



# **Wisconsin Economic Outlook**

**Wisconsin Department of Revenue  
Division of Research & Policy  
December 2008**

**TABLE OF CONTENTS**

ECONOMIC OUTLOOK	Page
I. Wisconsin Outlook .....	1
II. U.S. Outlook.....	11
III. Appendices.....	27

The quarterly Wisconsin Economic Outlook is prepared by Romina Soria and Emily Camfield of the Division of Research and Policy, Wisconsin Department of Revenue. HIS Global Insight, Inc. prepared the national forecast on December 3, 2008. The forecast does not incorporate data released subsequent to that date.

# I. ECONOMIC OUTLOOK

## WISCONSIN OUTLOOK

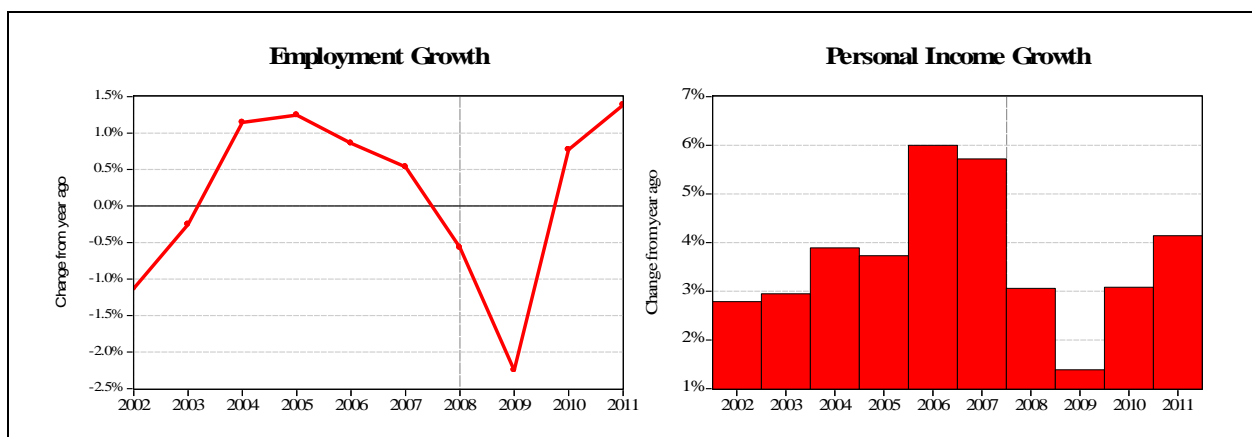
The National Bureau of Economic Research has stated that the U.S. economy has been in recession since December 2007. Current trends of key indicators of the Wisconsin economy show that Wisconsin is also in a recession. The outlook has changed significantly since August. The drastic worsening of the credit market after September has severely affected most sectors of the economy, expanding the crisis well beyond the originally damaged housing sector. The current outlook calls for a peak to trough job loss of 92,100 or 3.2% of total employment, instead of the 31,200 job loss expected in August. Most of the economic decline in the current cycle will happen during 2009. Housing continues to be a significant drag for the economy.

The December national outlook is calling for a real GDP growth rate of 1.2% in 2008 and a decline of 1.8% in 2009, revised from the 1.6% and 1.0% growth expected in August. The U.S. labor market is now expected to shed a total of about 3.7 million jobs in the current downturn phase of the cycle, representing an employment decline of 0.2% and 1.9% in 2008 and 2009 respectively.

The two major factors that have deepened the expected decline of the current cycle are the freezing of the credit market and the global character of the crisis. Exports were an important support for growth, but are losing steam as the world is also entering into a recession. Japan, Ireland, Italy and Germany are officially already in a recession. The dramatic decline of the global demand has slashed prices and particularly the price of oil. The current forecast is expecting the price of oil to drop to \$43 per barrel in the second quarter of 2009; this is about a third of the price of \$130 that was expected in August. The outlook for consumer prices is now expecting a decline of 1.5% in 2009 instead of the increase of 3.0% forecasted in August.

As shown in the left panel of Chart I.1, Wisconsin employment grew 0.5% in 2007 and is expected to decline 0.6% this year and 2.2% in 2009. Wisconsin jobs growth will recover towards the end of 2009, advancing 0.8% in 2010 and 1.4% in 2011, led by a strong growth in the services industries, the recovery of positive growth in the Trade, Transportation and Utility sector, and slower declines in the Construction and Manufacturing sectors.

Chart I.1



Wisconsin personal income rose 5.7% in 2007 and is expected to show weak growth between 2008 and 2010. With the help of rebates from the stimulus package, Wisconsin personal income is expected to grow 3.1% in 2008. The outlook shows the weakest annual growth rate of the cycle in 2009 (1.4%), as the economy hits bottom in late 2009 and starts a slow recovery. After this downturn, Wisconsin personal income is projected

to grow 3.1% in 2010 and 4.1% in 2011. Given the deflationary outlook, real personal income is expected to increase 2.1% in 2009.

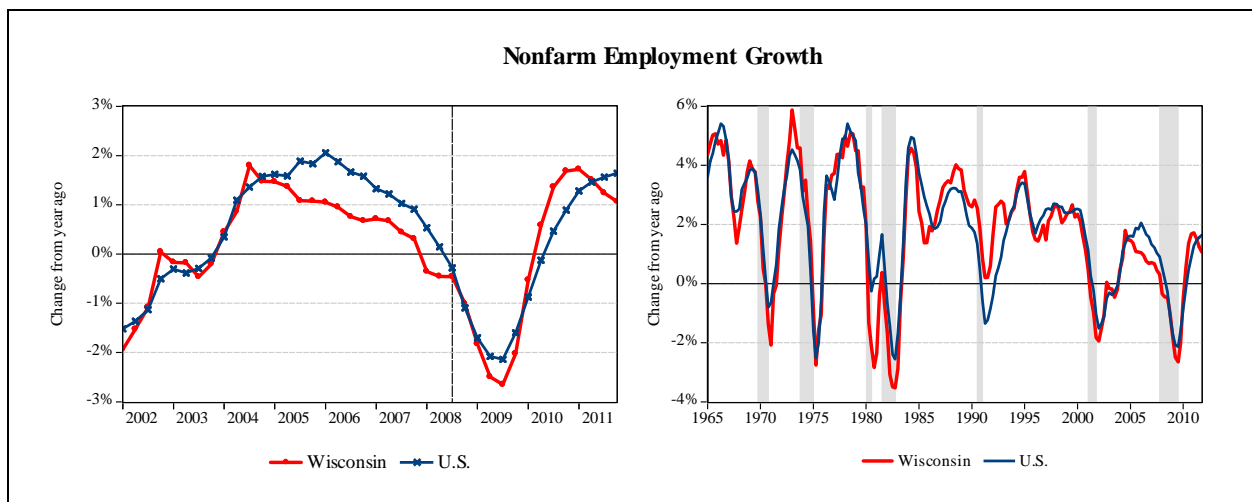
Since the last outlook in August, the Bureau of Economic Analysis (BEA) released preliminary third quarter 2008 estimates and revised annual and quarterly estimates beginning with the first quarter of 2005 for personal income and its components.

**Employment Outlook**

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

The left panel of Chart I.2 shows total nonfarm employment growth for the U.S. and Wisconsin. The vertical line at the third quarter of 2008 separates history from forecast. However, it should be noted that the last six quarters (2007Q2-2008Q3) of history will be revised at the time of the 2008 Benchmark, to be published in February/March 2009. We anticipate upward revisions to total Wisconsin employment in the first and second quarters of 2008. The forecast expects an annual employment decline of 0.6% in 2008. A severe decline in employment is expected for 2009 mainly driven by sizable job losses in the Construction, Manufacturing, Trade, Transportation and Utilities, and Professional and Business Services sectors. Employment is expected to rebound, showing a growth of 0.8% in 2010 and 1.4% in 2011.

**Chart I.2**



The right panel of Chart I.2 shows total nonfarm employment growth for the U.S. and Wisconsin over time. The current downturn is expected to be as severe as the 1973-75 and 1980 recessions in terms of job losses, but milder than the 1981-82 recession. The current job loss is expected to be 3.3% of total employment, while the 1973-75 and 1980 recessions' job losses were 2.8% and 3.1% respectively. However, the recession that hit Wisconsin employment the hardest was the 1981-82 recession with a total job loss of 4.5%.

Considering U.S. employment, the current downturn shows a job loss of 2.7% of total employment, the same percentage loss as in the 1973-75 recession but still lower than the 3.0% loss in the 1981-82 recession.

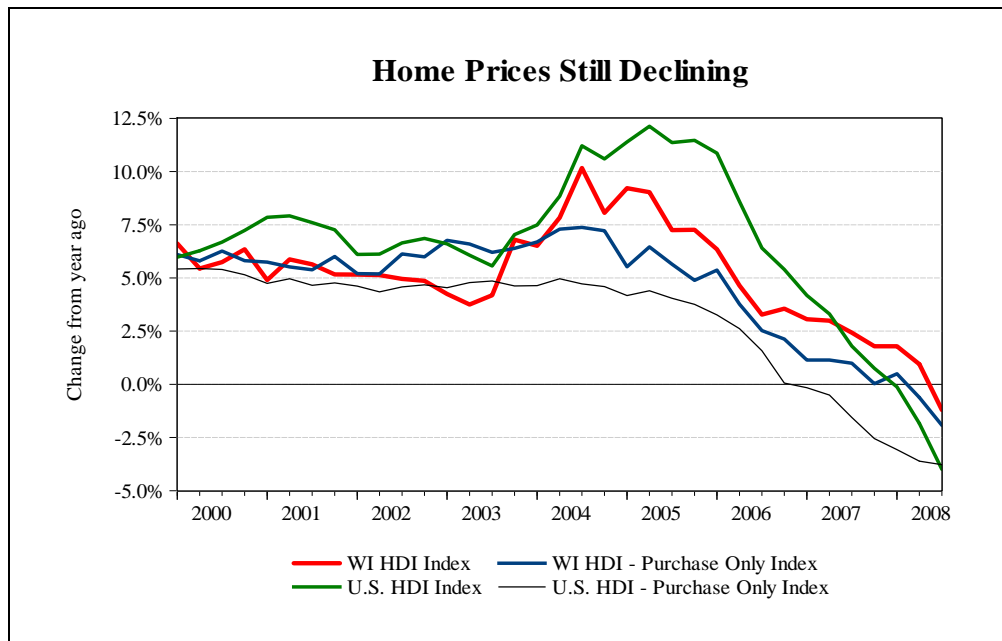
The housing sector has not hit bottom yet and continues to negatively impact the already critical situation of the financial sector. Inventories and foreclosures are still too high; prices are still falling and conditions in the mortgage credit market are tightening. Global Insight forecasts a slow housing recovery to start by mid 2009 as housing starts and existing home sales hit bottom in the first half of 2009.

The housing sector in Wisconsin did not experience the exorbitant growth in past years as the rest of the country. Hence it will not experience a negative impact as strong from the burst of the bubble. However, Wisconsin, as well as the national housing sector, has not reached bottom yet. Wisconsin home building permits continue to fall, and foreclosures continue to rise, increasing the excess of inventory in the market.

Home sales in Wisconsin are still declining. According to the Wisconsin Realtors Association, home sales in the third quarter of 2008 were down 16.7% year over year; nationwide home sales were down 7.7%. Home prices in Wisconsin continue their declining trend that started in 2004, though the price decline is not as steep as for the U.S. as a whole. The median home price statewide for the third quarter of 2008 was \$160,000, down 5.3% from a year ago.

The Office of Federal Housing Enterprise Oversight (OFHEO) also released its measures of home prices, the house price index (HPI) that includes valuations for refinancing operations and the purchase-only house price index. The chart below shows the still declining trend in both series for the U.S. and Wisconsin. The third quarter of 2008 was the first quarter that the four series entered into the negative growth rate territory. The HPI was 1.2% lower than a year ago in Wisconsin and 4.0% lower in the U.S. The purchase-only HPI was 1.9% lower than a year ago in Wisconsin and 3.8% lower for the U.S.

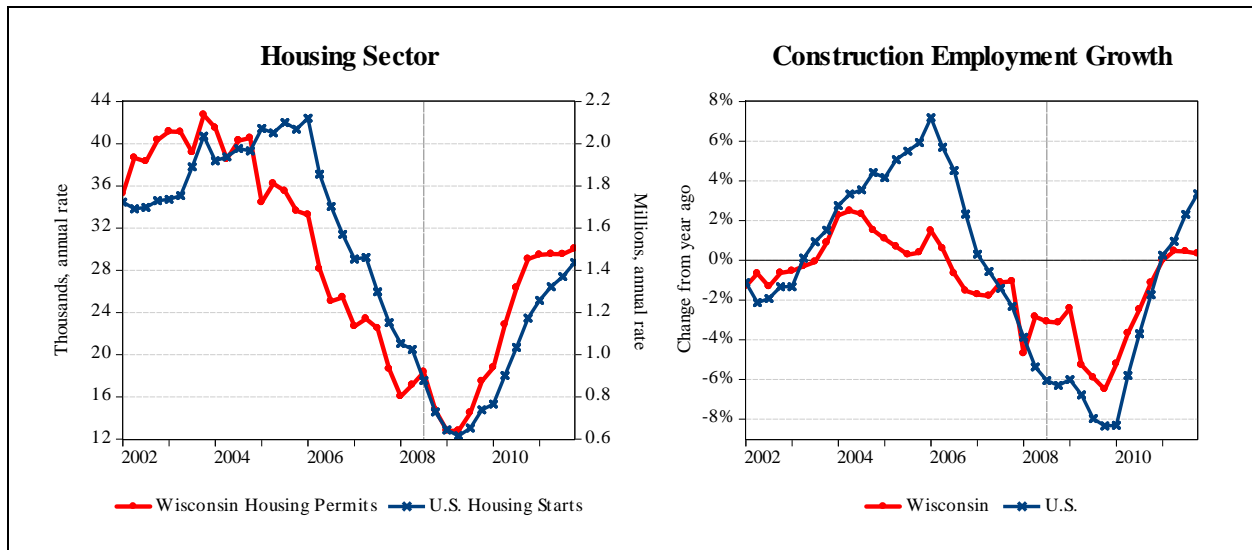
Chart I.3



Wisconsin permits (see left panel of Chart I.4) declined 27% and 18% the second and third quarter of 2008 from a year earlier, continuing the declining path started in 2004. Wisconsin permits are expected to hit bottom in early 2009. RealtyTrac released third quarter 2008 foreclosure data showing that national foreclosures increased 70.8% from a year ago. Foreclosures in Wisconsin increased (43.7%) over the same period, ranking 34<sup>th</sup> among all states. Nevada led the list.

The housing slowdown has a direct impact on employment in the Construction sector, but is already showing its indirect impact in other sectors. Wisconsin employment in the Construction sector started to slow since 2004 following the decline in housing starts and has shown negative year-over-year growth since the third quarter of 2006. Wisconsin employment in the Construction sector declined 1.4% in 2007, losing 1,800 construction jobs and is expected to decline 3.4% this year. The outlook for Construction employment calls for two more years of job losses, reaching bottom by the beginning of 2010 and recovering to positive growth toward the second half of 2010. The forecast expects a decline of 5.0% in 2009 and 3.2% in 2010.

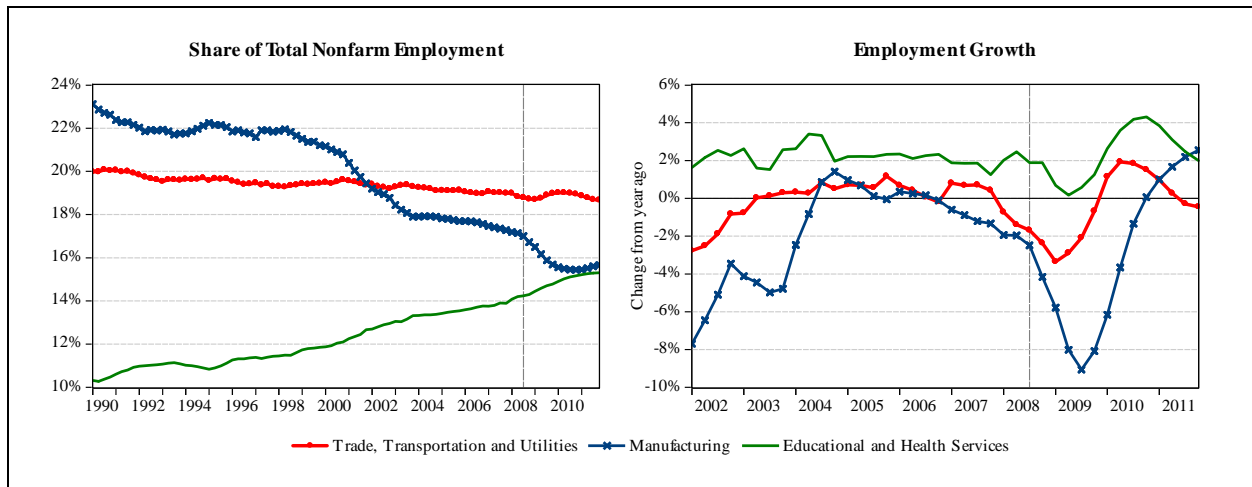
Chart I.4



The services industries, particularly the Education and Health Services sector, supported job creation as employment in the Manufacturing and the Construction sectors were a drag to total employment in 2007. This is also the only sector that had not posted an annual decline in recent past years and it is not forecasted to post a negative growth rate in the following years either. As shown on the left panel of Chart I.5, the share of the Education and Health Services sector has been increasing over time and is forecasted to reach the same share as the manufacturing sector by 2011: about 15% each of total nonfarm employment. The other sector represented on the chart, the Trade, Transportation and Utilities sector, saw its share of total employment decline slightly from 20% in the early 1990s to 19% by the end of the forecasted period.

The two largest sectors of the Wisconsin economy in terms of employment, Manufacturing and Trade, Transportation and Utilities, are also expected to post the two largest job losses in 2009. Manufacturing will shed 37,700 jobs (-7.7%) in 2009 and another 12,700 jobs (-2.8%) in 2010, before recovering 8,100 jobs in 2011. The forecast expects the Manufacturing sector to lose 68,700 jobs between 2006 and 2010, similar to the losses in the 1981-82 and the 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 of 1.5% this year, and a loss of 12,200 jobs (2.3%) next year but will recover 8,500 jobs (1.6%) in 2010. As shown on the right panel of Chart I.5, the Education and Health Services sector is expected to slow its pace of growth but is expected to still post a 0.7% growth in 2009, before returning to its trend of strong growth in 2010.

Chart I.5



The forecast expects the Manufacturing sector to lose 68,700 jobs between 2006 and 2010, similar to the losses in the 1981-82 and the 2001 recessions. The Leisure and Hospitality sector had been contributing to employment growth in past years. In 2007 it grew by 0.7%, higher than the 0.5% growth in total employment. In 2008 is expected to show a decline of 0.8%, as consumers retrench given the tight credit and labor markets. After a 0.8% decline in 2008, the forecast calls for a growth of 0.7% in 2009 and moderate growth rates for 2010 and 2011.

Employment in the Finance sector is holding up despite the turmoil in the financial markets aggravated after September. Finance employment grew 0.6% in 2007 and is expected to grow another 0.4% in 2008. The sector is expected to decline 0.7% in 2009 as the financial sector continues its restructuring process. The Information sector grew at a strong 1.8% in 2007 after three years of job losses. Following the national trend, Wisconsin employment in the Information sector is expected to show three years of job losses, before it resumes positive growth in 2011. Information employment is forecasted to decline 0.9% this year and 1.6% and 1.4% in 2009 and 2010. The forecast for employment in the Other Services sector is almost flat for 2008 (-0.1%); the sector is expected to post a loss of 1,500 jobs (-1.1%) in 2009 and a 1.0% growth in 2010.

The Government sector was flat in 2006 and grew by just 0.1% in 2007. The outlook calls for a 1.1% growth in 2008 and a decline of 0.3% in 2009. In 2010, due to the Census activities, government employment will grow 0.5%, with federal government employment growing at 2.0% for the year.

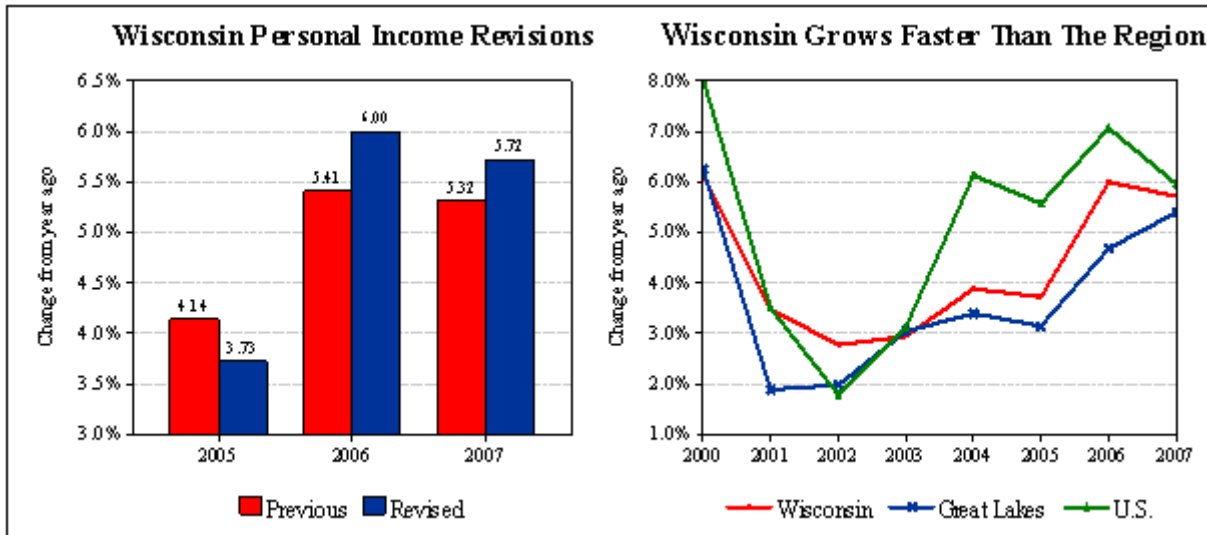
The Wisconsin unemployment rate was 4.9% in 2007 and 5.0% in the third quarter of 2008. However, these estimates are expected to be revised up next March. Wisconsin and national unemployment are expected to peak in late 2009. The forecast is calling for a peak unemployment rate of 8% in late 2009 and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

Details of the Wisconsin employment forecast are presented in Appendices 1 and 2.

**Income Revisions**

The U.S. Bureau of Economic Analysis (BEA) released preliminary third quarter 2008 personal income estimates on September 18. It also revised its quarterly and annual estimates of state personal income beginning with the first quarter of 2005. The revised numbers shows that Wisconsin personal income grew 5.7% in 2007. Revisions to these figures were released in late December by BEA and include revisions back to the first quarter of 2006. These revisions are discussed the attached advisory for more details.

**Chart I.6**



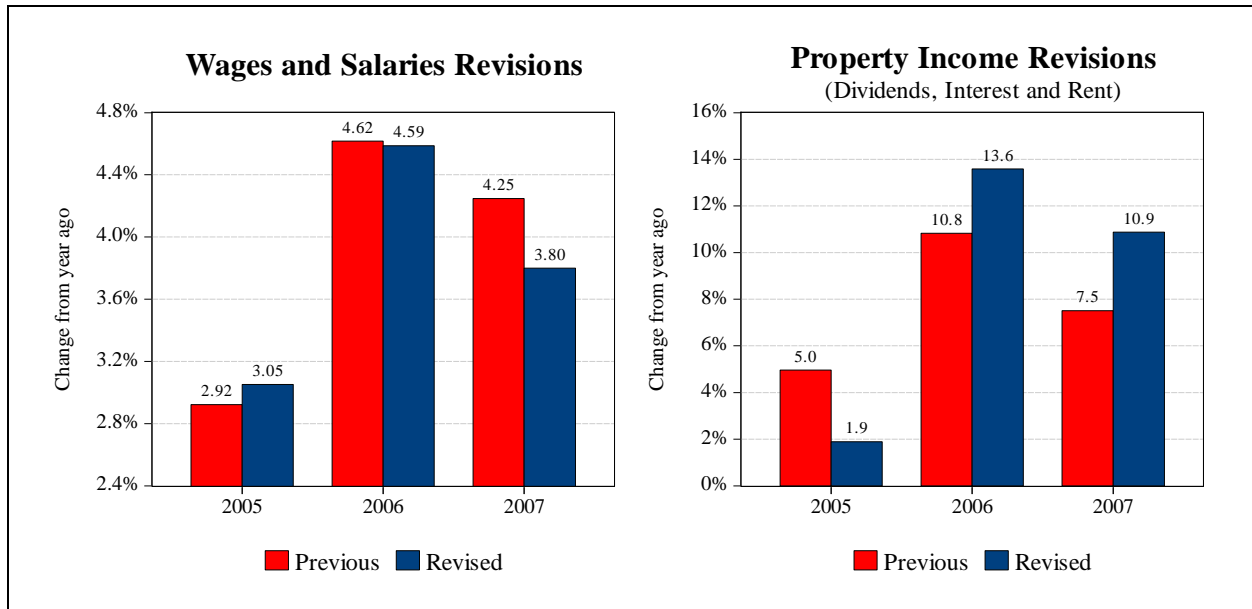
Wisconsin personal income was revised down by \$726 million in 2005 and up by \$305 million and \$1,088 million in 2006 and 2007, respectively. The revised figures show that total personal income grew 3.7% in 2005, 6.0% in 2006, and 5.7% in 2007 (see left panel of Chart I.6). As shown on the right panel of Chart I.6, Wisconsin personal income growth continues to outperform the region and is closing the gap with the U.S. The Great Lakes region grew 5.4% in 2007, with Wisconsin ranking in second place after Illinois and above the rest of the states. In 2007, Wisconsin personal income grew 5.7%, below Illinois (7.2%) but above that of Ohio (4.7%), Indiana (4.4%), and Michigan (4.0%).

The wage and salary disbursements component that accounts for more than half of total personal income showed small upward revisions of 0.1% in both 2005 and 2006 without impacting much of the overall growth rate for those years. However, wages and salaries were revised down by \$371 million (0.3%) in 2007 showing a 3.8% growth over the prior year instead of the previous growth rate of 4.2% (see left panel of Chart I.7). Supplements to wages and salaries also saw a downward revision of \$191 million (0.7%) in 2007 and upward revisions in 2006 and 2005.

The \$1,088 million upward revision of total personal income in 2007 is mainly explained by a strong upward revision of \$922 million to the property income component - dividends, interest and rent (see right panel of Chart I.7). Property income grew 10.9% in 2007 as a result of strong growth in dividends income, moderate growth in interest income, and negative growth in rental income. This compares to the 7.6% growth previously estimated. The property income component saw a strong downward revision of \$866 million in 2005 and a smaller but also negative revision of \$176 million in 2006.

The upward 2007 revision to total personal income is also a result of positive revisions to personal current transfers (\$395 million) and proprietors' income (\$176 million). Farm proprietors' income accounts for only 0.4% of total personal income, but the size of the revisions to this component of personal income was extremely high as usual. Farm proprietors' income in 2006 was revised up 51.7% from \$83 million to \$172 million. In 2007, farm proprietors' income was revised down 12.1% (\$97 million) to \$802 million.

Chart I.7

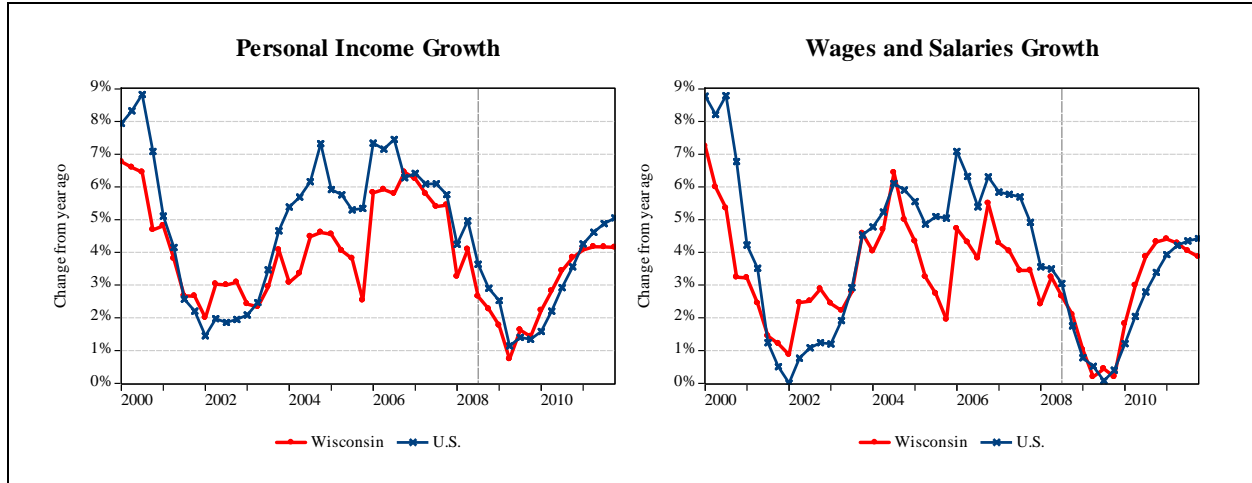


According to BEA’s quarterly preliminary estimates for 2008, personal income in Wisconsin grew 3.3% and 4.1%, year over year, in the first and second quarters of 2008. The weak situation of the labor market was also reflected in weak growth in wages and salaries, which grew, year over year, just 2.4% in the first quarter and 3.2% in the second quarter of 2008. Looking at the change from the preceding quarter, total personal income grew 0.5% in the first quarter and 1.4% in the second quarter of 2008. The stronger growth in the second quarter is explained by the extra income from the federal stimulus package that increased the amount of transfer receipts, thus contributing 0.97 percentage point to the 1.4% growth rate. Property income contributed 0.11 percentage point to Wisconsin personal income growth, while its contribution was only 0.03 for the U.S. On the other hand, proprietors’ income, took 0.16 percentage point out of Wisconsin personal income growth, but was a small contributor (0.05) to U.S. growth. Revisions to these figures will be released in late December by BEA and will include revisions back to the first quarter of 2006.

**Income Outlook**

The steady growth of Wisconsin personal income shown over the last three years is expected to stall in 2008 and 2009 as shown in the left panel of Chart I.8. After posting 5.7% growth in 2007, Wisconsin personal income is expected to grow 3.1% in 2008 and just 1.4% in 2009. A mild recovery is expected to start in 2010 with total personal income growth of 3.1% in 2010 and 4.1% in 2011.

Chart I.8



Wage and salary disbursements, being the biggest component of personal income, accounted for 55% of Wisconsin total personal income in 2007. Wisconsin wage and salary disbursements grew 3.8% in 2007 and are expected to grow 2.6% in 2008 and 0.5% in 2009, before resuming stronger growth of 3.2% and 4.1% in 2010 and 2011 respectively. Supplements to wages and salaries<sup>1</sup> grew 2.2% in 2007 and are expected to grow 2.6 and 3.9 % in the next two years before resuming a stronger growth pace of 5.6% and 4.5% in 2010 and 2011.

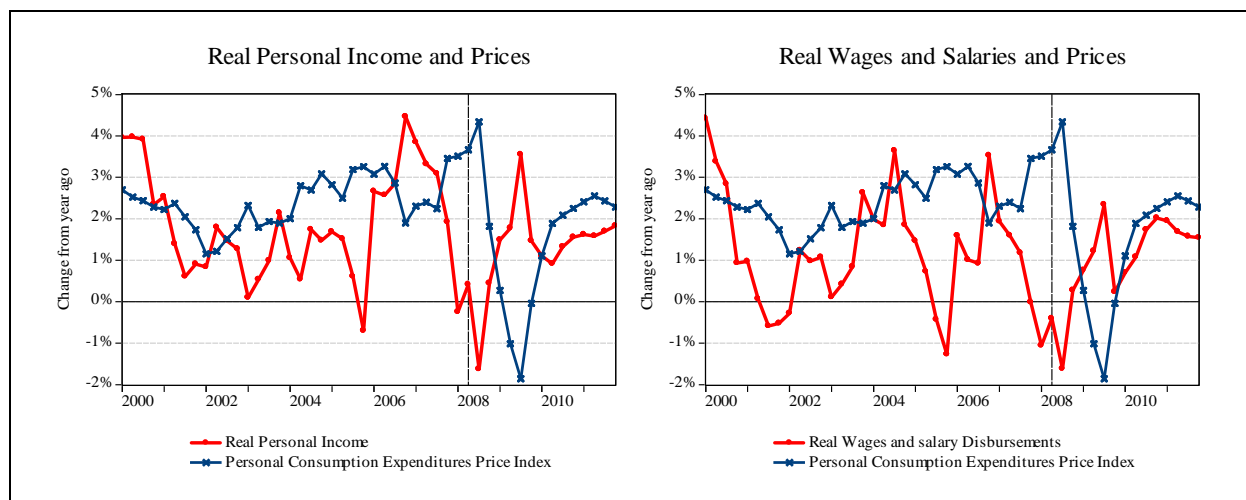
Proprietors' income is expected to be a drag to personal income in 2008 and 2009, declining 1.6% and 0.9% respectively, after posting a strong growth of 8.2% in 2007. Proprietors' income will return to a path of positive growth toward 2010. Rental income declined 24.1% in 2007 after strong declines in 2005 (-40.5%) and 2006 (-40.7%). The forecast calls for moderate positive growth between 2008 and 2011.

Dividend income grew 18.3% in 2007 and is forecasted to grow 9.2% in 2008, before easing to -0.7% in 2009 and small positive gains in 2010 and 2011. Interest income grew 13.6% and 7.6% in 2006 and 2007, reflecting the market response to the reduction of interest rates by the Fed. Personal interest income is expected to grow just 0.7% in 2008 and decline 2.3% and 0.2% in 2009 and 2010 before resuming strong growth of 7.1% in 2011.

Wisconsin disposable personal income (total after-tax income received by persons available for spending or saving) grew 5.3% in 2007 and is forecast to grow 3.6% in 2008 despite the weak growth in personal income, but helped by reduced personal taxes due to the 2008 federal stimulus package. In 2009 disposable personal income will grow just 1.8% given the weak personal income growth. In 2010 and 2011 Wisconsin disposable personal income is expected to regain steady growth, growing at 3.0% and 4.1% as total personal income recovers a stronger growth pace and tax growth moderates.

<sup>1</sup> This component of personal income consists of employer contributions for employee pension and insurance funds and of employer contributions for government social insurance.

Chart I.9



Wisconsin real personal income grew 3.1% and 3.0% in 2006 and 2007 respectively. The outlook for prices changed dramatically since August, as prices are dragged by an extremely weakened demand. Global Insight is now expecting the personal consumption expenditure price index to decline 0.7% in 2009, instead of the 2.8% increase expected in August. As shown in the left panel of Chart I.9, as a result of this deflationary forecast, Wisconsin real personal income is expected to decline 0.25% 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. Again, helped by the deflationary outlook in 2009, real per capita personal income will grow 1.5%. 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.

Wisconsin real wages grew 1.8% and 1.2% in 2006 and 2007 but posted negative growth rates in the last quarter of 2007 (-1.1%) and first quarter of 2008 (-0.4%) as shown in the right panel of Chart I.9. Given that the national forecast is calling for price increases of 3.3% this year and a decline of 0.7% in 2009, real wages are expected to decline 0.7% in 2008 and increase 1.1% in 2009. Real wages will post 1.4% and 1.7% growth in 2010 and 2011 respectively.

Details of the Wisconsin income forecast are presented in Appendices 3 and 4.

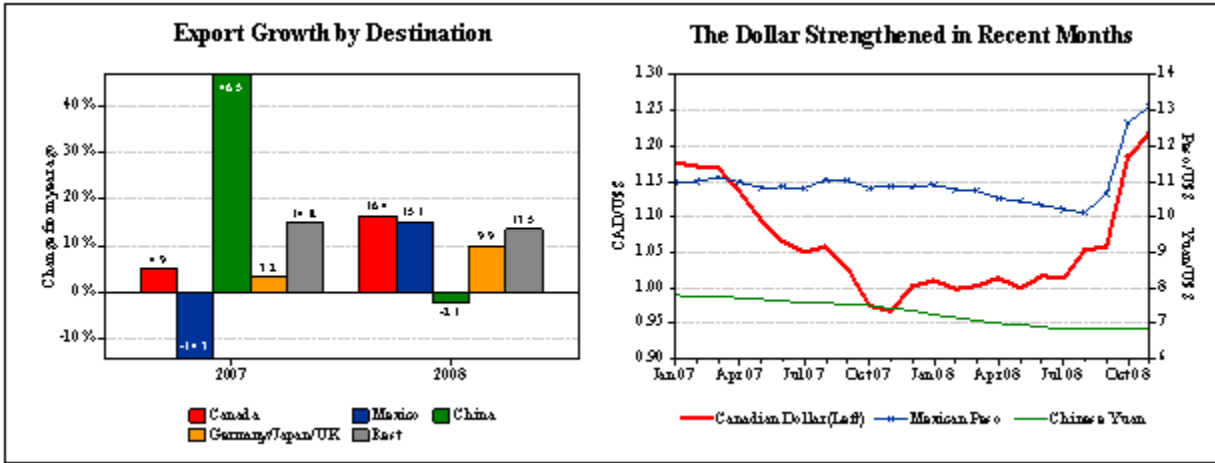
## Exports

Wisconsin exports grew 13.1% in the period January-September 2008 from a year ago. In 2007, exports growth for the same period was 8.8%. Canada is the first destination for Wisconsin exports with a share of 32% of total Wisconsin exports, followed by Mexico. As shown in the left panel of Chart I.10, January-September exports to Canada grew 4.9% in 2007 and 16.4% in 2008. The strong growth of last year was partly explained by the appreciation of the Canadian dollar between January and September of this year, which made U.S. exports more competitive, as shown in the right panel of Chart I.10. The second main trade partner for Wisconsin exports is Mexico, accounting for more than 8% of Wisconsin exports. Exports to this destination fell 14.3% in 2007 and increased 15.1% the current year. China has become the third largest destination for Wisconsin industries. It represented 6.6% and 5.7% in 2008 and 2007 of total exports. Exports to this country increased 46.5% in 2007 and slightly decreased 2.1% this year.

As shown in the right panel of Chart I.10, the financial crisis has strengthened the dollar in the last two months. The dollar grew stronger as financial instability around the world generated a flight to quality, particularly in developing countries, that increased the demand for the U.S. currency. This appreciation of the dollar is particularly strong with the two major export destinations for Wisconsin exports, Canada and

Mexico. The Chinese currency had stopped its appreciation path in the last month, also diminishing the competitiveness of US exports to this destination. Until the global financial instability resolves, the dollar will continue in a strong position, damaging the export outlook for the US and Wisconsin.

Chart I.10



The main products exported from Wisconsin in the period January-September 2008 were: machinery (34%), electrical machinery (12%), optical and medical instruments (10%), vehicles (9%), and paper products (4%). The categories of electrical machinery and vehicles have shown steady strong growth in the last two years. However, given the strength of the dollar and the expected decline in business investments due to the global recession, Wisconsin exports are not expected to continue the strong path of growth seen in recent years.

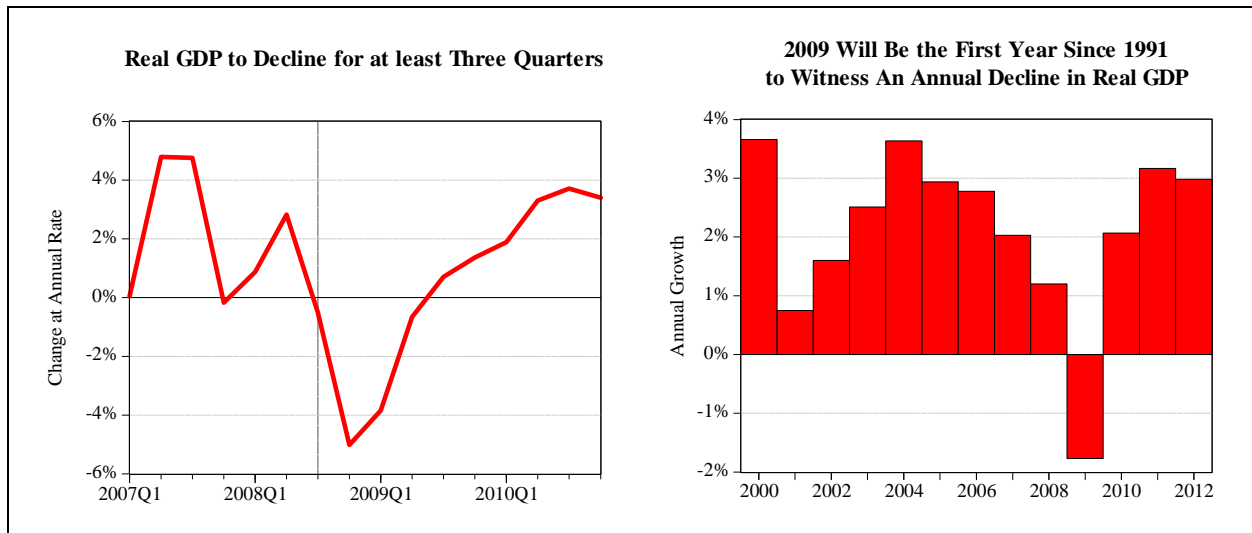
## U.S. OUTLOOK

### The Forecast in Brief

The December 1<sup>st</sup> announcement from the National Bureau of Economic Research that the U.S. economy has been in recession since December 2007 came as no surprise. In terms of length and depth, this is likely to prove comparable to or worse than any other postwar recession.

The outlook has worsened dramatically since the August Outlook. 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, peak-to-trough, 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. And instead of worrying about inflation risks, the Federal Reserve must take into account deflationary pressures.

Chart II.1



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 recession's length at somewhere between 18 and 24 months. The longest previous postwar recessions in 1973-75 and 1981- 82 both lasted 16 months. In terms of depth, the baseline forecast projects a 2.5% peak-to-trough decline in real GDP. That would be similar to the 1973-75 (down 3.1%) and 1981-82 (down 2.9%) recessions. The worst was the short-but-sharp 1957-58 recession (down 3.7%).

The fallout from the financial crisis is becoming ever 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.

Downside risks remain predominant. After the dismal November employment report, IHS Global Insight has raised the probability of the pessimistic scenario from 25% to 40%. It incorporates by far the worst recession in the postwar era. In this scenario, real GDP falls 3.2% in 2009, the peak-to-trough decline is 4.3%, and the unemployment rate rises to a peak of 9.8%.

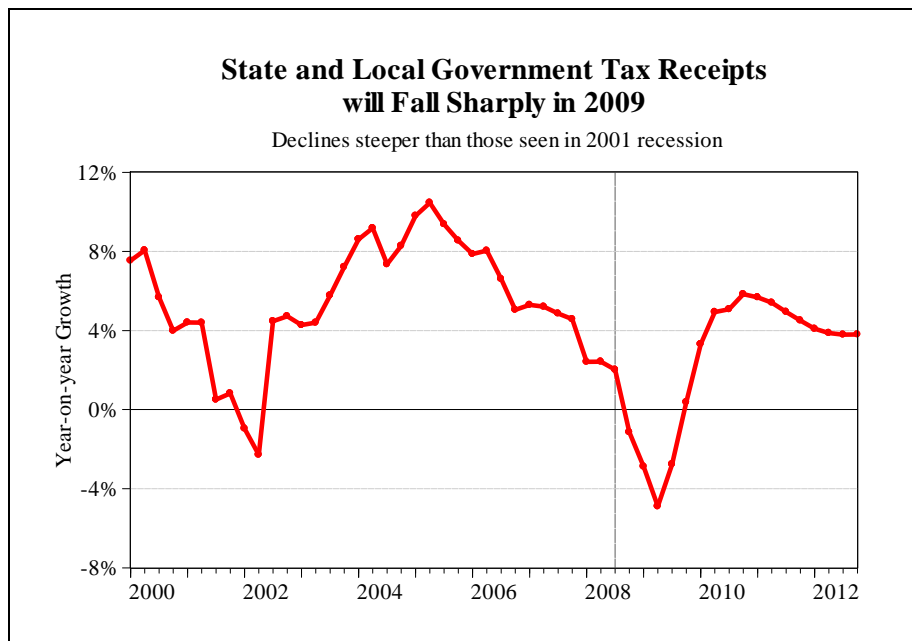
Housing remains a major drag on growth, and until the housing market stabilizes, it will be impossible to draw a line under the financial crisis. Credit is tightening further for homebuyers and homebuilders. And the broader economy is now turning down, which means higher unemployment, reduced household wealth, and greater insecurity among potential purchasers. The forecast expects housing starts to hit bottom only in the second quarter of 2009, at just 614,000 units (annual rate), and to improve only very gradually thereafter. IHS Global Insight expects the FHFA/OFHEO house price index to drop 12.1% from the first quarter of 2008 to the first quarter of 2009, and another 8.7% by the first quarter of 2010.

Consumers are retrenching. Real consumption dropped 3.7% in the third quarter, the worst decline in 28 years; a bigger drop of 4.5% is expected in the fourth. On a calendar-year basis, the forecast expects anemic consumer spending growth of 0.2% this year and a decline of 0.5% next. Consumers are getting relief from tumbling oil prices, which continue to fall further below \$50/barrel. In the forecast, they hit a trough of \$39/barrel in the second quarter of 2009. The resulting drop in gasoline prices is like a \$230-billion tax cut for consumers. In addition, it is assumed that further federal tax cuts are on the way (\$100 billion in 2009). But cheaper gasoline and tax cuts cannot outweigh the squeeze from the crumbling labor market, falling home prices, tighter credit availability, and lower stock-market wealth.

Other key supports to growth are being knocked away. Declining consumer and housing demand, coupled with tighter credit, will make businesses pull back on capital spending. Equipment spending fell 5.7% in the third quarter, worse than the second, and declines will average 18.8% over the next two quarters. For 2009 overall, there will be a 12.2% drop in equipment spending.

During 2007 and the first half of 2008, rising private nonresidential construction helped cushion the blow from plunging residential construction. But the availability of financing for commercial real estate has tightened sharply, and the need for extra retail and office space is evaporating as consumer spending and employment decline. The December forecast anticipates steep declines in private nonresidential building, starting in the first quarter of 2009 and extending through the second quarter of 2010. The average spending decline is 12.3% in 2009 and 16.1% in 2010.

Chart II.2



In the state and local government sector, revenue growth is slowing. At the same time, financing has become more expensive and, in some cases, impossible. IHS Global Insight projects operating deficits (national accounts basis) at \$93 billion for the fiscal year that began on July 1, 2008. The forecast expects real state and local government purchases to decline in the fourth quarter of 2008 and the first quarter of 2009. They then stabilize, but only because the federal government provides support for current and capital spending totaling \$245 billion over three years, beginning in the first quarter of 2009.

The standard Keynesian playbook says that when monetary policy is facing a liquidity trap (i.e., the financial sector mops up liquidity without increasing lending) and private-sector spending is contracting, then it is up to fiscal policy to step in. President-Elect Obama's economic team is gearing up for a large fiscal-stimulus package. The December forecast has assumed a package totaling \$550 billion over three years. The package includes a mixture of infrastructure spending, support for state and local governments, increased transfer payments (e.g., extended unemployment insurance), and a permanent middle-class tax cut. Infrastructure spending is especially helpful because it creates jobs directly, but it will take time to ramp up and its strongest boost to growth will not come until 2010. The forecast has assumed only \$19 billion in extra infrastructure spending in 2009, but \$135 billion in total by 2010.

The export outlook has deteriorated dramatically. The recession is now global, and U.S. producers will no longer be able to rely on rapid export growth to counterbalance falling domestic demand. Exports decline in the forecast for the next five quarters in a row, beginning in the current quarter. This leads to a fall of 3.6% on a calendar-year basis in 2009. The damage from collapsing activity in the rest of the world is compounded by the recent rise in the dollar as investors have fled risk, eroding the competitive advantage of U.S. producers.

The current-account deficit should more than halve in 2009. About three-fourths of the reduction reflects a lower oil import bill, helped by plunging prices. The rest reflects U.S. consumers cutting back imports faster than the rest of the world cuts U.S. exports.

The global recession is undermining commodity prices. But plunging prices bring new dangers. Deflation, not inflation, is now the primary price risk. By the third quarter of 2009, IHS Global Insight expects headline CPI inflation to be substantially negative, at minus 3.2% y/y. This is due largely to plunging energy costs. Core inflation will prove more stubborn than the headline number, but will probably fall below the bottom of the Federal Reserve's 1-2% comfort zone by the second half of 2009.

The Federal Reserve is running out of conventional ammunition, and the effect of interest-rate cuts is negligible, given banks' reluctance to lend. However, the forecast still expects the Federal Open Market Committee to reduce the federal funds rate target to zero by January, and to hold there for most of 2009. That does not mean the Fed will then be without tools. More unconventional policies, such as direct purchases of long-term Treasuries, are now the next step.

## KEY FORECAST ASSUMPTIONS

**Fiscal Policy:** The December forecast assumes that a second fiscal-stimulus package worth \$550 billion over three years will be implemented in the first quarter of 2009. It includes \$135 billion in funding for infrastructure spending (channeled through the states) and \$110 billion in other transfers to the states to support Medicaid and other current spending. The package will also include \$55 billion in targeted transfer payments to the personal sector (e.g., food stamps, extended unemployment insurance) and \$250 billion in tax cuts for the personal sector (\$120 billion of the "tax cuts" will be classified as transfers because they exceed tax liabilities). Beyond 2010, though, the forecast expects a gradual increase in the income-tax burden.

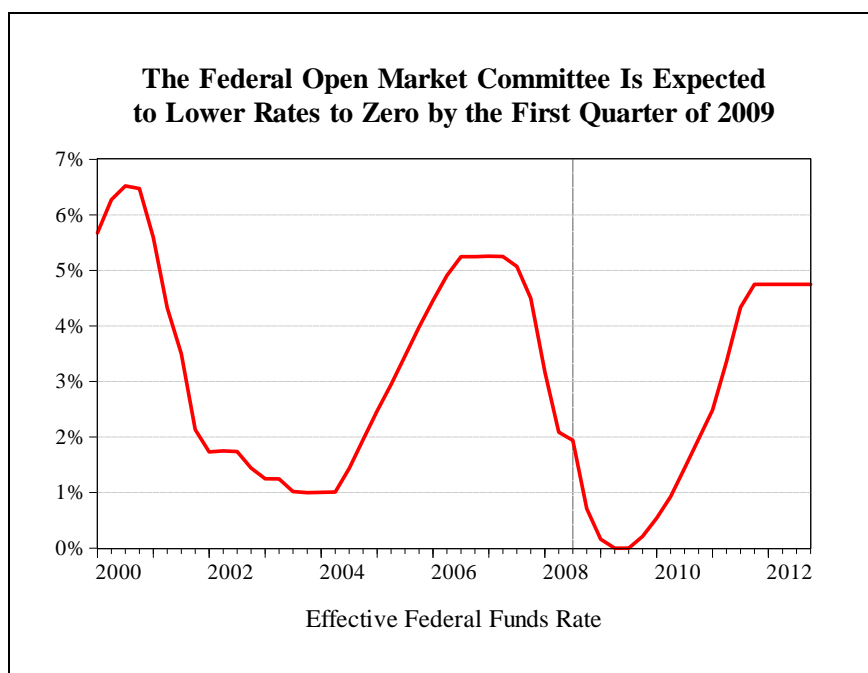
**TARP:** The Treasury has the authority to purchase up to \$700 billion in "troubled assets" from financial institutions (via the Troubled Asset Relief Program). IHS Global Insight assumes that the first \$350 billion is almost entirely allocated to capital infusions into financial institutions; these transactions enter the budget

deficit on a cash basis. The remaining \$350 billion is used to purchase troubled assets and to fund a foreclosure prevention program. The forecast assumes that these activities incur losses with a present value of around \$102 billion, which is added to the fiscal 2009 federal budget deficit.

**Oil Prices to Drop Below \$40/Barrel:** Oil prices have fallen below \$50/barrel, after nearing \$150 in mid-July. The projected fourth-quarter 2008 average price (WTI) has been lowered to \$61/barrel (down by more than half from the \$134.67 expected in the August forecast); oil troughs at \$39/barrel in the second quarter of 2009, before gradually climbing to just above \$90 by 2013.

**Federal Reserve to Cut Rates to Zero:** The baseline forecast assumes that the Fed will cut the target federal funds rate from 1.00% to 0.5 0% at its December 2008 meeting and then to zero at its January 2009 meeting. The FOMC will then hold it there for most of 2009.

Chart II.3



**The Dollar Has Bounced:** A flight from risk has sent the dollar sharply higher against most currencies except the Japanese yen and Chinese renminbi. IHS Global Insight does not see a further surge from current levels. The December forecast assumes end-2008 values of \$1.25/euro, 98 yen/dollar, and C\$1.24/dollar. In 2009 and 2010, the (gentle) dollar depreciation resumes. The Chinese renminbi should continue to rise, but more slowly than before, and the forecast assumes just a 1.3% appreciation against the dollar over the next 12 months.

**Foreign Growth Is Weakening Rapidly:** The recession is quickly becoming global. IHS Global Insight projects GDP in the United States' major-currency trading partners to decline 0.6% in 2009, after growing just 0.8% in 2008. Growth for other important trading partners is projected to slow to just 1.8% in 2009, down from 4.1% in 2008.

**Defense Spending Growth Has Quickened:** Spending for the wars in Iraq and Afghanistan continues to climb. Real federal defense purchases will rise 7.2% in calendar 2008. After that, spending growth slows to 4.3% in 2009.

## DETAILS OF THE U.S. OUTLOOK

### Consumer Markets

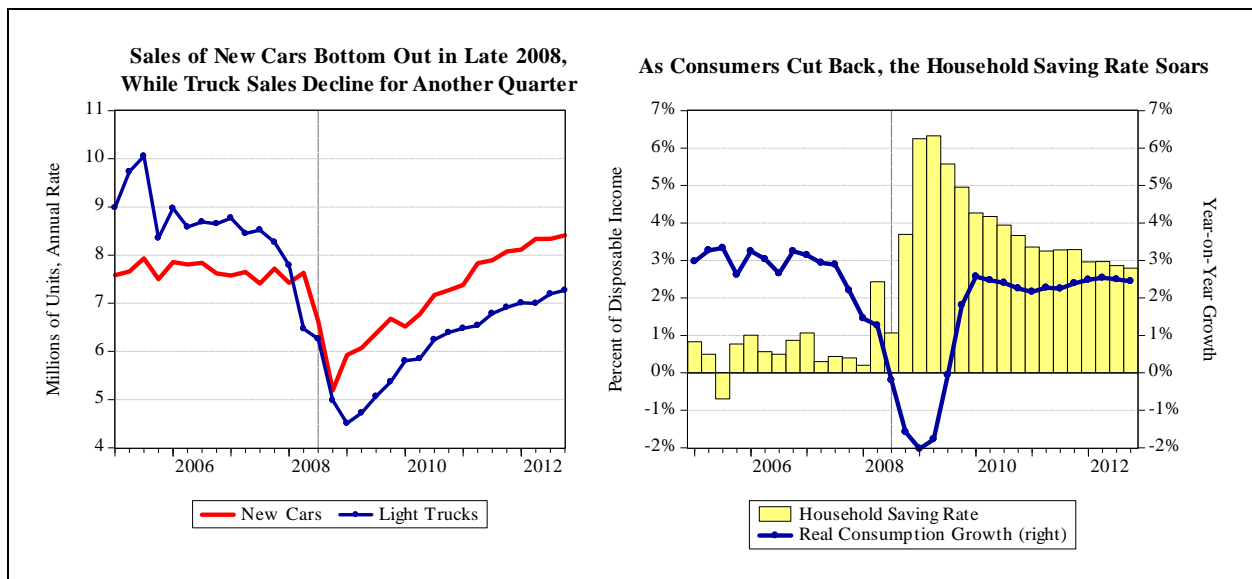
Job losses, declining asset values, and tightening credit conditions are triggering sharp cutbacks in consumer spending. Households have lost about \$8 trillion of their net worth since the summer of 2007. With a wealth effect of five cents on the dollar, that’s enough to reduce consumer spending by \$400 billion, or 4%.

Retail and food service sales fell 1.8% in November, pulled down by a 14.7% drop at gasoline stations and a 2.8% decrease at auto dealerships. The automotive market has been hit especially hard in this recession: annualized sales of light vehicles fell to 10.1 million units in November, down 37% from a year earlier and the lowest level since January 1982. Excluding gasoline and automotive channels, sales edged up 0.3% in November, reversing three months of declines.

The Reuters/University of Michigan consumer sentiment index rose from 55.3 in November to 59.1 in December, as the pleasure of falling prices overshadowed the pain of rising unemployment. Sentiment got a lift from the highly visible 30% plunge in gasoline prices and early price discounting by other retailers as the holiday season began. And yet despite the uptick, sentiment is still in the recessionary range. With job losses mounting, credit tightening, and asset values falling, consumers are saving more and spending less.

The retreat in consumer spending is expected to continue into early 2009. The projected 2.3% peak-to-trough drop in real consumption will be the biggest setback since the 1980 recession. And the spring-2009 upturn in real consumption is conditioned on a new round of fiscal stimulus and lower energy prices. The forecast assumes a \$550-billion fiscal package that includes \$250 billion in tax cuts and \$55 billion in other transfer payments to persons spread over three years.

Chart II.4



Meanwhile, the drop in oil and gas prices will reduce the share of disposable income spent on energy from 6.6% in the third quarter of 2008 to 4.1% next spring. Thus, despite falling employment, real disposable income is projected to rise 3.6% in 2009. Households will spend cautiously, pushing the personal saving rate up from 1.8% in 2008 to 5.8% in 2009, its highest level since 1992.

In the longer term, the protracted decline in home prices, an upturn in oil prices, and rising unemployment will dampen spending growth in late 2009 and early 2010. Households will struggle to rebuild their assets: it will be 2014 before real net worth per household regains its 2007 peak.

**Housing and Construction**

The housing forecast has been lowered because of the deepening recession. In the forecast, housing starts continue to slide over the course of 2008, slipping under the 1-million-unit mark this year for the first time since 1945. Home prices will continue to fall for the next year and a half.

The Pending Home Sales Index (PHSI) slipped 0.7% in October, pointing to modest declines in existing home sales over the rest of the year. This was better than expected. There are three factors supporting sales in play. First, the mortgage market is still functioning. A person with a steady job, good credit, and a 20% down payment can easily get a mortgage loan, despite the problems that financial institutions are facing. Second, affordability is improving because of falling home prices and lower mortgage rates. Third, distressed sales (short sales and foreclosed homes) are pumping up the numbers in a few states.

Housing starts plummeted 18.9% in November, to a seasonally adjusted annual rate of 625,000 units. This is a record low in a data series that goes back to 1959, and much lower than expected. Permits dropped 15.6%. Single-family permits, the key number in the report, tumbled 12.3%. The permit estimates point to a possible double-digit drop in starts during both December and January.

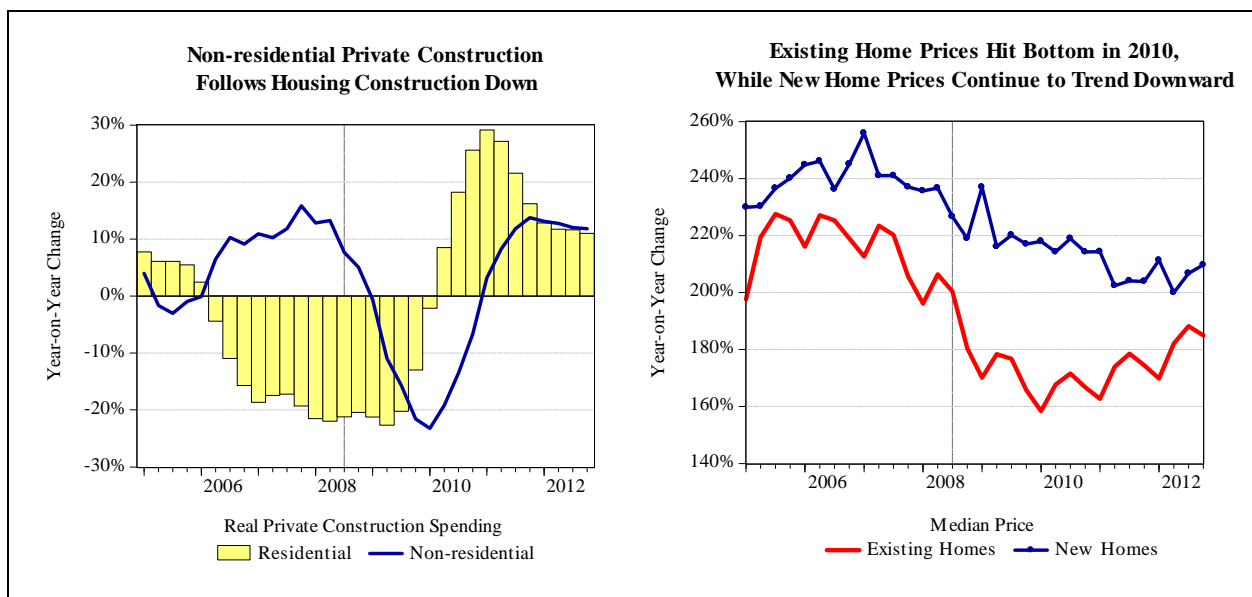
Long-term mortgage rates fell more than 50 basis points after the Federal Reserve announced on November 25<sup>th</sup> that it would purchase up to \$100 billion in Fannie Mae, Freddie Mac, and Ginny Mae debt and up to \$500 billion in mortgage-backed securities issued by Fannie Mae and Freddie Mac.

In the forecast, housing starts will continue to slide, ending at 921,000 for 2008 and slipping further to 662,000 in 2009. This is significantly lower than in the August forecast, which expected a recovery in starts in 2009 with 986,000. Starts will hit bottom in the first half of 2009 and then rebound, as renewed economic growth and lean inventories of new homes induce builders to start putting up new homes.

Despite a recent leveling of sales, Global Insight's view is that existing home sales will slide over the next few months, also hitting bottom in the first half of 2009. New home sales will drop proportionately more than existing home sales because builders, who must cover their costs, continue to have trouble competing in markets where foreclosure rates are high.

Housing prices are near their equilibrium level, but they will continue to drop because current inventory levels remain near record highs and foreclosures are still rising. In the forecast, the median price of an existing home drops nearly 20% from third-quarter 2008 levels and bottoms out in early 2010.

**Chart II.5**



## Business Investment

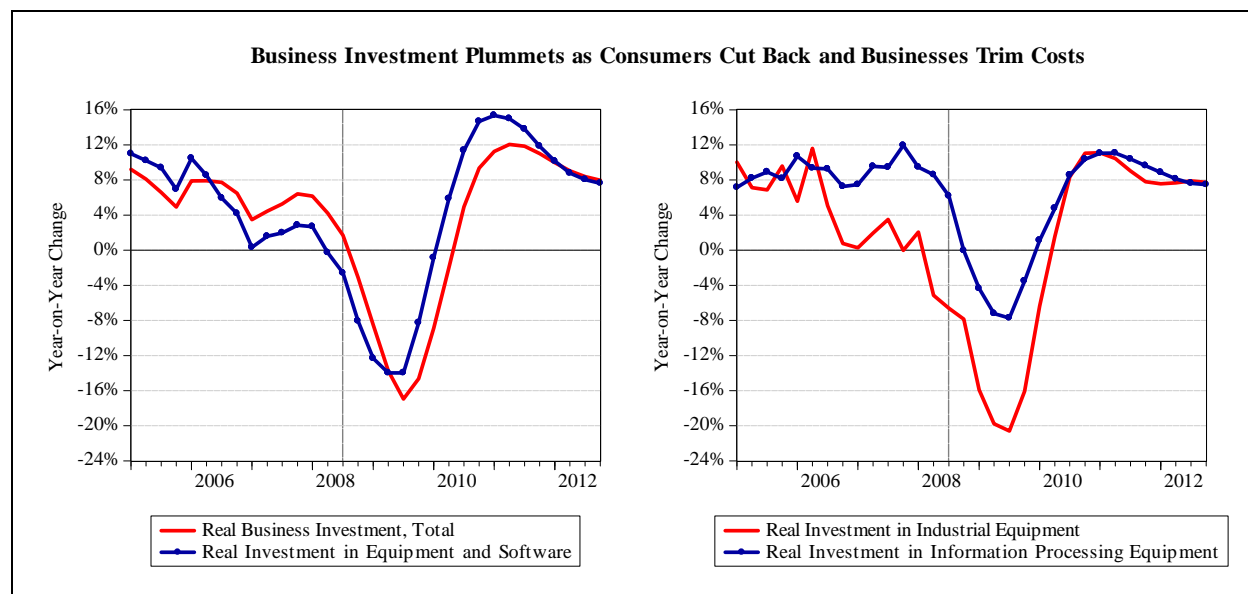
With the weaker economy, businesses have few reasons to start new buildings or renovate existing ones. As a result, spending on nonresidential construction is about to hit a wall. Real spending continues to drop over the first three quarters of 2009.

Companies are sharply cutting back on equipment spending. Orders for core capital goods (nondefense capital goods excluding aircraft) dropped 9.2% over the three months ended in October. The decline was broad based, with orders for construction machinery, industrial machinery, ventilation-heating-air-conditioning equipment, and turbines, generators, and power transmission equipment falling the most.

Meanwhile, nonresidential construction slipped 0.7% in October, but the estimates for August and September were revised up. October's drop in construction would have been larger, if not for projects started long ago that are no longer viable. For example, spending on commercial construction rose 1.2% because of a 25.5% increase in spending on auto dealerships and an 18.7% increase in shopping malls. The heavily overbuilt lodging sector also increased in October.

The performance of the different nonresidential construction categories varies widely. Nominal spending on offices, schools and colleges, healthcare, and power is still growing. Spending on lodging and transportation is flattening. Spending on amusements and religious structures is declining modestly, while spending on communication and commercial buildings is plummeting. Manufacturing remains strong, but its strength derives from a few refineries that are being upgraded. Nominal nonresidential construction spending peaked in June, and has been inching down since.

Chart II.11



In the current forecast, spending on nonresidential construction drops over the first seven quarters of the projection period. The decline is balanced and deep, with all of the major building categories falling at double-digit rates in 2009. Both commercial and manufacturing construction drop at double-digit rates again in 2010. On an annual basis, total nonresidential construction falls 15.8% in 2009 and 13.1% in 2010.

The credit crunch is hitting businesses hard. They are finding it difficult to finance even high net-present-value projects, and are opting to preserve cash rather than finance projects they would normally undertake. In the forecast, real equipment and software spending drops about 20% (annualized) in the fourth quarter, despite the boost provided by the accelerated depreciation allowances that were part of the stimulus package, and it continues to drop over the first three quarters of 2009. The risks are to the downside, and if the labor market continues to deteriorate as it did in November, the outcome will be much worse.

**International Trade**

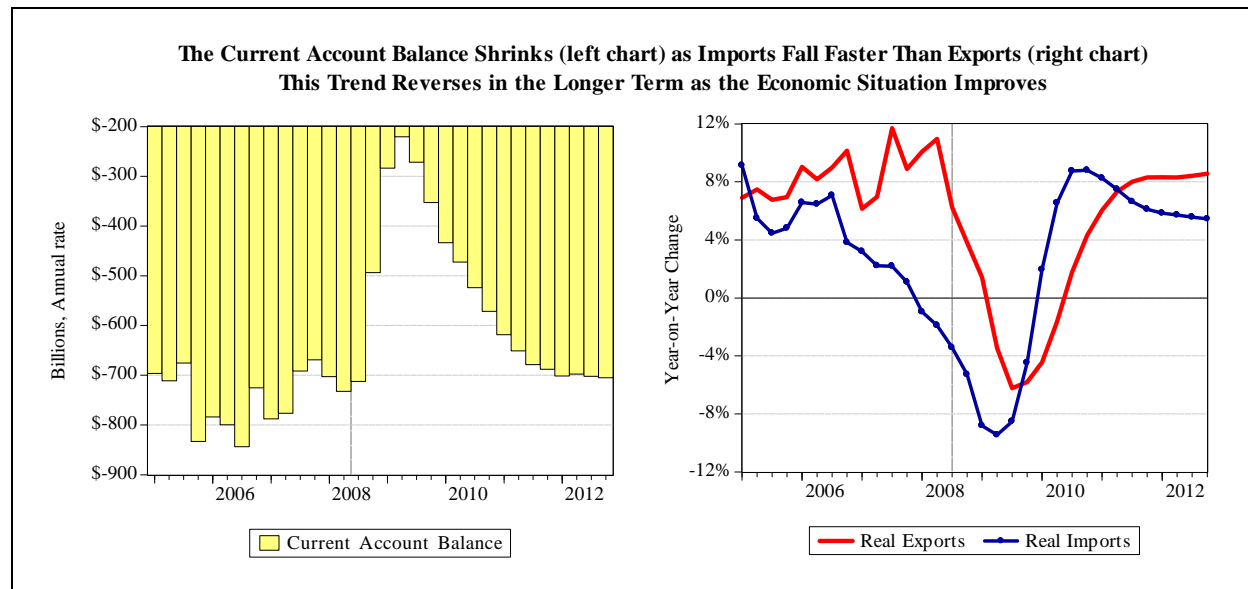
Exports have joined imports in retreat; it is now just a question of which falls faster. Trade’s future positive contribution to GDP growth will come from shrinking imports. The deficit widened during October, though, as exports and imports both fell, but exports fell faster. Oil import volumes surged and prices plunged in October; both will plunge in the last two months of 2008.

October was a bad month on the trade front, even though the trade deficit increased just slightly, from \$56.6 billion to \$57.2 billion. The bad news was a missing overall bounce in exports after September’s huge drop; some categories such as organic chemicals and petroleum products did improve after the hurricanes disrupted production in September. Goods export volumes fell another 0.9%, after falling 8.2% in September. A further decline in aircraft exports due to the Boeings strike did not help, and all large export categories showed declines. While export volumes fell, import volumes rose 2.8% overall, led by a 20.8% spike in oil import volumes, which rebounded after the September hurricanes.

The dollar’s rally took it as high as \$1.25 per euro, although by mid-December, it had slipped back to \$1.33 as the U.S. economic news remained very bleak. The dollar has probably already seen the biggest gains resulting from its “safe-haven” status. It should not weaken much as recession ravages the world economy; rather, it will deteriorate again when the global turnaround begins.

The export support that had propped up growth in the U.S. economy during the first half of 2008 is disappearing. The forecast expects real exports to fall for five quarters in a row, beginning in the current quarter, with the year-over-year declines reaching 5.8% in the fourth quarter of 2009. The calendar-year decline for 2009 is 3.6%. Unfortunately, even these figures are beginning to look optimistic, given the poor October trade data and the steady flow of bad news coming in about the downturns across the globe.

**Chart II.6**



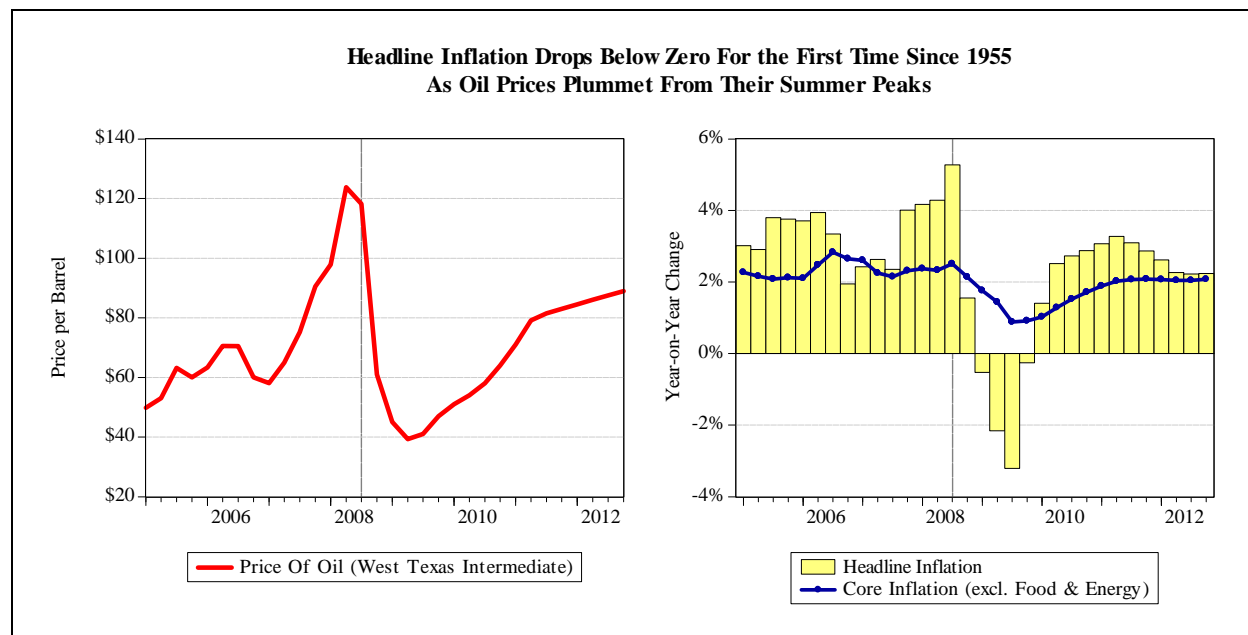
Import volumes will also fall and are projected to drop even more sharply than exports in 2009, by 7.8%. As a result, foreign trade remains a positive contributor to GDP growth through mid-2009, but only because imports are falling faster than exports.

The nominal trade deficit will shrink dramatically in coming months, largely because of the collapse in oil prices. The smaller trade deficit will pull down the overall current-account deficit, which will fall by more than half in 2009, from \$660 billion to \$282 billion. But in 2010, as both oil prices and U.S. domestic demand begin to rise and consumer imports increase, the current-account deficit widens to \$500 billion.

## Inflation

The rapid collapse of energy prices has exerted overwhelming downward pressure on price indices, while the global economic downturn keeps services and core goods costs in check. Global Insight expects a 1.5% drop in the headline CPI during 2009, as sharp reductions in fuel and gasoline prices usher in the first year of declining prices since 1955.

Chart II.7



The headline inflation (CPI) fell 1.0% in October, driven by the 8.6% retreat in oil prices. Headline CPI inflation is expected to decelerate to a low of minus 3.2% y/y in the third quarter of 2009. 2009 will see the first yearly decline in headline CPI in 54 years.

Excluding food and energy, “core” consumer prices inched down 0.1% in October, as weakness in the retail sector led to steep discounting at apparel stores. The drop in the core rate also reflected the 0.7% decline of motor vehicle prices. In the forecast, core CPI stays positive but falls below 0.9% y/y in the third quarter of 2009. The benefit of falling price levels will be bittersweet for consumers, as income growth is limited by the deterioration of the labor markets.

Producer prices fell 2.8% in October, largely the result of a 12.8% drop in the prices of finished energy goods. Core prices rose 0.4%, it's second consecutive month at that rate of growth. Weakness in the manufacturing sector and lower prices for crude and intermediate goods will exert downward pressure on finished core goods in the coming months.

On the upside to the economic downturn, core personal consumption expenditures (PCE), the Fed’s preferred inflation gauge, continued to improve, falling to 2.1% year-on year (y/y) in October. The year-on-year comparison only barely exceeds the Federal Reserve’s 1-2% comfort zone. Going forward, the core PCE inflation should fall from 2.0% y/y during the final quarter of 2008 to a low of 0.8% y/y in the second half of 2009. As a result, the Fed is freer to cut the federal funds rate to 0% to address the financial crisis. Long-term inflation expectations remain anchored, keeping core PCE inflation below 2.0% into 2013.

**Employment**

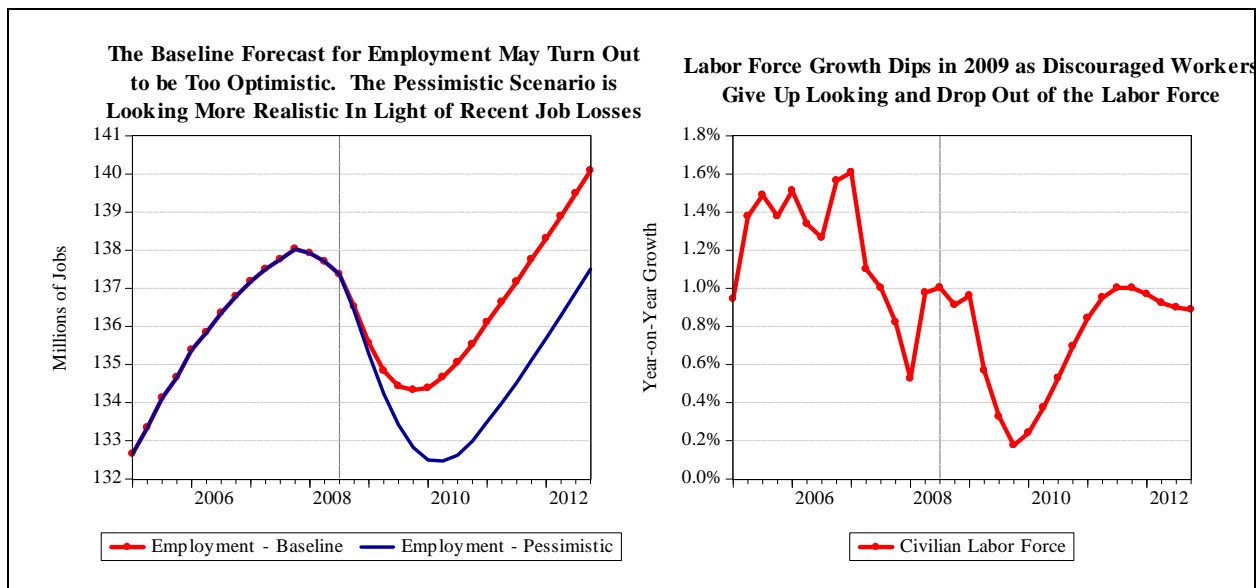
Payrolls will continue to fall for another year, as the economy sheds more jobs in 2009 than in 2008. The unemployment rate has hit 6.7%, but is heading toward 9.0%. Job losses will be largest in late 2008 and early 2009. This is the worst of it, but unfortunately, not the end of the declines. Job cuts have hit almost all segments except medical services and state/local government; state/local government is next on the chopping block as budgets tighten, and medical jobs will slow sharply.

The labor market went into headlong retreat in November, giving up 533,000 jobs (down 0.39% from October) for its worst percentage drop since May 1980. A further 199,000 job were lost in revisions to the prior two months. In November, Employment services, which includes temporary workers, lost 3.2% of its jobs. Manufacturing payrolls fell 0.6%, and would have lost 0.8% without the Boeing workers’ return. The index of aggregate hours fell 0.9% overall, and dropped 1.4% in manufacturing for another dismal month in that sector. The cumulative payroll loss since last December climbed to 1.91 million.

Results were almost as dreary in the household survey, where employment fell 0.46% in November when compared to the prior month. The labor force shrank by 0.27%, to hold the unemployment rate increase to 0.2 percentage point, to 6.7%. The labor-force decline means that today’s labor force is little different from six months ago, as some workers have given up looking. November’s labor force shrank by 422,000 workers as the number of persons “not in the labor force but wanting a job” swelled by 400,000.

Payrolls will keep falling for another year, with little hope for increases before late 2009. The baseline forecast (released before the November employment data) called for a peak-to-trough drop of four million jobs from the fourth quarter of 2007 through late 2009. This now appears optimistic. The forecast had placed the worst job declines in the fourth quarter of 2008 and early 2009, with average quarterly losses of 850,000-950,000. The dire results for November suggest that fourth-quarter job losses could exceed 1.1 million, while the cumulative loss could be 5 million, rather than 4 million.

**Chart II.8**



Job growth should resume in 2010, although average annual payrolls in that year are little different from 2009 levels. Robust gains push annual tallies 2.0-2.3 million higher each year for the next three years. The unemployment rate climbs another two percentage points from November’s level, peaking at 8.7% in early 2010. The initial months of jobs recovery are tepid, and the jobless rate remains above current levels until mid-2014. Payroll gains of more than 2 million per year for three years do not go far enough to dent the hole dug by more than two years of falling employment plus five years of labor-force increases.

**Industrial Production**

The ISM purchasing managers’ index (PMI) continued to plummet in November, hitting 36.2%. This is the lowest PMI since May 1982. As uncertainty grips the business environment, job layoffs have accelerated and new orders for materials and equipment have plunged. Information about an increase in order cancellations is also coming to light. The forecast expects the PMI to drop even further in December and/or the first part of 2009, as the economy continues to deteriorate.

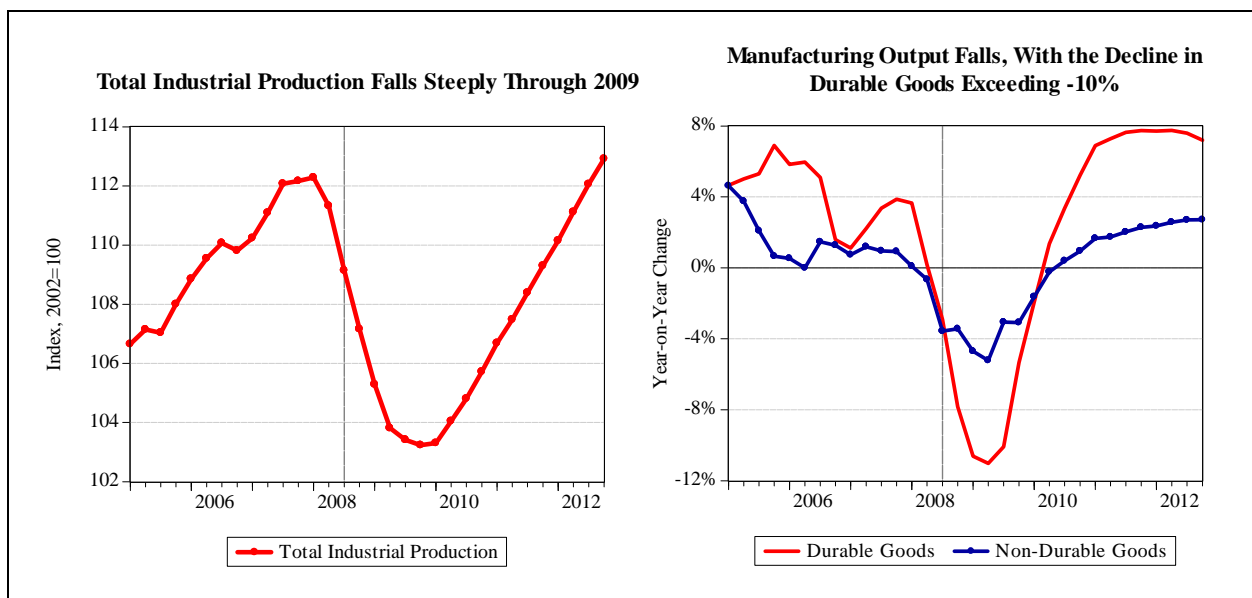
The main driver behind the decline in industrial production starts with the consumer sector. Other than softening gasoline and food prices, there is little positive news. Employment will continue to decline through 2009. The credit crunch and big correction in home prices are also contributing. In the year ahead, durable goods spending is expected to fall 4.0% and nondurable goods spending is anticipated to drop 1.6%. This will lead to continuing downturns in the output of light vehicles, appliances, furniture, home goods, and consumer electronics. Other sectors like foods, refined petroleum, and pharmaceuticals should see minimal growth at best.

After holding up through most of 2008, the investment-related sectors are now beginning to tumble. Capital spending is being curtailed in the face of business uncertainty and declining profits. A plunging stock market (which raises the costs of capital) and tight credit conditions do not help either. In response, machinery production is expected to contract more than 13% in 2009. Capital spending in the energy industry, which was a bright spot before oil prices retreated, is now also likely to see a double-digit decline. The high-tech sector, especially computers, is also not recession resistant.

The industrial sector will experience a rapid change on the export front. Exports have been growing strongly since 2004, but a global recession and strengthening dollar are expected lead to a 3.6% decline in exports next year. Capital goods, like agricultural and construction machinery, are likely to be particularly hurt.

The forecast expects total industrial production to decline 1.3% this year and 5.5% in 2009. Manufacturing is likely to suffer the brunt of this recession, with output dropping 2.0% this year and another 6.6% next year. The 2009 declines for both total industry and manufacturing production are likely to be the largest since 1975.

**Chart II.9**



**Government**

The federal government’s monthly budget statement reported a deficit of \$164.4 billion in November 2008, compared with a \$98.2 billion shortfall a year earlier. Overall receipts declined 4.2% in November, primarily due to the ailing economy’s damaging effect on tax revenues. Corporate income tax receipts fell 26.1% and individual income tax receipts declined 8.2%.

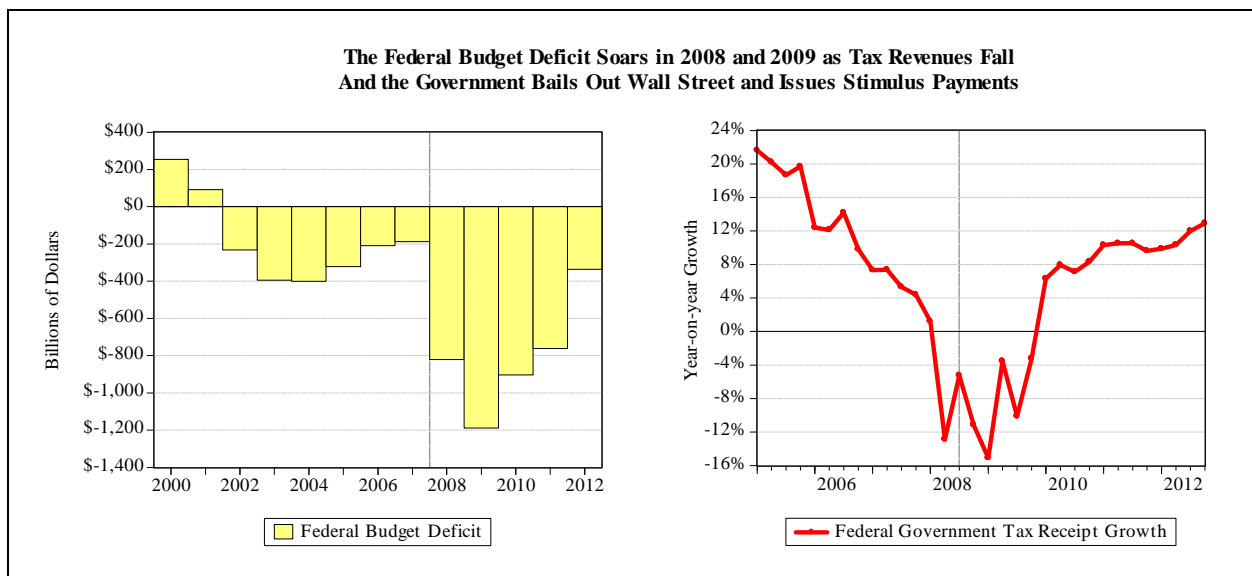
Total outlays jumped 24.0%, as the Treasury continued to use the Troubled Asset Relief Program (TARP) to buy equity stakes in banks. Capital infusions under TARP through the end of November totaled \$191 billion. Excluding TARP, spending was actually down, but that was driven entirely by calendar-timing shifts; excluding these shifts, spending on defense, Medicare, and income security (unemployment benefits) was higher. Social Security outlays were up 5.4%, and there was a sharp increase in transfers to the Federal Deposit Insurance Corporation.

The federal budget deficit is projected to come under substantial upward pressure in fiscal 2009 and 2010, on the lower outlook for GDP growth, which reduces the growth rate of federal revenues, and the increased expenditure projections. The unified deficit is expected to jump to near \$1.35 trillion in fiscal 2009.

The December forecast assumes a \$550 billion fiscal stimulus package over the 2009-11 period. This includes \$25 billion in extra transfer payments (e.g., food stamps and extended unemployment insurance), \$190 billion in the form of additional tax cuts, \$35 billion in extra transfers to the states to support Medicaid, \$30 billion more in other current grants to state and local governments, and an additional \$70 billion in funding for infrastructure spending (also channeled through the states). Tax reductions could be enacted fairly early in 2009, but the additional infrastructure spending is expected to commence in the second half of 2009 and extend through 2011 and beyond.

The implementation of the TARP program is assumed to include \$350 billion to be deployed for capital infusions to the financial sector. That breaks down into \$250 billion for banks, \$80 billion for non-banks (including \$40 billion for AIG), and \$20 billion in capital for the new term asset-backed securities loan facility (TALF). The remaining \$350 billion will be used for asset purchases (\$325 billion) and a further \$25 billion in resources for mortgage distress relief (either through an expanded mandate for the FHA, or an FDIC-type program).

**Chart II.10**

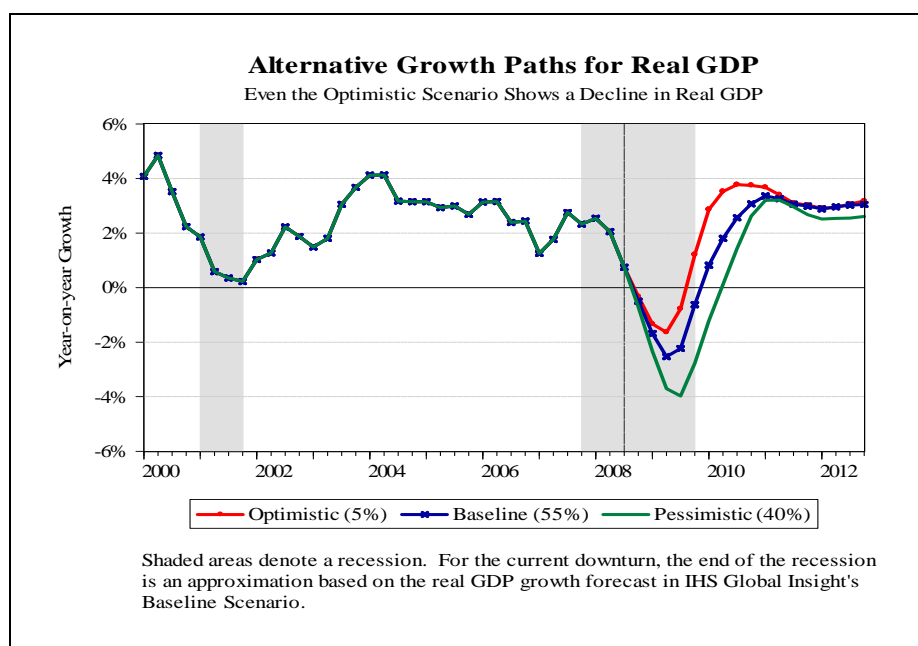


## RISKS TO THE FORECAST

The world economy is facing a severe financial crisis. Banks have sharply reduced lending. Companies, unable to access credit, are cutting back on capital spending and laying off employees. The S&P 500 is down more than 40% since the start of the year. Banks and hedge funds are failing at an alarming rate. The crisis, once confined to companies involved in the subprime mortgage market, has spread to the entire U.S. financial sector, and then across the world.

And now, the real economy is decelerating fast. The number of people collecting unemployment insurance soared to a 26-year high in early December. November auto sales were at a 26-year low. The economy lost over half a million jobs in November, and the unemployment rate is at a 15-year high. Housing starts fell to a postwar low in October, and leading indicators point to plunging numbers just up ahead.

Chart II.10



The pessimistic scenario builds on events that are now unfolding and assumes that the financial crisis gets much worse. It assumes weaker consumer spending, weaker business investment, slower foreign growth, and weak underlying productivity growth. It is a scenario with a deep recession in the near term and slow growth afterward.

In the optimistic scenario, the numerous policy salvos of the Federal Reserve, the Treasury, and central banks around the world facilitate a V-shaped recovery of the credit markets. With credit once again flowing, domestic consumer and business demands are rekindled, along with global demand. Although the economy still experiences a serious recession, it is milder than the baseline forecast and the economy bounces back quickly.

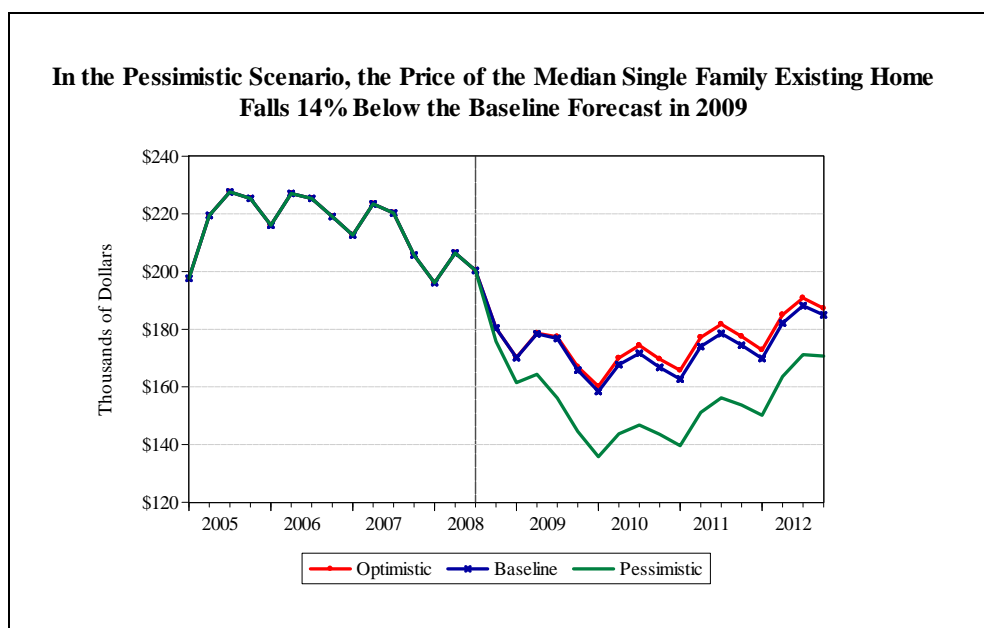
**Meltdown (40% Probability):** The pessimistic scenario assumes that the financial crisis worsens, sending the economy into its worst downturn since the Great Depression. Credit markets remain clogged, both domestically and across the world. Without access to credit, domestic spending contracts and the housing market falls into an even deeper hole.

The pessimistic scenario assumes that the downward spiral in financial markets continues into next year. The Treasury-eurodollar (TED) spread is still above 200 basis points in the fourth quarter of 2009 (normally, it is less than 50 basis points). The spread between 30-year fixed mortgage rates and the 10-year Treasury note yield also remains wider than normal into 2010.

Oil prices are lower in the short run because world demand is falling. As a result, bottom-line inflation is lower. Core inflation is also lower because demand is so weak. The low inflation readings give the Federal Reserve leeway to bring interest rates down to 0.0%, just as in the baseline, by early next year. With the economy in recession, the Fed keeps the federal funds rate at zero throughout 2009. But when the economy gets off the mat, inflation starts creeping up because of rising energy prices, a slowdown in productivity, and a weaker dollar. The Fed responds by steadily raising interest rates. But its response is a bit too little, too late, and inflation continues to edge higher. Eventually, core inflation stabilizes but at about 3%, about a full percentage point above the baseline rate

Housing starts have never fallen under 1.0-million units in a calendar year since 1945. But in the pessimistic scenario, they drop to 909,000 units in 2008, 586,000 in 2009 (compared with 662,000 in the baseline), and 807,000 in 2010 (compared with 969,000 in the baseline). The median price of existing homes falls nearly 15% below the baseline in 2010. Home sales are also much lower. The weakness in housing undermines consumer confidence. This, along with the drop in wealth associated with falling home prices and a slowdown in job growth, causes consumers to retrench sharply. Hit especially hard are light-vehicle sales, which fall to 9.0- million units in 2009 (versus 11.2 million in the baseline), and "other" consumer durables (i.e., jewelry, sporting equipment, motorcycles and pleasure boats, and aircraft).

Chart II.11



Capital spending is also weaker, as firms respond to a bleaker outlook by scuttling long-term projects. Business fixed investment drops over six straight quarters. Foreign economic growth is lower, which cuts into export growth. Indeed, real GDP among the United States' major-currency trading partners falls for seven quarters, starting in the second quarter of 2008 (this category does not include China). As a result, exports deduct 0.8 and 0.3 percentage points from GDP growth in 2009 and 2010.

Over the longer term, GDP growth remains slower than in the baseline, mainly because productivity advances only 1.5% on average over the next 10 years, compared with 1.9% in the baseline. Inflation is higher because of the slower productivity gains and a weaker dollar, and because the Fed, after allowing inflation to creep above 3%, decides to stabilize it at that higher level, rather than risk another recession by bringing it down.

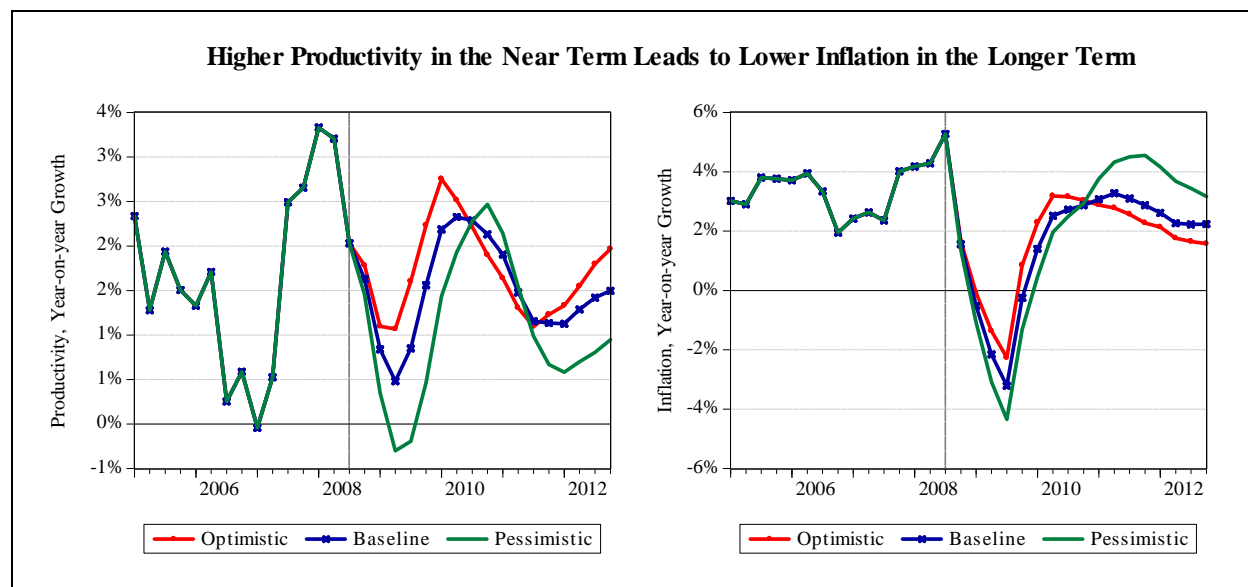
In this scenario, real GDP contracts 3.2% in 2009 and rebounds to only 0.7% in 2010 (compared with a 1.8% drop and a 2.0% gain, respectively, in the baseline). Employment drops for 10 straight quarters, shedding 5.5-million jobs. Manufacturing output falls for 10 straight quarters, and real GDP drops for six quarters, starting with the third quarter of 2008. Unlike the previous two recessions, those of 1991 and 2001, this one takes a

heavy toll. Peak to trough, real GDP drops 4.3%, which is worse than the losses during the 1973-75 and 1981-82 recessions. Unlike those recessions, however, the economy emerges from this downturn weaker, and facing more troubles ahead.

**V-Shaped Recession (5% Probability):** In the optimistic scenario, the rapid response of the Federal Reserve to the crisis in financial markets, coupled with the Treasury's "rescue" plan and help from central banks abroad, help the United States avert a severe downturn, but there is still a recession. In addition, the standard optimistic scenario assumption of stronger total factor productivity growth is also in place. Total factor productivity, a measure of how technological progress augments economic growth, is enhanced by reinvigorated innovation in the technology sector. The price paths of the alternatives are very cyclical this month, with the optimistic scenario yielding higher inflation in the near term, but the more cyclical pessimistic scenario producing more inflation later.

With credit again flowing late this year, business fixed investment recovers by 2010 and grows 6.5%, after suffering a 10.3% contraction in 2009. This compares with a steeper 13.4% decline during 2009 in the baseline forecast and a token 0.6% gain during 2010. The downturn in residential investment is also less severe in the optimistic scenario, with housing starts beginning to recover during the second quarter of 2009 and averaging 748,000 units for that year, compared with a much weaker baseline of 662,000 units.

Chart II.12



The optimistic scenario also assumes faster growth in the rest of the world, and a dollar that is initially weaker than in the baseline, but strengthens in the long term. The dollar helps GDP early in the forecast but then starts to take away as the higher dollar limits export growth.

Finally, the optimistic scenario assumes slightly higher energy prices in the near term due to stronger global demand, but lower prices in the longer term due to a more optimistic assumption about supply. Oil prices remain near the middle of the \$50-65/barrel range for most of 2009 and then gradually rise to the low-\$80s by 2012.

On net, these assumptions produce a much brighter economic outlook compared to the dismal pictures painted by the baseline and pessimistic scenarios. Real GDP falls 4.3% in the fourth quarter and 3.1% in the opening quarter of 2009, but rebounds more than 3% in the last half of 2009 and does even better in the middle of 2010. The unemployment rate never exceeds 8% and falls back to around 6% by late 2013.

Inflation implications of the milder recession in the optimistic scenario are modest. Oil prices still pull down consumer prices rapidly in late 2008, and prices still rise at close to their baseline pace until 2011, with slower

increases in oil at that point holding them down. In short, the optimistic alternative is similar to the baseline, with more muted cycle dynamics, but a quick bounce-back.

## APPENDIX 1

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL  
(THOUSANDS OF WORKERS)

	History				Forecast			
	2004	2005	2006	2007	2008	2009	2010	2011
Total Nonfarm	2,807.0	2,842.0	2,866.4	2,881.7	2,865.3	2,800.9	2,822.5	2,861.5
% Change	1.1	1.2	0.9	0.5	-0.6	-2.2	0.8	1.4
Private Nonfarm	2,394.9	2,426.7	2,451.2	2,466.0	2,444.9	2,381.7	2,401.2	2,439.5
% Change	1.4	1.3	1.0	0.6	-0.9	-2.6	0.8	1.6
Natural Resources & Mining	3.8	4.0	3.9	3.7	3.6	3.4	3.4	3.5
% Change	2.4	3.0	-0.6	-7.0	-2.8	-3.9	0.2	2.9
Construction	126.8	127.6	127.5	125.7	121.4	115.3	111.6	112.0
% Change	2.1	0.6	0.0	-1.4	-3.4	-5.0	-3.2	0.3
Manufacturing	502.8	504.9	505.8	500.7	487.5	449.8	437.1	445.2
% Change	-0.3	0.4	0.2	-1.0	-2.6	-7.7	-2.8	1.9
Trade, Transportation & Utilities	539.0	543.2	544.5	548.1	539.6	527.4	535.9	536.6
% Change	0.5	0.8	0.2	0.7	-1.5	-2.3	1.6	0.1
Information	49.9	49.7	49.3	50.2	49.8	49.0	48.3	49.0
% Change	-0.9	-0.3	-0.9	1.8	-0.9	-1.6	-1.4	1.5
Financial Activities	158.7	159.8	161.8	162.8	163.4	162.3	162.0	161.8
% Change	1.2	0.7	1.3	0.6	0.4	-0.7	-0.2	-0.1
Professional & Business Services	253.0	263.0	270.8	277.2	276.0	267.8	279.1	295.0
% Change	3.5	4.0	3.0	2.4	-0.4	-3.0	4.2	5.7
Education & Health Services	374.9	383.3	392.0	398.7	407.0	409.7	424.8	436.9
% Change	2.8	2.2	2.3	1.7	2.1	0.7	3.7	2.8
Leisure & Hospitality	250.8	255.2	259.5	261.4	259.3	261.2	261.8	262.2
% Change	2.2	1.7	1.7	0.7	-0.8	0.7	0.2	0.2
Other Services	135.3	136.0	136.0	137.5	137.3	135.8	137.1	137.2
% Change	2.0	0.6	0.0	1.1	-0.1	-1.1	1.0	0.0
Government	412.1	415.3	415.2	415.8	420.5	419.1	421.3	422.0
% Change	-0.2	0.8	0.0	0.1	1.1	-0.3	0.5	0.2
Federal Government	29.6	29.2	29.2	29.2	28.9	28.9	29.5	28.5
% Change	-0.9	-1.2	0.0	0.0	-1.1	0.1	2.0	-3.4
State & Local Government	382.6	386.0	386.0	386.5	391.6	390.2	391.8	393.5
% Change	-0.1	0.9	0.0	0.1	1.3	-0.4	0.4	0.4

## Household Survey Employment Measures

Labor Force	3,019.5	3,031.0	3,068.9	3,089.3	3,086.8	3,083.5	3,107.6	3,127.7
% Change	-0.5	0.4	1.3	0.7	-0.1	-0.1	0.8	0.7
Employment	2,867.1	2,884.8	2,923.8	2,937.9	2,931.9	2,849.0	2,863.6	2,898.2
% Change	0.2	0.6	1.4	0.5	-0.2	-2.8	0.5	1.2
Unemployment Rate (%)	5.0	4.8	4.7	4.9	5.0	7.6	7.9	7.3

## APPENDIX 2

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL  
(THOUSANDS OF WORKERS)

Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2007:4	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3
Total Nonfarm	2,881.5	2,869.9	2,870.9	2,867.9	2,852.6	2,817.5	2,799.2	2,792.0
% Change	0.0	-1.6	0.1	-0.4	-2.1	-4.8	-2.6	-1.0
Private Nonfarm	2,463.0	2,452.5	2,453.3	2,442.7	2,430.9	2,398.1	2,380.2	2,373.3
% Change	-0.6	-1.7	0.1	-1.7	-1.9	-5.3	-3.0	-1.2
Natural Resources & Mining	3.6	3.6	3.6	3.5	3.5	3.5	3.4	3.4
% Change	-3.7	3.8	-3.7	-3.7	-1.5	-6.8	-5.0	-1.4
Construction	124.8	121.0	122.1	121.5	120.8	118.1	115.7	114.3
% Change	-1.9	-11.5	3.8	-2.1	-2.1	-8.9	-7.8	-4.7
Manufacturing	497.8	493.3	492.1	487.4	477.1	464.8	452.7	443.2
% Change	-1.6	-3.5	-0.9	-3.8	-8.2	-9.9	-10.0	-8.1
Trade, Transportation & Utilities	547.0	545.0	540.6	538.8	534.1	526.7	525.0	527.6
% Change	-0.8	-1.5	-3.2	-1.3	-3.5	-5.4	-1.3	2.0
Information	50.5	49.6	49.5	50.2	49.8	49.3	49.1	48.9
% Change	0.5	-7.2	-0.5	5.2	-2.8	-4.0	-1.7	-1.4
Financial Activities	162.7	162.7	163.8	163.8	163.4	162.7	162.3	162.1
% Change	1.1	0.0	2.6	-0.1	-1.0	-1.5	-1.1	-0.5
Professional & Business Services	277.7	279.2	277.4	274.5	273.0	268.5	267.3	267.2
% Change	-0.3	2.2	-2.5	-4.2	-2.2	-6.4	-1.8	-0.1
Education & Health Services	400.4	404.2	407.6	408.1	408.0	406.9	408.3	410.4
% Change	-0.1	3.8	3.4	0.5	-0.1	-1.0	1.4	2.1
Leisure & Hospitality	260.7	256.8	259.8	259.6	261.2	261.1	261.4	261.2
% Change	-0.5	-5.9	4.7	-0.3	2.5	-0.1	0.5	-0.2
Other Services	137.8	137.2	136.8	135.3	140.0	136.5	135.0	134.8
% Change	0.6	-1.7	-1.2	-4.1	14.6	-9.7	-4.2	-0.8
Government	418.5	417.4	417.6	425.2	421.8	419.4	419.0	418.7
% Change	3.9	-1.1	0.2	7.5	-3.2	-2.3	-0.3	-0.3
Federal Government	29.2	28.9	28.8	28.9	29.0	29.0	28.9	28.9
% Change	0.9	-4.5	-0.9	0.9	1.8	-0.4	-0.6	-0.6
State & Local Government	389.3	388.5	388.8	396.3	392.8	390.4	390.1	389.8
% Change	4.1	-0.8	0.2	8.0	-3.5	-2.4	-0.3	-0.3

## Household Survey Employment Measures

Labor Force	3,089.1	3,096.4	3,088.3	3,077.9	3,084.4	3,078.9	3,084.1	3,083.4
% Change	0.0	1.0	-1.0	-1.3	0.8	-0.7	0.7	-0.1
Employment	2,940.2	2,945.4	2,950.9	2,924.4	2,906.9	2,869.5	2,848.0	2,838.9
% Change	0.2	0.7	0.8	-3.5	-2.4	-5.1	-3.0	-1.3
Unemployment Rate (%)	4.8	4.9	4.4	5.0	5.8	6.8	7.7	7.9

## APPENDIX 3

WISCONSIN INCOME SUMMARY  
PERSONAL INCOME BY MAJOR SOURCE  
(\$ Billions)

Please see attached Advisory for Updated BEA personal income estimates

	History				Forecast	2009	2010	2011
	2004	2005	2006	2007	2008			
Total Personal Income	174.655	181.163	192.031	203.008	209.220	212.121	218.665	227.720
% Change	3.9	3.7	6.0	5.7	3.1	1.4	3.1	4.1
Wages and Salaries	99.141	102.166	106.852	110.912	113.794	114.320	118.033	122.926
% Change	5.0	3.1	4.6	3.8	2.59930215	0.5	3.2	4.1
Supplements to Wages and Salaries	23.622	24.866	25.816	26.376	27.051	28.093	29.660	30.992
% Change	1.7	5.3	3.8	2.2	2.6	3.9	5.6	4.5
Proprietor's Income	11.451	11.822	12.161	13.156	12.941	12.823	13.243	13.546
% Change	7.9	3.2	2.9	8.2	-1.6	-0.9	3.3	2.3
Rental Income	2.247	1.337	0.792	0.601	0.628	0.639	0.646	0.651
% Change	-6.6	-40.5	-40.7	-24.1	4.5	1.7	1.2	0.7
Personal Dividend Income	9.829	10.344	12.471	14.749	16.108	15.998	16.030	16.410
% Change	20.7	5.23591849	20.5613418	18.3	9.2	-0.6855545	0.19947731	2.36970151
Personal Interest Income	16.162	17.092	19.418	20.884	21.036	20.551	20.510	21.961
% Change	-4.8	5.8	13.6	7.6	0.7	-2.3	-0.2	7.1
Current Transfer Receipts	24.232	26.013	27.504	29.677	31.361	33.430	34.605	35.841
% Change	2.0	7.3	5.7	7.9	5.7	6.6	3.5	3.6
Residence Adjustment	3.173	3.300	3.545	3.733	3.876	3.983	4.209	4.486
% Change	5.21429164	3.99464229	7.424804909	5.3	3.83412576	2.76101138	5.65540497	6.59682789
Contributions to Government Social Ins.	15.201	15.775	16.527	17.079	17.612	17.717	18.271	19.093
% Change	5.62108079	3.77600526	4.763791382	3.34155233	3.12243106	0.6	3.1	4.49902631
Personal Tax & Nontax Payments	19.037	21.023	23.370	25.332	25.616	24.657	25.576	26.778
% Change	1.4	10.4	11.2	8.4	1.1	-3.7	3.7	4.7
Disposable Personal Income	155.619	160.141	168.661	177.676	184.157	187.463	193.089	200.942
% Change	4.2	2.9	5.3	5.3	3.6	1.8	3.0	4.1

Related Income Measures

Personal Income (2000 \$) (\$ Billions)	161.1	162.4	167.500	172.5	172.100	175.6	177.8	180.8
% Change	1.2	0.8	3.1	3.0	-0.3	2.1	1.2	1.7
Per Capita Income (2000 \$)	29,323	29,390	30,155	30,883	30,614	31,058	31,253	31,597
% Change	0.6	0.2	2.6	2.4	-0.9	1.4	0.6	1.1
Per Capita Income (\$)	31,786	32,795	34,582	36,337	37,217	37,506	38,436	39,798
% Change	3.3	3.2	5.5	5.1	2.4	0.8	2.5	3.5
Per Capita Income as a Percent of U.S.	96.1	94.8	94.2	94.2	93.8	93.9	94.7	94.6
GDP (Current Dollars)	205.916	214.085	223.394	232.294	238.576	241.593	251.242	262.772
% Change	5.1	4.0	4.3	4.0	2.7	1.3	4.0	4.6
GDP (2000 \$) (\$ Billions)	188.116	189.389	191.465	193.871	194.639	194.3	199.5	205.32
% Change	2.2	0.7	1.1	1.3	0.4	-0.2	2.6	2.9

## APPENDIX 4

WISCONSIN INCOME SUMMARY  
 PERSONAL INCOME BY MAJOR SOURCE (\$ Billions)  
 Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

Please see attached Advisory for Updated BEA personal income estimates

	History				Forecast			
	2007:3	2007:4	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2
Total Personal Income	203.660	206.126	207.091	209.940	209.053	210.796	210.746	211.492
% Change	4.0	4.9	1.9	5.6	-1.7	3.4	-0.1	1.4
Wages and Salaries	110.826	112.462	112.878	113.716	113.765	114.818	114.038	113.935
% Change	2.5	6.0	1.5	3.0	0.2	3.8	-2.7	-0.4
Supplements to Wages and Salaries	26.362	26.667	26.772	26.964	27.053	27.415	27.668	27.908
% Change	2.1	4.7	1.6	2.9	1.3	5.5	3.7	3.5
Proprietor's Income	13.313	13.330	13.282	12.952	12.835	12.694	12.615	12.806
% Change	5.6	0.5	-1.4	-9.6	-3.6	-4.3	-2.5	6.2
Rental Income	0.588	0.607	0.620	0.627	0.634	0.632	0.634	0.637
% Change	-2.5	13.1	9.3	4.3	4.9	-1.5	1.4	2.0
Personal Dividend Income	15.038	15.636	15.943	16.212	16.105	16.174	16.121	16.008
% Change	17.3	16.9	8.1	6.9	-2.6	1.7	-1.3	-2.8
Personal Interest Income	21.041	21.247	21.041	20.872	21.022	21.207	20.852	20.639
% Change	5.1	4	-3.8	-3.2	2.9	3.6	-6.5	-4
Current Transfer Receipts	29.805	30.051	30.642	31.651	31.451	31.701	32.687	33.325
% Change	4.9	3.3	8.1	13.8	-2.5	3.2	13	8
Residence Adjustment	3.734	3.812	3.842	3.848	3.889	3.926	3.933	3.958
% Change	1.2	8.6	3.2	0.6	4.3	3.9	0.7	2.6
Contributions to Government Social Ins.	17.059	17.253	17.479	17.561	17.637	17.773	17.802	17.724
% Change	2.0	4.6	5.3	1.9	1.7	3.1	0.7	-1.7
Personal Tax & Nontax Payments	25.565	25.983	25.667	25.451	25.779	25.568	24.807	24.612
% Change	7.2	6.7	-4.8	-3.3	5.2	-3.2	-11.4	-3.1
Disposable Personal Income	178.095	180.143	181.424	184.489	185.487	185.227	185.939	186.880
% Change	3.5	4.7	2.9	6.9	2.2	-0.6	1.5	2.0
Related Income Measures								
Personal Income (2000 \$) (\$ Billions)	172.639	172.895	172.17	172.728	169.837	173.656	174.734	175.791
% Change	1.5	0.6	-1.7	1.3	-6.5	9.3	2.5	2.4
Per Capita Income (2000 \$)	30,876	30,873	30,697	30,749	30,189	30,821	30,965	31,106
% Change	0.8	0.0	-2.3	0.7	-7.1	8.6	1.9	1.8
Per Capita Income (\$)	36,424	36,807	36,923	37,374	37,159	37,412	37,347	37,423
% Change	3.3	4.3	1.3	5.0	-2.3	2.8	-0.7	0.8
Per Capita Income as Percent of U.S. (%)	94.0	94.1	93.9	93.8	93.5	93.9	93.6	93.8
GDP (Current Dollars)	232.491	234.058	235.490	238.028	237.525	243.259	240.575	242.354
% Change	-0.5	2.7	2.5	4.4	-0.8	10.0	-4.3	3.0
GDP (2000 \$) (\$ Billions)	193.768	193.715	193.639	195.183	192.788	196.932	193.969	195.493
% Change	-2.0	-0.1	-0.2	3.2	-4.8	8.9	-5.9	3.2

APPENDIX 5  
U.S. ECONOMIC FORECAST  
GLOBAL INSIGHT (December 2008)

	2004	2005	2006	2007	2008	2009	2010	2011
<b>Real GDP and its Components (Billions of Chain Weighted 2000 Dollars)</b>								
Gross Domestic Product	10,675.7	10,989.5	11,294.9	11,523.9	11,662.1	11,455.5	11,692.2	12,062.6
% Change	3.6	2.9	2.8	2.0	1.2	-1.8	2.1	3.2
Consumption	7,561.3	7,791.7	8,029.0	8,252.8	8,271.7	8,228.0	8,427.1	8,618.3
% Change	3.6	3.0	3.0	2.8	0.2	-0.5	2.4	2.3
Investment (Incl. Inventory)	1,770.2	1,873.5	1,912.5	1,809.7	1,693.9	1,390.7	1,531.9	1,770.7
% Change	9.7	5.8	2.1	-5.4	-6.4	-17.9	10.2	15.6
Nonresidential Structures	246.7	249.8	270.3	304.6	338.6	285.2	247.8	262.1
% Change	1.3	1.3	8.2	12.7	11.2	-15.8	-13.1	5.8
Business Equipment	905.1	989.6	1,061.0	1,078.9	1,056.2	927.4	998.5	1,137.8
% Change	7.4	9.3	7.2	1.7	-2.1	-12.2	7.7	13.9
Residential Fixed	560.1	595.4	552.9	453.8	358.3	289.7	324.7	398.6
% Change	10.0	6.3	-7.1	-17.9	-21.0	-19.1	12.1	22.7
Inventory Change	54.3	38.9	42.3	-2.5	-32.0	-77.6	19.0	41.5
Exports	1,126.1	1,205.3	1,314.8	1,425.9	1,535.4	1,480.8	1,480.0	1,589.9
% Change	9.7	7.0	9.1	8.4	7.7	-3.6	-0.1	7.4
Imports	1,720.0	1,821.9	1,930.5	1,972.4	1,915.3	1,765.1	1,879.7	2,013.2
% Change	11.3	5.9	6.0	2.2	-2.9	-7.8	6.5	7.1
Federal Government	715.9	724.5	741.0	752.9	795.8	821.9	815.5	799.9
% Change	4.2	1.2	2.3	1.6	5.7	3.3	-0.8	-1.9
State and Local Government	1,215.8	1,214.3	1,230.2	1,259.0	1,272.1	1,271.0	1,293.3	1,294.3
% Change	-0.2	-0.1	1.3	2.3	1.0	-0.1	1.8	0.1
GDP (Current Dollars)	11,685.9	12,421.9	13,178.4	13,807.6	14,287.1	14,240.6	14,727.8	15,438.4
% Change	6.6	6.3	6.1	4.8	3.5	-0.3	3.4	4.8
<b>Employment, Unemployment, Wages and Prices</b>								
Nonfarm Employment (Millions)	131.4	133.7	136.1	137.6	137.4	134.8	134.9	136.9
% Change	1.1	1.7	1.8	1.1	-0.2	-1.9	0.1	1.5
Unemployment Rate (%)	5.5	5.1	4.6	4.6	5.8	8.2	8.6	8.1
Compensation per Hour (% Change)	3.6	4.0	3.8	4.1	4.0	3.9	2.8	2.6
Consumer Price Index (% Change)	2.7	3.4	3.2	2.9	3.8	-1.5	2.4	3.1
Producer Price Index (% Change)	6.2	7.3	4.7	4.8	10.1	-11.6	2.7	4.2
GDP Price Deflator (% Change)	2.9	3.3	3.2	2.7	2.3	1.4	1.3	1.6
Industrial Production (% Change)	2.5	3.3	2.2	1.7	-1.3	-5.5	0.5	3.3
Price of WTI Crude Oil (\$ Per Barrel)	41.5	56.6	66.1	72.2	100.2	43.1	56.8	78.7
<b>Financial Markets</b>								
Money Supply (M2) (\$ Billions)	6,376.9	6,633.6	6,973.6	7,371.6	7,907.5	8,642.6	9,099.1	9,548.0
% Change	5.4	4.0	5.1	5.7	7.3	9.3	5.3	4.9
Prime Commercial Rate (%)	4.3	6.2	8.0	8.1	5.1	3.1	4.2	6.7
Three Month Treasury Bills (%)	1.4	3.1	4.7	4.4	1.4	0.4	1.8	4.0
Ten-Year Treasury Note Yield (%)	4.3	4.3	4.8	4.6	3.7	3.2	3.9	5.1
General Obligation AAA Municipals (%)	4.5	4.3	4.2	4.1	4.5	4.4	4.7	5.3
Thirty-Year Mortgage Rate (%)	5.8	5.9	6.4	6.3	6.0	5.4	5.7	6.8
S&P 500 Stock Index	1,130.6	1,207.1	1,310.7	1,476.7	1,216.5	980.0	1,125.0	1,280.0
<b>Income, Profits and Savings</b>								
Personal Income (\$ Billions)	9,727.2	10,269.8	10,993.9	11,663.3	12,121.5	12,315.4	12,632.0	13,226.2
% Change	6.2	5.6	7.1	6.1	3.9	1.6	2.6	4.7
Personal Income (\$ 2000) (\$ Billions)	8,973.3	9,203.1	9,586.6	9,912.4	9,970.6	10,198.0	10,271.3	10,500.4
% Change	3.4	2.6	4.2	3.4	0.6	2.3	0.7	2.2
Personal Tax & Nontax Payments	1,046.3	1,207.8	1,353.2	1,492.8	1,467.0	1,350.4	1,411.8	1,567.1
% Change	4.5	15.4	12.0	10.3	-1.7	-8.0	4.5	11.0
Disposable Personal Income	8,680.9	9,062.0	9,640.7	10,170.5	10,654.5	10,965.0	11,220.2	11,659.1
% Change	6.4	4.4	6.4	5.5	4.8	2.9	2.3	3.9
Savings Rate (%)	2.1	0.4	0.7	0.5	1.8	5.8	4.0	3.3
Corporate Profits Before Tax (\$ Billions)	1,231.2	1,448.0	1,668.5	1,642.4	1,507.6	1,424.9	1,547.9	1,591.9
% Change	24.0	17.6	15.2	-1.6	-8.2	-5.5	8.6	2.8