Special Report
“Parsing the Politicians: The Wisconsin Economy and State Finances”

Todd A. Berry, Ph.D., president of the Wisconsin Taxpayers Alliance
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   Parsing the Politicians: The Wisconsin Economy and State Finances
   by Todd A. Berry, Ph.D., President, Wisconsin Taxpayers Alliance

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The Outlook
The state and national economy will continue to expand at a modest pace throughout the remainder of this year. HIS Global Insight’s forecast cites a number of factors influencing the state and national economies. What are these factors and how are they affecting the situation?

The politics in Washington D.C. by most accounts has had a negative influence on the economy. The immediate damage caused by the government shutdown has been estimated to be $24 billion. Closing the government disturbs economic relationships and increases business risk. Will the government in the future be a reliable business partner? Will U.S. honor its contracts? With the possibility of future disagreements in Washington, will households and businesses spend and invest at the same level as they would in the absence of such risk? To the extent there is a perceived increase in risk, patterns of economic behavior will be altered and the economy will be affected in a negative way.

Along the same lines the very notion that the debt ceiling would not be raised creates additional uncertainty and risk to the economy. The potential disruption from a default would have been very damaging to the nation and state. Even if a default did not materialize, the trust in our nation’s political institutions is weakened by such actions. The automatic spending cuts coming from the so-called sequester, have produced a drag on the economy. Cuts in spending reduce demand, income and employment. Most economists believe that the across the broad cuts have already reduced GDP growth. The nonpartisan Congressional Budget Office forecasts that Real GDP in 2013 will be 1.4 percent lower because of the spending cuts. The reduction in spending was about $42 billion in 2013, and is projected to reach near $90 billion in 2014. Emergency unemployment compensation, a form of fiscal stimulus, was extended into 2013. However, this will be phased out in the coming years. The HIS Global model suggests this action will also dampen economic activity by taking spending out of the economy. Additionally, with a modest increase in the worldwide demand for oil, oil prices will hover around $100 a barrel. This means that the simulative effect of falling petroleum prices is unlikely to take place.

The continued economic weakness in the Eurozone means that exports to this important trade partner will be less than it would be otherwise. The economic malaise in the Eurozone has been caused in part by the turmoil resulting from the great recession. In an attempt to deal with the problem, the European community adopted an austerity program to reduce budget deficits. This too has reduce demand and contributed to the slowdown in Europe.

Even with these negative elements affecting the economy the forecast is still positive for Wisconsin and the nation for 2014. Wisconsin’s total nonfarm employment is expected to grow from 2.82 million in 2013 to 2.9 million in 2014, a modest increase of 1.4 percent. The unemployment rate is forecasted to drop from 6.9 percent in 2013 to 6.5 percent in 2014. Further, Wisconsin’s personal income will grow by 4.6 percent in 2014 compared to 1.9 percent in 2013.

For the U.S., Real GDP is predicted to grow by 2.8 percent in 2014. Payrolls will grow by 1.6 percent and the unemployment rate will fall by four tenths of a point in 2014, down to 7.2 percent. Personal income will rise in the U.S. by 5.1 percent in 2014, to $14.5 trillion. Corporate profits will gain momentum, climbing from $1.9 trillion in 2013 to $2.1 trillion in 2014, a gain of 4.2 percent.

![Table.png](attachment://Table.png)

The jobs number for September was disappointing and less than forecasted for the U.S., coming in at 148,000 positions. The forecast for inflation in 2014 calls for the CPI to increase by just 1.6 percent. The Federal Reserve, the nation’s central bank, will most likely conclude from the weak job numbers, the low inflation projection, and other economic data that it needs to continue its program of quantitative easing. This means the Fed will pump more liquidity into the economy. It will do this by purchasing large quantities of U.S. debt, approximately $85 billion per month. The Fed now holds a staggering $3.6 trillion in U.S. Treasury securities on its balance sheet. The continuation of the quantitative easing means that interest rates should remain low and stock prices will remain at elevated levels.

Finally, the consensus among economists is that the economy is improving in spite of the headwinds
created by Washington. One can only imagine how much more robust the recovery would be if the political discord could be resolved.

**Central Wisconsin**
The unemployment rate in each reporting areas is displayed in Table 2. In August 2013 Marathon, Portage and Wood counties all experienced a decline in their unemployment rates from a year ago. The respective August rates for Portage, Marathon and Wood were 6.0, 6.3 and 6.8 percent. The labor force weighted unemployment rate for Central Wisconsin was unchanged, was at 6.3 percent. Meanwhile Wisconsin’s unemployment rate dropped from 6.8 to 6.2 percent and the United States unemployment rate fell from 8.2 percent to 7.3 percent. Thus, the unemployment rates were much improved throughout all reporting areas.

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>UNEMPLOYMENT RATE CENTRAL WISCONSIN</th>
<th>Unemployment Rate</th>
<th>Unemployment Rate</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Portage County</td>
<td>6.6%</td>
<td>6.9%</td>
<td>-3.3%</td>
</tr>
<tr>
<td></td>
<td>City of Stevens Point</td>
<td>8.9%</td>
<td>7.4%</td>
<td>-12.9%</td>
</tr>
<tr>
<td></td>
<td>Marathon County</td>
<td>7.1%</td>
<td>6.3%</td>
<td>-11.5%</td>
</tr>
<tr>
<td></td>
<td>Wood County</td>
<td>7.0%</td>
<td>6.9%</td>
<td>-1.4%</td>
</tr>
<tr>
<td></td>
<td>Central Wisconsin</td>
<td>7.6%</td>
<td>6.3%</td>
<td>-16.5%</td>
</tr>
<tr>
<td></td>
<td>Wisconsin</td>
<td>8.8%</td>
<td>6.2%</td>
<td>-2.3%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>6.2%</td>
<td>7.3%</td>
<td>-10.4%</td>
</tr>
</tbody>
</table>

Employment figures in Table 3 are based on the government’s survey of households. Portage County’s total employment figure contracted by 4.7 percent and total employment in Wood County fell by 1.3 percent over the past year. Marathon County payrolls fell even more, contracting by 2.4 percent over the past twelve months. Central Wisconsin as a whole experienced an employment decline of about 4,000 positions. Jobs in the region fell from 146.4 to 142.4 thousand or by 2.7 percent. The survey of households also shows that Wisconsin’s payrolls increased by 0.9 percent, or by about 17,000 positions over the period.

<table>
<thead>
<tr>
<th>TABLE 3</th>
<th>EMPLOYMENT CENTRAL WISCONSIN</th>
<th>Total Employment</th>
<th>Total Employment</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Portage County</td>
<td>40.2</td>
<td>30.3</td>
<td>-3.7%</td>
</tr>
<tr>
<td></td>
<td>City of Stevens Point</td>
<td>14.5</td>
<td>14.3</td>
<td>-1.4%</td>
</tr>
<tr>
<td></td>
<td>Marathon County</td>
<td>57.9</td>
<td>56.3</td>
<td>-2.4%</td>
</tr>
<tr>
<td></td>
<td>Wood County</td>
<td>38.4</td>
<td>37.9</td>
<td>-1.3%</td>
</tr>
<tr>
<td></td>
<td>Central Wisconsin</td>
<td>146.4</td>
<td>142.4</td>
<td>-2.7%</td>
</tr>
<tr>
<td></td>
<td>Wisconsin</td>
<td>2,870.8</td>
<td>2,897.3</td>
<td>-0.9%</td>
</tr>
<tr>
<td></td>
<td>United States</td>
<td>143,333</td>
<td>144,569</td>
<td>+0.8%</td>
</tr>
</tbody>
</table>

*Percent change figures reflect data before rounding

The nation gained 0.8 percent or about 1,200,000 jobs over the same period.

Table 4 gives the most recent employer based payrolls numbers for Wisconsin. Economists believe the nonfarm employment numbers based on employer provided data, give a more accurate assessment of the labor market conditions than does the household survey data. From August 2012 to August 2013 Wisconsin’s total nonfarm employment expanded from 2,804 million to 2,853 million or by a 1.7 percent. This represents a gain of approximately 50,000 thousand jobs during the past year. The sectors of the economy to experience job growth were construction, manufacturing, trade transportation and utilities, professional & business services, leisure & hospitality, educational & health services and government. However, the employment results for natural resources and mining, information, and financial activities were disappointing. Thus, the rate of job generation continues to be very modest in the state as measured by this data set.

<table>
<thead>
<tr>
<th>TABLE 4</th>
<th>WISCONSIN EMPLOYMENT CHANGE BY SECTOR</th>
<th>Employment</th>
<th>Employment</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Nonfarm</td>
<td>2,804.8</td>
<td>2,853.0</td>
<td>+1.7%</td>
</tr>
<tr>
<td></td>
<td>Total Private</td>
<td>2,429.0</td>
<td>2,471.5</td>
<td>+1.9%</td>
</tr>
<tr>
<td></td>
<td>Natural Resources and Mining</td>
<td>3.9</td>
<td>3.9</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td>102.0</td>
<td>107.4</td>
<td>+5.3%</td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td>465.4</td>
<td>467.8</td>
<td>+0.5%</td>
</tr>
<tr>
<td></td>
<td>Trade, Transportation, and Utilities</td>
<td>513.0</td>
<td>515.2</td>
<td>+0.4%</td>
</tr>
<tr>
<td></td>
<td>Information</td>
<td>47.1</td>
<td>47.1</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Financial Activities</td>
<td>164.4</td>
<td>163.9</td>
<td>-0.3%</td>
</tr>
<tr>
<td></td>
<td>Professional and Business Services</td>
<td>294.5</td>
<td>305.3</td>
<td>+3.7%</td>
</tr>
<tr>
<td></td>
<td>Educational and Health Services</td>
<td>417.2</td>
<td>418.2</td>
<td>+0.2%</td>
</tr>
<tr>
<td></td>
<td>Leisure and Hospitality</td>
<td>279.7</td>
<td>302.4</td>
<td>+8.1%</td>
</tr>
<tr>
<td></td>
<td>Other Services, exc. Public</td>
<td>138.8</td>
<td>140.3</td>
<td>+1.1%</td>
</tr>
<tr>
<td></td>
<td>Government</td>
<td>378.8</td>
<td>381.5</td>
<td>+0.7%</td>
</tr>
</tbody>
</table>

In Table 5, Portage County sales tax distributions rose from $1.33 million to $1.41 million, an increase of 7.8 percent. Marathon experienced an increase in sales tax distributions from the state. Marathon rose from $2.60 million to $2.79 million or by 7.3 percent. Similarly Wood County collections also expanded from $1.27 million to $1.38 million or by about 8.1 percent over the course of the past year. The data
suggests there was some improvement in retail activity in Central Wisconsin.

The CWERB’s survey of area business executives is reported in Table 6. The poll was taken before the October turmoil in Washington. This group believes that recent events at the national level have led to an improvement in the country’s economic condition. In addition they believe the local business climate has improved over the past twelve months. When they were asked to forecast economic conditions at the national level they were a lot more optimistic about the future direction of the economy than in the recent past. Also, they expressed similar optimism for the local economy for their particular industry. Overall, Table 6 also shows that the level of optimism expressed for the economy was generally higher in March 2013 than in September 2013.

<table>
<thead>
<tr>
<th>Table 6 BUSINESS CONFIDENCE</th>
<th>Index Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 2013</td>
</tr>
<tr>
<td>Recent Change in National Economic Conditions</td>
<td>81</td>
</tr>
<tr>
<td>Recent Change in Local Economic Conditions</td>
<td>61</td>
</tr>
<tr>
<td>Expected Change in National Economic Conditions</td>
<td>64</td>
</tr>
<tr>
<td>Expected Change in Local Economic Conditions</td>
<td>64</td>
</tr>
<tr>
<td>Expected Change in Industry Conditions</td>
<td>64</td>
</tr>
</tbody>
</table>

Figures 1 thru 7 give a historic overview of how the economy in Wisconsin has performed during the 2008-2013 time period. For example Figure 5 shows the dramatic decline in Wisconsin manufacturing and the gradual rebound taking place since 2010. In 2008 about 500,000 were employed in manufacturing and at the end of 2010 the number of jobs bottomed out at approximately 425,000; thus, the recession caused 75,000 jobs to be lost in this one sector alone. Since that time the rebound in activity has added about 30,000 positions to the manufacturing sector. Figure 7 shows the steep decline and rebound in the number of people employed in leisure & hospitality, from about 262,000 in 2008 to 277,000 in the early part of 2013.
We usually include Table 7 which gives employer based estimates of industrial sector employment in Portage County. However, please note at the time the report was written these data for September were not available from the Wisconsin Department of Workforce Development. Hopefully these data will be available on a timely basis in the future and will be included in the report.

In Table 8 the CWerb’s retailer confidence survey finds that merchants feel that store sales are higher than they were one year ago. This is welcome news for the local economy. In addition, their expectations about store traffic and sales have become stronger than they were in June 2013. When it comes to expectations about the future it appears that the September 2013 assessment of retail activity was marginally higher than in June 2013. This group feels that retail activity in the latter part of 2013 will be at higher than in the latter part of 2012. The overall significance of the survey is that local merchants are saying that there are some signs improvements taking place in the local retail sector.

Table 9 Help Wanted Advertising is a barometer of local labor market conditions and the indexes for Stevens Point, Wausau, Marshfield and Wisconsin Rapids are now based on job advertising on the internet. The index for Stevens Point and Wisconsin Rapids rose by 12.7 percent and by 175 percent respectively when compared to a year ago. Further, Wausau experienced an expansion in the amount of advertising taking place, about 6.5 percent. Marshfield’s help wanted index contracted by approximately 0.2 percent. These data suggests that advertising growth has been very uneven in the area’s labor markets.

In Table 10 for this report. Location Quotients (LQ) allow economists to better understand the structure of an economy, and identify the industries that drive a local economy. An LQ greater than 1.0 means a region is more specialized in an activity than the nation. The greater the LQ, the greater is the industrial concentration of that activity in a region. For example, nonstore retailers (retailers who sell goods and services outside the confines of a retail facility) in Portage County have an LQ of 8.29. Meaning employment in this sector is 8.29 times more concentrated here, than it is at the national level. Some of Portage County’s other areas of high specialization include: insurance carriers 5.72, crop production 4.78, printing and related support activities 4.01, and truck transportation 3.46. These industries and others like education, help serve as the foundation for the local economy.
Another measure of the local economy is presented in Table 11. It shows that new unemployment claims contracted from 166 to 132 or by 20.4 percent over the year. Moreover total unemployment claims dropped from 1,621 to 869 or by 46.4 percent in our year over comparison. This signals that the local economy is improving.

Table 12 presents the residential construction numbers for the Stevens Point-Plover area. In our yearly comparison the number of permits issued in Third Quarter was 36 and they had an estimated value of $8.7 million and the number of housing units totaled 50. When comparing Third Quarter 2012 to that of 2013 residential alteration activity contracted from 243 to 237 permits. Further, the estimated value of this type of activity went down from $1.706 million to $1,705 million. Overall, the 2013 construction data paints a much brighter picture of the economy than last year.

The nonresidential construction figures in Table 13 were as follows for Third Quarter 2013. The number of permits issued was 7 and the estimated value was $6.8 million. The estimated value of new structures figure bodes well for the area economy. The number of business alteration permits was 82 in 2013 compared to 83 in 2012. The estimated value of alteration activity was $3.136 million in 2013 compared to the 2012 figure of $3.146 million. In sum, the pace nonresidential construction activity is picking up in the area. Further, there are a number of large constructions projects that have been recently completed or are under construction in the greater Stevens Point Area.

Table 11

<table>
<thead>
<tr>
<th>UNEMPLOYMENT CLAIMS</th>
<th>2012</th>
<th>2013</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>PORTAGE COUNTY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Claims</td>
<td>166</td>
<td>132</td>
<td>-20.4%</td>
</tr>
<tr>
<td>Total Claims</td>
<td>1,621</td>
<td>869</td>
<td>-46.4%</td>
</tr>
</tbody>
</table>

Table 12

<table>
<thead>
<tr>
<th>RESIDENTIAL CONSTRUCTION</th>
<th>2012</th>
<th>2013</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEVENS POINT - PLOVER AREA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential Permits Issued</td>
<td>15</td>
<td>36</td>
<td>+140.0%</td>
</tr>
<tr>
<td>Estimated Value of New Homes</td>
<td>$3,655.0 (thousands)</td>
<td>$8,757.5 (thousands)</td>
<td>+139.6%</td>
</tr>
<tr>
<td>Number of Housing Units</td>
<td>15</td>
<td>50</td>
<td>+233.3%</td>
</tr>
<tr>
<td>Residential Alteration Permits Issued</td>
<td>243</td>
<td>237</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Estimated Value of Alterations</td>
<td>$1,706.6 (thousands)</td>
<td>$1,705.5 (thousands)</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>

Table 13

<table>
<thead>
<tr>
<th>NONRESIDENTIAL CONSTRUCTION</th>
<th>2012</th>
<th>2013</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEVENS POINT - PLOVER AREA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Permits Issued</td>
<td>9</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Estimated Value of New Structures</td>
<td>$6,640.8 (thousands)</td>
<td>$6,769.4 (thousands)</td>
<td></td>
</tr>
<tr>
<td>Number of Business Alteration Permits</td>
<td>83</td>
<td>82</td>
<td></td>
</tr>
<tr>
<td>Estimated Value of Business Alterations</td>
<td>$3,146.6 (thousands)</td>
<td>$3,136.5 (thousands)</td>
<td></td>
</tr>
</tbody>
</table>

* Includes Stevens Point, Village of Plover, and the Towns of Hull, Stockton, Sharon, and Plover.

Figures 8 thru 11 give an economic history lesson as to how the employment level, the unemployment level, the unemployment rate, and the labor force have trended over the past five years in Portage County. Please note the data for the charts runs from January 2008 to mid-2013. The figures clearly show the influence of the great recession on the area local economy and the figures supplement the report’s year over year comparisons. This allows the short-term fluctuations in the economy to be judged more properly.
Housing Market Information

The following seven tables contain information on the national, regional, and local housing market. Housing activity is an incredibly important aspect of the economy. We believe the reader will gain valuable insight into housing markets conditions and greater insight into the local economy in this section of the report.

Table 14 gives national median home price for the U.S. and major regions in the U.S. Housing prices in the Midwest remain the lowest in the nation. The median home price in our part of the country has rose from $142,700 in 2012 to an estimated $158,400 in September 2013. In general housing prices are rising in the U.S. and are rising in all of its geographic regions. The West has the highest medium housing prices at $286,300.

The national inventory of homes is given in Table 16. As of September 2013 the inventory backlog is estimated to be 5 months. In 2008 the national supply of homes was 10.4 months. Thus, a great deal of improvement has taken place in the housing market. The statistics indicate that the backlog of unsold houses has been cut in half.

Table 15 National and the Midwest existing home sales data shows a substantial increase in sales activity over the past year. In the Midwest 1,250,000 homes are forecasted to be sold in 2013. For the Midwest, the preliminary estimate for 2013 is that 180,000 more homes will be sold than in 2012. In 2011 the number of home sold in the Midwest bottomed out at 910,000 units.

Table 17 presents the national affordability index. Over the years very low interest rates and falling home prices have greatly improved the affordability of homes. However, in 2013 housing prices and interest rates are trending upwards. While still outstanding, the preliminary estimate for the affordability index in 2013 is 156.1, down from 193.5 in 2012. The lower the index, the less affordable housing is becoming for the typical family. This means in 2013 a household earning the median income has 156 percent of the income necessary to qualify for a conventional loan covering 80 percent of a medium-priced existing single-family home.
Table 18 displays data on state and local area median prices. For the most part, Wisconsin and local area home prices have been more stable than the U.S. as a whole. In Central Wisconsin, the lowest median home price is in Wood County at $115,000. Portage County has the highest median price of $137,000, and Marathon falls somewhere between the two counties, with a median house price of $128,250. The medium price of a house in Wisconsin is about $144,000. In addition, after a number of years of decline, the medium price for a house in our area and state are increasing.

Please note that the number of homes sold listed in the table for 2013 cover just nine months of activity. Tables 20 and 21 present the changes that have taken place in the local median prices and units sold, and compares Third Quarter 2012 to Third Quarter 2013. Here we see increases in local median home prices and the number of units sold in Marathon and Wood. The lone exception being the 1.2 percent decline in units sold in Portage County.

Table 19 gives the number of local housing units sold, from 2010 to 2013. The counties of the region have all an experienced increase in the number of units sold.
Measuring Entrepreneurial Activity as
Potential Measure of Job Growth

UWSP Small Business Development Center
Vicki Lobermeier, SBDC Director of Entrepreneurship Activities
Mary Wescott, SBDC Counseling Manager

No Cost Business Assistance for Entrepreneurs
Entrepreneurial activity, as reflected by 2013 Q1 business start legal formations, looks to be increasing for the region. In addition to the UW-Stevens Point Small Business Development Center (www.uwsp.edu/conted/sbdc), many no-cost resources are available to assist existing and startup entrepreneurs.

The Small Business Administration features an online learning center that offers assistance with a wide range of topics including Marketing in Today’s Economy and Tips for Government Contracting. (www.sba.gov/sba-learning-center).

Many entrepreneurs seek answers on what is involved in getting a business loan. The SBA offers details on preparing loan applications (www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/how-prepare-your-loan-application). The site features information on credit factors, assessing the current financial situation and what to include in preparing a loan package.

The Wisconsin Economic Development Corporation (inwisconsin.com/start-your-business) provides information for startup and existing businesses. Wisconsin, thru the online Business Wizard (www2.wisconsin.gov/state/wizard/app/LoadIntro) provides information on licensing, permitting and regulatory requirements, application forms, available state resources and links to other valuable business-related information.

No cost templates and tools, mentoring and online workshops are available from Central Wisconsin SCORE (centralwisconsin.score.org). Community Action Program CAP services business development program offers free services to low-income individuals or to businesses that create living-wage jobs for low-income individuals (www.capserv.org).

Resources and quality referrals are also available through area chambers of commerce and Centery, The Central Wisconsin Alliance for Economic Development (http://centergy.net).
If recurring federal government shutdowns and debt crises teach us anything, it is that the words of career politicians, regardless of party, need to be examined with care: They need to be parsed. Debates among Badger State partisans over Wisconsin job trends and economic health, not to mention state budget and tax policy, have certainly required close examination.

### Job Counting: Case Study in Partisan Obfuscation

The partisan clash over Wisconsin employment figures is a case in point. The laser-like focus on job creation over the past three years arose, of course, because Gov. Scott Walker (R) promised to create 250,000 new jobs during his term. Had serious staff work been done on the idea during the 2010 campaign, it is unlikely that it would have been floated. In reviewing the past two decades, WISTAX researchers could find only one four-year period in which the state created that many jobs.

Regardless, the governor, fellow Republicans, and Democratic opponents all have been scouring employment data for figures that confirm the particular partisan story they want to tell. The rhetoric has been self-assured on all sides—and often misleading.

The origin of the confusion is multiple sources of employment data. Preliminary job statistics are released monthly based on a small survey sample and revised annually when data from an all-employer census are generated by the unemployment insurance system. The lag between survey and census reports is about six months.

The difference between the two can be striking, as the following table illustrates. In 2011, when the bipartisan bickering began, the year started strong. Year-over-year, actual monthly employment growth in the first quarter ranged from 1.5% to 1.7%. With Wisconsin adding about 40,000 jobs per month, the 250,000 goal seemed in reach, and the governor embraced the numbers as they came out.

Then, with fall, the same preliminary surveys showed a sharp turnaround, with monthly job losses ranging from 0.3% in October to 1.2% in December. It was the Democrats turn to crow, as it appeared that the state had lost over 54,000 jobs in just three months. Months later, the more reliable employer census statistics were released. What had been a 54,000 job loss was actually a 62,000 job gain.

Neither party ended up with truth entirely on its side. Late-fall job expansion was positive—not negative as the Democrats had charged. But, it had slowed to half the first-quarter rate the governor had touted. The back-and-forth over the economy has been non-stop ever since. Every month, each side finds some source of economic news that portends only good, or only bad. The media are often left confused, sometimes reporting self-serving numbers from one side or the other without offering needed qualification or context.

### Assessing Job Creation

Historical context is particularly lacking. If journalists or politicians were to study final monthly employment figures from the late 1980s on, a sobering story emerges. Through the early- to mid-
90s, Wisconsin enjoyed 87 consecutive months when percentage job increases here surpassed the U.S. (see graph on previous page). Then, for the rest of the 1990s, the economy boomed and state job creation more or less kept pace with the country.

From 2000 on, however, it has been an entirely different story. In only about one month in four has state employment growth exceeded the U.S. This is a period during which we have had Republicans in total control of state government, Democrats likewise in charge, and various partisan power-sharing arrangements among the executive branch, the state senate, and the assembly.

The graph below displays the cumulative increase or decrease in Wisconsin and US employment more recently, since 2001 (2001=100). The state and nation moved together until 2006 when the gap between the two opened and has remained. U.S. job numbers did not surpass the 2001 level (100) until last year (2012). As of March 2013, Wisconsin still was still slightly behind 2001 (99.2). However, neither has reached the peaks of 2008 (103.9 and 101.8, respectively), a reminder of general economic weakness.

If politicians are being truthful with voters, they have to acknowledge that increases in monthly employment, both nationally and in the state, have been slowing for years. The graph (top page, right) makes this clear: The largest monthly job gains in each successive economic cycle have been eroding over the past 25 years; in terms of the chart, the peaks have been getting shorter.

This pattern is not likely to change soon. While state policy makers have largely failed to recognize it, demographic change is here. Statewide school populations have been declining for 15 years, a trend that is now rippling across college campuses and is going to spill into a soon-to-stagnate state labor force. It becomes increasingly difficult to court new employers able to create new jobs if the state lacks the workers to fill them.

Beyond Job Numbers: Digging Deeper
The “job problem” has other deeper and broader roots than Wisconsin partisans would care to admit. Wisconsin’s economy generally tracks the country more closely than all but a dozen states. Consequently, no state politician can have much short- or even medium-term impact on the Wisconsin economy, unless it is adverse, the result of ill-advised rhetoric or counter-productive action. No matter who is in charge, the best state politicians can hope for is to create a stable and nurturing environment that fosters long-term growth.

Income and earnings. The “pols” would be wise to include a variety of measures in their thinking and rhetoric. One is the percentage by which Wisconsin leads or lags the U.S. on per capita income (PCPI), of which about 60% is attributable to wages and salaries.
Creating new jobs but at lower pay levels limits the economic benefits of employment growth, so income and wages bear watching. Our PCPI has trailed the country for more than 40 years, although we briefly closed to within -2% of the US during the expansion of the late 90s.

As the graph below shows, average income here lost ground to the nation during the 2007-09 recession. Wisconsin typically begins a recovery somewhat sooner than the country, so it could be expected that we would move back toward income parity as the recession ended. But, we have stagnated at about -5% below the U.S.

The impact of wages and salaries on lagging personal income cannot be overlooked. In 1970, state earnings averaged about 4% less than those of the nation. With the punishing recessions of the early 80s, more ground was lost and never regained. Average earnings in Wisconsin have trailed the nation by 10% to 15% for decades.

**Firm creation.** A second measure that state leaders should focus on is new business creation. The nation’s leading monitor of entrepreneurial activity, the Kauffman Foundation, finds that, net, most if not all new jobs created since 1980 can be attributed to new or young firms. Data show that, since the early 90s, the Badger State has been among the 10 states with the lowest rates of new-firm creation.

<table>
<thead>
<tr>
<th>Firm Birth Rates and Job Growth, 1997-07</th>
<th>States Grouped by Birth Rate (Low to High)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Avg. Rate - Firms</strong></td>
<td><strong>Quintile</strong></td>
</tr>
<tr>
<td></td>
<td>Lowest</td>
</tr>
<tr>
<td>Birth</td>
<td>2.47</td>
</tr>
<tr>
<td>Death</td>
<td>2.34</td>
</tr>
<tr>
<td>Net</td>
<td>0.14</td>
</tr>
<tr>
<td>Jobs</td>
<td>0.84</td>
</tr>
</tbody>
</table>

The link between new jobs and new firms is readily apparent for the 1997-2007 period, as the table below shows. It arranges states in groups of 10 (five quintiles) by their rate of new firm creation (new firms as a percent of all firms), from lowest to highest. For each group of states, firm birth and death rates, as well as average annual job growth during the decade, are shown.

Several conclusions emerge. The most important is that states with high average rates of new firm creation spawned more jobs over the period studied. But, states with higher rates of firm death also tended to have more job growth. Why? Because one is related to the other: When more firms are started, more are going to succeed, and fail. In the vernacular, it helps to “throw more mud at the wall and see what sticks.” The lesson for a state like Wisconsin that, either by reputation or in reality, tends to be more risk averse is this: A successful entrepreneurial culture requires acceptance of failure, as well as success; one goes with the other.

**Getting Beyond the “State” Economy**

In exchanging partisan barbs, state politicians also err simply by attending only to state economic performance. Yet, it might be argued that there is no state economy but rather a set of regional economies, each with its own strengths and weaknesses, each with its own patterns of growth and decline that reflect differences in industry mix, major-market proximity, and demography.

This is a topic that can be studied at length (see, for example, the September 2013 issue of WISTAX’s monthly Wisconsin Taxpayer magazine). But, in brief, western Wisconsin—bordering Iowa, Minnesota, and the Mississippi River—has been outperforming the state as a whole on a number of economic and demographic measures. So has the south central region centered around Madison. By contrast, the south and east, with almost half the state’s population and a disproportionate amount of its manufacturing...
base, is lagging.

Regional differences are evident when employment increases (2000-12) are examined by county. The map (left) displays the 72 counties and groups them into quartiles (four groups of 18) by their rate of job creation. Growth is highest in dark-shaded counties and lowest in white or lightly shaded counties. Clearly, the growth counties are concentrated in the west and south central areas, while the populous southeast and sparsely populated north tend to lag.

Given these intrastate differences, one has to wonder how useful it is for partisan politicians to use—and misuse—economic statistics that are state totals. If successful long-term strategies for Wisconsin are to be developed, the assets of each region have to be recognized.

State Finances: Fact, Not Fiction
Even more than jobs and the economy, the bread and butter of partisan political exchange is taxes and spending. Most state financial decisions—both revenues and expenditures—are made in Wisconsin’s biennial budget. To understand current state finances, it is important to have a grasp of the recent past.

Modern Budget History. From the late 1990s until mid-2011, state budgets were characterized by boom-bust, patchwork decision making. When the economy and state tax collections were growing robustly in the late 1990s, the governor and lawmakers of both parties found themselves in a political “sweet spot”: Revenue was sufficient to cut taxes, e.g., a billion-dollar “buydown” of school taxes, restoration of income tax indexing, and major income tax reform and reduction in 2000-01. There was also revenue to boost spending on education, tax rebates, welfare reform, and Medicaid.

As long as the tax collections were strong, the consequences of fiscal “over commitment” in the late 90s were avoided. However, with the 2001 recession, state tax growth withered, and a billion-dollar general fund deficit opened up. Over the next ten years, the budget was ostensibly balanced using a number of short-term maneuvers, including sale and later refinance of “tobacco bonds”; fund “raids,” including $1.4 billion in transfers between the transportation general funds; rapid growth of highway bonding that indirectly facilitated general fund budget balancing; and accounting tricks that spent money but delayed its appropriation until the following year. In the depths of the recession, large amounts of temporary federal stimulus money were also used to replace general-fund school aid and Medicaid costs. Getting a fix on the state’s true fiscal condition during this period was difficult. This is, in part, because as accountants view finances, Wisconsin budgets are prepared on a modified “cash” basis. Relying on this approach and the gimmicks just mentioned enabled state officials to declare budgets balanced. However, from a CPA’s perspective (using generally accepted accounting principles, or GAAP), state general fund deficits grew for much of the past decade, reaching about $3 billion in 2010-11 (see graph above).

To the casual observer, what might be surprising about the past two decades is, in some ways, how little party label mattered. The “outs” always blamed the “ins” for hidden deficits, spending growth, subpar bond ratings, and increased borrowing. When election results led them to switch places, all they had to do was trade scripts.

A decade of delay-and-defer budgets came to a head in 2011-13. With federal stimulus monies drying up, state budgeters projected a general fund “cash” deficit in excess of $3 billion. Many difficult decisions accompanied the 2011 budget, but they can be summed up simply: Backfill lost stimulus funding with over $1 billion in new state monies for Medicaid, and freeze or cut other major programs, e.g., shared revenues for local governments, the UW System, and corrections. The resulting budget pain and controversy were considerable, but with a little economic luck, the dividend was real—a surplus of $759 million (about 5% of annual spending) when the biennium ended in mid-2013. The amount may seem large, but a 5%
surplus is what most budget experts recommend for states.

**The New 2013-15 Budget.** The difficult 2011-13 budget paved the way for an easier 2013-15 version that was passed in June and “tweaked” in October. The gist of the partisan debate might be distilled to one side hailing it as fiscally responsible and taxpayer responsive and the other criticizing it for lack of adequate funding for health and education. As usual, neither point of view is entirely correct.

In numerical terms, the general fund budget (with the October trailer) spends, net, $14.88 billion the first year and $15.46 billion the second—increases of 3.5% and 3.7%, respectively. Although the opening 2013-15 balance of $759 million (over 5% of annual expenditures, without the “rainy day” fund) is healthy, the gross ending balance is $125 million, or just 0.8% of spending in 2015. The latter amount approaches the 0.5% balances Wisconsin had in 2007-09 (see graph below) that were smaller than any state’s, save Arkansas. Going into the recession that year, the 50 states averaged reserves equaling 8.5% of expenditures.

Reasons for the surplus drawdown are straightforward: Net expenditures exceed annual revenues by $254 million in the budget’s first year and by $380 million in its second. Surplus is consumed to fund spending increases, as well as to enable two-year cuts in income taxes (about $650 million) and property taxes ($100 million, as proposed in October). A history of those surpluses is shown in the bar graph below.

Another way state biennial budgets have been evaluated in the past two decades is in terms of structural balances or “deficits.” This notion is different from the usual meaning of “deficit.” The structural imbalance results from tax or spending decisions in one budget that have implications, positive or negative, for the next. In part because of many one-time, budget-balancing gimmicks used during 1997-2011, Wisconsin had eight consecutive biennial budgets with structural imbalances. The Legislative Fiscal Bureau estimated their size in the first year as ranging from $589 million in 1999 to $1.3 billion in 2003 and $1.2 billion in 2011.

As difficult a budget as it was, the 2011-13 edition accomplished something that had not been done since 1995. Wisconsin began budgeting for 2013-14 with a $140 structural “surplus” in 2013. One of the unfortunate aspects of the latest budget is that it brings back a structural problem. Although smaller than at any time between 1997 and 2011, this means that when Wisconsin begins planning for 2015, it will first have to use new revenue to cover $336 million from the prior budget before it can devote this to future needs (see bar graph, below).

Drawdown of surplus and a future structural imbalance are probably the two leading issues associated with the 2013-15 budget. Both become even more problematic if what has been an unpredictable and uneven economic recovery loses steam. The governor and legislature are relying on tax projections revised in May 2013 that gave them extra revenues to complete budget preparations and to enact larger-than-planned income and property tax cuts. Should these estimated revenues not materialize, the state’s fiscal vulnerability would quickly become apparent.

**Other Issues ... Transportation.** Major finance issues aside, the 2013-15 budget leaves several programmatic questions unanswered as well, chief among them roads. For years, Wisconsin has had difficulty funding transportation. Inelastic gas tax revenues are being eroded by inflation and increasing vehicle fuel-efficiency. An aging population is putting pressure on tax and fee revenue.
Other indicators of transportation’s long-term fiscal problems are: (1) general fund subsidies in recent years, which total about $450 million in 2013-15; (2) about $1 billion in bonding for transportation, about half of all state borrowing in the new biennium; and (3) federal highway data for 2011 that show a noticeable drop in high-quality road miles since 2009. In short, the hand-to-mouth nature of transportation finance in recent years will force a difficult choice in the near future: Increase fees and taxes, or scale back the public’s appetite for highways.

**Borrowing.** Transportation bonding raises a related issue, total state borrowing. The new budget authorizes $2.05 billion in additional debt, $1.64 billion of which requires repayment with general fund taxes. State debt serviced by the general fund more than tripled between 1999 and 2012. Nascent legislative concern for the issue this year will probably return stronger in 2015.

**State-Local Finance.** Historically averaging about 58% of general fund spending, state aid to local governments and schools has been losing budget share, as shared revenues and schools aids were cut, frozen, or increased only minimally. That percentage share has now dipped under 50%. At the same time, state government imposed and tightened revenue and levy limits on local units of government. A number responded by creating or increasing fees, or borrowing more. Although this combination of policies could be defended during a state budget crisis, it is not sustainable long-term, especially when state spending is rising close to 4% annually. If fixed costs rise, even minimally, but all local revenues are restricted, “something has to give,” as the saying goes.

**Biggest Issue of All?** In the drama that is state budgeting, Medical Assistance (MA), or Medicaid, has moved from bit part to center stage over the past 20 years. MA participation, due mostly to eligibility expansions, has grown from one in 13 residents 15 years ago to one in five today. While it generally claimed 10% or less of general fund expenditures during the two decades ending in 2003, it grabs more than 15% during the current biennium.

**Final Thoughts.** Medicaid spending is currently averaging growth of almost 9% per year and shows no sign of relinquishing the budget spotlight. As MA consumed increasing shares of the state general fund budget, it has also diminished the likelihood of new funding for schools, local governments, or the UW System, which has been modest to nil. How long can it last?

Other decisions made as part of the new budget raise similar questions. How sustainable are the “spending down” of a hard-won surplus, the return to structural imbalances, temporary approaches to transportation funding, and increased borrowing?

The difficult budget decisions of 2011-13 righted the state’s fiscal ship and returned it to stability. The new biennium began with commendable reserves. But, in spending more than is collected in revenues this year and next, in avoiding difficult decisions now that leave unresolved issues for later, the 2013-15 budget raises the same question yet again, only in different words: Although the new budget seems to “work” for this biennium, what about the next? Can recent budget choices and decisions be sustained beyond 2015?

If not, and particularly if the uneven recovery slows again or ends, Wisconsin may add yet another chapter to its long saga of boom-bust budgeting characterized by short-term, politically motivated financial decisions that eventually come back to haunt. If that happens, the 2015-17 budget might begin to resemble its recessionary counterparts of 2007-11 when, ironically, taxes were increased and spending was cut.
**MISSION AND VISION**

The mission of the UW-Stevens Point Central Wisconsin Economic Research Bureau (CWERB) is to foster economic development by bringing timely economic analysis to our region, focusing on Marathon, Portage and Wood counties.

The mission has been accomplished through the publication of Economic Indicator Reports. These reports are compiled and released for each county in Central Wisconsin.

The CWERB aspires to be Wisconsin’s premier research center focused on regional economic development.

**HISTORY**

The CWERB is a nonprofit organization founded in October 1983. Its operating budget comes from the private sector and the UWSP School of Business & Economics. The CWERB also represents an important part of the outreach efforts of the UWSP School of Business & Economics.

**SOURCES OF FUNDING**

- UWSP School of Business & Economics
- BMO Harris Bank of Stevens Point
- BMO Harris Bank of Marshfield
- BMO Harris Bank of Wausau
- Centergy Inc. of Wausau
- Community Foundation of Greater
- South Wood County - Wisconsin Rapids

**SCHOOL OF BUSINESS & ECONOMICS**

- Enrollment of 1,000 students; More than 30% of our students come from Marathon, Portage and Wood counties; approximately 50% of our graduates stay in the three-county area

- The SBE is in the pre-accreditation phase by the Association to Advance Collegiate Schools of Business (AACSB), once completed, SBE will be among the top 18% of all business schools in the world.

**CWERB CLIENTELE**

- Central Wisconsin business firms are the most crucial component in the economic development of our region. Business firms are keenly aware of the important role that informed decision making plays in any developmental strategy.

- Private sector organizations devoted to economic development in Central Wisconsin, such as area chambers of commerce and their affiliated economic development agencies.

- Public sector organizations devoted to economic development in Central Wisconsin.

- The general public, in order to make informed decisions, take advantage of the unbiased information and analysis about the economy.

- The CWERB employs student research assistants which provides an excellent educational setting while also providing the opportunity for students to earn funds toward education. Faculty, staff and students at UWSP utilize the reports and resources of the CWERB.

**CWERB ACTIVITIES**

The dissemination of the CWERB research takes place through various hard copy publications, electronic media reports and presentations. For example, the Economic Indicator Reports are presented in Marshfield, Stevens Point, Wausau and Wisconsin Rapids. The audiences consist of business, political and educational leaders.

The Economic Indicator Reports also contain a special report section that is devoted to a current issue in economics. These special reports are usually presented by UWSP faculty.

Substantial newspaper, radio and television coverage of the publications and presentations have been instrumental in focusing attention on the School of Business & Economics. Chief Economist Randy Cray has been interviewed by the local media as well as the Chicago Tribune and CNN Radio on a variety of economic matters.