Economic Indicators Report
Third Quarter 2016: Central Wisconsin

Special Report:
The New Economy: How Creative Communities Attract Growth
By: Professor Jerome Segura III, Ph.D. and Greg Wright
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CWERB Economic Indicators Report - Central Wisconsin 1
Global Economy
The largest immediate threat to the global environment is the growing anti-globalization sentiment as signaled by escalating anti-trade rhetoric. At an introductory level, our students understand international trade helps spur economic growth path for a number of reasons. Production takes place in the region with the highest level of productivity through a process of specialization and trade. Alternatively, the adoption of open trade policy allows local firms to exploit economies of scale by serving both domestic and foreign markets. From a regional economics perspective, exports also serve as a hedge against local shocks by reducing regional dependence on local economic conditions.

An Ongoing Global Financial Crisis?
In a recent report by the United Nations Conference on Trade and Development (UNCTAD), China and other emerging economies are facing debt levels described by trade economists as holding the potential for epic debt crisis. Recall, throughout the Great Recession, China padded their gross domestic product (GDP) numbers by constructing vast ghost cities. More recently, the Chinese government has spent $500 billion to prop up their stock market. Today, corporate debt levels in the emerging economies far exceed $25 trillion.

If a new economic crisis does emerge, it will possibly be documented in the history books as the third phase of the on-going global financial crisis. There are at least five stages of a financial crisis. First, there is the outbreak of increased credit risk within a specific market. Second, this initial and isolated credit risk spills over into other markets. Third, with the increase in overall perceived risk, bank runs occur and the credit risk escalates to a liquidity crisis. The fourth stage occurs with a flight to safety that turns into commodity bubbles. The fifth stage of the crisis occurs when credit markets freeze. Following stages one through five, the risk of deflation becomes very real.

The International Monetary Fund (IMF) also warns that the global slowdown in economic activity coupled with the absence of investment are largely responsible for the slowdown in trade growth. The IMF also points towards a lack of trade agreements and supply chain concentration. In addition, trade volumes have contracted following the correction of many commodity markets.

In its report, the WTO emphasizes the global impact of the BREXIT vote. Specifically, the WTO warns that their growth forecasts may still overstate actual trade potential following the United Kingdom’s (UK) decision to leave the EU. In other words, the organization is unsure what the future will hold for the EU in terms of trade arrangements. Lastly, the EU migrant crisis has fueled public support for isolationism, protectionism, and intolerance.

National Economy
The U.S. unemployment rates have steadily declined after peaking in late 2009. Post- Great Recession wage growth and consumer price inflation have largely remained near zero even with a steady pace of job growth. The IMF attributed strong GDP growth in the third quarter to a confident domestic consumer and a significant uptick in the availability of cheap credit for corporations in emerging countries. If abysmal growth forecasts bear out, defaults on this debt are increasingly likely.

The State of International Trade
The World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD) are warning that a reduction in trade volumes could further weaken long-run economic growth potential. In fact, the WTO issued a series of warnings that world trade volumes are currently growing at the slowest pace since the onset of the Great Recession. Initial forecasts predicted growth in trade volumes between 2.8% and 3.6%, the WTO revised these estimates down to 1.7% in 2016 and 1.8% in 2017. The revisions were due to weak trade in Brazil, China, and North America. Particularly notable is the recession and political instability throughout much of Central and South America. Nevertheless, current reports suggest trade volumes are growing more slowly than GDP for the first time since the dot com burst and subsequent recession. For the sake of comparison, a long-run perspective would have the growth rates at 1.5 times the GDP. During the 1990s, trade volumes grew at nearly twice the rate of GDP growth.

The International Monetary Fund (IMF) also warns that the global slowdown in economic activity brought about by the United States (U.S.) housing bubble. Whereas U.S. housing prices started to decline in 2006 and eventually bottomed in 2012, the second phase of the on-going economic crisis, the Eurozone debt crisis, started during the last months of 2009. The latter, the European Union (EU) sovereign bond crisis, persists to this day. The following seven to eight years of quantitative easing undertaken by developed economies effectively exported the debt crisis. Wildly low to negative interest rates eventually gave rise to high inflation.
an unsustainable bumper crop in terms of soybean exports. The report contends that nearly 6 years of growth in employment levels combined with recent improvements in median incomes primes the Federal Reserve Bank of the U.S. (FED) for the second interest rate hike in a decade.

From a macroeconomic perspective, interest rate hikes tend to lead to U.S. dollar (USD) appreciation. In other words, relative to other world currencies, the USD is expected to increase in value. Generally, a strong USD leads to relatively expensive U.S. products in world markets. Subsequently, U.S. net exports decline in a twofold process. First, foreign consumers substitute away from the relatively expensive U.S. made products. Second, the strong USD tends to make foreign produced good prices decline in U.S. markets relative to the domestically produced option. In addition, higher interest rates incentivize savings in lieu of consumption while higher costs of borrowing deter private investment.

Many experts in the U.S. have argued for most of the post-crisis era that global and domestic monetary policy is overburdened. Economic theory predicts that highly anticipated monetary policy has little to no effect because the impacts of the expected policy are prematurely priced into the markets. Subsequently, many nations, particularly the U.S., have adopted monetary policies that result in either negative or near zero interest rates. As it turns out, negative interest rates spur neither private consumption nor private investment. These policies have instead served to signal current and future structural challenges to the economy; i.e., the liquidity trap.

In lieu of slack monetary policy, experts emphasize the need for a more balanced approach in correcting budget shortfalls; i.e., not just reducing funding to the least well-organized constituents, but rather the pursuit of a proper mix between spending cuts and revenue hikes. However, modern American politics is poignantly polarized thereby further reducing the likelihood of either ending the era of austerity or pushing politicians across the aisle for pro-growth tax reform.

The prevailing economic theory indicates that policymakers have pursued ineffective policy in terms of fueling economic recovery. Take for example Oklahoma and Wisconsin; in the midst of the recession, they determined that lower top marginal tax rates on personal income would fix their economic issues. During the same period, the supply-side approach to spurring economic growth failed Kansans terribly; so bad, the state ultimately eliminated its funding formula. In addition, the state no longer prepares its quarterly reports.

The decisions made by policymakers may result in untended consequences. Austerity programs have led to slow economic growth in terms of output and wages. Take for example, the continued effort of policymakers to defund education. According to a recent report released by U.S. News, federal funds directed to education has plummeted since 2010. Specifically, the report looks at federal funding to education over the period from 2010 to 2015. The findings suggest the national Congress has reduced spending on K-12 education by approximately 20% during the interval.

At the beginning of the year, the Center for Budget and Policy Priorities released a similar study evaluating state and local funding of K-12 education. According to their report, at least 31 state governments have cut K-12 education funding on a per student basis between 2008 and 2014. Fifteen states have cut funding per student in excess of 10%. During the same period, 18 states have experienced cuts in local funding on a per student basis. While 27 states that had increased local education funding, these efforts rarely offset state funding cuts. In the current year, at least 25 state governments have reduced funding for education on a per student basis. Since 2008, seven of these states have witnessed local government spending cuts to K-12 education by over 10%. Lastly, while most state governments have increased general funding for K-12 education, 12 state governments imposed additional cuts; namely, Oklahoma and Wisconsin who were already among the deepest defunders of public education since the onset of the Great Recession.

The national economic statistics are in Table 1.

<table>
<thead>
<tr>
<th>NATIONAL ECONOMIC STATISTICS</th>
<th>2015 Third Quarter</th>
<th>2016 Third Quarter</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal Gross Domestic Product (Billions)</td>
<td>$18,141.9</td>
<td>$18,851.2</td>
<td>+2.8</td>
</tr>
<tr>
<td>Real Gross Domestic Product (Billions of 2009 $)</td>
<td>$16,454.9</td>
<td>$16,702.1</td>
<td>+1.5</td>
</tr>
<tr>
<td>Industrial Production (2012 = 100)</td>
<td>107.1</td>
<td>104.2</td>
<td>-2.7</td>
</tr>
<tr>
<td>Three Month U.S. Treasury Bill Rate</td>
<td>0.02%</td>
<td>0.31%</td>
<td>+1450.0</td>
</tr>
<tr>
<td>Consumer Price Index (1891-93 = 100)</td>
<td>237.9</td>
<td>240.4</td>
<td>+1.2</td>
</tr>
</tbody>
</table>

CWERB Economic Indicators Report - Central Wisconsin
State Economy

Table 2 lists the unemployment rate in each reporting area. Marathon, Portage and Wood County all experienced declines in their unemployment rates compared to a year ago. The respective September rates for Portage, Marathon and Wood are now down to 3.0, 3.0 and 3.9 percent in September 2016. The labor force weighted unemployment rate for Central Wisconsin also contracted, and is now at 3.2 percent. Meanwhile, Wisconsin’s unemployment rate dropped from 3.6 to 3.5 percent. Thus, the unemployment rates continue to be much improved throughout the region and state. The United States unemployment rate also fell from 4.9 percent to 4.8 percent over the past 12 months.

Employment figures in Table 3 are based on the government’s survey of households. Portage County’s total employment figure rose by 1,000 positions and total employment in Wood County expanded by about 500 jobs over the past year. Meanwhile, Marathon County payrolls are estimated to have grown by 2,100 positions over the past 12 months. Thus, Central Wisconsin as a whole experienced an employment growth of about 3,600 positions. Jobs in the region rose from 140.4 to 144.0 thousand or by 2.6 percent. The survey of households also shows that Wisconsin’s payrolls increased by 2.0 percent. The nation also gained 2.0 percent or about 3.0 million jobs over the same period.


gives the most recent employer based payrolls numbers for Wisconsin. Economists believe nonfarm employment numbers that are based on employer provided data, give a more accurate assessment of the labor market conditions than the household survey data. From September 2015 to September 2016, Wisconsin’s total nonfarm employment expanded from 2.92 million to 2.95 million or by 1.0 percent. This represents a gain of approximately 30 thousand jobs during the past year. A year ago, Randy reported only a few of the state’s 11 major industrial sectors contracted; six months ago, all but four of the sectors recorded gains in employment. Flash forward to today, only four sectors recorded gains in employment.

Figures 1 thru 7 give a historic overview of how the economy in Wisconsin has performed from end of the third quarter in 2009 through the third quarter of 2016 relative to Iowa, Illinois, Michigan, and Minnesota. The levels data are scaled down by a factor of one-thousand. For example, Figure 3 shows the Wisconsin unemployment rate and the recovery that has taken place since the depths of the Great Recession. At the start of 2010, the unemployment rate was 10.1% and at the start of 2016, the number had declined to 5.2%. The Wisconsin unemployment rates is currently at 3.5%.

The CWERB continues the 24-month forecasts to give the reader an approximation of what the future may hold. One should never forget that a forecast represents a best estimation of what might take place. In a dynamic world, forecasts are often wrong because of unforeseen events. Always be cautious when employing a forecast for planning purposes.
In Table 5, Portage County sales tax distributions were weaker this year than last, falling from $1.61 million in 2015 to $1.59 million in 2016, a decrease of over 1.0 percent. Marathon County experienced an increase in sales tax distributions from the state, rising from $3.10 million to $3.11 million or by about 0.3 percent. However, Wood County collections contracted from $1.52 million to $1.14 million or by about 24.5 percent over the course of the past year. The data suggests there was contraction in retail activity in some parts of Central Wisconsin.
Table 6 are the demographic data for the Portage County and Wisconsin regions. Table 7 contains the business and geographic data for Portage County and the state of Wisconsin. These tables give the reader points of comparison in terms of the local area’s characteristics relative to the state. Moreover, the latter provides some insights into Portage County’s share of the state’s economic activity.

Table 7 Portage County and Wisconsin Business and Geographic Data

<table>
<thead>
<tr>
<th></th>
<th>Portage County</th>
<th>Wisconsin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private nonfarm establ.</td>
<td>1,616</td>
<td>138,221</td>
</tr>
<tr>
<td>Private nonfarm emp, 2014</td>
<td>26,882</td>
<td>2,450,254</td>
</tr>
<tr>
<td>Private nonfarm emp, percent change, 2013-2014</td>
<td>3.5%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Nonemployer establishments, 2014</td>
<td>3,681</td>
<td>339,983</td>
</tr>
<tr>
<td>Total number of firms, 2012</td>
<td>5,074</td>
<td>432,980</td>
</tr>
<tr>
<td>Minority-owned firms, 2012</td>
<td>133</td>
<td>40,507</td>
</tr>
<tr>
<td>Nonminority-owned firms, 2012</td>
<td>4,712</td>
<td>379,934</td>
</tr>
<tr>
<td>Veteran-owned firms, 2012</td>
<td>463</td>
<td>39,830</td>
</tr>
<tr>
<td>Nonveteran-owned firms, 2012</td>
<td>4,240</td>
<td>370,755</td>
</tr>
<tr>
<td>Men-owned firms, 2012</td>
<td>2,713</td>
<td>236,252</td>
</tr>
<tr>
<td>Women-owned firms, 2012</td>
<td>1,240</td>
<td>133,859</td>
</tr>
<tr>
<td>Manufacturers shipments, 2012 ($1000)</td>
<td>$1,383,021</td>
<td>$177,729,928</td>
</tr>
<tr>
<td>Retail sales, 2012 ($1000)</td>
<td>$333,681</td>
<td>$78,201,822</td>
</tr>
<tr>
<td>Retail sales per capita, 2012</td>
<td>$13,250</td>
<td>$13,656</td>
</tr>
<tr>
<td>Accommodation and food services sales, 2012 ($1000)</td>
<td>$112,379</td>
<td>$10,903,266</td>
</tr>
<tr>
<td>Building permits, 2015</td>
<td>249</td>
<td>16,783</td>
</tr>
<tr>
<td>Land area in square miles, 2010</td>
<td>600.66</td>
<td>54,157.80</td>
</tr>
<tr>
<td>Persons per square mile, 2010</td>
<td>87.4</td>
<td>105.0</td>
</tr>
<tr>
<td>Metropolitan or Micropolitan Statistical Area</td>
<td>Stevens Point, WI</td>
<td>Micro Area</td>
</tr>
</tbody>
</table>

Another measure of the local economy is presented in Table 8. It shows that new unemployment claims fell from 78 to 61 over the year. Moreover, total unemployment claims dropped from 484 to 352. Those measure an annual reduction of 21.4 percent and 27.4 percent, respectively.

Table 8 UNEMPLOYMENT CLAIMS PORTAGE COUNTY

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Claims</td>
<td>78</td>
<td>61</td>
<td>-21.4</td>
</tr>
<tr>
<td>Total Claims</td>
<td>484</td>
<td>352</td>
<td>-27.4</td>
</tr>
</tbody>
</table>

Figures 8 thru 11 on the following page 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 eight years in Portage County relative to Adams, Juneau, Marathon and Wood counties. Please note the data for the charts runs from end of the third quarter in 2009 through the third quarter of 2016. For example, Figure 10 shows the Portage County unemployment at the start of 2010 the unemployment rate was 9.9% and at the start of 2016, the number had declined to 5.4%. The figures supplement the report’s year over year comparisons. This allows the short-term fluctuations in the economy to be judged more properly.
The business confidence survey suggests that the level of optimism expressed about the current state of economy was generally lower in September, year to date. The CWERB’s survey of area business executives is reported in Table 9. The mark of 39 means this group believes that recent events at the national level have led to deterioration in the country’s economic condition. In addition, and more importantly, they believe the local business climate has declined over the past 12 months; i.e., a response level of 43. When they were asked to forecast economic conditions at the national level they were optimistic, but less so about the future direction of the economy than in the recent past. In addition, they expressed similar levels of optimism for the local economy, and for their particular industry; i.e., appraisals in the mid-50s to the low 60s.

The retailer confidence survey indicates local merchants are saying that the local retail sector is stable. In Table 10 the CWERB’s retailer confidence survey mark of 60 means that merchants feel that store sales were higher than they were one year ago. This is good news for the local economy. When it comes to expectations about the future, it appears that the September 2016 assessment of retail activity was significantly lower than what it was in September 2015. In addition, this group feels that retail activity in the winter of 2016 will be about the same as in 2015.

### Table 9: Business Confidence

<table>
<thead>
<tr>
<th>Recent Change in National Economic Conditions</th>
<th>September 2016</th>
<th>September 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recent Change in Local Economic Conditions</td>
<td>53</td>
<td>39</td>
</tr>
<tr>
<td>Expected Change in National Economic Conditions</td>
<td>63</td>
<td>54</td>
</tr>
<tr>
<td>Expected Change in Local Economic Conditions</td>
<td>65</td>
<td>61</td>
</tr>
<tr>
<td>Expected Change in Industry Conditions</td>
<td>70</td>
<td>57</td>
</tr>
</tbody>
</table>

100 = Substantially Better, 50 = Same, 0 = Substantially Worse

### Table 10: Retailer Confidence

<table>
<thead>
<tr>
<th>Total Sales Compared to Previous Year</th>
<th>September 2015</th>
<th>September 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store Traffic Compared to Previous Year</td>
<td>66</td>
<td>50</td>
</tr>
<tr>
<td>Expected Sales Three Months From Now</td>
<td>72</td>
<td>55</td>
</tr>
<tr>
<td>Expected Store Traffic Three Months From Now</td>
<td>60</td>
<td>50</td>
</tr>
</tbody>
</table>

100 = Substantially Better, 50 = Same, 0 = Substantially Worse
The help wanted advertising data would suggest the region is nearing full employment. Table 11 Help Wanted Advertising is a barometer of local labor market conditions and the indexes for Stevens Point, Wausau, Marshfield and Wisconsin Rapids are based on internet based job advertising. The index for Stevens Point rose by 4.4 percent while Wisconsin Rapids fell by 9.3 percent. Further, Wausau experienced a marginal reduction in the amount advertising taking place. Lincoln County was slightly up in advertising and Adams County was down. The data taken together suggests that advertising growth has been very uneven in the area.

For the Stevens Point-Plover area the residential construction numbers were, on average, up. 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 down by 10 permits from last year. The estimated construction value of the 18 housing units was $4.7 million in 2016. When comparing Third Quarter 2015 to that of 2016, residential alteration activity expanded from 263 to 311 permits. Additionally, the estimated value of this type of activity went up from $1.99 million to $2.39 million over the year.

The pace of nonresidential construction activity was up in the area. The nonresidential construction figures in Table 13 were as follows for Third Quarter 2016. The number of permits issued was 14 and its estimated value was $2.016 million. The estimated value of alteration activity was $2.016 million compared to the 2015 figure of $1.3 million.

Figures 12 thru 15 map how the employment level, the unemployment level, the unemployment rate, and the labor force have trended over the past eight years in the City of Stevens Point relative to the City of Wausau as well as the Combined Statistical Area (CSA) of Wausau, Stevens Point, Wisconsin Rapids, and Marshfield. In addition, the levels data for the CSA are scaled down by a factor ten. For example, Figure 10 shows 11.3% unemployment rate in the City of Stevens Point at the start of 2010 and at the start of 2016, the number had declined to 4.8%. Again, note the data cover the interval from the quarter after the official end to the Great Recession through the third quarter of the current year.

**Figure 12: Employment Level: Local**

---

**TABLE 11**

<table>
<thead>
<tr>
<th>HELP WANTED ADS</th>
<th>Third Quarter 2015</th>
<th>Third Quarter 2016</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stevens Point</td>
<td>1,150.00</td>
<td>1,201.00</td>
<td>4.4%</td>
</tr>
<tr>
<td>Wausau</td>
<td>1,195.75</td>
<td>1,188.25</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Marshfield</td>
<td>886.00</td>
<td>732.25</td>
<td>-15.3%</td>
</tr>
<tr>
<td>Wisconsin Rapids</td>
<td>1,032.00</td>
<td>963.75</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Lincoln County</td>
<td>1,148.75</td>
<td>1,166.75</td>
<td>1.8%</td>
</tr>
<tr>
<td>Adams County</td>
<td>972.25</td>
<td>940.00</td>
<td>-3.3%</td>
</tr>
</tbody>
</table>

---

**TABLE 12**

<table>
<thead>
<tr>
<th>RESIDENTIAL CONSTRUCTION STEVENS POINT - PLOVER AREA</th>
<th>2015</th>
<th>2016</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Permits Issued</td>
<td>29</td>
<td>19</td>
<td>-34.5</td>
</tr>
<tr>
<td>Estimated Value of New Homes (thousands)</td>
<td>$2,954.0</td>
<td>$4,672.5</td>
<td>+ 58.2</td>
</tr>
<tr>
<td>Number of Housing Units</td>
<td>15</td>
<td>18</td>
<td>+20.0</td>
</tr>
<tr>
<td>Residential Alteration Permits Issued</td>
<td>263</td>
<td>311</td>
<td>+18.3</td>
</tr>
<tr>
<td>Estimated Value of Alterations (thousands)</td>
<td>$1,991.6</td>
<td>$2,389.9</td>
<td>+19.8</td>
</tr>
</tbody>
</table>

---

**TABLE 13**

<table>
<thead>
<tr>
<th>NONRESIDENTIAL CONSTRUCTION STEVENS POINT - PLOVER AREA</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Permits Issued</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Estimated Value of New Structures (thousands)</td>
<td>$8,081.2</td>
<td>$12,761.8</td>
</tr>
<tr>
<td>Number of Business Alteration Permits</td>
<td>65</td>
<td>76</td>
</tr>
<tr>
<td>Estimated Value of Alterations (thousands)</td>
<td>$1,295.0</td>
<td>$2,016.1</td>
</tr>
</tbody>
</table>

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

In general, housing prices are slowly increasing in the U.S. and are rising in nearly all of its geographic regions. Table 14 gives national median home price for the U.S. and major regions in the U.S. The median home price in the U.S. rose to $234,200 in September 2016. Housing prices in the Midwest, as always, remain the lowest in the nation. The median home price in this part of the country rose from the $174,400 in 2015 to $184,500 in 2016.

Table 15 Nationally existing home sales data shows another modest increase in sales activity over the past year. In the Midwest, 1.32 million homes are forecast to be sold in 2016. For the Midwest, the preliminary estimate for 2016 is that about 100,000 more homes will be sold than in 2015. In 2011, the number of home sold in the Midwest bottomed out at 910 thousand units.

The national inventory on homes would be indicative of a seller’s market. Table 16 gives the national inventory of homes data. As of September 2016, the inventory backlog is estimated to be 4.5 months. Going all the way back to 2010, the national supply of homes was 9.4 months, a buyer’s market. Thus, a great deal of improvement has taken place in housing inventory number. The statistics indicate that the backlog of unsold houses has reduced by more than half.
There appears to be some weakening in affordability as shown in Table 17, 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 started to trend upwards and affordability started trending lower. The preliminary estimate for the affordability index in 2016 is 167.5. The higher the index, the more affordable housing is for the typical family. This means that in 2016 a household earning at the median household income level has 167.5 percent of the income necessary to qualify for a conventional loan covering 80 percent of a medium-priced existing single-family home.

The preliminary data for 2016 suggest strong growth in the median price for a house in the local area and state. 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 $105,000. Portage County has the highest median price at $150,000; Marathon falls somewhere between the other two counties, with a median house price of $136,500. In comparison, the median price of a house in Wisconsin is about $165,000.

Table 19 gives the number of local housing units sold, from 2013 to 2016. The counties in our region appear to have all experienced slow growth in the number of units sold over this period. Please note the listed number of homes sold in 2016 only represents the January to September activity.

Tables 20 and 21 present the changes that have taken place in the local median prices and units sold, and compares Third Quarter 2015 to Third Quarter 2016. In Table 20, we see an increase in local median home prices has taken place in Portage and Wood. In Table 21, the number of housing units grew in all counties.
Each year, the Small Business Administration, SBA, Office of Advocacy prepares Small Business State and Territory Profiles. Wisconsin’s Profile released last month shows WI is home to 441,954 small businesses. Roughly defined, small businesses are those with fewer than 500 employees. Wisconsin’s data shows 336,059 of the 441,954 small businesses are self-employed small business owners with no employees. 105,895 of the small businesses have employees. These 105,895 small businesses employ 1,210,146 workers, over half of Wisconsin’s private workforce.

The report shows that the top three industries for small firm employment are manufacturing, health care and social assistance, accommodation and food services.

Demographics of ownership are presented briefly in the report. It shows that 37.1% of female-owned businesses are in the Retail Trade industry. Overall, the report says 5.6% of females are self-employed while 10.6% of males are self-employed in WI.

Historically the report also looks at business startups and survivability. 6,426 businesses started in WI in 2010 with 71.3% still in business through 2012. In 2013, 9,874 businesses started with 83.1% surviving through 2014. The SBA report further states that business bankruptcies in Wisconsin declined in the four-year period from 2010 to 2014, a sign that the state’s economy strengthened.

For more on Wisconsin Small Business data including number of firms, employees by industry and the demographics of small business ownership, see the SBA report at www.sba.gov/sites/default/files/advocacy/WI.pdf
The New Economy: How Creative Communities Attract Growth

by Jerome Segura III, Assistant Professor of Economics
Greg Wright, Executive Director of CREATE Portage County

Abstract

With the decline in manufacturing employment and tax incentives for brick and mortar projects failing to produce the expected economic development, contemporary economists are looking beyond classical and neoclassical economic approaches to uncover what investments lead to the strongest economies. The result is a shift from business attraction and retention to individual attraction and retention. Investments in quality of life including strong schools, inclusive communities, and supported creative classes are attracting community members who then grow their local economies. This article explores these shifts and applies them to Portage County through the lens of CREATE Portage County and its strategic vision for creativity-based community and economic development.

Application: CREATE Portage County

The nonprofit organization CREATE Portage County has developed a model to apply new-economy research to the specific circumstances of Portage County. According to the North Central Wisconsin Regional Planning Commission (2014), the labor shed in North Central Wisconsin is projected to experience a more than 16,000-person workforce shortage by 2025. It is the practice of attracting and retaining talent, which requires a shift to quality-of-life investments that support the individual, that will determine the future success of the Central Wisconsin economy. Without employees to fill our jobs—especially new-economy, Information-Age jobs—it will be difficult to support the diverse economy in Portage County and to launch or attract new businesses to the region.

CREATE suggests investments in three categories: creative placemaking, support for innovators, and thriving entertainment.

Investments in creative placemaking, with a specific focus on public art, can address two of Florida’s (2014) three pillars, improving both the aesthetics and inclusivity of our community, while also strengthening the region’s sense of identity. CREATE recommends the development of a countywide Strategic Public Art Plan that takes advantage of the role public art investments play to highlight community identity, to maximize commerce-generating third places, and to incorporate “windows and mirrors” (Style 1988) to actively attract and support diversity.

The first focus uses art to emphasize salient community features that showcase the identity-driving strengths of the region. As an example, the county could partner with the Land Art Generator Initiative (LAGI) to invest in renewable-energy-producing art installations like solar mosaics or artistic wind turbines. These art pieces would
highlight the tradition of conservation and environmentalism that are defining features of Portage County. The county could set a target to produce a certain percentage of art-generated energy with the added benefit of drawing people to the region to view this innovative public art collection firsthand.

The second focus builds on Oldenburg’s (2000) concept of third places, which argues that community vitality and engagement require places outside of both work and home that use aesthetics to promote impromptu gathering and community building. By incorporating aesthetically pleasing community gathering spaces within commercial districts, third places can also increase economic outputs for the county. As Maura Gast, former chair of Destination Marketing Association International, says in her “Circle of Life” Mantra (2016):

“If you build a place where people want to visit, you’ll build a place where people want to live. If you build a place where people want to live, you’ll build a place where people have to work. If you build a place where people want to work, you’ll build a place where business has to be. If you build a place where business wants to be, you’ll be back to building a place where people want to visit.”

In addition to boosting attachment and pride for county residents, investment in strategic and unique third places will also pull off the highway the hundreds of thousands of travelers that pass through our region, providing them with positive experiences that encourage them to rethink our community.

The third focus borrows from the multicultural education concept of “windows and mirrors” (Style 1988), which advises that a student of any background should see himself reflected in and have the opportunity to look into the lives of others through any well-constructed curriculum. This same intention can improve the sense of belonging diverse groups feel within a community. Strategic public art investments can ensure that all community members have the opportunity both to see themselves and to learn about others through the design of public spaces around the community. With smart investments in both artists and art, Portage County can carve out spaces in our community to celebrate diversity, moving beyond passive tolerance of minority groups to actively seeking out greater diversity in hopes of being a model of small-community inclusivity. This isn’t just a “nice” idea. Demographic data, including slowing birth- and immigration-rates for non-Hispanic whites, indicate that white European communities across the U.S. are contracting (Ingraham 2015). Hispanics and multi-ethnic individuals are the fastest growing demographic in almost every county in the U.S. The strongest labor sheds, then, will be in those regions that succeed at incorporating people of color into the social fabric of their communities. Given preferences millennials show for inclusive and diverse communities, this strategy should yield benefits for high-quality talent of any race.

Investments in resources to promote creativity and innovation combat the common critique that smaller communities “move too slowly” offering instead a new narrative that emphasizes the economic assets of living in a small-but-smart community. Markusen and King (2003) talk specifically of the need to support innovators and artists. The benefit is twofold: first, the elite information-age worker wants access to unique local products (Glaeser 2001); second, the sale of locally produced products increases a community’s exports, producing greater economic yields. Portage County has already seen these benefits in its strong beverage making industry. Having reputable producers not only grows the engagement and pride of the local consumer, but also brings visitors and revenues into our community as the reputation of
these products expands beyond our borders. Portage County has great stories to share in other sectors of the economy as well. The specific features of our community play a key role in the origin stories of strong businesses like Ki Mobility, Skyward, and the former Travel Guard Companies, and we are currently launching high-skill IT businesses like Wildcard and Red Arrow labs because of our capacity to support innovators. Additionally, successful artists like Patrick Rothfuss, John Hartman, Dan O’Neal, and Charys Hess provide further evidence of our community’s unique capacity to launch creative ventures that have an impact beyond our borders.

CREATE is developing the IDEA Center in hopes of institutionalizing this tradition and better supporting innovation in business, community impact, and the arts. We believe the blend of rich resources, low cost of living, strong post-secondary educational institutions (Florida 2014), and the small-community capacity to faster identify, scale, and promote successful ventures sets our area apart. Especially with an investment in strategic innovation supports to complement the resources already available, Portage County can reduce the barriers to entry (Florida 2014) into the world of entrepreneurship. While research suggests that access to wealth is currently the dominant factor determining successful entrepreneurship (Groth 2015), Portage County has the capacity to democratize access and provide a more merit-based system, attracting people with great ideas who lack the wealth to break through the barriers built into more expensive, larger economies. Our track record and our access to resources allows the greater Stevens Point area to make a sound argument that we can support innovators better than most urban communities.

Finally, investments in events and experiences that grow our entertainment scene, specifically addressing gaps in our current offerings, will play a key role in building attachment to the community and reducing barriers to entry. Demographic shifts related to the average age of first marriage have impacted where many younger professionals are choosing to live. Communities that focus too exclusively on being “a great place to raise a family” are often ignoring the growing span of time post-college and pre-family now coined emerging adulthood (Arnett 2004). However, investing in a stronger entertainment scene to ensure there is “enough to do” also benefits parents, late professionals, and retirees that are also seeking more engagement with and entertainment within their community. To maximize these investments, our community should simultaneously ensure that welcoming programs connect new residents with these social scenes and that continued scrutiny identifies any features of our social scenes that inhibit inclusive access for all groups (Florida 2014).

In each of these pieces, Portage County succeeds only if we can get this story out to a larger group of people. CREATE has coined the phrase “Generation Validation” to describe the growing group of people that rely on the internet to affirm their life choices. From restaurants to party décor, people consult the internet to determine many of the trends they will then participate in. Urban communities especially provide regular content that provides its residents with the language to talk with pride about their communities, validating their choice to live there. Portage County will struggle to compete with these communities if we fail to share our best stories not only with the outsiders we hope to attract here but also with the students we hope to bring back. This work requires an added layer of creatives (writers, videographers, photographers, etc.) who tell our story and grow our online presence in hopes of expanding the net of people who value the life we offer here.
Motivation
The human species is a naturally curious creature composed of many highly imaginative individuals. Therefore, it is no surprise that people have long pondered the existence of cities. For the regional scientist, cities, relative to rural places, have large concentrations of firms as well as dense populations of potential workers. Subsequently, these urban centers experience relatively high demand for factors of production; specifically, skilled labor and land. These market fundamentals lead to high production costs for the firm located in the urban center relative to the sparsely populated hinterlands. The prior congestive effects within classical and neoclassical economics would suggest cities are inherently unstable. In the presence of centrifugal forces, these places should not exist in the long-run unless there are countervailing centripetal forces.

Largely ignored throughout time, regional scientists have recently revisited whether it is business or the consumer that is driving regional economic growth. In other words, the new rendition of the proverbial chicken or the egg question is which comes first the people or the jobs. The old economy was and its modern remnants continue to be largely dominated by the profits and rent seeking behaviors. The prevailing old economy notion of attracting jobs and thus growing the economy was largely based on old economic development theories. More specifically, the notion that economic growth is best achieved through low taxes, incentives for business, and laissez faire regulatory practices. This approach to formulating local economic growth initiatives, however, led to a race to the bottom; a modern culture of fiscal warfare among the nations, states, and local municipalities.

Even with incentives for business such as low tax rates and slack regulation, manufacturing jobs left the cities and many local governments ended up bankrupt. Innovations in technology have fueled the geographic dispersion of the manufacturing firms. This trend is a remarkable phenomenon felt over the last 40 years not only in the US, but also in the UK and throughout Europe. Nevertheless, many local governments continue to “stimulate” growth by trying to keep or grow their manufacturing sectors and thereby welcoming all of the negative externalities that accompany manufacturing, including its harmful effects (Kahn, 1997). Alternatively, other governments compete to attract or maintain various special interest groups by financing ‘brick and mortar’ as opposed to funding individuals and the community through things such as education.

At a fundamental level, these ideas fail to explain the existence of cities. Moreover, traditional economic models are incapable of explaining the clustering of populations, both among industries and people. As early as 1890, Alfred Marshall began to discuss what came to be known as agglomeration economies within clusters. These agglomerations are thought to promote productivity gains subsequently offsetting the higher costs attributed to locating within the urban cluster. The underlying notion is that there are real costs associated with the generation, acquisition,
and transfer of knowledge and clustering together reduces those costs. The Marshallian notion of knowledge spillovers has been repeatedly revisited over the last 125 years. For example, Kenneth Arrow (1962) and Paul Romer (1986) explain that agglomerations arise within clusters largely because of the close geographic proximity among similar firms. With knowledge spillovers precipitated by employee-based idea sharing. Recent variations of agglomeration effects are expressed in the writings of Jane Jacobs (1969) and Michael Porter (1990). Whereas Porter emphasized agglomerations that arise through specialized and spatially concentrated industries, Jacobs focused on agglomerations that arise through the interaction of workers from a diverse array of industries. Although each of the prior focus on uniqueness of the industrial cluster, these ideas allow us to begin to understand the glue that holds together our cities, i.e., the centripetal forces.

There is a caveat to the technology that effectively killed manufacturing jobs. Although the technology substituted for occupations involving routine skills, it has also complemented many other occupations; particularly, those involving abstract skills (Berger and Frey, 2016; Rattunde et. al, forthcoming). The new high-tech occupations demand an entirely different American worker. This new economy is dominated by a new generation of knowledge-based entrepreneurs often with a strong preference for quality of life supported by public funding of cultural institutions and the arts. While manufacturing jobs left the urban centers, many inner cities, such as Cleveland, have seen a revitalization with the growth of the service sector.

In general, the places with this highest level of amenities have experienced the most rapid population growth. Glaeser et. al (2001) speculate that consumers are pushing the population towards areas with attributes that consumers value. Specifically, through rising incomes and wealth accumulation, households are increasingly revaluing the aesthetics associated with living in a city; e.g., the attractiveness of historic downtowns or dense clusters of towering buildings that culminate to the urban skyline. A recent Endeavor (2014) report found similar factors driving entrepreneurship with quality of life ranking significantly higher than tax incentives in determining where entrepreneurs locate their businesses. Such behavior has led to the rise of the reverse commuter; she who lives in the city center and commutes to the suburb for work.

Glaeser et al. (2001) argue that there are four pillars of building an attractive city. First, the authors emphasize the critical role of a rich offering of consumer goods and services in appreciation of the consumer’s love for variety. Second, the authors point out that superior aesthetics of urban living can attract households from the suburbs. Third, the authors discuss the role of high quality public services; namely, high quality education in facilitating the accumulation of knowledge. Lastly, and a vital amenity are the various modes of transportation. More generally, the authors emphasize the ease by which local residents navigate geographic distance within the community; for example, bike lanes and sidewalks.

Florida (2014) focuses on what he refers to as the creative class. Noting that creative people are the engine behind economic growth. Specifically, these creative people are either entrepreneurs starting or innovators attracting businesses. Creativity is another form of human capital. Whereas in the literature education drives wealth creation, creativity determines one’s productivity within the new
Typically, creative people tend to prefer places that are diverse, tolerant, and innovative.

Florida (2014) specifies three factors that drive the migration of talent and skill across geography. First, the author discusses the role of amenities that promote improvements in the local quality of life. This is not to suggest we are to ignore the importance of attracting high human capital members of the labor force; after all, it is often the highly educated individuals that tend to place the highest value on proximity to creative products. The second factor isolated by the author is the role of universities as “talent magnets and aggregators”. However, combining high amenity places with institutions of higher education fail to promote economic development if the location is incapable of retaining talent, i.e., reversing the outflow of the talented people otherwise known as brain drain. Therefore, the authors stress the third factor of low barriers to social entry. The author emphasizes the role of diversity and tolerance in terms of individualisms and openness, and it is the self-expression and openness to experiences that are the cornerstones of entrepreneurism.

Florida (2014) divides this so-called creative class into two groups based solely on their primary function. Specifically, the author describes distinct functions of two creative classes. First, the group described as the creative professionals. These individuals tend to stumble upon innovation but more generally work in knowledge-based occupations. This sub group of the creative class regularly think on their own, applying standard approaches in unique ways with an emphasis on individual judgement; namely, high-tech occupations, legal and health-care professionals, and management. Second, there are the creative people who “create meaningful new forms”. These super-creative individuals actively pursue and are at the core of innovation; e.g., scientists, engineers, professors, writers, artists, designers, and architects.

As it turns out, these two groups of creative people are no longer moving to traditional places filled with sports stadiums, shopping malls, and theme-park styled entertainment districts. In fact, the characteristics tend to be irrelevant in attracting the creative class if not actually serving as a deterrent. Instead, creative individuals seek locations that validate their creative identities; these places are often referred to as creative centers and knowledge hubs. It is certainly true that people must work to earn income and people need a place to call home. However, household attachment to the community is rarely tied to the local economy. There is little variation among places in terms of what attaches residents to the community. Specifically, Florida (2014) argues
attachment is a function of three things: community
tolerance of diversity, a wide-array of social offerings,
and the general aesthetics of the community.

**Policy Discussion**

“Where the future is happening now” (Malanga,
2004) are places with relatively high concentrations
of educational attainment coupled with the dense
populations of creative individuals. These are the
cities and communities driving national economic
growth. Whereas the old economy emphasized
the role of taxes, business incentives, and loose
regulation, the new economy tends to focus on the
role of education and creativity in driving economic
growth. That is an insightful statement suggesting
that state and local fiscal policy has profound
implications on not only the current but also future
economic growth potential.

Although this discussion, up to this point, has
focused primarily on the role of creativity in driving
innovation within U.S. cities, rural communities too
are suffering from contracting economies with the
loss of both manufacturing and agricultural jobs. In
addition, these areas have tended to struggle with
maintaining or attracting the next generation of
highly educated and creative workers. While it is true
that, post-Great Recession, many knowledge hubs
experienced rapid growth rates, these growth rates
have waned as the comparative advantages within
these regions have been exploited. In fact, the regions
that have fought to regain economic traction, formally
known as lagging regions, are set to drive the next
period of rapid growth. These lagging regions are
predominantly small to moderate sized cities and
rural. Economic recovery in these areas have found
an unusual source of growth stimulus; i.e., the inward
migration of retirees and growth in the arts sector.

Although artists tend to locate in large cities for a
variety of reasons, many artistic individuals value a
more rural way of living. In contrast to the large cities,
less developed regions are marked by a relatively low
cost of living along with high quality of life; namely,
offering a sense of “solitude, a natural environment,
and an open and accessible community” (Markusen,
2007). Markusen and Schrock (2006) describe artists
to be a “relatively footloose group that can serve as
a target of regional and local economic development
policy”. Thus, the authors outline policy that pair well
with the local area.

As it turns out, there are a set of economic
development initiatives that work in cities
and communities of all sizes. First, the authors
recommend an assessment of current outlays to
ensure diversification in economic development
programs away from expensive and ineffective
business incentives; namely, old ways of funding
things such as private capital-intensive projects
(Markusen, 2008). Instead, there is an emphasis on
nurturing the artistic individual. Specifically, the
authors discuss the role of publicly sponsored live-
and-work spaces, public education and support
for the arts, and public assistance in developing
the business skills of local artists (Markusen and
King, 2003). Second, the authors discuss the role
of policymakers as facilitators. For example,
policymakers can help establish and tighten
connections between resident artists and the existing
corporate community leading to firm productivity
gains and improvements to occupational returns
for the artist. Lastly, the authors discuss the role of
state and local government in improving the means
by which public dollars are allocated to fund the
arts. According to the authors, “new performing
arts centers tend to attract a disproportionate share
of the public dollar because they are supported
by well-organized and energetic elites who lobby
effectively”. Alternatively, the authors emphasize the
need for funding of smaller and more diverse cultural
organizations.
Conclusion
Economic development initiatives targeting artists, and more generally the creative class, serve to achieve three main objectives. First, facilitating local members of the creative class and attracting outsiders tends to improve the local export base as more goods and services are produced locally, exported, and consumed by people outside of the local area. In other words, the prior serves as a means of attracting dollars from outside the local economy. Second, attracting members from the creative class tends to induce import substitution as local people find creative outlets in the local area in lieu of them having to travel elsewhere for their creative consumption. Lastly, attracting members of the creative class through improvements in the local quality of life serves as a means to retaining existing creative individuals in the local area.

The main point to draw from this discussion is the focus of shifting economic development initiatives to the individual while building a tolerant and diverse community with limited barriers to social entry. Moreover, in contrast to the expensive fiscal policy of the old economy, these recommendations simply serve to refocus ongoing economic development initiatives.

References
Gast, Maura (2016). Circle of Life Mantra.
Notes
MISSION AND VISION

The mission of the UWSP Central Wisconsin Economic Research Bureau is to foster economic development by bringing timely economic analysis to our region, focusing on Central Wisconsin.

The mission has been accomplished through the publication of Economic Indicator Reports. These reports are compiled and released for 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 and Economics. The CWERB also represents an important part of the outreach efforts of the UWSP School of Business and Economics.

SOURCES OF FUNDING

• UWSP School of Business and Economics
• BMO Harris Bank of Stevens Point

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 Stevens Point. The audience consists 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 and Economics. Chief Economist Jerome Segura III has been interviewed by local media as well as media outside of the local area on a variety of economic matters.