

U.S. and Wisconsin Economic Outlook 2015

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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...

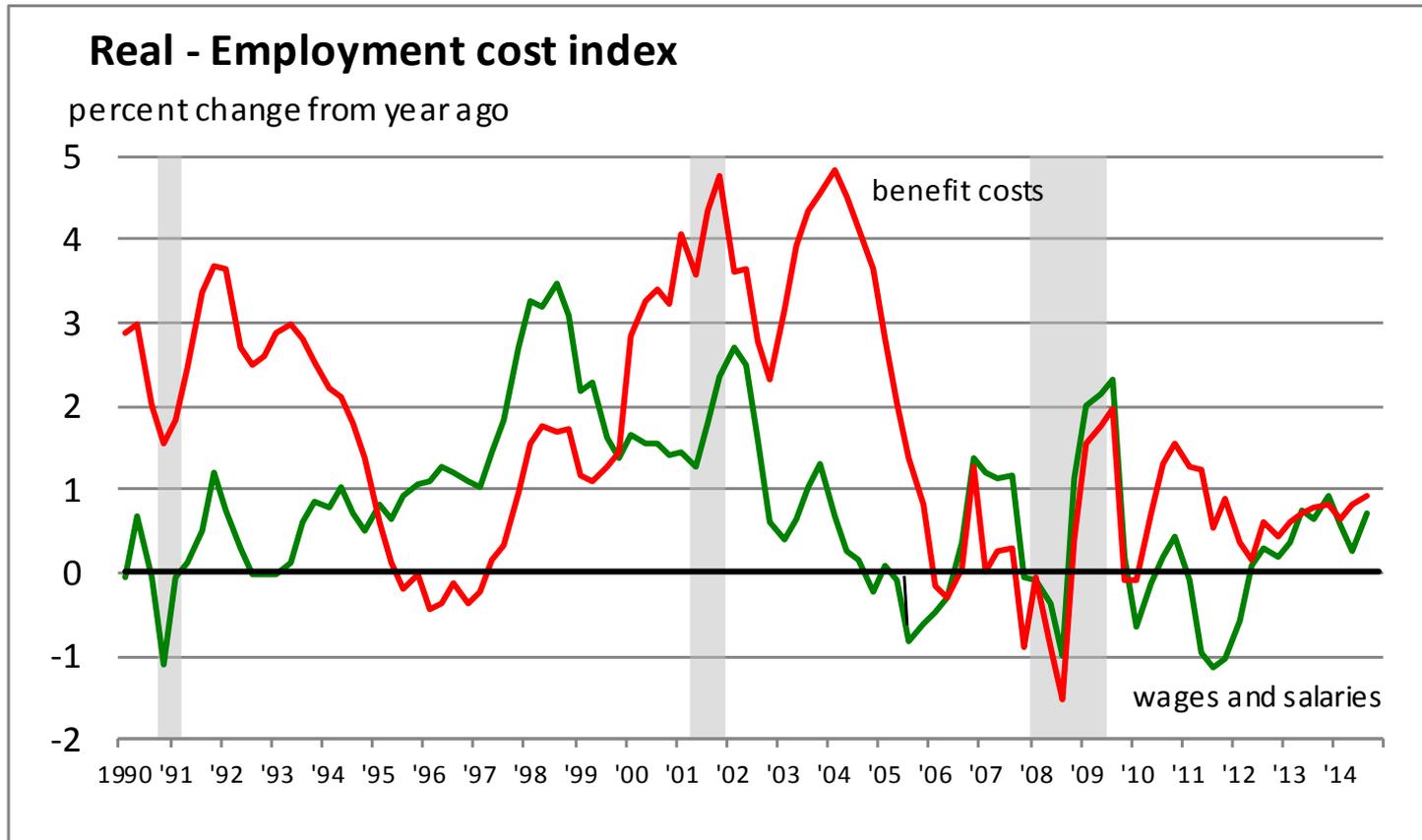
Employment

- 2014 gain was big

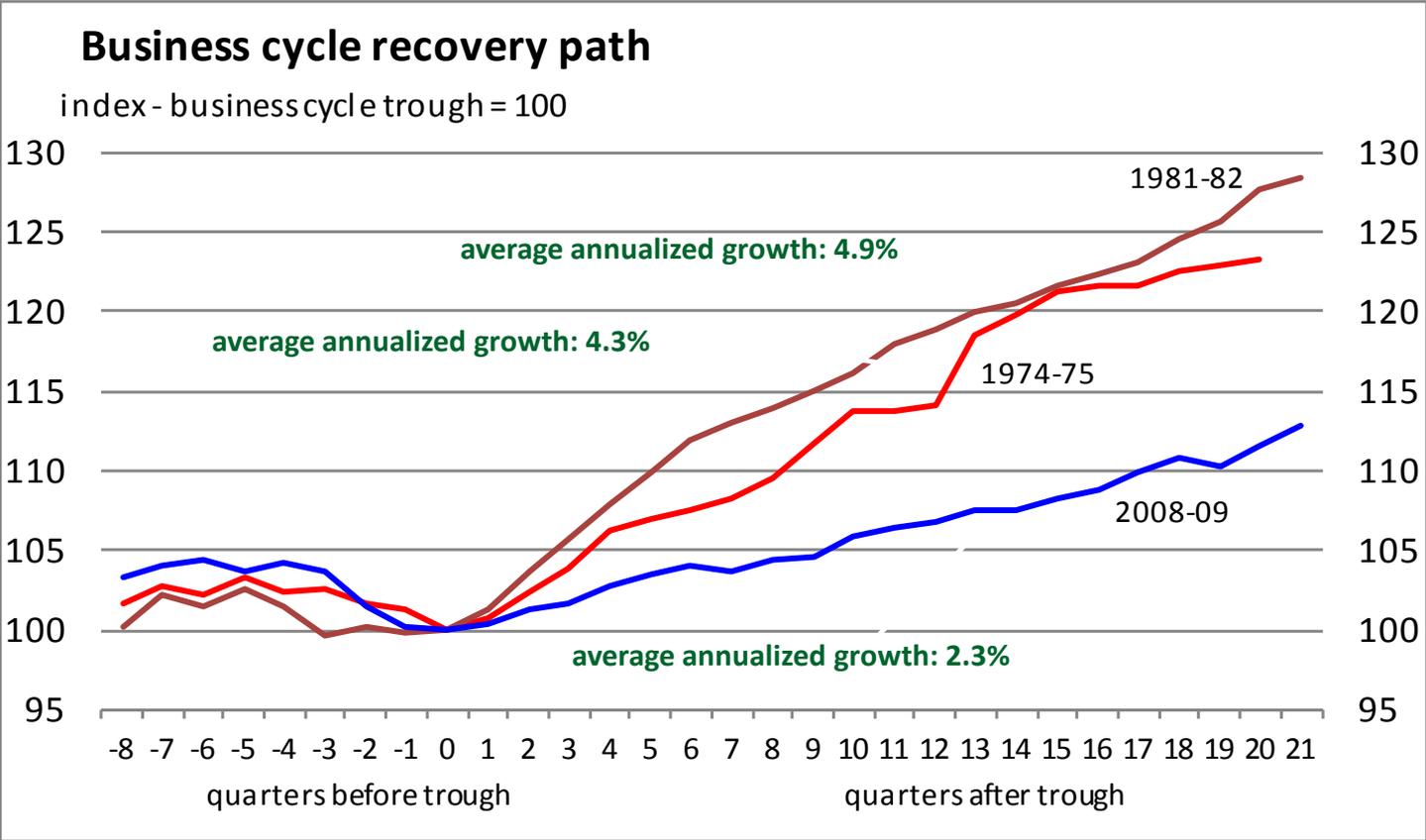
- Above pre-recession peak



Wages and benefit cost increases remain low



The path of the current recovery is restrained compared with past deep recession recovery cycles



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?**

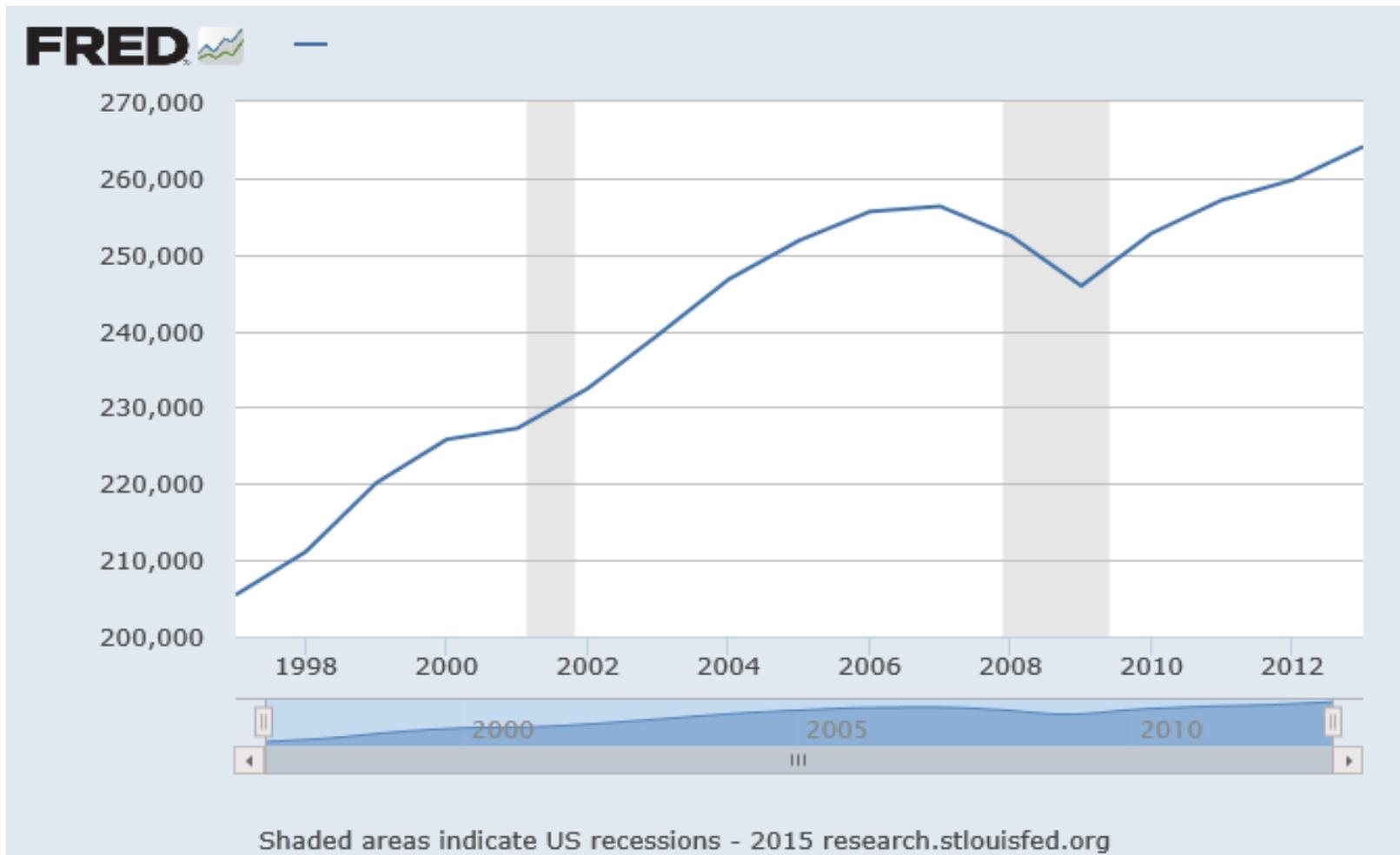
The Current Forecast

- 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.

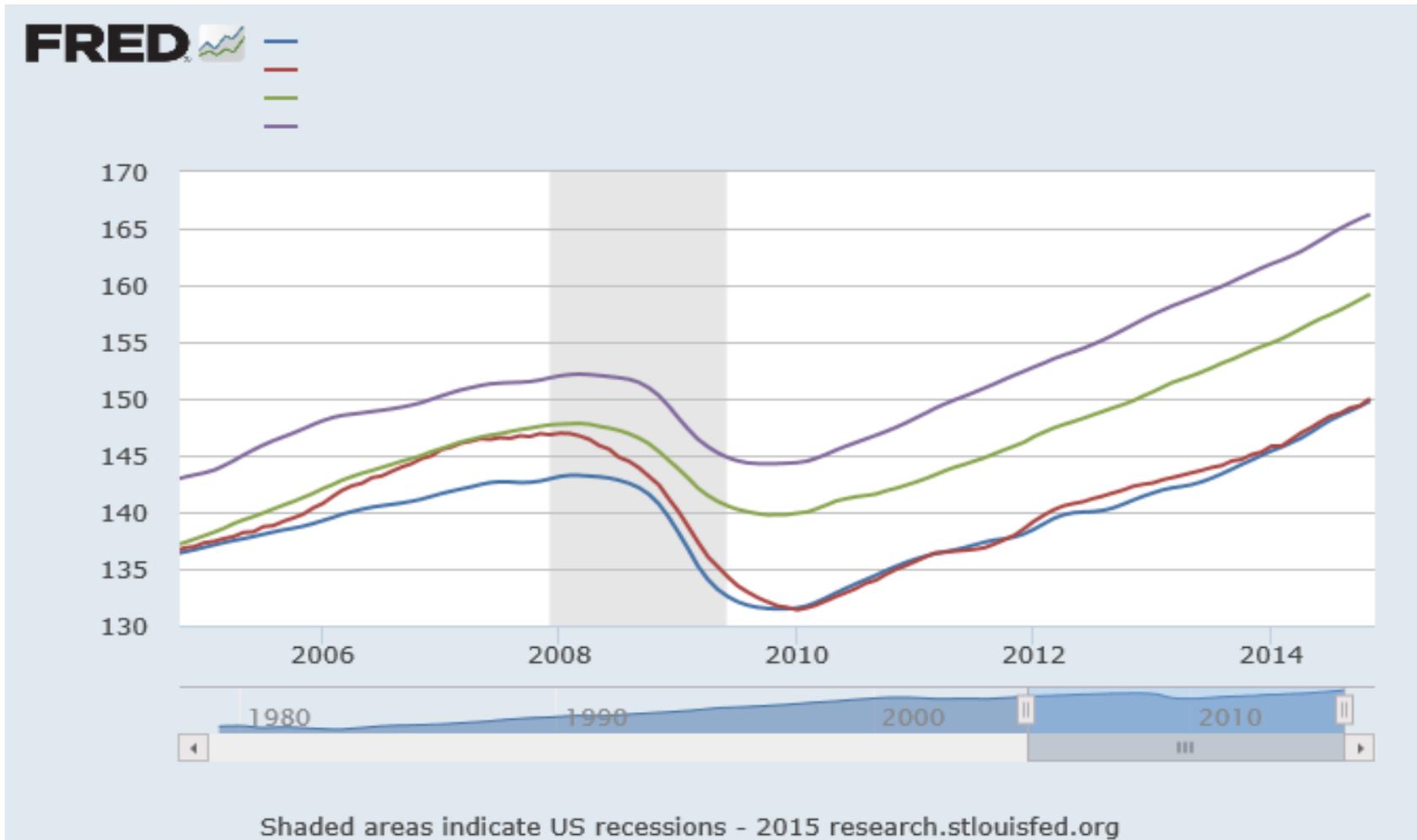
Turning to Wisconsin

- 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

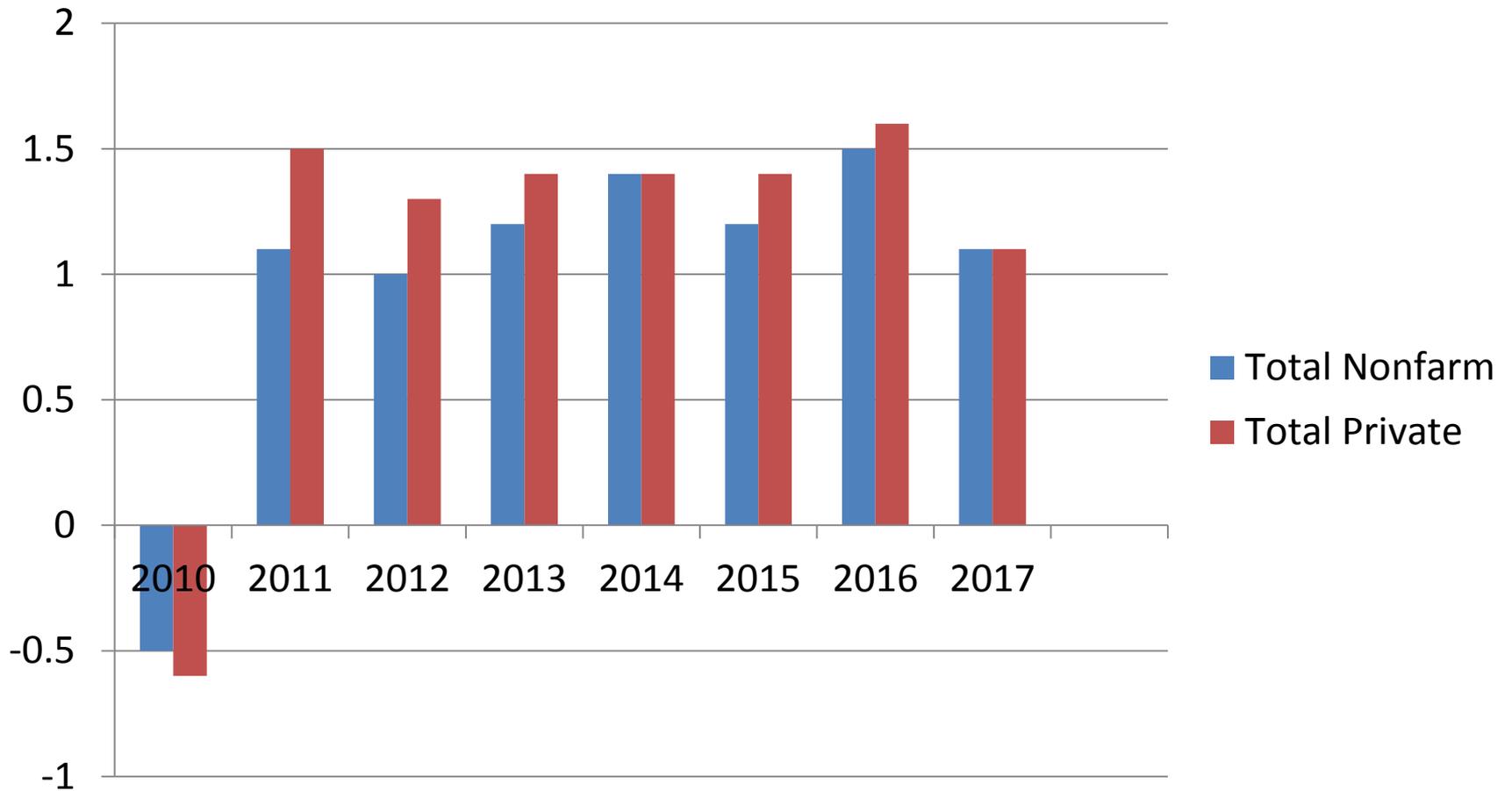


Philly Fed Coincident Index—Wisconsin (Blue), Illinois (Red), U.S. (Green) and Minnesota (Purple) 1992=100



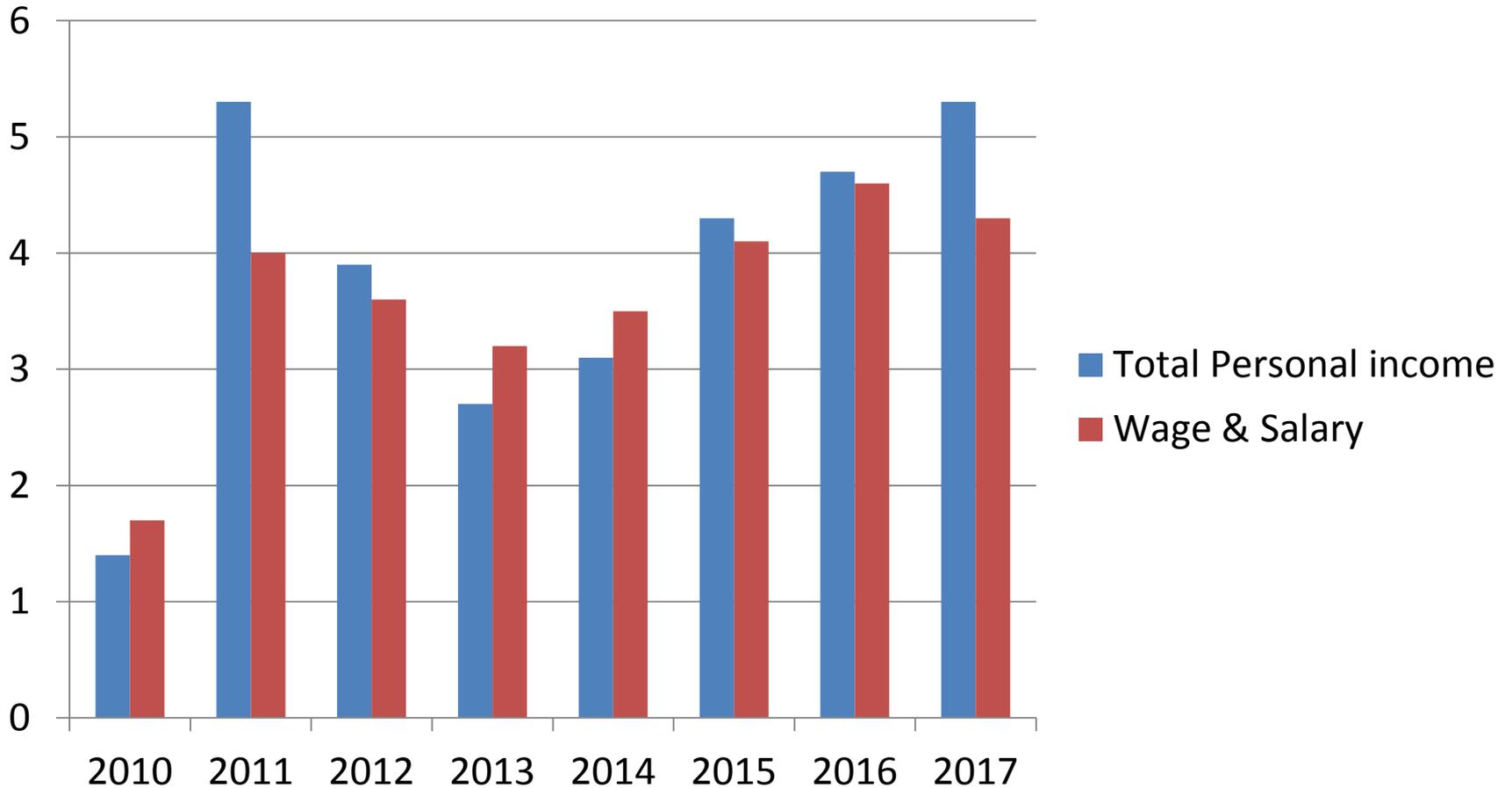
Wisconsin Employment (% change)

(Wisconsin Department of Revenue)



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)

	Amount Per Capita	Per Capita Rank	Amount as a % of Personal Income	Personal Income Rank
Wisconsin	\$2,877	18	6.9	17
Illinois	3,005	14	6.6	22
Indiana	2,577	25	6.8	19
Iowa	2,710	20	6.2	27
Michigan	2,535	26	6.6	21
U.S.	2,677		6.2	

Local Government/Total State and Local Government (2011)

	Per Capita Local Revenue	Per Capita Rank	Total State/Local Expenditures	State/Local Expenditures Rank
Wisconsin	\$4,868	18	\$9,926	23
Illinois	5,543	8	10,162	20
Indiana	4,197	33	8,084	48
Iowa	4,977	15	9,903	24
Michigan	4,823	20	9,094	31
U.S.	5,358		10,150	

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

	State Business Tax Climate Rank (Tax Foundation)	Small Business Policy Rank (Small Business and Entrepreneurship Council)	Competitiveness Rank (Beacon Hill)	Economic Outlook Rank (American Legislative Exchange Council)	Overall rank based on scores from all four studies
Wisconsin	43	29	22	17	27
Illinois	31	35	45	48	46
Indiana	10	8	37	3	8
Iowa	40	43	6	25	30
Michigan	14	11	32	12	15
Minnesota	47	45	5	46	41

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