WISCONSIN
Economic Outlook

March 2009

Executive Summary

National economy has been in recession for 15 months

Freezing of the credit market and global character of the crisis are major factors in the deepening of recession

Outlook has worsened since December

State employment expected to decline in 2009 and remain flat in 2010 before strong growth path toward 2011

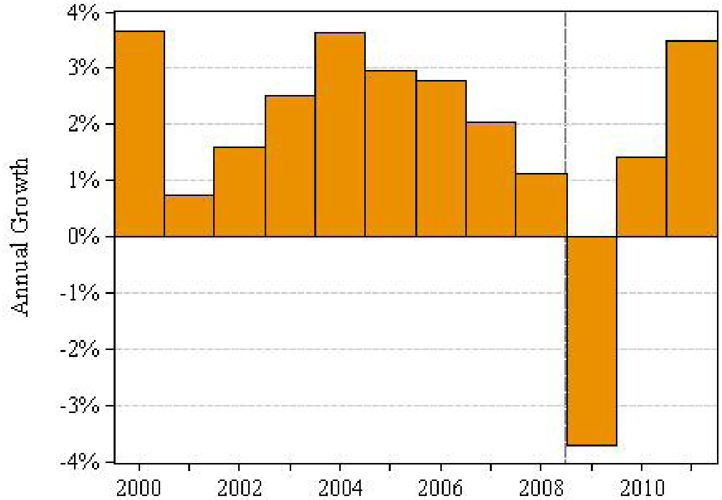
American Recovery and Reinvestment Act will bring $5.2 billion in tax benefits to Wisconsin families and businesses

The national economy has been in recession for 15 months now, starting in December 2007 as dated by the National Bureau of Economic Research. Current trends of key indicators of the Wisconsin economy show that Wisconsin is also in a recession, with the same start date of December 2007.

The two major factors deepening the recession 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 other countries enter recessions. In its January world forecast, the International Monetary Fund is expecting global growth in 2009 to fall to 0.5% when measured in terms of purchasing power parity and to turn negative when measured in terms of market exchange rates. The report says advanced economies will be hit hardest.

The March national outlook is calling for a real GDP growth rate of 1.1% in 2008 and a decline of 3.7% in 2009, revised from the 1.2% growth and 1.8% decline expected in December. The U.S. labor market has lost 4.4 million jobs and is now expected to shed a total of 7.1 million jobs, representing an employment decline of 3.6% and 0.8% in 2009 and 2010 respectively.

Real GDP Will Decline in 2009
For the First Time in 18 Years



WI Employment Outlook

Total employment in Wisconsin fell 0.5% in 2008, and is expected to decline 3.7% in 2009 and 0.1% in 2010. It will recover a strong growth path toward 2011, posting growth rates of 1.7% in 2011 and 2.2% in 2012.

Nationally, the March forecast expects the current recession to be worse than the early 1970s and 1980s recessions in terms of job losses. As comparison, the recession of the 1980s lost 138,300 jobs or 7.0% of the total employment, worse than the losses expected during the current recession.

The two largest employment sectors in Wisconsin, Manufacturing and Trade, Transportation and Utilities, declined 1.7% and 1.5% in 2008 respectively. In the last four months of 2008 the sectors lost 35,700 jobs, while January and February posted job losses of 8,200 and 10,500 jobs for Manufacturing.

The Education and Health Services sector is clearly the outlier in this recession, having grown in 2007 and 2008; it is expected to be the only private sector adding jobs in 2009. The share of the sector has been increasing over time and is forecasted to surpass the share of the manufacturing sector by 2010, reaching 16% of total nonfarm employment.

The Wisconsin unemployment data show three years of unemployment rates at 4.7% (2006-2008). In 2009, the unemployment rate is expected to be 8.3% and reach 8.9% in 2010. The January and February readings of Wisconsin seasonally adjusted unemployment rate were 7.0% and 7.7%, respectively.

WI Personal Income Outlook

The steady growth of Wisconsin personal income shown over the 2005-2007 period declined to 3.4% in 2008 and is expected to stall as the recession deepens in early 2009. A weak recovery is expected to start in 2010 with total personal income growth of 1.9% in 2010 and 3.9% in 2011.

Wisconsin real personal income grew 3.1% in 2006 and 2007 due to strong growth in personal income and moderate price increases. During 2008, as price increases accelerated and the growth of personal income slowed due to weakening in the labor and stocks markets, Wisconsin real personal income grew only 0.1%.

Real personal income is expected to show moderate positive growth in 2010 and 2011 as personal income slowly recovers and prices start to increase again.

Real per capita income in Wisconsin grew 2.5% in 2007 and declined 0.5% in 2008. Helped by the deflationary outlook in 2009, real per capita personal income will grow 0.5%. It is expected to grow at 0.2% in 2010 and 1.4% in 2011.

Special Report:
ARRA Tax Benefits to Wisconsin Families & Businesses

The American Recovery and Reinvestment Act of 2009, signed by President Obama in February, is a $787 billion economic package that includes tax cuts, infrastructure funding and state aids. The ARRA provides $5.2 billion in tax benefits to Wisconsin families and businesses over the next three years.

An analysis of the ARRA tax benefits is included in the full outlook report. It summarizes the impact of the Making Work Pay Credit, changes to the Earned Income Tax Credit and other provisions on Wisconsin citizens.

special thanks to Brad Caruth

U.S. Outlook

The U.S. outlook has continued to worsen since the December outlook. The GDP forecast for 2009 is now a contraction of 3.7% rather than the expected decline of 1.8%. The forecast now pegs the peak-to-trough drop in GDP at 4.8%, without precedent in the postwar era though still some distance from the 10% decline that some consider the mark of a depression.

Given the extent of downward momentum, Global Insight expects the unemployment rate to peak at 10.3% in the first half of 2010.

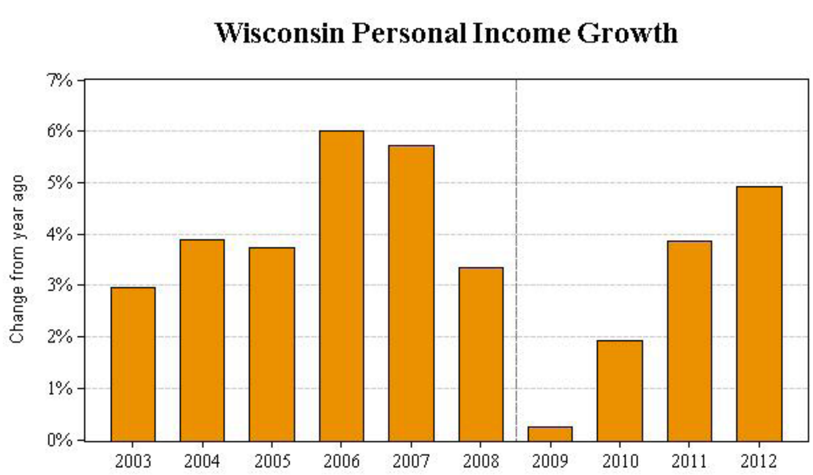
The federal government's efforts to inject demand through the recovery package, shore up the financial sector, and revive lending to consumers and businesses will take time to become effective. The various efforts will gradually ease the rate of GDP decline as the year progresses and will produce a modest positive growth rate in the fourth quarter.

The only glimmer of good news is coming from the consumer, where January retail sales and February chain-store sales both outperformed expectations. But given tumbling employment, falling household wealth, and still-tight credit, consumption may not have yet bottomed out.

Housing remains a major drag on growth. Until the housing market stabilizes, it will be impossible to draw a line under the financial crisis. With the broader economy now turning down, that means higher unemployment, reduced household wealth, and greater insecurity among potential purchasers.

Other key supports to growth are being knocked away. Declining consumer, housing, and export demand, coupled with tighter credit, are all making businesses pull back on capital spending.

There have been some signs of stabilization in commodity prices, but deflation remains a real threat. By the third quarter of 2009, Global Insight expects headline CPI inflation to be as low as minus 3.6% year-on-year, largely on lower energy costs.



Key U.S. Forecast Assumptions

> Fiscal Package Worth $787 Billion

> Troubled Asset Relief Program Worth $700 Billion

> Oil Prices Drop Below $40/Barrel for 2009

> Fed Holds Rates Below 0.25% through 2010

> Dollar has Bounced on Risk Aversion

> Foreign Economies in Recession

> Defense Spending Growth Slows

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

Questions?

Emily Camfield
emily.camfield@revenue.wi.gov

Romina Soria
romina.soria@revenue.wi.gov

Wisconsin Department of Revenue
2135 Rimrock Road
Madison, WI 53713
www.revenue.wi.gov