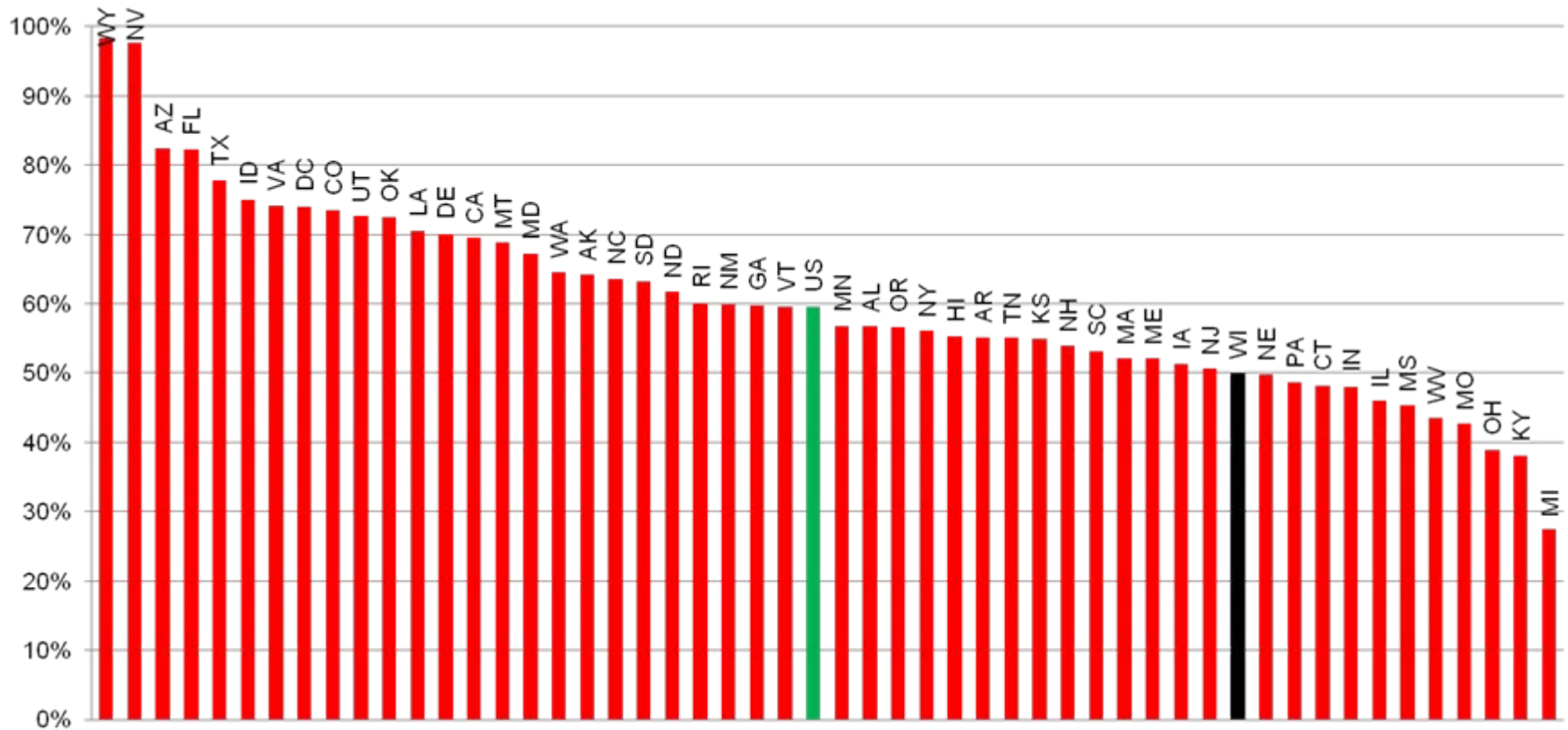
The longer term perspective— where does Wisconsin rank?

- Strengths—Higher Education, WARF, natural beauty, productive workforce
- Weaknesses—like the rest of the Midwest, demographics, upskilling in the face of manufacturing legacy, fiscal woes
- Measures of performance...human capital, innovation, trade
- Human capital...both producing and retaining

1997–2006

Change in Gross State Product

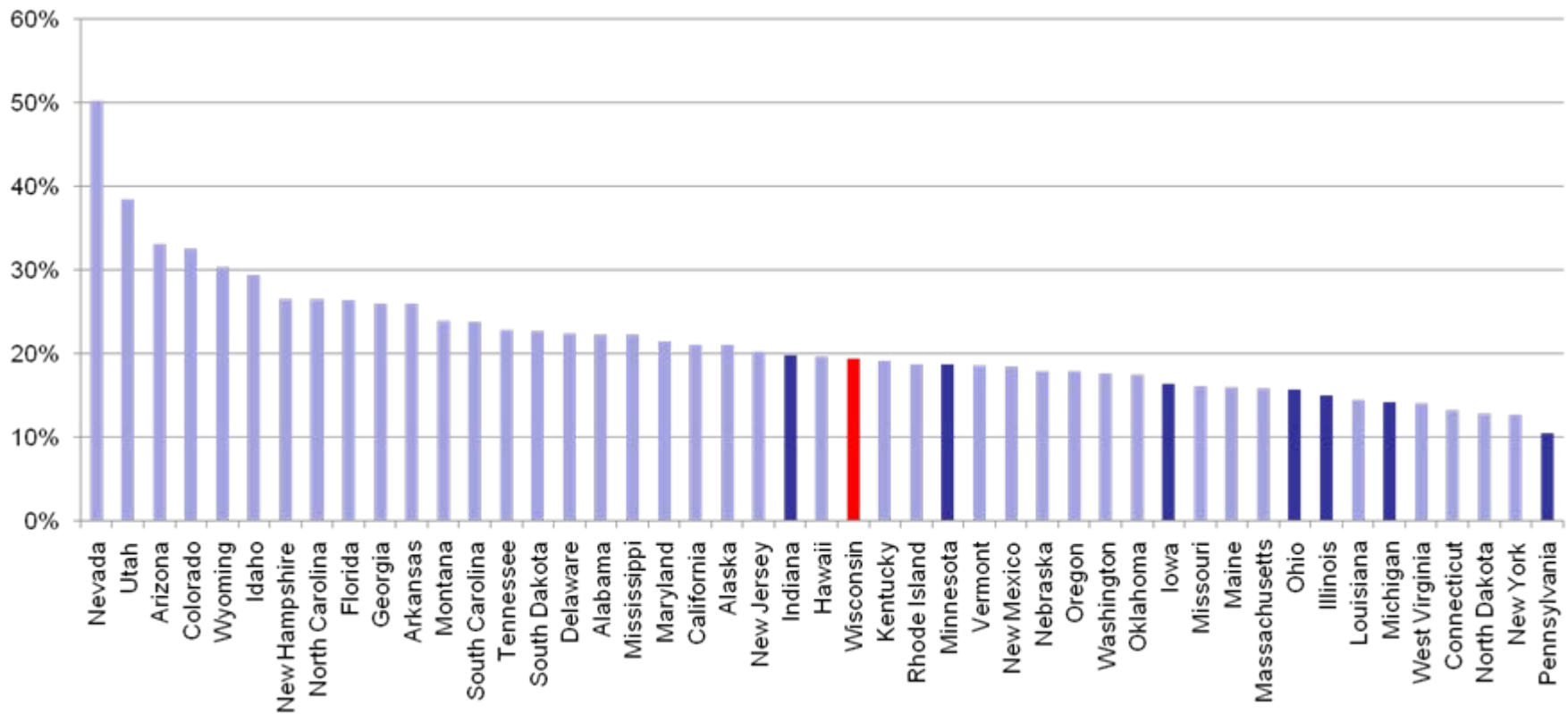
- GSP data available for various NAICS industry levels. History provided using the older SIC specification.



Source: BEA

2004–2014 Change in Occupations Requiring Postsecondary Training

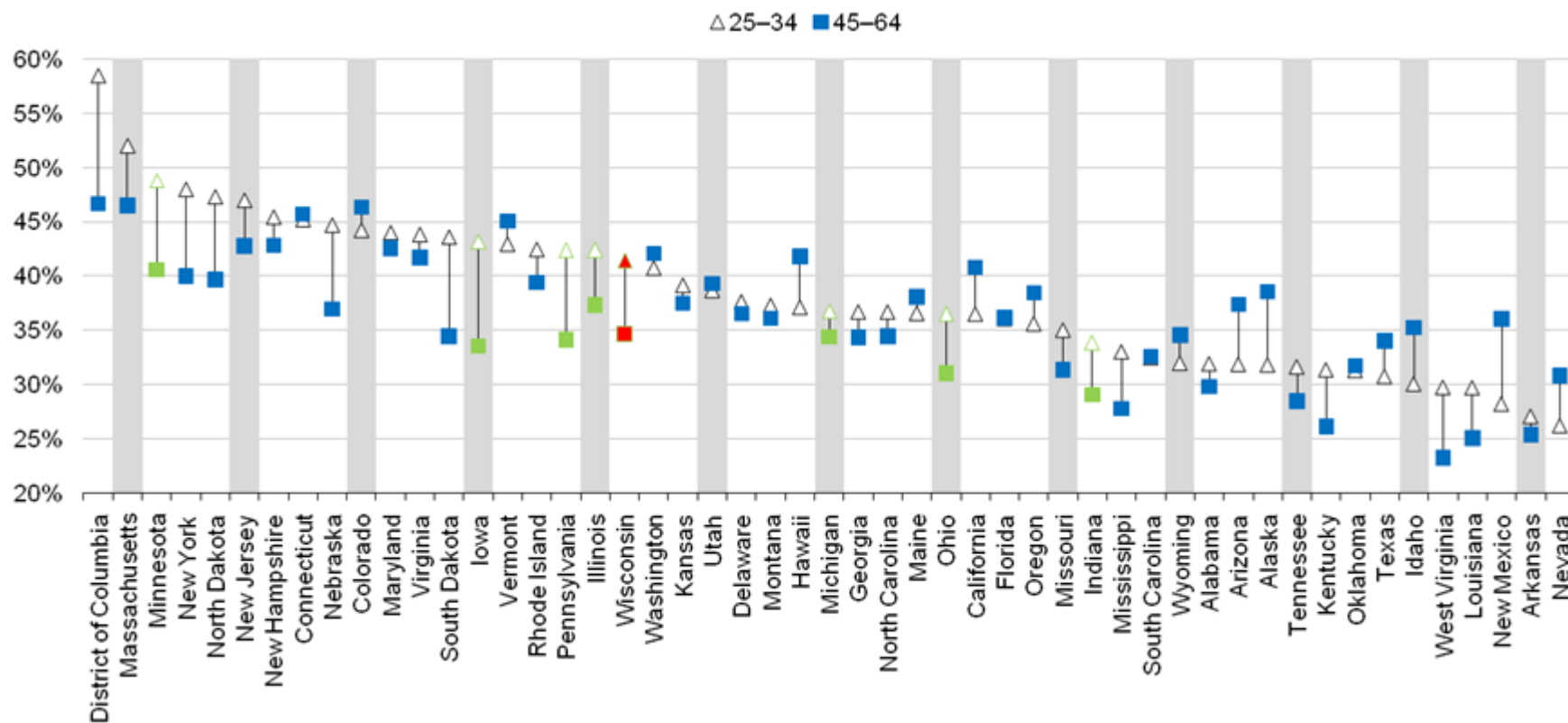
- U.S. 2006–2016 percent change is projected to be up 16%.
- Data by occupation available, but no historical series provided.
- States with unavailable data are DC, KS, TX, & VA.



Source: Career Infonet

2005 College Attainment, by State, Younger & Older Adults

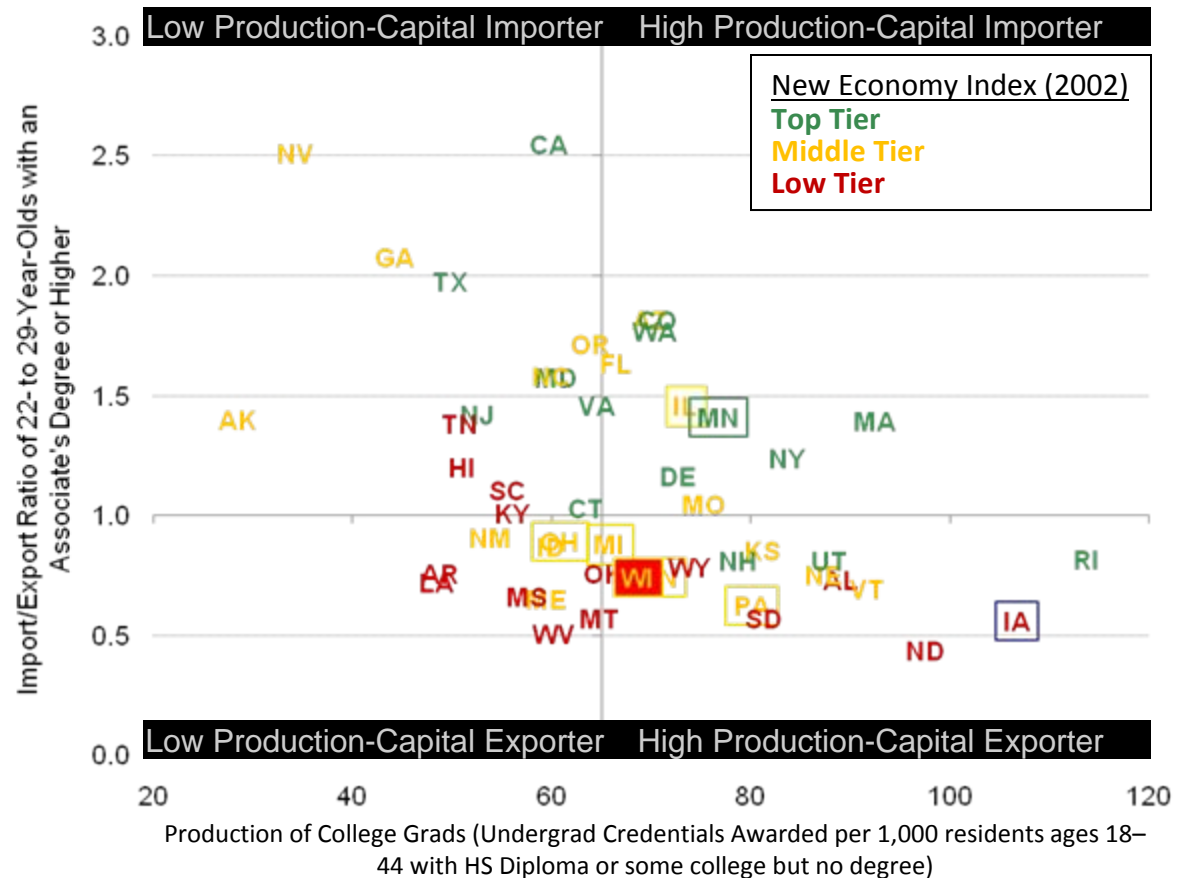
- Annual data available for age groups and their educational attainment.
- Varying levels of education are available. Depicted are ratios of adults with an associate's degree or higher over total population of that age group.



Source: Census

Production and Retention of Graduates

- Compiled of the New Economy Index, IPEDS, ACS, and the 2000 Census, this quartile chart divides the production and retention level of educated capital.
- The New Economy Index is described in later slides. It consists of a scoring that rates each state's performance in categories that are part of the main drivers of the current economy.



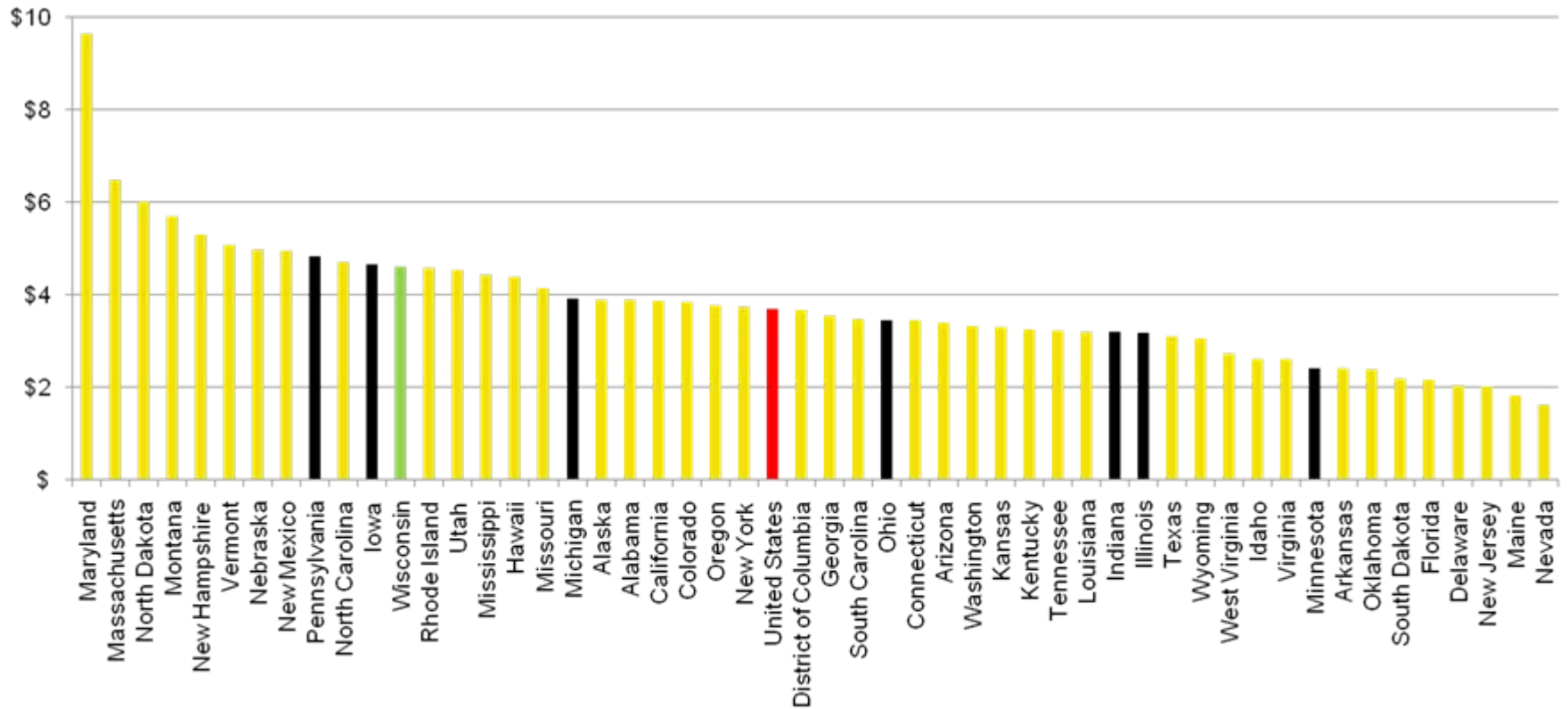
Source:
 Census/NCES/ITIF/NCHEMS

Innovation assets

- Research is strong and commercialization is better than many Midwest states

2005 Research & Development by GSP

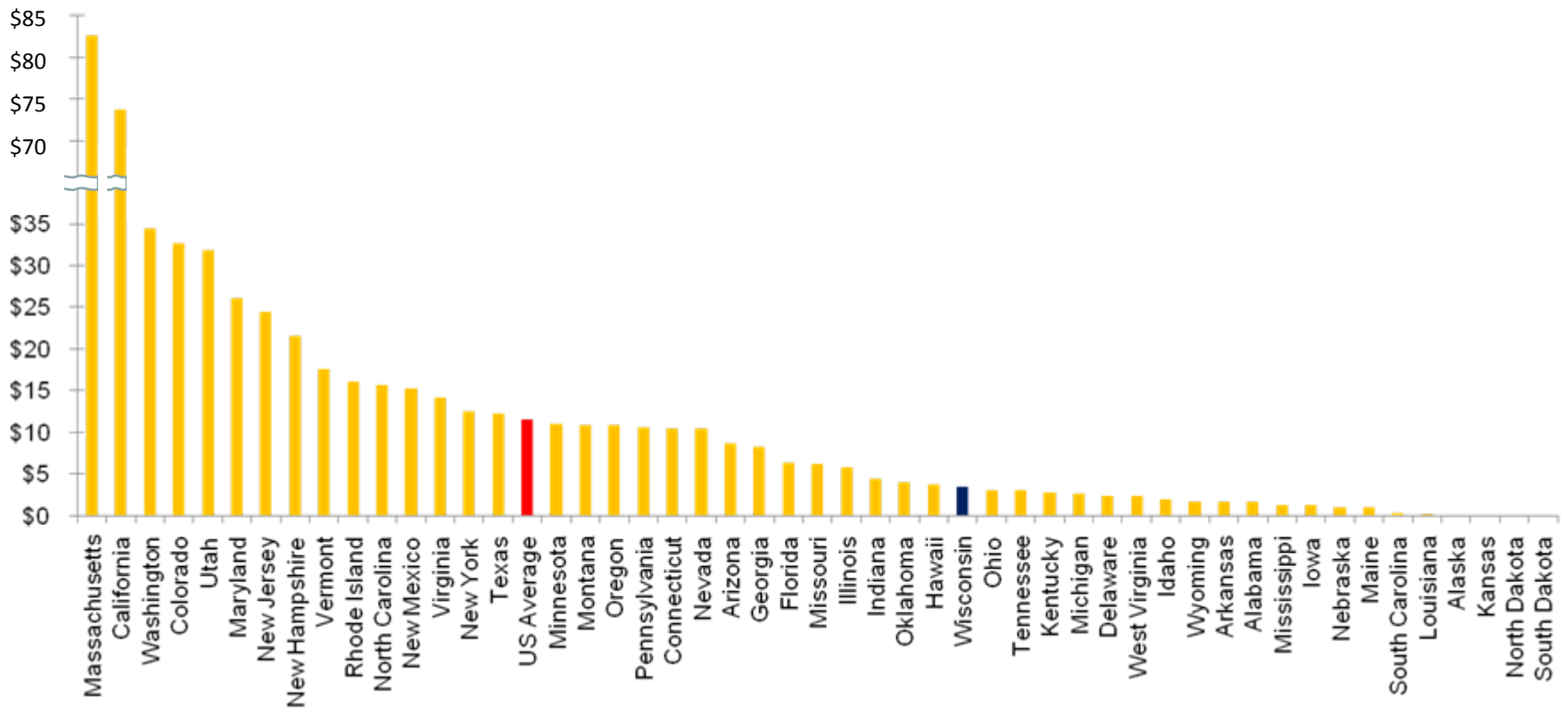
- R&D expenditures reported for the FY2005.
- Expenditures calculated as a ratio per \$1,000 GSP for 2005.



Source: NSF/BEA

2005 Venture Capital

- Calculations made for venture capital financing per \$1,000 GSP.



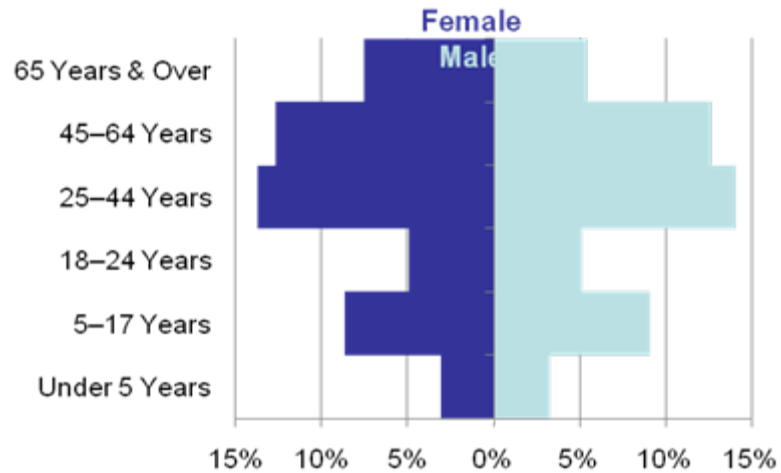
Source: Indiana Chamber

Demographics are a challenge

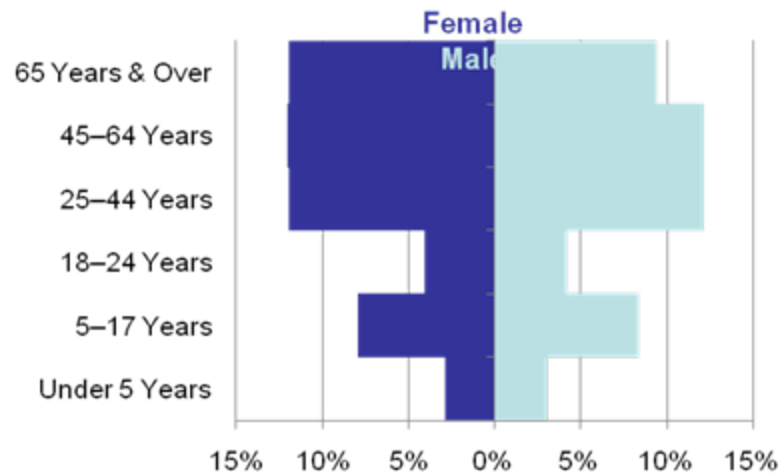
- We are getting older and don't attract lots of migrants

Population Projections— Big 10 States

Wisconsin 2005



Wisconsin 2030



Summary

- Like most states Wisconsin was hurt by the “Great Recession” however it did better than many other Midwest states. This is explained by industry mix and the absence of many of the sectors that triggered this recession
- The states long-term challenges are like the rest of the region. Need to increase production and retention of human capital, leverage research advantages and stabilize fiscal condition.