





**WI Personal Income Outlook**

The steady growth of Wisconsin personal income shown over the last three years is expected to stall in 2008 and 2009. After posting 5.7% growth in 2007, Wisconsin personal income is expected to grow 3.1% in 2008 and 1.4% in 2009, with a mild recovery in 2010.

Wisconsin real personal income grew in 2006 and 2007. The outlook for prices changed dramatically since August, as prices are dragged by extremely weak demand. State real personal income is expected to decline slightly in 2008 and grow 2.1% in 2009 despite the lower growth rate in personal income. It will show moderate positive growth in 2010 and 2011 as prices start to increase again.

Real per capita income in Wisconsin grew 2.4% in 2007 and is forecasted to decline 0.9% in 2008. Aided by the deflationary outlook in 2009, real per capita personal income will grow 1.5%. However, it is expected to grow at 0.6% in 2010 and 1.1% in 2011, as the economy slowly recovers and prices return to a normal pace of growth.

**WI Employment Outlook**

Total state employment grew 0.5% in 2007, but is expected to decline 0.6% in 2008 and 2.2% in 2009. It will recover a growth path toward 2010, posting a growth rate of 0.8% in 2010 and 1.4% in 2011.

The employment decline for 2009 is mainly driven by sizable job losses in the Construction; Manufacturing; Trade, Transportation and Utilities; and Professional and Business Services sectors.

The two largest state employment sectors, Manufacturing and Trade, Transportation and Utilities, are expected to post the largest job losses in 2009. Manufacturing will continue to shed jobs in 2010 before recovering in 2011, with job losses similar to those of the 1981-82 and 2001 recessions.

Trade, Transportation and Utilities showed weak but positive growth over the last four years, but given the visible weakness of domestic demand, the forecast calls for a decline this year and next. A recovery in this large sector will begin in 2010.

Wisconsin employment in the Construction sector has been slowing since 2004, following a decline in housing starts. Employment in Construction is expected to decline this year, followed by two more years of job losses before seeing positive growth toward the second half of 2010.

The Wisconsin unemployment rate was 4.9% in 2007 and 5.0% in the third quarter of 2008. However, these estimates are expected to be revised up next March. The forecast is calling for a peak unemployment rate of 8% in late 2009 and early 2010.

**Wisconsin housing market hasn't yet hit bottom**

The housing sector in Wisconsin did not experience the exorbitant growth in past years as did other parts of the country, which will lessen the negative impact from the burst of the bubble. However, similar to the rest of the county, Wisconsin has not yet reached the bottom.

Wisconsin building permits will continue to fall to an expected low in early 2009. Home sales in the third quarter of 2008 were down nearly 17% year over year. State home prices continue to decline, though not as sharply as the U.S. as a whole, with the median home price statewide down 5.3%.

## U.S. Outlook

The national outlook has worsened dramatically since August. The growth forecast for 2009 is now minus 1.8%, rather than a positive 1.0%.

The forecast expects the unemployment rate to peak at 8.7% in the first half of 2010; in the August Outlook, national unemployment was expected to peak at 6.1% during 2009. The economy is now expected to lose a total of 3.7 million jobs versus a decline of 900,000 jobs in the August forecast.

Oil prices have plunged dramatically. At the time of the August release, oil was trading around \$133/barrel; currently, it is below \$50/barrel. The Federal Reserve must now change focus from inflation risks to deflationary pressures.

The nation is 12 months into this recession and the economy's rate of decline is accelerating. Real GDP will likely drop 5.0% in the fourth quarter. The December forecast expects negative growth through mid-2009, and only anemic positive growth in the second half, which would put the national

recession's length at somewhere between 18 and 24 months.

The longest previous postwar recession lasted 16 months. In terms of depth, the baseline forecast projects a 2.5% decline in real GDP, similar to the 1973-75 and 1981-82 recessions.

The fallout from the financial crisis is becoming more severe. Consumer spending is plunging. Housing starts and prices continue to decline, with no end in sight.

The key ISM-manufacturing index is at a level last seen in 1981; business equipment orders are plunging, with both domestic and export demand evaporating. And the decline in the labor market has accelerated, with November's 533,000 payroll decline the worst in 34 years.

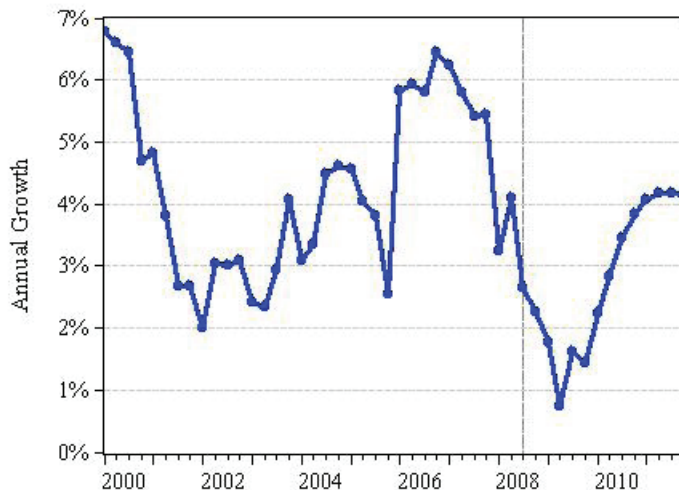
## Key U.S. Forecast Assumptions

- > Fiscal Stimulus Package Worth \$550 Billion
- > Implementation of Troubled Asset Relief Program
- > Oil Prices Drop Below \$40/Barrel
- > Fed Cuts Rates to Zero
- > Dollar has Bounced
- > Foreign Growth Weakening Rapidly
- > Defense Spending Growth Quickens

Executive Summary based on the *Wisconsin Economic Outlook*, a quarterly publication of the Wisconsin Department of Revenue Division of Research & Policy.

Read the [full report](#)  
Read the [press release](#)

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## Questions?

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