

WISCONSIN Economic Outlook

June
2009

Executive Summary

National recession remains severe, but bottom is in sight

Real GDP is expected to begin increase in third quarter of 2009 as part of slow recovery

American Recovery and Reinvestment Act spending is gaining traction

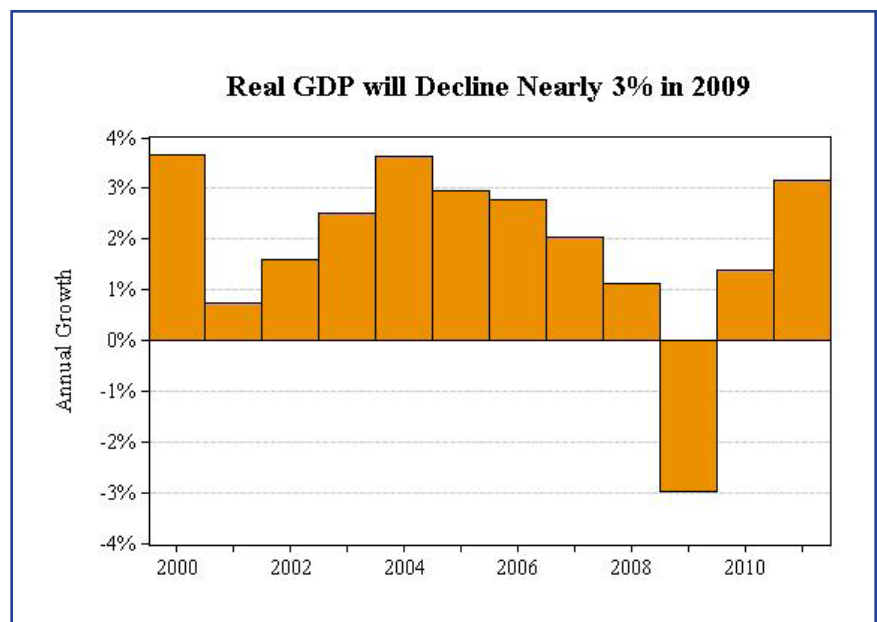
Wisconsin employment and personal income expected to start recovery in 2010

State exports showed strong growth through 2008, but will decline in 2009 as Wisconsin trading partners face continued global recession

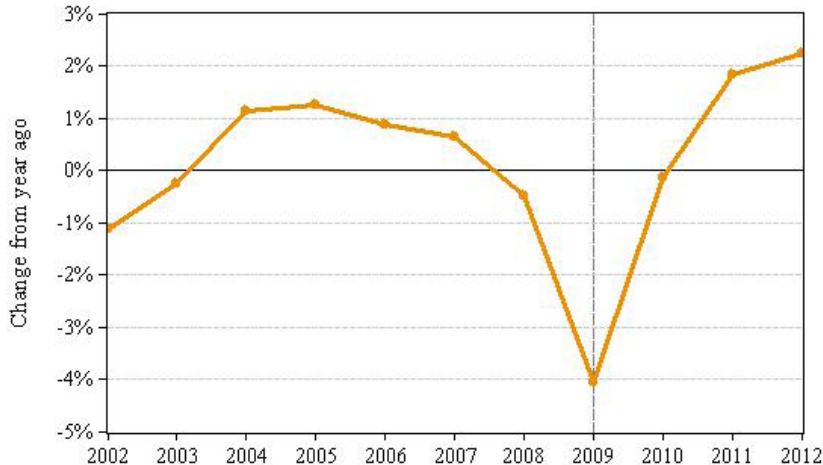
The National economy has now been in recession for 18 months, starting in December 2007 as dated by the National Bureau of Economic Research. The recession continues to be severe but the bottom is in sight, with GDP expected to begin growth in the second half of 2009. Recovery will be slow, as unemployment peaks at 10.3% in the first half of 2010.

Current trends of key indicators of the Wisconsin economy show that Wisconsin also remains in a recession, having lost 143,300 jobs since December 2007. The current outlook calls for a peak-to-trough job loss of 155,300 or 5.4% of total employment, compared to the estimate in March of a 143,400 (5.0%) job loss. Housing, the sector that originally triggered the recession, is showing signs of improvement, but the recovery is expected to be slow.

The June national outlook is calling for a real GDP decline of 3.4% in 2009 and a growth rate of 1.4% in 2010. The U.S. labor market has already lost six million jobs since December 2007, and is now expected to shed a total of 7.1 million jobs peak-to-trough.



Wisconsin Employment Growth



WI Personal Income Outlook

Wisconsin total personal income grew 3.4% in 2008, slightly lower than the national growth of 3.8% but higher than the regional average growth of 3.2%.

The current forecast is calling for state personal income to decline 1.0% in 2009, with wages falling 2.0%. The drop in personal income would be higher if not for the recovery package that is expected to increase transfer receipts by 9.5% in 2009.

Personal income will return to growth in 2010 as wages start to grow. The slow pace of the recovery will yield growth rates of 3.8% and 4.7% in 2011 and 2012. Real personal income was almost flat in 2008 and is expected to decline 1.0% in 2009, as prices post only minor upward movement.

During the recovery, as demand puts some pressure on prices, the personal consumption expenditure index is expected to show mild price growth. With mild price growth, real personal income will grow in 2010 and 2011, reaching nearly 3.0% by 2012.

WI Employment Outlook

Wisconsin employment grew 0.6% in 2007 and declined 0.5% in 2008, losing 14,200 jobs. Employment in the first quarter of 2009 shows a year over year decline of 3.1%. Deepening the trend, April and May posted declines of 4.4% and 4.6% respectively. For the remainder of 2009, state employment is expected to decline more than 4% on a year over year basis.

Wisconsin employment is expected to trough in the last quarter of 2009. The forecast calls for declines of 4.1% in 2009 and 0.1% in 2010 as the recession progresses and hits bottom later in the year before starting to recover in 2010. U.S. employment is forecasted to lose 5.2% or 7.1 million jobs, while Wisconsin is expected to lose 5.4% or 155,100 jobs on a quarterly basis.

During the last several years, state Manufacturing employment outperformed the U.S. and it is expected to continue this trend. Since the beginning of the current recession, Wisconsin has lost 13% of its manufacturing jobs (65,400).

The forecast calls for significant declines of 11.4% and 6.4% in 2009 and 2010 before recovering job growth in 2011. The Education and Health Services sector was the only private sector posting year over year job gains in the last three months and is expected to be the only one featuring employment growth (2.5%) in 2009.

Wisconsin's latest seasonally adjusted unemployment rate was 8.9% in May, more than double from a year ago. However, it is still half a percentage point below the national unemployment rate of 9.4% in May.

Special Report: Wisconsin Exports

Wisconsin exports increased 9.2% in 2008, down slightly from 9.6% growth in 2007. Since 2003, Wisconsin exports have increased 78.5%, totaling \$20.55 billion in 2008. State exports are expected to decline in 2009 due to the continued global recession facing Wisconsin trading partners, before returning to slight growth in 2010.

Wisconsin's largest export partner remains Canada, which received 31.6% of total exports in 2008, totaling \$6.5 billion worth of goods. Mexico (\$1.8 billion), China (\$1.2 billion), Germany (\$790 million) and Japan (\$724 million) complete the list of Wisconsin's top five destinations. Nationally, exports increased 11.8% in 2008. U.S. exports are expected to decrease 18.8% in 2009.

U.S. Outlook

The economy remains on track to bottom out soon, at least in output terms. The current forecast expects the rate of contraction in GDP to slow in the second quarter to -2.8%, before GDP edges higher in the second half of the year.

A rapid recovery is not likely after such an extreme financial shock. While the recession may be declared technically "over" some time during the third quarter of 2009, the unemployment rate will continue to rise and will peak at 10.3% in the first half of 2010.

The May employment report offered perhaps the most solid sign yet that the downturn is slowing. It showed a much more moderate rate of job loss in private services. However, a retreat in the unemployment rate remains a distant prospect.

Consumer sentiment has improved, although that mainly reflects hopes for the future rather than better current conditions. Continuing steep employment declines, reduced household wealth, debt overhangs, and still-tight credit are preventing

a robust consumer recovery.

Housing remains a major drag on growth and until the housing market stabilizes, it will be difficult to draw a line under the financial crisis. However, lower home prices and mortgage rates are now making housing look much cheaper. Most key indicators of housing activity are showing signs of stabilization.

The global recession has hit exports hard. They declined at a 28.7% annual rate in the first quarter of 2009. Although there are now signs that world trade is beginning to stabilize, the national outlook does not expect the U.S. recovery to be export-led.

Rising commodity prices have eased fears of deflation, and there is now talk of inflation risks as some investors are viewing the magnitude of monetary and fiscal stimuli with alarm. But there is too much excess capacity in product markets and especially in the labor market for an inflation spiral to take hold any time soon.

Key U.S. Forecast Assumptions

- > Fiscal Package Continues to Gain Traction
- > \$700 Billion Troubled Asset Relief Program in Effect
- > GM and Chrysler Emerge from Bankruptcy
- > Fed Holds Rates Near Zero
- > Oil Prices will Average \$51/Barrel in Second Half of 2009
- > U.S. Trading Partners in Recession
- > Defense Spending Growth Expected to Slow

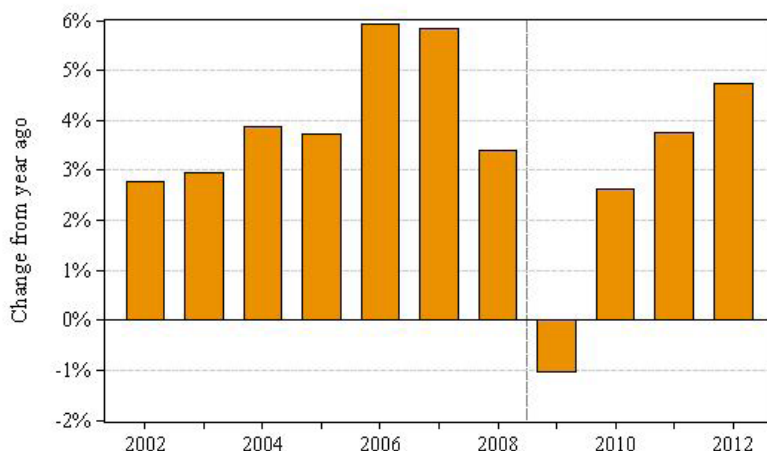
Executive Summary based on the *Wisconsin Economic Outlook*, a quarterly publication of the Wisconsin Department of Revenue Division of Research & Policy.

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

Questions?

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Wisconsin Personal Income Growth



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