University of Wisconsin-Stevens Point

Central Wisconsin Economic Research Bureau

Economic Indicators Report

Third Quarter 2019: Central Wisconsin

Special Report:

"The State of the Labor Market in North Central Wisconsin: Tools, Trends and Best Practices"
by Derek Heikkinen and Mitchell Rupp

Introducing a new column:
Insight Spotlight

University of Wisconsin
Stevens Point

Name Change and Expansion of Vision

Since its founding in 1983, the Central Wisconsin Economic Research Bureau (CWERB) has fostered economic development by providing timely economic analysis to our constituents, largely through the publication and presentation of its Economic Indicators Reports.

Building on that tradition of service to the Central Wisconsin region, we are changing our name to the UW-Stevens Point ***Center for Business and Economic Insight (CBEI)*** to reflect a broader vision and expansion of activities.

In addition to economic analysis, CBEI aims to be an indispensable source of applied business knowledge for local business and community leaders.

The faculty of the School of Business and Economics at UW-Stevens Point and other experts share their learning and experience over a range of areas including talent management, data analytics, leadership, community development, and many other fields.

Our chief analyst Kevin Bahr will be posting articles on important business and economic topics periodically on our new blog page at ***http://bit.ly/uwspcbeiblog***. In addition to continuing our bi-annual breakfasts, the CBEI is looking to increase our public presence by sponsoring luncheons.

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Special Recognition:

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The Economy: 5 Things You Should Know for 2020 (and Beyond)

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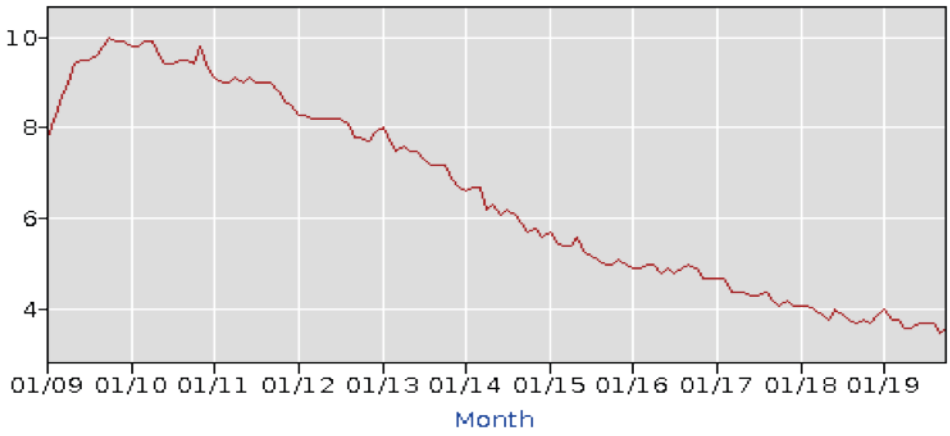
This article summarizes what has been going on with the economy over the past decade, with a focus on what has occurred recently. What has occurred, why it has occurred, and what might happen in the future is discussed and packaged into the 5 things that you should know as we head into 2020, as well as a summary that addresses some future challenges. For further information on this and other topics (such as Social Security and Taxes under Bush vs. Obama vs. Trump), check out the CBEI blog on the UWSP SBE website. The blog includes greater detail and links for further information.

1 Economic Growth and Unemployment – Positive Trends for a Long Time

In 2010 the economy began to recover from the financial and economic crisis of 2007-2009. A fiscal stimulus, improving credit conditions, temporarily reduced social security taxes, record low interest rates, and a calming of the financial markets all contributed to the turnaround. The graph below displays the unemployment rate over the past decade. After peaking at approximately 10%, the unemployment rate has taken a long, gradual decline. In 2018 the unemployment rate dipped below 4%, which had not occurred since 1970.

Unemployment Rate (16 yrs. and older)
Source: U.S. Bureau of Labor Statistics



Mirroring the drop in the unemployment rate was economic growth as measured by changes in GDP. GDP measures the value of goods and services produced by a country over a certain time period. Beginning in the second half of 2009, GDP has consistently increased each quarter, generally between 1% and 3%. On an annual basis, GDP has increased each year since 2010, reflecting a relatively long period of economic growth. After growing at 1.6% and 2.4% in 2016 and 2017 respectfully, the 2018 tax cuts contributed to increased growth of 2.9% in 2018. As indicated by both the drop in the unemployment rate and increases in economic growth, the tax cuts helped to sustain the economic recovery that began in 2010. According to the National Bureau of Economic Research the current economic recovery is the longest in history, reaching 125 months in November 2019.

However, growth has slowed in 2019 in comparison to 2018. Although the tax cuts helped sustain economic growth, they also have side effects – contributing to an increase in the U.S. budget deficit and government debt.

Annual Percentage Change in GDP

(Source: Bureau of Economic Analysis)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Q1/19	Q2/19	Q3/19
-2.5	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	3.1	2.0	1.9

2 What's Been Driving Economic Growth

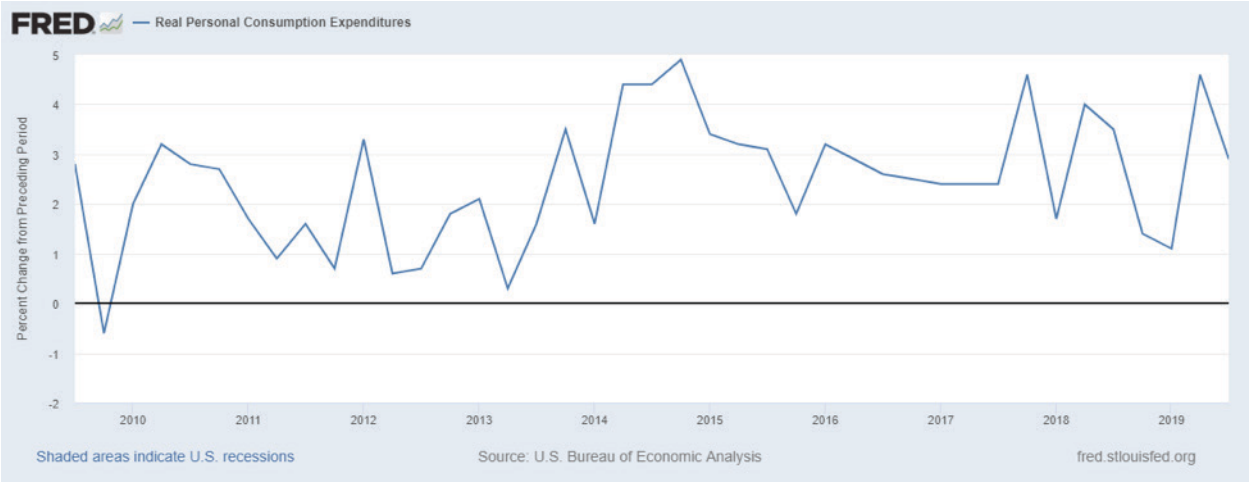
GDP includes four components: 1) Consumer spending, 2) Investment spending, 3) Government Expenditures, and 4) Net Exports (exports minus imports). Investment spending includes the purchase of equipment by firms, the purchase of all newly produced structures (residential and non-residential), changes in business inventories, and investments in intellectual property. Consumer spending is the primary contributor to GDP, currently comprising about 68% of GDP. Investment spending and government expenditures each comprise approximately 17.5% of GDP. Net exports comprise -3% of GDP; the number is negative because imports exceed exports.

What's been driving the economic recovery since 2009? By far and away it has been consumer spending. The graph below shows changes in real (adjusted for inflation) personal consumption expenditures from the previous quarter over the past 10 years. Ever since the first quarter of 2010, real personal consumption expenditures have increased every quarter, reflecting an expanding economy and falling unemployment rate. Over the past few years growth in real personal consumption spending has been relatively volatile, but always positive. In 2019, growth was only 1.1% in the first quarter, increased to 4.6% in the second quarter, and fell to 2.6% growth in the third quarter. What's been driving consumer spending? A variety of factors, including:

- The snowball effect of continued decreasing unemployment since 2010 resulting in increasing income.
- An environment of extremely low interest rates.
- A generally increasing stock market since 2010.
- Tax cuts; including temporarily reduced social security taxes in 2011 and 2012 and the corporate and individual tax cuts of 2018.
- Relatively low inflation.

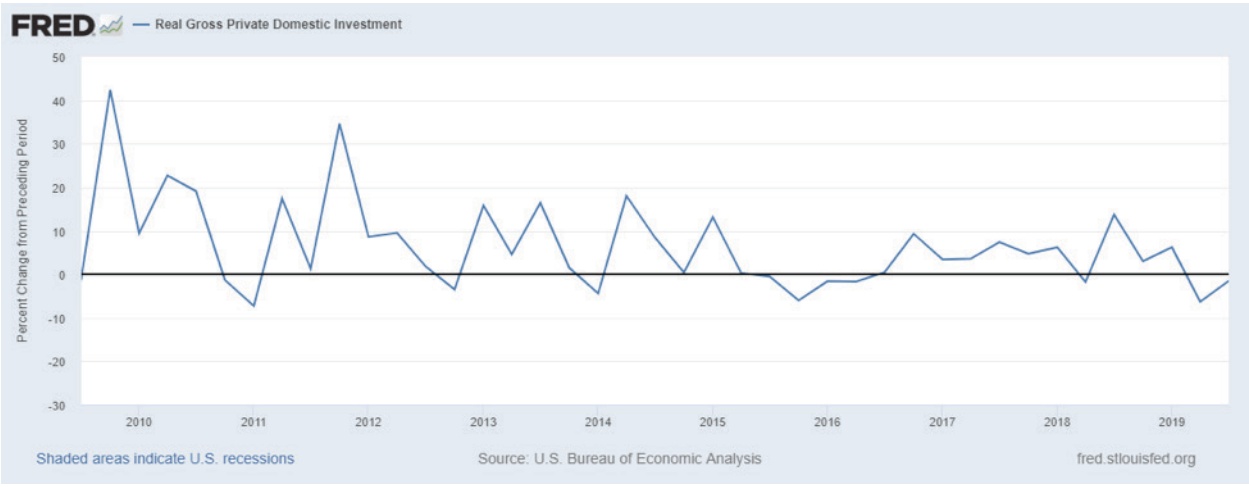
As long as consumer spending remains strong, the economy will likely remain strong.

Change in Real Personal Consumption Expenditures
Percentage Change from Previous Quarter (3rd Qtr. 2009 – 3rd. Qtr. 2019)
Source: Graph from Federal Reserve Economic Database (FRED)
based on data from the U.S. Bureau of Economic Analysis



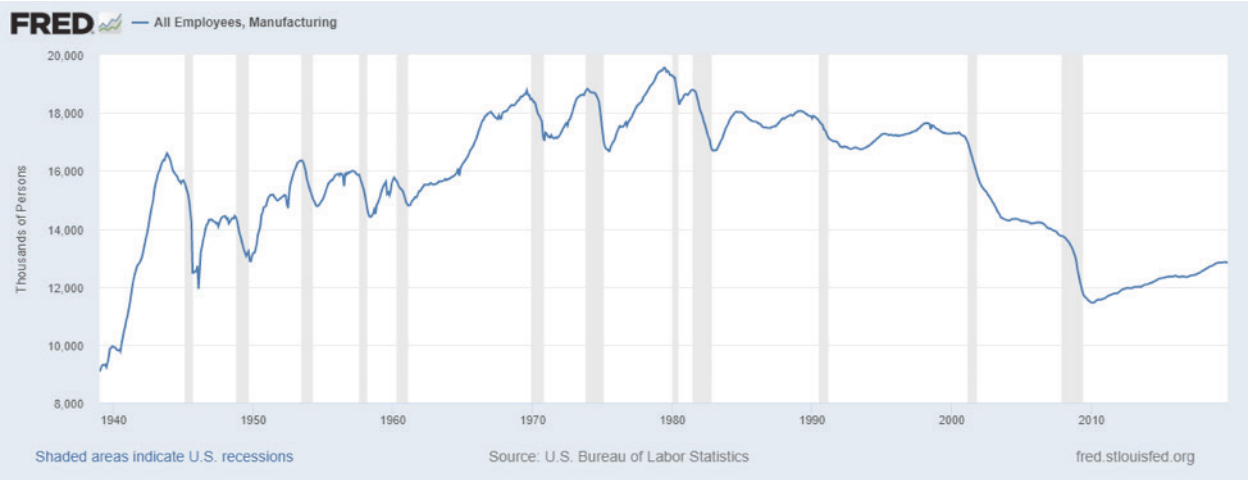
After getting a temporary kick-up in growth in 2018, real gross private domestic investment declined in the second and third quarters of 2019. As a result, investment spending has certainly not been the driving force behind recent economic growth. Despite the incentives created by the 2018 tax act, including the reduction of the corporate tax rate from 35% to 21% and allowing the immediate deduction of capital expenditures, investment spending was only bolstered in the short-term, 2018. Growth peaked at 13.6% in the second quarter of 2018 before declining -6.3% and -1.5% in the second and third quarters of 2019, respectively.

Change in Real Gross Private Domestic Investment
Percentage Change from Previous Quarter (3rd Qtr. 2009 – 3rd. Qtr. 2019)
Source: Graph from Federal Reserve Economic Database (FRED)
based on data from the U.S. Bureau of Economic Analysis



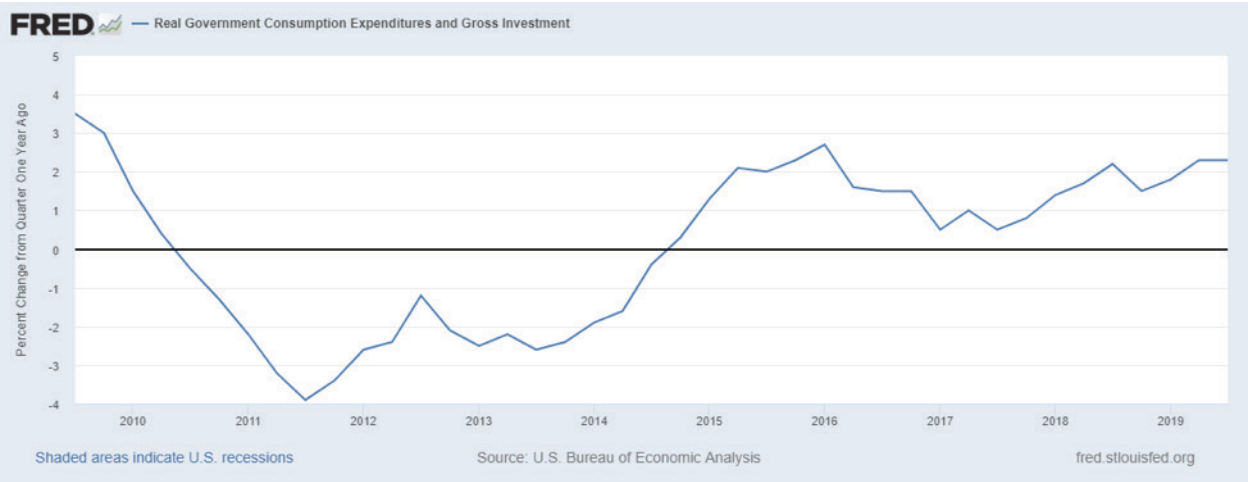
A quick word on manufacturing. One goal of the recent tax bill was to increase manufacturing jobs in the United States. As of late 2019, the impact has been minimal. The graph below shows a long history of manufacturing employment in the United States. After a precipitous decline in employment in the decade following the turn of the century, manufacturing employment steadily grew (along with overall U.S. employment) since 2010, following the financial and economic crisis. However, in 2019 manufacturing employment has remained relatively flat since January. There was actually a slight decline in October employment relative to January.

United States Manufacturing Employment
(January 1939 – October 2019)
Source: Graph from Federal Reserve Economic Database (FRED)
based on data from the U.S. Bureau of Economic Analysis



Although its impact on economic growth is not as great as the increase in consumer spending, real government spending has increased since 2015. In the second and third quarters of 2019, growth was 2.3%. The return to increased growth in government spending in 2015 followed decreases in government spending that occurred after 2010. Increases in government spending may help short-term economic growth, but they may also add to the budget deficit.

Change in Real Government Spending
Percentage Change from Previous Quarter (3rd Qtr. 2009 – 3rd. Qtr. 2019)
Source: Graph from Federal Reserve Economic Database (FRED)
based on data from the U.S. Bureau of Economic Analysis



3 The Timing of Those Tax Cuts

Part of what made the recent tax cuts unique is that they occurred in a growing economy with near historic lows in unemployment. Prior to 2018, recent tax cuts occurred when the economy was struggling and unemployment was relatively high.

In the current economic recovery, the payroll tax for Social Security was temporarily reduced under President Obama. In 2011 and 2012, the payroll tax was reduced from 6.2% to 4.2%. Payroll taxes are paid up to a salary limit; the salary limit was $110,100 in 2012 and $106,800 in 2011. In essence, the payroll tax cut provided a 2% tax reduction on income below the salary limit. The objective was to help a struggling economy recover from the financial crisis, and quickly give working individuals a reduction in taxes. As indicated previously, in 2010 the unemployment rate was nearly 10%; the economy had contracted in 2009 with two consecutive quarters of negative GDP growth. At the time of the tax cut, the economy was struggling, with relatively high unemployment.

In 2003 The Jobs and Growth Tax Relief Reconciliation Act was passed under President Bush in an effort to kick-start the economy after a series of troubling events. Several factors adversely impacted the economy after the turn of the century, including an economic slowdown beginning in early 2001, the terrorist attacks of 2001, and the bursting of the dot.com (overpriced internet/technology stocks) bubble. Tax rates were generally reduced across all income brackets; tax rates on capital gains and dividends were also reduced. After ending 2000 at 3.9%. the unemployment rate had gradually increased to over 6.0% in 2003. After growing at 4.8% in 1999 and 4.1% in 2000 respectively, GDP grew an only an annualized 1.0% rate in 2001 with negative growth in the first and third quarters. At the time of the tax cut, the economy was struggling, with relatively high unemployment.

The tax cuts implemented in 2018 were different. The economy had over eight years of economic growth; the unemployment rate had declined gradually from approximately 10% in 2009 to nearly 4% at the end of 2017. Contrary to recent tax cuts, the 2018 tax cuts were implemented when the economy was expanding and the unemployment rate was relatively low. The tax cuts contributed to a cost yet to be paid – a growing federal budget deficit and record levels of federal debt.

A side effect of the 2018 tax bill was how the resulting split between individual and corporate taxes comprised total federal tax revenues. In fiscal year 2018, corporate income taxes comprised 6.1% of federal tax revenue. The 6.1% rate was the lowest rate ever based on Office of Management and Budget data available since 1934. Conversely in fiscal year 2018, the contribution of individual income taxes to total federal tax revenue increased. Federal income tax revenue from individual income taxes comprised 50.6% of federal tax revenue in fiscal year 2018. The 50.6% rate for individual income taxes was the highest rate ever based on Office of Management and Budget data available since 1934.

4 The Yet-to-be-Paid Increasing Costs of the Federal Deficit and Debt

The Federal Deficit

According to the Congressional Budget Office, Government spending totaled $4.1 trillion in 2018; government revenues were $3.3 trillion, contributing to a deficit of roughly $800 billion. Government income consists primarily of tax revenues; spending consists of a variety of programs, including Social Security, Medicare, Medicaid, defense, education, infrastructure, and interest on government debt.

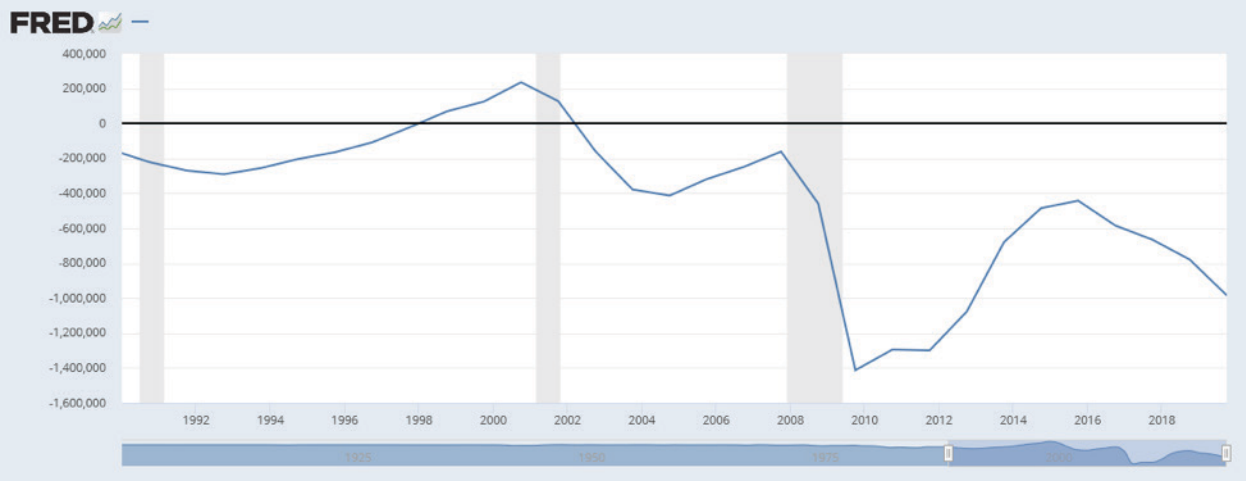
Generally, an expanding economy leads to a decrease in the U.S. federal government budget deficit as tax revenues increase. However, the 2018 tax cuts changed that. The graph below shows the U.S. federal budget surplus or deficit since 1990. The shaded areas of the graph indicate an economic recession. Notably the economic expansion in the 1990s actually led to budget surpluses. Following the recession of the early 2000s and the financial and economic crisis of the late 2000s, the deficit once again was reduced. However, since 2016, the budget deficit has increased.

In the midst of an economic recession following the turn of the century, the Bush Administration cut income taxes in 2003 to stimulate economic growth. Following the financial and economic crisis of 2007-2009, the Obama Administration cut payroll (social security) taxes in 2011-2012 to stimulate economic growth. Both contributed to economic recovery; the economy grew, federal tax revenues increased, and the deficit decreased. The tax cuts in 2018 were different. The tax cuts were not made to help the economy recover from a recession; there was no recession. Taxes were cut, the rate of economic growth temporarily increased, and the deficit increased.

Federal Budget Surplus or Deficit

Annual amount of Federal Budget Surplus or Deficit in Millions of Dollars (1/1/80-9/30/19)

Source: Graph from Federal Reserve Economic Database (FRED)
based on data from the U.S. Office of Management and Budget



In the current economic scenario, a growing budget deficit is problematic. For the United States, an unemployment rate below 4% pretty much indicates that the government is approaching the maximum amount it will receive from federal individual taxes (given current tax laws). In other words, given the extremely low unemployment rate, it may be hard to lower the rate and significantly increase individual and corporate tax revenues. Putting it another way, if you max out your income and still can't pay your expenses, you may have a problem if you already have a lot of debt. That discussion is next.

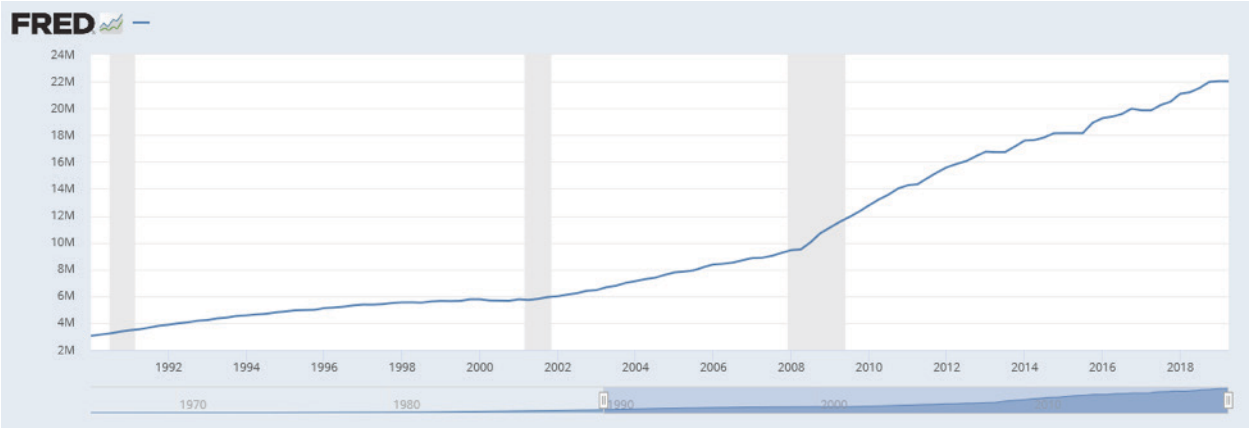
Federal Debt

How does the United States government finance a budget deficit? It basically borrows money from investors, including foreign investors, through the issuance of U.S. government debt securities called U.S. Treasury securities. China and Japan are by far and away the major foreign investors in U.S. Treasury securities, each holding approximately $1.1 trillion of U.S. Treasury securities and each accounting for nearly 17% of the Treasury debt held by foreign investors. The United Kingdom is a distant third, holding only $341 billion of U.S. Treasury securities and accounting for a little over 5% of the Treasury debt held by foreign investors.

When the U.S. incurs several years of consecutive deficits, the debt issued to fund those deficits starts to pile up. Federal debt actually decreased slightly in the late 1990s, as the U.S. ran federal budget surpluses.

Since 2002, the U.S. has incurred federal deficits. The graph below shows the total federal debt held by the public. From 2000 to 2009, the federal debt approximately doubled, from approximately $5.5 trillion to $11 trillion. In the past decade, the federal debt level has approximately doubled again, from $11 trillion in 2009 to over $22 trillion in 2019. In the past 30 years, the amount of federal debt outstanding has increased approximately six-fold to record level amounts.

Federal Debt: Total Public Debt
Amount of Federal Debt in Millions of Dollars (1980-2019)
Source: Graph from Federal Reserve Economic Database (FRED)
based on data from the U.S. Treasury



Federal Debt and U.S. Income

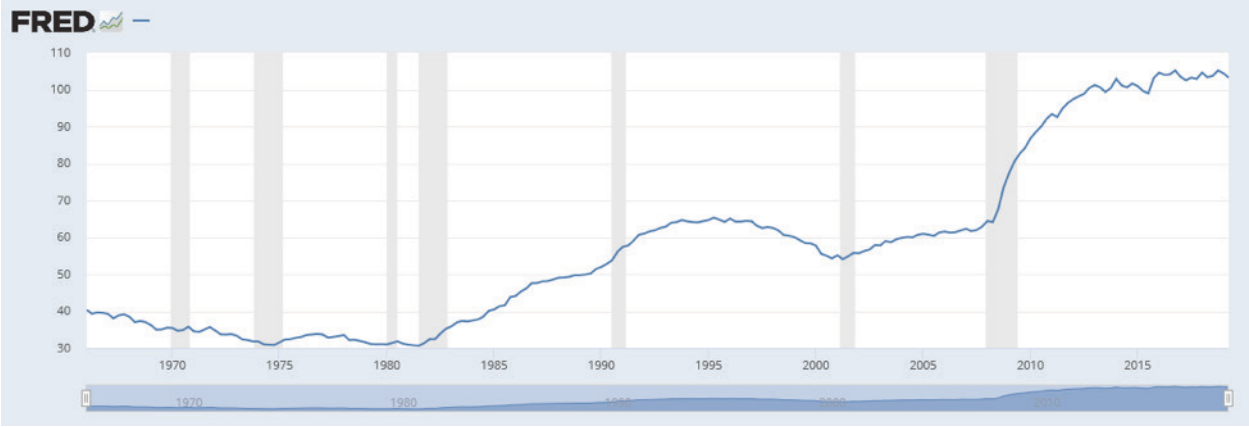
Does the amount of federal debt matter? Well yes, holders of the debt do have to be paid. However, how much the debt matters kind of depends on how much income the country generates. That income could be taxed to generate revenues that could be used to pay the debt. GDP not only measures output in the economy, it also reflects income. When goods and services are created, income is also created, split between individuals, corporations, and the government. Look at it this way. If you have $100,000 of debt is it a lot? The answer is probably yes if your income is $50,000; the answer is probably no if your income is $50,000,000. The more income, the more debt you can generally financially afford. Federal debt as a percentage of GDP provides a relative measure as to how the federal debt financially burdens the country.

The graph below provides a long-term perspective on the amount of federal debt outstanding relative to the amount of income (GDP) generated in the U.S. Relatively speaking, federal deficits and increasing federal debt were not much of an issue until the 1980s. Federal debt to GDP rose to

over 50% by the end of the decade. In the 1990s, following a decade early recession, federal debt to GDP topped 65%; federal budget surpluses helped reduce the level to approximately 55% by the end of the decade. The return of budget deficits after the turn of the century increased federal debt to GDP to nearly 65% prior to the financial and economic crisis of 2007-2009. Federal debt to GDP now stands at over 100%.

Despite recent economic growth and an extremely low unemployment rate, the budget deficit has increased and federal debt has reached record levels. Any economic downturn could significantly increase both and place increased pressure on federal government programs and perhaps prompt further changes in federal tax policy, or a reduction in program expenditures. For example, a looming problem, it is estimated that by 2035 payroll taxes collected will only be enough to pay only about 75 cents for each dollar of scheduled Social Security benefits.

Federal Debt as a Percentage of U.S. GDP
1966 - 2019
Source: Graph from Federal Reserve Economic Database (FRED)
based on data from the U.S. Office of Management and Budget



5 Drivers of The Stock Market

The S&P 500 index is a benchmark index for measuring the performance of the U.S. stock market. It is a diversified index that contains the stocks of 500 relatively large companies (large cap) in an array of industries. Stock prices reflect expectations of future corporate profitability - more specifically, the earnings and cash flow expected for each share of a company's stock. If earnings or the growth rate of earnings decrease, a company's stock price will generally decrease. If the stock market becomes riskier due to economic uncertainty (such as the recent financial and economic crisis, or tariffs), then stock prices will decrease. Recent stock market performance – up, down, and all around over the past decade, but generally up.

Annual Return of the S&P 500 Index since the Financial Crisis

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019*
23.45	12.78	0	13.41	29.6	11.39	-0.73	9.54	19.42	-6.24	22.19

* Through November 1, 2019

Several factors have impacted the stock market to varying degrees at various points in time. Listed below are (not listed in any particular order) some of the more important drivers that have recently impacted stock market performance.

The Tax Cuts

Since stock prices reflect expectations of future corporate profitability, the 2018 tax cuts arguably contributed to a strong stock market in 2017. The corporate tax rate was lowered from 35% to 21% in 2018. In addition, capital expenditures (spending on property, plant, and equipment) could be expensed (a tax deduction in the year of the expense) rather than depreciated (allocating the cost and spreading the deduction over the life of the property). Both changes contributed to a strong stock market in 2017 and a general expectation of increased corporate profitability and economic growth. Companies were awash in cash.

Share Buybacks

The 2018 tax bill significantly increased corporate profitability and cash flow. If companies have excess cash after making necessary and desired expenditures, what can they do with it? One option – share buybacks. Share buybacks allow companies to increase their stock price, as the total earnings of the company will be divided between fewer shares. In other words, share buybacks will have a positive impact on earnings per share, which in turn will increase the stock price.
The 2018 tax bill contributed significantly to a dramatic increase in share buybacks. According S&P Dow Jones Indices, share buybacks hit their highest level in history in 2018. The total value of share repurchases by companies reached a record $806.4 billion in 2018, up 55 percent from 2017. The 2018 record level was more than 36 percent higher than the previous high in 2007. Despite the huge increases in 2017 and 2018, share buybacks were on pace to potentially reach a record $1 trillion in 2019.

Interest Rates

Theoretically, the Federal Reserve acts in an independent manner to balance economic growth with inflation. The Federal Reserve tries to accomplish this goal through targeting the "fed funds rate" – a very short-term interest rate that when changed, typically has a rippling effect through the financial markets. The Federal Reserve influences this rate by primarily controlling the money supply in the United States. The amount of money circulating in the economy has an impact on interest rates and credit conditions - more money, lower interest rates; less money, higher interest rates.

After 2008, in an effort to help the economy recover from the financial and economic crisis, the Federal Reserve periodically and aggressively purchased short and long-term Treasury securities ("quantitative easing") in an effort to keep interest rates low. These lower interest rates contributed to the U.S. gradually and successfully recovering from the economic recession caused by the financial and economic crisis. In a similar fashion, the fed funds rate was aggressively lowered in 2001 to help the U.S. economy recover from an economic recession, at least partially caused by the Sept. 11 terrorist attacks. From 2015 through 2018, as a result of an improving economy and at least some expectation of an increased risk of inflation, the Federal Reserve increased interest rates several times. Things reversed in 2019. Growing concern over a global economic slowdown and the negative impact of tariffs on the U.S. prompted the Federal Reserve to cut interest rates three times as of November 1, 2019 (something that was encouraged by the Trump Administration). The result has been a decline in interest rates in the financial markets.

The chart below shows the Treasury yield curve on November 1, 2019 relative to one year ago. The Treasury yield curve shows the relationship between short-term and long-term interest rates. Across the board, all rates declined relative to one year ago. Lower rates encourage borrowing and spending – factors contributing to economic growth and the strong stock market in 2019. However, given the current level of extremely low rates, it may be difficult for any further reduction of interest rates to have a significant, positive factor on either economic growth or the stock market.

Treasury Yield Curve Rates

Date	1 Mo	2 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
11/1/19	1.58	1.58	1.52	1.55	1.53	1.56	1.55	1.55	1.63	1.73	2.03	2.21
11/1/18	2.21	2.28	2.32	2.49	2.67	2.84	2.91	2.96	3.06	3.14	3.29	3.38

Tariffs

Tariffs are paid by an importing company (NOT a country) and reduce corporate profitability and cash flows. In 2018 the United States had placed tariffs on goods from several countries, including Canada, Mexico, India, South Korea, the European Union, and China. Tariffs were placed on imported goods such as aluminum, steel, consumer goods, and industrial products. Retaliatory tariffs were often implemented by these countries on goods imported from the United States. These goods included agricultural products, whiskey, and motorcycles. Tariffs arguably dominated the declining stock market performance in 2018. According to the Peterson Institute for International Economics, by September 2018 the United States had tariffs on 12 percent of its total imports, while the combined trading partner retaliation covered 8 percent of total US exports. The tariffs, and the prospect of future additional tariffs contributed to a declining stock market, as the impact of tariffs on corporate profits created market uncertainty.

In 2019 the financial markets reflected a growing optimism and expectation that the trade wars would at least subside, particularly with China. This optimism, combined with lower interest rates, continued economic growth, and share buybacks, powered the stock market through November.

Summary and Future Challenges

The United States has enjoyed a prolonged period of economic growth; a record period of economic growth. Since 2010 economic growth has continued, the unemployment rate decreased to a 50-year low, and the stock market has generally increased reflecting the strong economy. The economic growth has largely been driven by factors favorable for increased consumer spending, including 1) increasing consumer income resulting from the continued decrease in the unemployment rate, 2) an environment of extremely low interest rates, 3) a generally increasing stock market generating capital gains, 4) tax cuts; including a temporarily reduction in social security taxes in 2011 and 2012, and the corporate and individual tax cuts of 2018, and 5) relatively low inflation.

What could go wrong? There are some concerns. Despite the ten years of economic growth and a 50-year low for unemployment, budget deficits and federal debt have increased significantly. Spending now has created concerns for later. The growing deficit is of particular concern due to the relatively low unemployment rate; it will be hard to lower the rate and significantly increase individual and corporate tax revenues. Any blip in the economy could significantly increase an already growing deficit and record amount of debt. Eventually, a looming shortfall in social security funding will have to be dealt with.

The stock market has enjoyed a rebound in 2019 following a decline in 2018, buoyed by optimism over resolving, or at least mitigating, trade issues with particularly China. Growth in corporate earnings, stock buybacks, and Federal Reserve interest rate cuts have all helped fuel the market. However, interest rate cuts may have bottomed out and any retreat from resolving trade issues (particularly with China) will likely hurt the market. Corporate earnings have benefitted from the tax cuts and growth in consumer spending. As the economy bumps up to near full employment, continued growth in consumer spending becomes challenging.

Despite the robust economy, health care, including the coverage and the cost of that coverage, remains a major economic concern. From the Kaiser Family Foundation based on data collected from surveys:

- Despite the nation's strong economy and low unemployment, what employers and workers pay toward premiums continues to rise more quickly than workers' wages and inflation over time. Since 2009, average family premiums have increased 54% and workers' contribution have increased 71%, several times more quickly than wages (26%) and inflation (20%).
- About one-fourth of U.S. adults (26 percent) say they or a household member have had problems paying medical bills in the past year, and about half of this group (12 percent of all Americans) say the bills had a major impact on their family.
- At least one-fourth of insured adults indicate it is difficult to afford to pay their deductible, the cost of health insurance each month, or their co-pays for doctor visits and prescription drugs.
- Annual family premiums for employer-sponsored health insurance rose 5% in 2019 to average $20,576 this year. On average, workers contribute $6,015 toward the cost of family coverage, with employers paying the rest.

Yes, the economy and stock market have been strong; but significant challenges remain.

ECONOMIC INDICATORS

Scott Wallace, Ph.D.
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Professor of Economics, School of Business and Economics

The economy is an extraordinarily complex and constantly evolving system. Economic indicators are statistics that provide important clues about the economy's current and future performance at the national, state, and regional levels. The economic indicators presented here include national economic statistics, labor market statistics, housing and construction, and business sentiment.

National Economic Statistics

Table 1:
Key Economic Indicators

	2019 Third Quarter	% Δ Yr. Ago
Nominal Gross Domestic Product (in Billions)	**21525.8**	**3.7**
Real Gross Domestic Product (in Billions)	**19112.5**	**2.7**
Industrial Production (2012 = 100)	**109.5**	**-0.1**
Consumer Price Index (1982 - 84 = 100)	**256.8**	**1.7**

Description:

- *Nominal Gross Domestic Product (in Billions): The dollar value of all final goods and services produced in a year, using current prices*
- *Real Gross Domestic Product (in Billions): The dollar value of all final goods and services produced in a year, using prices from a base year (2012) to adjust for inflation.*
- *Industrial Production Index: Measures real output (as a percentage of actual output in 2012) produced in the United States in manufacturing, mining, and electric & gas utilities.*
- *Consumer Price Index: Measures the average monthly change in the price of a representative basket of goods and services bought by consumers*

Analysis:

- *The Industrial Production Index is a valuable indicator about the current state of the economy because it is published frequently (monthly) and measures industrial sectors that are sensitive to changes in the business cycle and reflects changes in the manufacturing.*

Table 2:
Contributions to Percent Change in Real Gross Domestic Product (Seasonally Adjusted at Annual Rates)

Line	Percent Change at an Annual Rate	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
1	Gross Domestic Product Percentage Points at Annual Rates	3.5	2.9	1.1	3.1	2	1.9
2	Personal Consumption Expenditures	2.7	2.34	0.97	0.78	3.03	1.93
3	Goods	1.13	0.75	0.33	0.32	1.74	1.14
4	Durable Goods	0.56	0.25	0.09	0.02	0.87	0.53
5	Nondurable Goods	0.57	0.5	0.24	0.3	0.87	0.61
6	Services	1.57	1.59	0.65	0.46	1.29	0.79
7	Gross Private Domestic Investments	-0.3	2.27	0.53	1.09	-1.16	-0.27
8	Fixed Investment	0.89	0.13	0.46	0.56	-0.25	-0.22
9	Nonresidential	1.04	0.29	0.64	0.6	-0.14	-0.4
10	Structures	0.33	-0.07	-0.29	0.12	-0.36	-0.48
11	Equipment	0.2	0.17	0.42	0	0.05	-0.23
12	Intellectual Property Products	0.51	0.18	0.51	0.48	0.17	0.3
13	Residential	-0.15	-0.16	-0.18	-0.04	-0.11	0.18
14	Change in Private Inventories	-1.2	2.14	0.07	0.53	-0.91	-0.05
15	Net Exports of Goods and Services	0.67	-2.05	-0.35	0.73	-0.68	-0.08
16	Exports	0.71	-0.78	0.18	0.49	-0.69	0.09
17	Goods	0.94	-0.78	0.21	0.36	-0.48	0.12
18	Services	-0.23	0	-0.03	0.13	-0.21	-0.03
19	Imports	-0.04	-1.27	-0.53	0.23	0.01	-0.17
20	Goods	-0.1	-1.11	-0.28	0.36	-0.02	-0.05
21	Services	0.06	-0.16	-0.24	-0.13	0.02	-0.12
22	Government Consumption Expenditures and Gross Investments	0.44	0.36	-0.07	0.5	0.82	0.35
23	Federal	0.25	0.19	0.07	0.14	0.53	0.22
24	National Defense	0.28	0.11	0.2	0.29	0.13	0.08
25	Nondefense	-0.03	0.07	-0.12	-0.15	0.4	0.14
26	State and Local	-0.19	0.17	-0.14	0.36	0.29	0.12

Bureau of Economic Analysis

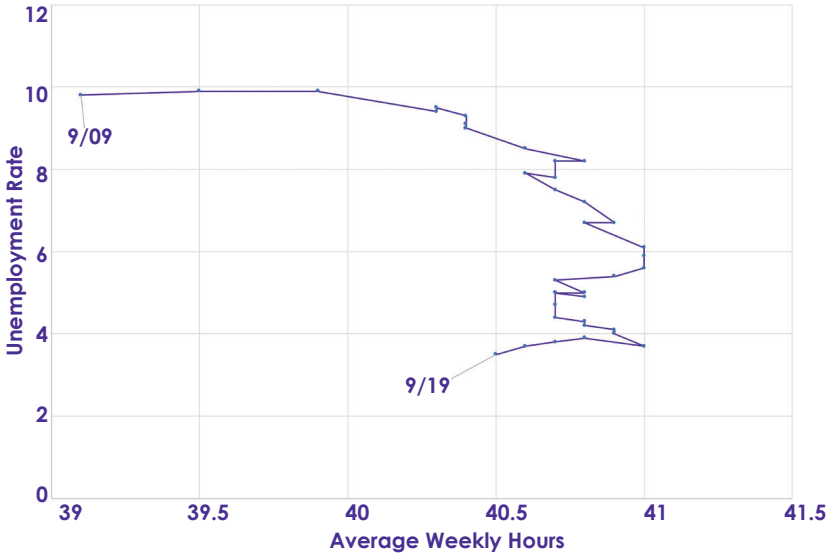
Description:

- *The above table decomposes percent changes in Real GDP into its components (consumption, investment, government, and net exports) and more specific subcomponents.*

Analysis:

- *As discussed in Professor Bahr's report, growth in consumer spending accounted for a disproportionate share of the 1.9% increase in Real GDP growth in the third quarter, compensating for weakness in investment spending.*
- *While investment spending remains relatively weak, residential investment, an important leading economic indicator, appears to have firmed up a bit after declining for several quarters.*

Table 3:
Lifecycle of the Expansion



Description:

- *Table 3 plots the unemployment rate against average weekly hours in manufacturing on a quarterly basis since the beginning of the current economic expansion in September 2009.*
- *There are four phases:*
  1. *In the initial phase of an expansion, unemployment is stable and remains high while there is a sharp rise in hours per week*
  2. *In the second phase, the unemployment rate falls while hours per week tend to be relatively stable.*
  3. *In the third phase, the unemployment rate is stable and hours per week decline*
  4. *A contraction occurs when unemployment rises and hours per week falls*

Analysis:

- *Average hours worked often is a leading indicator of the business cycle because employers will change the number of hours worked before hiring new workers or laying off existing workers.*
- *The above graph indicates that the expansion is in its third, mature phase with average hours declining over the last several quarters and unemployment stabilizing at historic lows.*
- *Absent fiscal stimulus, significant changes in expectations, or other factors, the expansion appears to be in its later stages.*

Labor Market Statistics

Table 4:
Labor Market Indicators from LAUS and retrieved from WisConomy

Labor Market Area	Labor Force		Unemployment Rate		Employment	
	2019 Q3	% Δ Yr. Ago	2019 Q3	2018 Q3	2019 Q3	% Δ Yr. Ago
Portage County	38.5	-1.40%	2.70%	2.20%	37.4	-1.80%
City of Stevens Point	14.5	-1.50%	2.80%	2.40%	14.1	-1.80%
Marathon County	73.1	-0.10%	2.50%	2.10%	71.3	-0.30%
Wood County	34.8	-1.30%	3.10%	2.50%	33.8	-1.90%
Wisconsin	3,121	-0.10%	3.20%	3.00%	3,021	-0.30%
United States	164,039	1.30%	3.50%	3.70%	158,269	1.50%

Description:

- *Labor Force: Includes all people over the age 16 who are either working or actively looking for work.*
- *Unemployment Rate: The number of unemployed as a percentage of the labor force.*

Analysis:

- *While unemployment rate for Portage, Marathon and Wood counties have increased, the rate has risen from historic lows and the change in the number employed is relatively small.*

Table 5:
Wisconsin Employment by Industry Sector from Payroll Employment Survey - CES and retrieved from WisConomy

Nonfarm Jobs		Construction Jobs		Manufacturing		Natural Resources and Mining		Trade, Transport and Utilities		Information Jobs	
2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago
2982	0.40%	127.4	3.40%	471	-1.40%	4.6	-2.10%	549.6	1.20%	48.5	2.80%

Finance Jobs		Business Services		Education and Health		Leisure and Hospitality		Other Services		Government	
2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago	2019 Q3 (000)	% Δ Yr. Ago
152.3	-0.30%	322.7	-0.50%	459.3	-0.50%	285.4	1.40%	155	1.90%	405.9	-0.20%

Description:

- *Employment data are classified using the North American Industry Classification System (NAICS). The above table categorizes data according to major industry sectors.*

Table 6:
Help Wanted Advertising

Stevens Point		Wausau		Marshfield		Wisconsin Rapids		Lincoln County		Adams County	
Index Value 2019 Q3	% Δ Yr. Ago	Index Value 2019 Q3	% Δ Yr. Ago	Index Value 2019 Q3	% Δ Yr. Ago	Index Value 2019 Q3	% Δ Yr. Ago	Index Value 2019 Q3	% Δ Yr. Ago	Index Value 2019 Q3	% Δ Yr. Ago
1238.83	12.33%	1505.17	4.53%	755.63	7.77%	1023.67	7.04%	1207.66	-13.23%	975.83	2.10%

Description:

- *Presents index values for on-line job advertising for Stevens Point, Wausau, Marshfield, Wisconsin Rapids, Lincoln County and Adams County*

Analysis:

- *Help Wanted Advertising is an important indicator of local labor market conditions. It tends to be a better leading indicator of the beginning of recessions than the end of recessions. This is true because employers typically have their current workforce work more hours rather than hiring new workers as business improves at the end of recessions.*

Table 7:
Unemployment Claims - Portage County

	Weekly Average 2019 Q3	% Change a From a Year Ago
New Claims	46	-2.13%
Total Claims	287	-5.90%

Description:

- *New Claims: Weekly average of new claims for 2019 Q3*
- *Total Claims: Weekly average of total claims for 2019 Q3*

Analysis:

- *Changes in weekly claims can potentially signal changes in future economic activity. An increase in new claims arising from job losses means that consumer spending will likely fall with business investment following suit*
- *During a recession, a reduction in new claims maybe a sign that the economy is improving.*

Housing and Construction

Table 8:
National Affordability Index (Third Quarter 2019)

Years	Median Price Existing Single Family Home	Mortgage Rate	Monthly P and I Payment	Payment as % of Income	Median Family Income	Qualifying Income	Composite
2018	261,600	4.72	1088	17.1	76,396	52,224	155.3
Sept. 2019	275,100	3.65	1,007	15.2	79,422	48,336	164.3

Description: Composite Index measures affordability. An index of 150 means that a family earning the median family income has 150% of income necessary to qualify for a conventional loan covering 80% of a median price single-family home.

Table 9:
Median Home Prices and Home Sales

	Wisconsin		Marathon		Portage		Wood	
	2019 Q3	% Δ Yr. Ago	2019 Q3	% Δ Yr. Ago	2019 Q3	% Δ Yr. Ago	2019 Q3	% Δ Yr. Ago
Median Home Prices	$200,750	6.21%	$170,000	4.29%	$180,000	4.52%	$124,500	0.40%
Home Sales	25,640	3.31%	564	-0.17%	285	11.32%	279	-9.70%

Table 10:
Residential Construction: Stevens Point and Plover Area

Permits Issued		Estimated Value of New Homes (000)		Number of Housing Units		Alteration Permits Issued		Estimated Value of Alterations (000)	
2019 Q3	2018 Q3	2019 Q3	% Δ Yr. Ago	2019 Q3	2018 Q3	2019 Q3	2018 Q3	2019 Q3	% Δ Yr. Ago
26	24	$6,748.74	-5.50%	24	24	443	332	$2,876.04	-4.04%

Table 11:
Nonresidential Construction: Stevens Point - Plover Area

Permits Issued		Estimated Value of New Structures (000)		Alteration of Business Permits Issued		Estimated Value of Alterations (000)	
2019 Q3	2018 Q3	2019 Q3	% Δ Yr. Ago	2019 Q3	2018 Q3	2019 Q3	% Δ Yr. Ago
14	6	$17,517.70	98.50%	121	106	$15,013.15	21.20%

Business Sentiment

Table 12:
Business Confidence in Stevens Point - Plover Area

	Index Value	
	Q3 2018	Q3 2019
Recent Changes in National Economic Conditions	63	63
Recent Changes in Local Economic Conditions	67	59
Expected Changes in National Economic Conditions	53	42
Expected Changes in National Economic Conditions	56	50
Expected Changes in Industry Conditions	58	46

100 = Substantially Better 50=Same 0=Substantially Worse

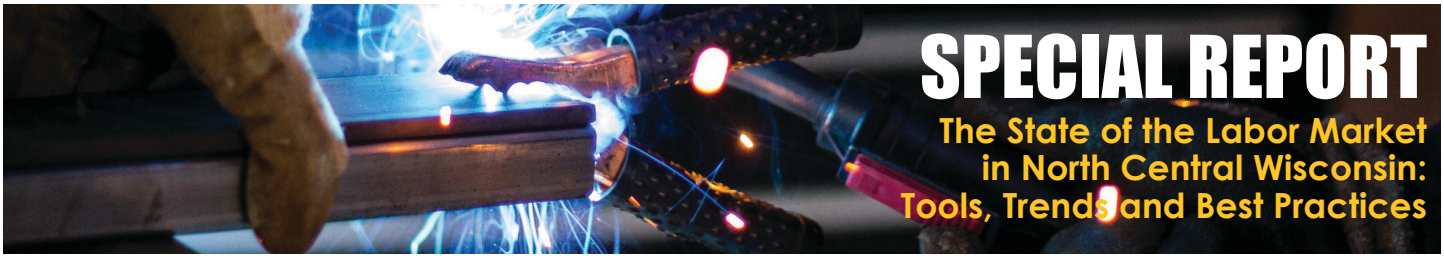
Description: Diffusion index numbers are based on a survey of local businesses.
Analysis: 63 and 59, respectively, show that businesses believe that economic conditions at national and local levels are better than a year ago. The numbers over expected changes at national, local, and industry levels indicates that local businesses are less optimistic than a year ago.

Table 13:
Retailer Confidence Stevens Point - Plover Area

	Index Value	
	Q3 2018	Q3 2019
Total Sales Compared to Previous Year	58	40
Store Traffic Compared to Previous Year	54	45
Expected Sales Three Months from Now	50	45
Expected Store Traffic Three Months from Now	50	43

100 = Substantially Better 50=Same 0=Substantially Worse

Description: Diffusion index numbers are based on a survey of local retailers.
Analysis: Numbers indicate that store sales and traffic are generally lower than a year ago. Retailers generally expect lower traffic and total sales in the near future.

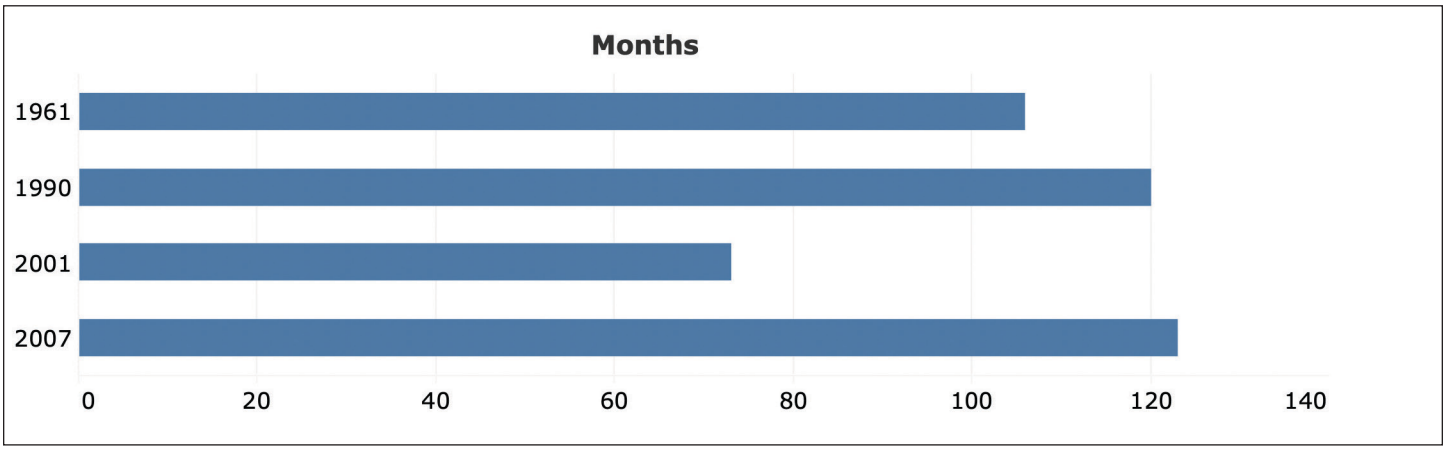


by **Derek Heikkinen**
Business Services Director, North Central Wisconsin Workforce Development Board
and **Mitchell Rupp**
Regional Economist for North Central Wisconsin, Wisconsin Department of Workforce Development

Wisconsin Overview

Record Economic Expansion

The economic expansion is now the longest on record. This current expansion surpassed the previous mark of 120 months set in the 1991-2001 stretch in June 2019. What has been good for the country has been good for Wisconsin and most other states.



Wisconsin's workforce and employment numbers have attained new highs. Employment exceeded the three million mark starting in the summer of 2016 with total non-farm jobs (non-seasonally adjusted) reaching 3.026 million in June 2019. Thirty of 72 Wisconsin counties reached new job highs in the last two years.

The state's unemployment rate has reached lows not seen since at least 1976, 2.8% in the months of April and May of 2019. New unemployment rate lows were also recorded for the U.S. as a whole at 3.6%. Thirty state counties hit new unemployment rate lows. Initial and continued unemployment insurance claims have been tracking at 40-year lows over the past three years.

Now that new records have been set for expansion longevity, employment highs, and unemployment lows, the question on many peoples' minds is "when will trends be reversed?"

Economic expansions don't die of old age. Expansions are usually held back by declining employment, reduced consumer and investment spending, and/or inflation or interest rate pressures. Decreasing jobs lead to lower incomes which leads to less consumption which is the driving force in the U.S. economy. Employment numbers are not good indicators of pending recessions, however, and, in fact, are a lagging indicator of economic downturns and recoveries.

What's next in the short-run?

As of September of 2019, job numbers are still climbing, earnings and income are rising, retail sales are expanding, debt-to-income ratio is low, and inflation is subdued at about two percent. Housing sales are relatively flat and vehicle sales have leveled off. Some European countries' economies are sagging. The primary unknown at the moment is the status of tariff and trade policy on the North American countries' trade agreements and trade with China. The uncertainty is dampening capital investment, injecting volatility in the equity markets, and causing household cogitation.

What are the long-run influences?

The primary long-term challenge facing Wisconsin's economic future remains the number of workers. The demographic situation facing Wisconsin along with other upper Midwest states and most Western economies will not change in the coming decades. The number of retiring Baby Boomers nearly match the influx of new workers, resulting in a slow growing workforce which constrains the ability of employers to secure talent. Many businesses report that the lack of available workers has hindered expansion and, in some cases, even curtailed their ability to meet current product orders.

Baby Boomers have and continue to exit the workforce in great numbers. However, the labor force participation rates for workers over 55 years of age have risen significantly. The need or want to remain in the workforce has assisted in staving off more severe worker shortages.

One of the remedies for labor scarcity is the incorporation of labor-saving technology in the workplace. The propensity for automation varies by occupation. Routine activities are the most susceptible to displacement. Not only does Wisconsin have a quantity challenge, the state must also make all available workers technologically savvy.

In sum, the state needs to find everybody it can and get everybody trained up to their maximum potential.

Portage County Overview

Population and Demographics

Portage County gained 1,019 residents from 2010 to 2018, an increase of 1.46% which was below the statewide growth rate of 2.27% over the same time period. The village of Plover displayed both the highest numerical change of residents (691) and the highest proportional change of residents (5.70%). The town of Stockton had the second highest numerical gain of residents (83) and the second highest proportional increase in the number of residents (2.85%). Only one municipality in this list displayed a decrease: the village of Whiting lost 41 residents, decreasing at a rate of -2.38%.

Components of Population Change

Net-migration, which is defined as the number of people moving into the county minus the number leaving, was negative for the period studied, as it was in about one-third of all Wisconsin counties. The county displayed a net migration of -0.4%. Growth due to natural increase (births minus deaths) was relatively low with a rate of 1.9%, less than Wisconsin overall, despite Portage County having a slightly younger population. Portage County's median age of 37.3 is slightly lower than the state's median age of 39.6. Growth due to natural increase for Wisconsin and the United States was 2.3% and 3.5% respectively. Of the two sources of population change, natural increase tends to be more stable. Birth and death patterns typically don't change quickly over time, whereas net migration can be much more volatile.

Commuting

Roughly 80% of Portage County residents work within the county. This is well above the median of 65% for all Wisconsin counties. Portage County is the 15th highest county in terms of the percent of residents that work within the county. The higher retention rate implies that nearby counties likely have few or less desirable job opportunities. The number one county that residents of Portage County commute to is Wood County, standing at 7%.

Another way to examine county-level worker flows is by looking at which areas supply the greatest number of workers. On this front, roughly 79% of those who work in Portage County are from Portage County, the 17th highest county in terms of percentage of workers that live in the county. The most popular county in supplying workers to Portage, outside of the county itself, is Wood County at 9%. Following this county, those who work in Portage County come from Marathon (4%), Waupaca (3%), and Waushara (2%).

Labor Force

The labor force consists of the employed and those unemployed who are looking for work. Portage's labor force has experienced a slower growth rate since 2009, opposite of its earlier upswing. However, this slowing or declining labor force is a worldwide trend likely to continue into at least the next decade. Portage's relatively younger population may reduce some of the impact that retiring baby boomers will have on the area.

Industry Employment – Quarterly Census of Employment and Wages (QCEW)

The QCEW gives data on trends in the industry sector composition at the County level. Portage County experienced job loss of roughly -0.31% (106 jobs) from 2017 to 2018, ranking it as the 15th lowest county among the state's 72 counties, by percent change. Portage County only saw job growth in 5 of 11 sectors; Financial Activities (61), Construction (60), Public Administration (19), Leisure & Hospitality (8), and Education & Health Services (6). Construction, the industry super-sector displaying the greatest proportional gain of jobs, gained 60 jobs from 2017 to 2018, increasing at a rate of 6.27%. Information, the industry super-sector displaying the greatest proportional loss of jobs, lost 20 jobs from 2017 to 2018, decreasing at a rate of -10.75%.

Wages

Notably, Portage had higher wages than the state average in three industries: Natural Resources (104.9%), Financial Activities (101.5%), and Education & Health Services (100.4%).

Analysis of Portage County

Much of this analysis comes from data in figures below. Similar to the US, WI, and North Central Wisconsin, Portage County has been trending downwards in labor force participation rates and unemployment rates. The county's labor force is heavily dominated by one race: Whites. Portage County lacks diversity (even more so than Wisconsin overall).

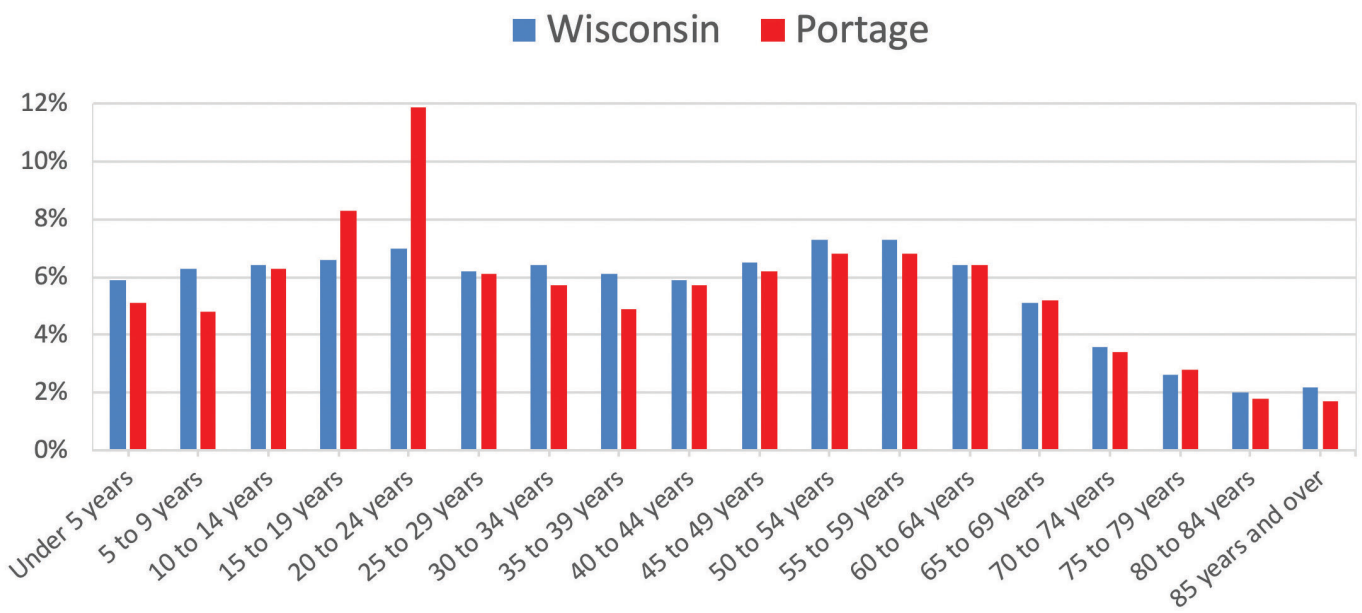
The county's labor force boasts a higher proportion of youth in comparison to the state, especially at the 15 to 19 year-old age and 20 to 24 year-old age groups.

Portage County's workforce also boasts a higher level of educational attainment, with a higher proportion of labor force holding a bachelor's degree or higher.

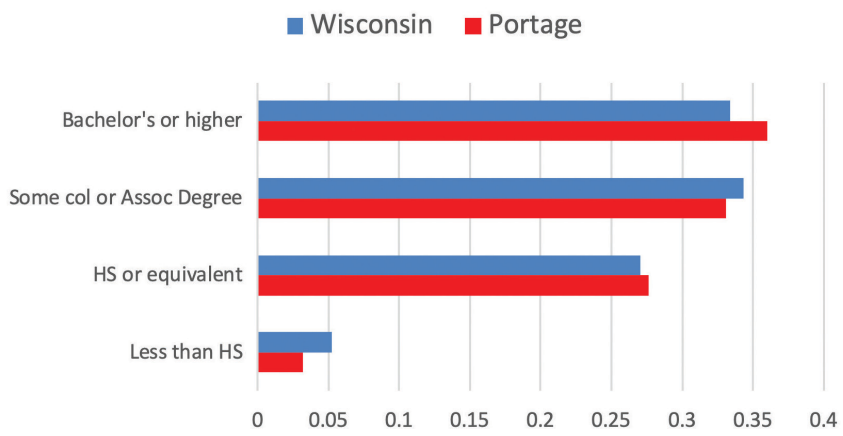
Labor Force Race

Race	Labor Force Shares	
	Portage	Wisconsin
White	94.81%	87.88%
Black	0.66%	5.74%
American Indian and Alaska Native	0.32%	0.81%
Asian	2.25%	2.45%
Native Hawaiian and Pacific Islander	0.02%	0.03%
Some other race	0.88%	1.64%
Multiracial	1.05%	1.44%

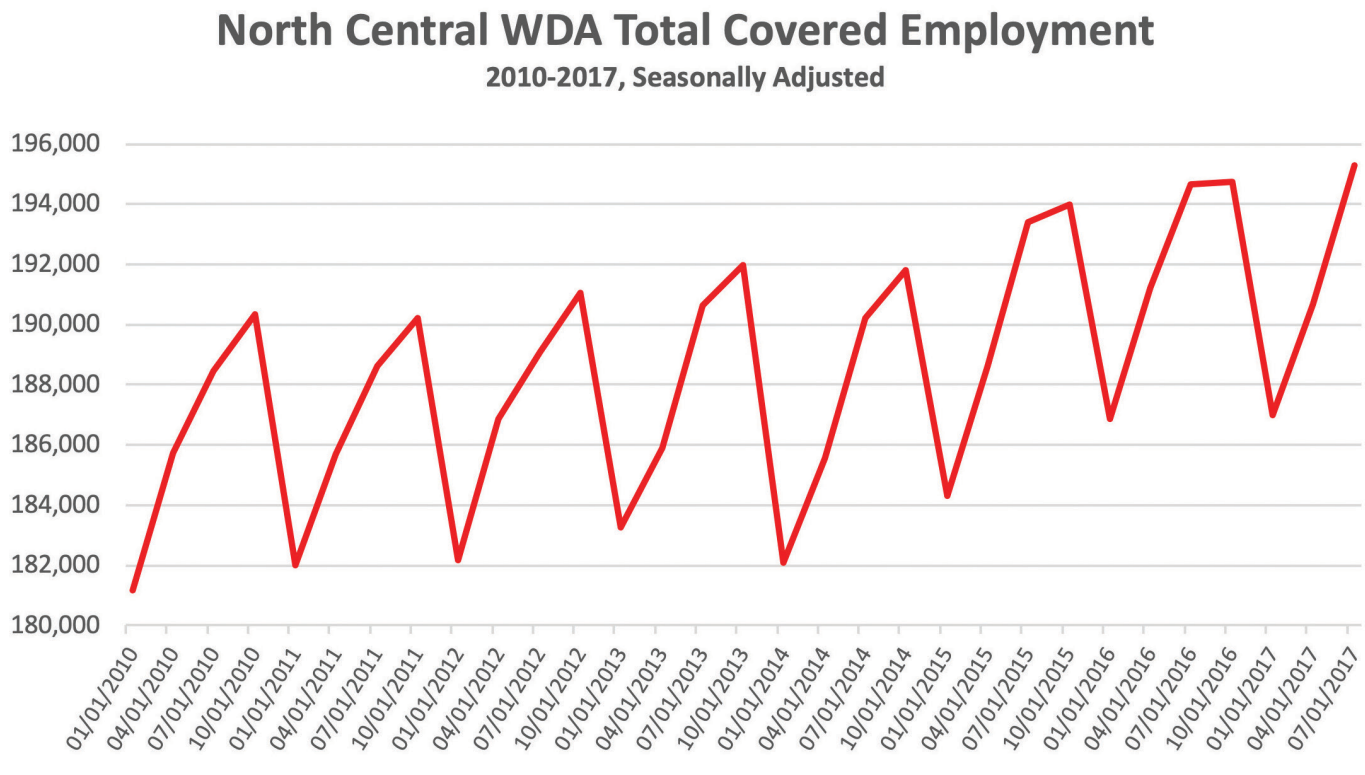
Labor Force Share by Age



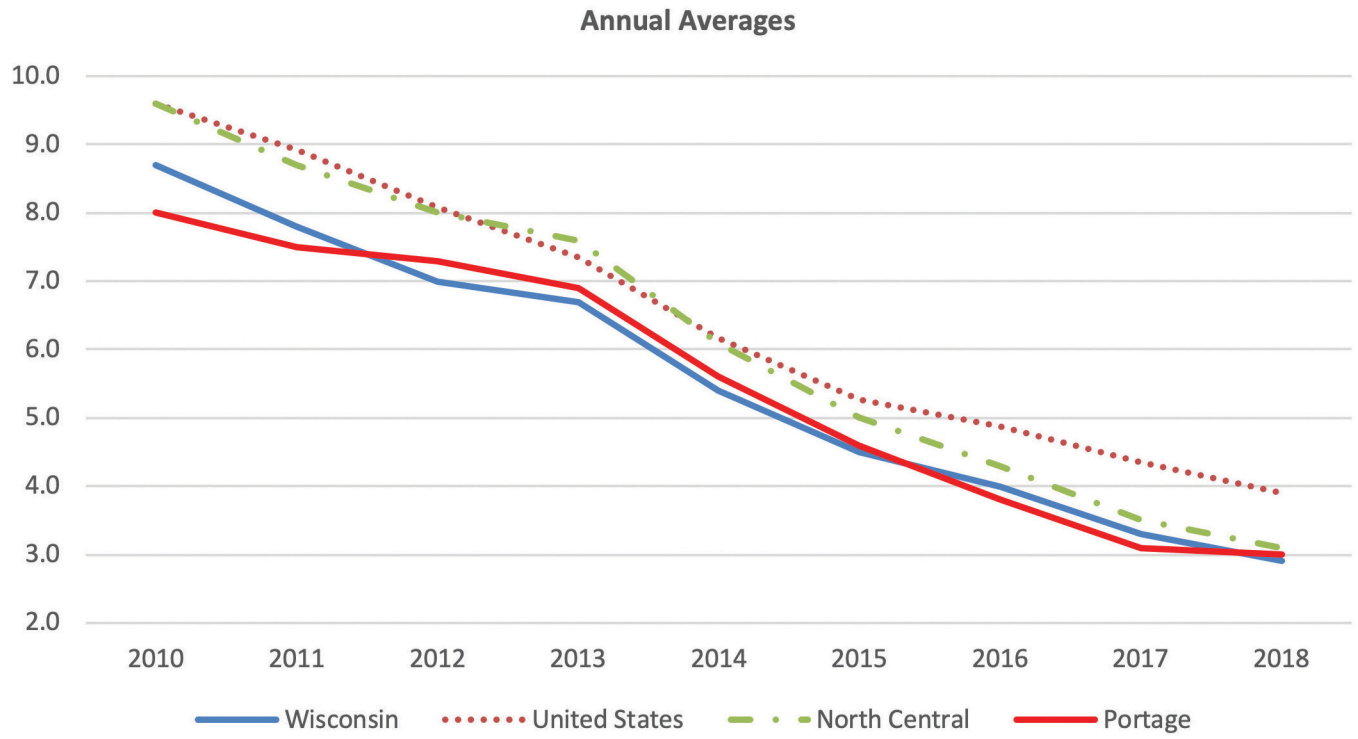
Labor Force Share by Education



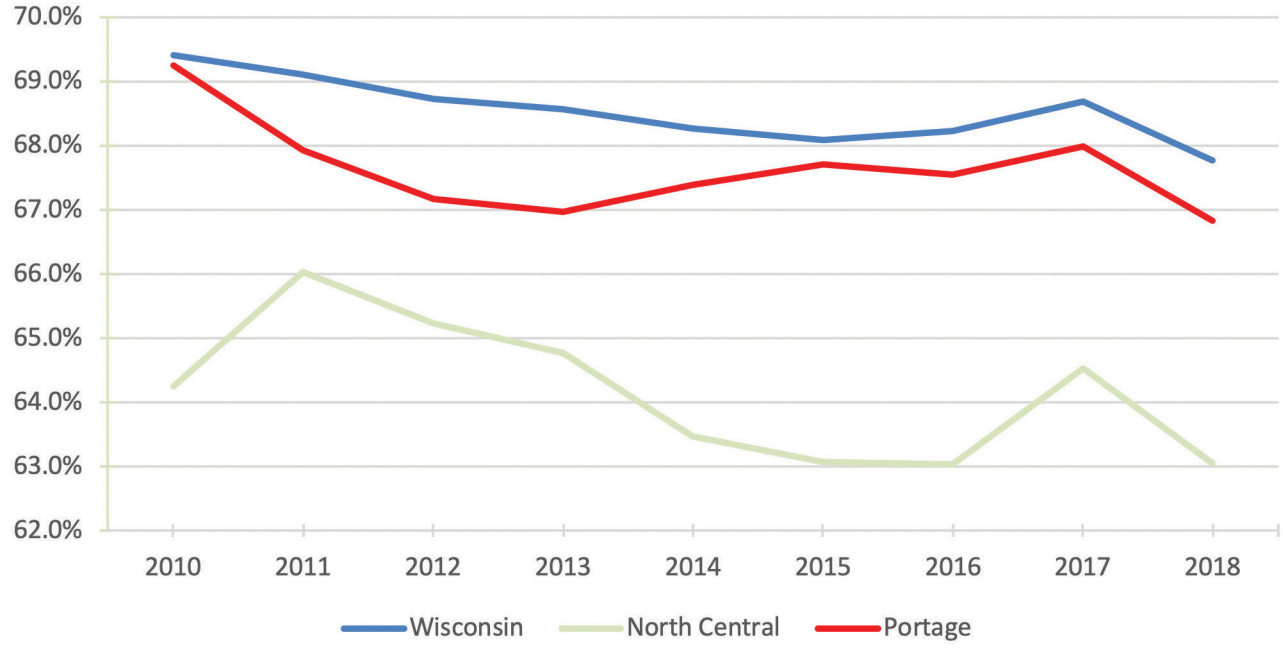
Total Covered Employment



2010-18 Unemployment Rates



Labor Force Participation Rates (LFPR)



Special Report

Job Share

Portage 2018 QCEW Data					
				Changes (2017 to 2018)	
Supersector	**Jobs**	**Share of Jobs**	**Share of Payroll**	**Jobs**	**Share of Jobs**
All industries	33,822	100%	100%	-107	-0.3%
Trade, Transportation, Utilities	7,856	23.2%	19.1%	-89	-1.1%
Education & Health	5,984	17.7%	19.8%	6	0.1%
Manufacturing	4,865	14.4%	15.7%	-9	-0.2%
Financial Activities	4,423	13.1%	21.5%	61	1.4%
Leisure & Hospitality	3,671	10.9%	3.4%	8	0.2%
Professional & Business Services	2,347	6.9%	8.3%	-52	-2.2%
Other services	1,376	4.1%	2.4%	-27	-1.9%
Public Administration	1,246	3.7%	3.4%	19	1.5%
Construction	1,017	3.0%	3.4%	60	6.3%
Natural Resources	871	2.6%	2.4%	-64	-6.8%
Information	166	0.5%	0.5%	-20	-10.8%

TALENT MATTERS

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Every leadership team I know wants to acquire, develop, and retain the best people, the best talent they can. In this CWERB issue, our presenter clarified how important this is for our region, "The primary long-term challenge facing Wisconsin's economic future remains workforce quantity. Many businesses report the lack of available workers has hindered expansion and, in some cases, even curtailed their ability to meet current product orders." Below I outline five quick and concrete ways that organizations can address this economic challenge.

Acquire Talent.

A. Internships. Internships are a valuable workforce acquisition and retention strategy. Internships provide employers with an opportunity to get to know candidates before having to make a hiring decision. Employers who make an impression are more likely to gain the attention and commitment of prospective employees. According to the State of Wisconsin Department of Workforce Development (DWD), college students who intern for a Wisconsin company are more likely to stay in the state after graduation. To improve your internship recruiting strategy:

1. **Audit your internship program.** Set aside 60 to 90 minutes to review the DWD's guide to "Starting and Maintaining a Quality Internship Program in Wisconsin." Use the guide to outline 3-5 things you can do in the next month to improve your program. See internshipwisconsin.com/employers/resources.
2. **Recruit interns on Handshake.** Handshake is an early talent recruiting platform. You establish a free account and post your internship job descriptions at uwsp.joinhandshake.com.
3. **Contact UW-Stevens Point experts.** We have several experts on campus who can help you shape your internships and recruit qualified students. For more information, please contact Sue Kissinger in the Academic and Career Advising Center at skissing@uwsp.edu or 715-346-4557 or Professor Ricardo Boeing, internship director for the School of Business and Economics, at rboeing@uwsp.edu or 715-346-2736.

Develop Talent.

B. Onboarding. Onboarding helps people understand your organization and build new relationships more quickly. Effective onboarding can reduce turnover by increasing employee satisfaction and connection with your culture.

4. **Audit your onboarding program.** Set aside 2-3 hours to review SHRM's guide to "Maximizing Success when Onboarding New Employees." Use the 13 questions listed on page 5 to review your onboarding successes and opportunities to improve. See shrm.org/foundation/ourwork/initiatives/resources-from-past-initiatives/Documents/Onboarding%20New%Employees.pdf
5. **Use evidence-based best practices.** SHRM's review of several research studies suggest that there are a number of best practices that improve employee onboarding. As simply and quickly as possible implement at least one of the practices listed below:
   - Make the first day on the job special.
   - Develop a written onboarding plan.
   - Be sure your program is consistently implemented.
   - Use technology to facilitate the process.
   - Use milestones, such as 30, 60, 90 and 120 days on the job—and up to one year post-organizational entry—to check in on employee progress.

Experimenting with these five approaches to acquiring and retaining talent can help you win and retain high performing employees. If you want to explore these practices further, our faculty can help you design and implement internship and onboarding programs. For more information contact Jennifer Hess, program manager, Customized Training and Professional Development at jhess@uwsp.edu or 715-346-4782.

INSIGHT SPOTLIGHT

Universal Basic Income

Jason R. Davis, Ph.D.
Professor of Economics, School of Business and Economics

In our modern, interconnected world, we are continually bombarded with new concepts, policies, methods, and initiatives. How do we make sense of these new ideas? Are they viable? Are they worth pursuing? In this column, guest authors will describe, analyze, and evaluate new ideas emerging in their areas of expertise.

Universal Basic Income

Entrepreneur Andrew Yang has proposed a Universal Basic Income (UBI) benefit as part of his presidential campaign. His proposal would give every citizen over age 18 a benefit of $1,000 per month, providing an income guarantee close to the individual poverty level. While many like the idea of a minimum income guarantee, others have raised concerns over work disincentives and how the program would be financed. This column explores some of the positive and negative impacts of Yang's UBI proposal.

Motivation for Universal Basic Income

Andrew Yang points out that our labor force participation rate is currently 62.7%, lower than we have experienced since the 1970s. He further claims that a third of all working Americans will lose their jobs due to automation during the next 12 years.

The labor force participation rate is somewhat misleading. It measures the percent of the population over the age of 16 that is either working or actively seeking employment. Those that are not working or actively seeking employment include retired individuals, homemakers, and those that have given up seeking employment. As more and more baby boomers retire, this naturally causes the participation rate to fall.

If Yang's predicted job losses are true, that could lead to an increase in those who give up seeking employment. Economists call this structural unemployment, meaning that there has been a structural shift in the types of jobs available, with displaced workers lacking the skills needed for these new jobs. These workers can re-enter the labor force, but it often requires education and training to develop the skills currently in demand, so it is often a slow transition. Historically, this is not a new claim. We have seen similar concerns dating back to the innovations of the industrial revolution. While each wave of innovation does create employment shifts, labor markets seem to recover more quickly than expected.

Work Incentives

One of the problems with traditional welfare programs is that they naturally create some disincentives to work because employment leads to reductions in not only cash assistance, but other forms of assistance such as food stamps and Medicaid. By making the benefit available to everyone, this would remove such disincentives as well as any welfare stigmas that might reduce participation.

However, providing a benefit to all that is not currently available would create new disincentives to work. Consider a two-income household where one partner is the primary earner, and the other partner works primarily to afford extras such as children's activities or vacations. If the couple is able to receive a $24,000 benefit, that could lead the secondary earner choosing to leave their job.

Financing

Andrew Yang has proposed a 10% value-added tax (VAT) to fund the program. Other current welfare programs such as food stamps and disability would be replaced by UBI. Funds currently flowing to those programs would be used to fund UBI. There would also be some administrative savings as UBI would not require any form of screening to verify who is eligible for benefits.

Many Americans don't know exactly what a VAT is, aside from the fact that they are widely used in other countries. VATs are essentially the same thing as a sales tax, and a federal sales tax would be easier to implement since many states already have sales taxes in place. A 10% sales tax would cause prices to rise, but by less than the full 10%. Prices for necessities would rise by nearly the full 10% as these are products that we will continue to purchase even when prices increase. Prices for luxuries would see much more modest increases as many consumers would simply stop buying them as they become more expensive. Because prices increase more sharply on necessities, sales taxes tend to place a greater burden on low-income groups. As is done in most states, Yang would exempt food and clothing from the VAT to reduce some of the negative impacts.

On the positive side, sales taxes tend to increase saving, which is consistently lower than most economists consider appropriate. Because the tax is only made for purchases, it rewards savings by avoiding the tax on that portion of your income. However, this also forces a greater burden on lower-income groups. Low-income households tend to have lower savings rates, spending most their income on purchases. This means that they are facing a 10% tax on nearly all their income. For wealthier households that have higher savings rates, this reduces the percent of the overall income that is spent on the tax. In other words, this would effectively impose a higher effective tax rate on lower-income groups.

Inflation

With UBI in place, households would naturally increase their spending which could cause prices to rise. However, the simultaneous increase in prices from the 10% sales tax would offset at least some of the increased demand. There would be some short-term adjustments and an initial jump in prices, but that shouldn't cause any long-term problems. An extreme example would be to consider if all incomes and prices simultaneously doubled. It wouldn't have any real economic impact because overall purchasing power remains constant.

Alternative Policy: Earned Income Tax Credit expansions

While there are certainly some positive impacts of UBI, I do not support Yang's proposal primarily because of the high cost of providing a benefit to everyone. In addition, it isn't clear what the net benefit would be for different income groups. Clearly, low income groups would benefit. It also seems that high income groups would have a lower burden from the tax due to higher savings rates. If the program is self-funding, this implies that there would be a higher relative burden on the middle class.

Instead, I would propose an expansion of the Earned Income Tax Credit (EITC), which currently provides benefits to single individuals with earnings up to $15,270 and families with 3 or more children with earnings up to $49,194. The EITC supplements earnings, creating positive work incentives for participants. It also would not have the disincentives for work for partners earning secondary incomes. However, there are still some potential disincentives as the benefits are reduced or phased out as earnings increase.

Another benefit of the EITC is that it doesn't have welfare stigmas that are associated with traditional welfare programs. All the paperwork flows through the federal income tax returns and makes filing taxes only slightly more complicated.

Further information on Andrew Yang's UBI proposal can be found at www.yang2020.com/what-is-freedom-dividend-faq.

Further information on the EITC can be found at www.taxpolicycenter.org/briefing-book/what-earned-income-tax-credit.

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