



# **Wisconsin Economic Outlook**

**Wisconsin Department of Revenue  
Division of Research & Policy  
March 2009**

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The quarterly Wisconsin Economic Outlook is prepared by Romina Soria and Emily Camfield of the Division of Research and Policy, Wisconsin Department of Revenue. IHS Global Insight, Inc. prepared the national forecast on March 9, 2009. The forecast does not incorporate data released subsequent to that date.

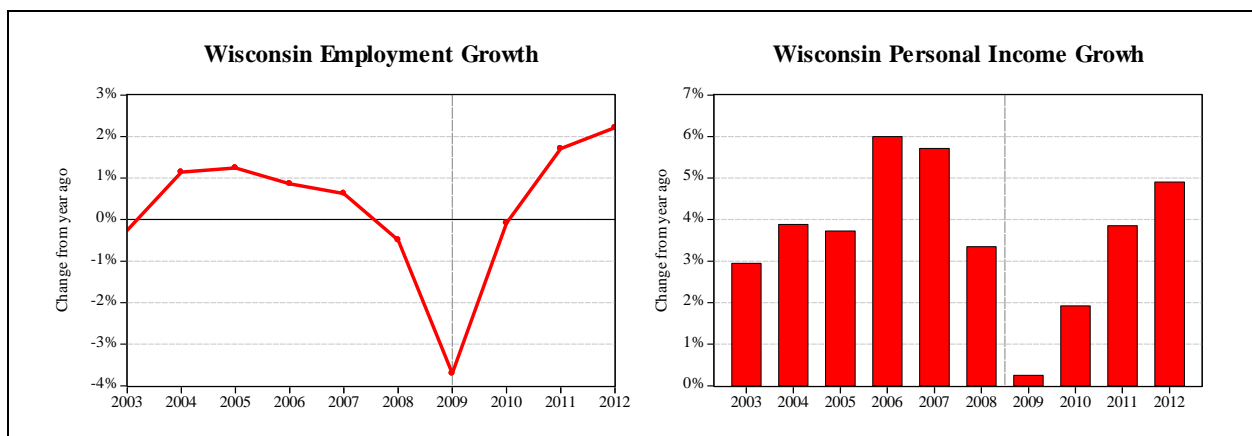
# I. ECONOMIC OUTLOOK

## WISCONSIN OUTLOOK

The national economy has been in recession for 15 months now, starting in December 2007 as dated by the National Bureau of Economic Research. Current trends of key indicators of the Wisconsin economy show that Wisconsin is also in a recession, with a start date also pointing to the last month of December 2007. The outlook has worsened since December, with the current outlook calling for a peak to trough job loss of 143,400 or 5.0% of total employment, instead of the 92,100 job loss expected in December. Most of the economic decline in the current cycle will happen during 2009. Housing continues to be a significant drag for the economy. However, the drastic worsening of the credit market after September has severely affected most sectors of the economy, expanding the crises well beyond the originally damaged housing sector.

The March national outlook is calling for a real GDP growth rate of 1.1% in 2008 and a decline of 3.7% in 2009, revised from the 1.2% growth and 1.8% decline expected last December. The U.S. labor market has already lost 4.4 million jobs and is now expected to shed a total of 7.1 million jobs peak to trough, representing an employment decline of 3.6% and 0.8% in 2009 and 2010 respectively. The two major factors that have deepened the recession are the freezing of the credit market and the global character of the crisis. Exports were an important support for growth, but are losing steam as other countries had or are entering into recession. Canada, Mexico, Japan, the Euro zone (Germany, Spain, France, Ireland, Italy, and others), United Kingdom, New Zealand, Australia, and Denmark among others are officially already in a recession. In its world forecast released in January, the IMF is expecting global growth in 2009 to fall to 0.5% when measured in terms of purchasing power parity and to turn negative when measured in terms of market exchange rates. The global economy is projected to experience a gradual recovery in 2010, with growth picking up to 3.0%, compared to an average 4.9% between 2004 and 2007. The report says advanced economies will be hit hardest. However, a number of developing countries have been hit hard in the last months. The dramatic decline of the global demand had slashed prices. The March outlook for consumer prices is now expecting a decline of 1.9% in 2009 and a mild recovery with 1.5% grow in 2010.

Chart I.1



As shown in the left panel of Chart I.1, Wisconsin employment declined 0.5% in 2008 and is expected to decline 3.7% this year and be almost flat in 2010, declining just 0.1%. Wisconsin employment growth will recover towards the second half of 2010, advancing 1.3% the last quarter of 2010, 1.7% in 2011 and 2.2% in 2012, led by a strong growth in the services industries and slower declines in Construction and Manufacturing.

Wisconsin personal income rose 5.8% in 2007 and 3.4% in 2008. The outlook expects the weakest annual growth rate of the cycle in 2009 (0.2%) as the economy hits bottom during the second half of 2009 and starts a slow recovery with personal income growing 1.9% in 2010. Wisconsin personal income is projected to grow 3.9% in 2011 and 4.9% in 2012. Given the deflationary outlook, real personal income is expected to increase 1.1% in 2009, after seeing almost no growth in 2008 (0.1%), and will post growth of 0.8% in 2010 as prices recover.

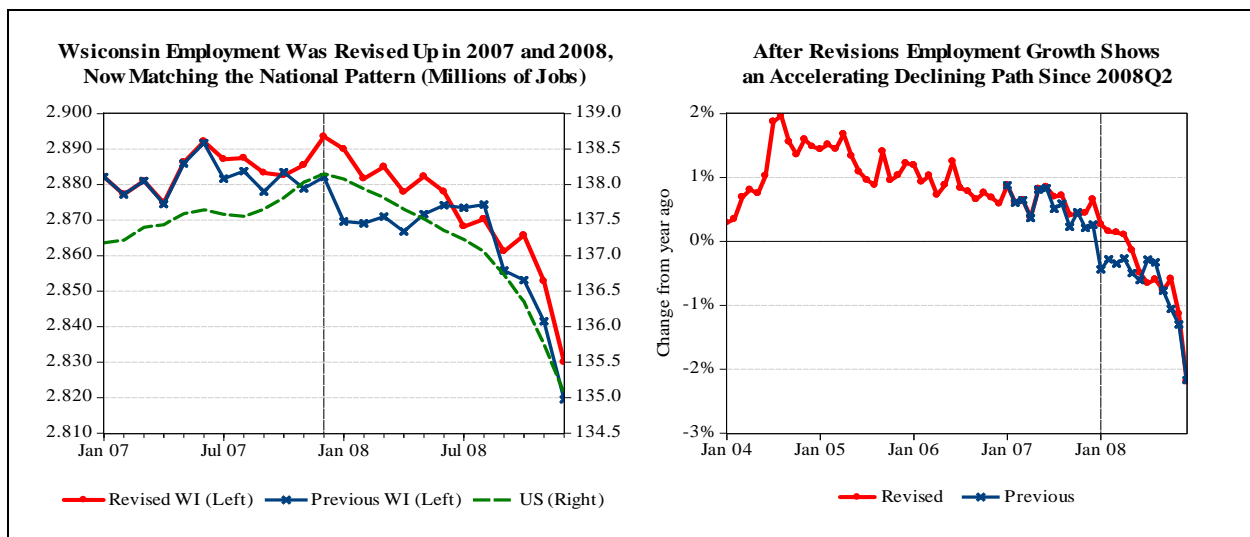
Since the last outlook in December, the U.S. Bureau of Economic Analysis (BEA) released preliminary annual 2008 estimates and revised annual and quarterly estimates beginning with the first quarter of 2005 for personal income and its components. Also, the U.S. Bureau of Labor Statistics (BLS) released revised employment estimates for the period 2004-2008.

**Employment Revisions**

Last March BLS released revised seasonally adjusted Wisconsin employment data for the 2004-2008 period. The largest revisions were to the last two years as a result of the benchmarking process<sup>1</sup>, while revisions to prior years were insignificant. As we anticipated in the previous Outlook, employment in late 2007 and early 2008 were revised upward (see left panel of Chart I.2). Total non-farm jobs were revised up 0.1% to 2,884,433 jobs in 2007, and 0.3% to 2,870,258 in 2008. The revised Wisconsin employment estimates show growth of 0.6% in 2007 and a decline of 0.5% in 2008. After revision, Wisconsin employment peaked in December 2007, the same as the national employment and the month when the current recession started as dated by the NBER. The pattern of Wisconsin employment after the revision clearly follows the pattern of U.S. employment as shown by the dashed line on the left panel of Chart I.2.

As shown on the right panel of Chart I.2, the revised employment estimates show a decelerating trend of employment growth since 2004, falling below the 0.5% growth rate in late 2007 and posting a timid growth of less than 0.2% in the first four months of 2008. Since May 2008 Wisconsin employment has been posting year over year declines and the last two months of the year show drastic decreases of 1.1% and 2.2%. The early deceleration of total employment growth is mainly explained by diminishing growth rates in the Manufacturing and Construction sectors. The Trade, Transportation and Utilities and Leisure and Hospitality Services sectors also showed some deceleration during 2007 and started to lose jobs in 2008.

**Chart I.2**



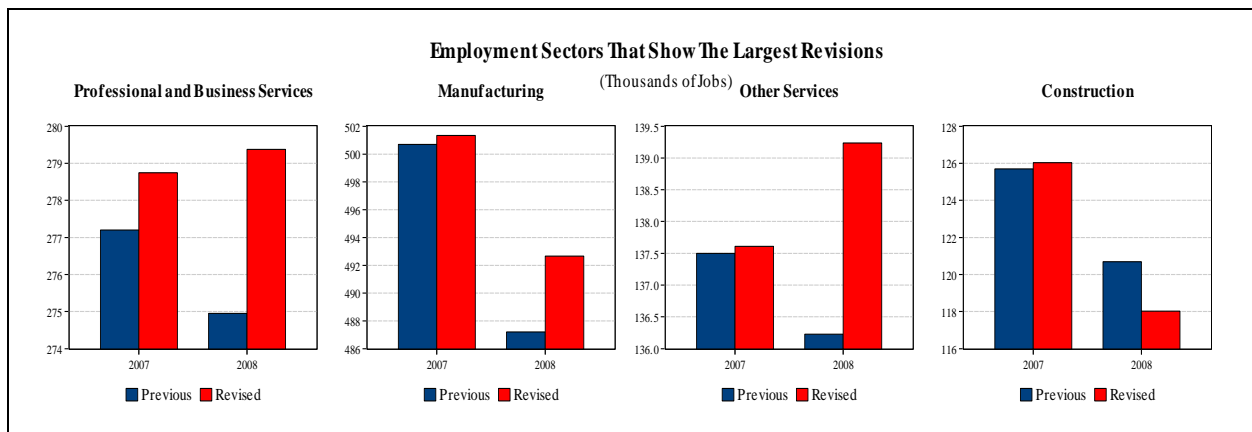
<sup>1</sup> Annual Current Employment Estimates (CES) benchmark revisions are published along with January first preliminary estimates each year. Benchmark revisions reflect a re-anchoring of CES sample-based estimates to incorporate near universe counts of employment. These comprehensive counts of employment are derived primarily from employment counts reported on unemployment insurance (UI) tax reports that nearly all employers are required to file with State Workforce Agencies.

In the second part of 2008 three more sectors started to post employment declines, namely the Professional & Business Services, Financial Services, and Information Services sectors. By late 2008 Education and Health Services, Other Services and Government were the only three sectors posting job gains.

The upward revision of 2,717 jobs in 2007 was the result of significant upward revision to the Professional & Business Services sector (1,508) and small positive and negative revisions to the other sectors. In 2008, the net positive revision of 8,575 jobs was the result of important upward revisions to the Manufacturing, Professional and Business Services, and Other Services sectors, significant downward revisions to Construction and Education and Health Services, and small revisions to the other six sectors. The Professional & Business Services sector stand out as the only sector with significant revisions in both years (see Chart I.3 below).

The largest revision to 2007 came in the Professional and Business Services sector, adding 1,508 jobs or 0.5% of the employment in the sector, reaching almost 279,000 jobs. The other sectors posted small revisions in 2007 representing, on average, less than 0.2% of the employment in each sector.

Chart I.3



Even after the upward revisions to the manufacturing sector of 5,500 jobs in 2008, the Manufacturing sector posted a decline of 0.9% in 2007 and 1.7% in 2008. The other two sectors showing significant upward revisions in 2008 were the Professional and Business Services and Other Services sectors. The Professional and Business Services sector was upwardly revised by more than 4,400 jobs, resulting in a positive but timid annual growth of 0.2% in 2008, after its strong growth of 2.9% in 2007. The revised employment in the Other Services sector reached 139.2 thousand jobs in 2008 due to the addition of more than 3,000 jobs, annually growing 2.2%.

The only significant downward revision in 2008 was to the Construction sector, subtracting more than 2,600 jobs or 2.3% of the employment in the sector. After revisions, Construction employment shows a 6.4% decline in 2008, intensifying its declining trend from the previous two years. Finally, the Natural Resources and Mining sector posted a downward revision of 5.0%, but given the small size of the sector, this revision only represents a loss of 167 jobs. After revisions, the Natural Resources and Mining sector fell 7.4% in 2007 and 7.8% in 2008.

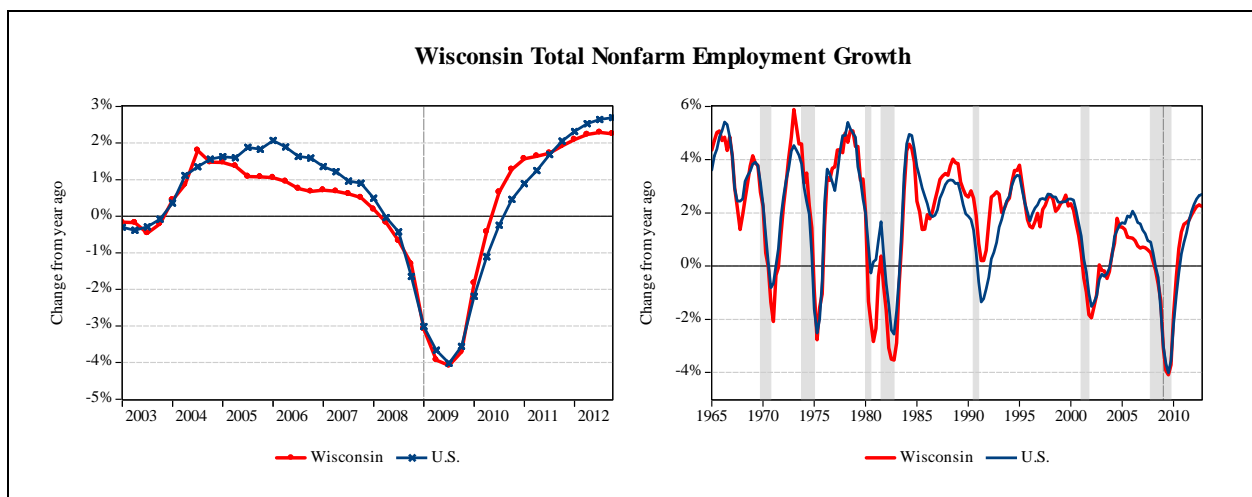
The other sectors posted small revisions in 2008 representing, on average, 0.2% of the employment in each sector. Trade, Transportation and Utilities was revised down just slightly in 2007 and 2008, posting a growth of 0.6% in 2007 but declining 1.5% in 2008. As well as the Trade, Transportation and Utilities sector, the Leisure and Hospitality sector grew (0.9%) in 2007 and declined (-1.4%) in 2008 after minor revisions to both years. The Financial and Government sectors still grew in 2007 and 2008 after minor revision to the previous employment estimates. Finally, the Education and Health Services sector was downwardly revised in both years. However, in spite of the downward revisions, this is the only sector that posted strong employment growth in 2007 (1.6%) and 2008 (1.8%).

## Employment Outlook

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

The left panel of Chart I.4 shows total nonfarm employment growth for the U.S. and Wisconsin. The vertical line at the first quarter of 2009 separates history from forecast. After a 0.5% decline in 2008, the forecast expects an annual employment decline of 3.7% in 2009 with job losses in all but one sector of the economy. The Construction, Manufacturing, and Trade, Transportation and Utilities sectors will continue showing large losses as they did in 2008. The Professional and Business Services is the other sector expected to show big losses in 2009, after growing just 0.2% in 2008. Education and Health Services is the only sector forecasted to not lose jobs during the current recession. Employment in this sector grew 1.8% in 2008 and is expected to grow 2.3% in 2009.

Chart I.4



The right panel of Chart I.4 shows total nonfarm employment growth for the U.S. and Wisconsin over time. For the nation, the March forecast expects the current recession to be worse than the early seventies and eighties recessions in terms of job losses. The current downturn shows a total job loss of 5.2% of total employment or 7.1 million of jobs from peak to trough. This percentage loss is higher than the losses of 2.7% in the 1973-75 recessions, 0.9% in 1980, and the 3.0% loss in the 1981-82 recession.

As of February 2009, Wisconsin already lost 100,000 jobs, 72,000 of which were lost in the last four months. The forecast calls for a total Wisconsin employment loss of 141,000 jobs, peak to trough, or 4.9% of total employment. The expected job loss for Wisconsin is higher than the 2.8%, 3.1% and 4.5% job losses in the 1973-75, 1980 and 1981-82 recessions, respectively. However, Wisconsin employment never recovered from the 1980 recession before entering again to what was defined by the NBER as a second recession for the U.S.. Thus, the 1980 and 1981-82 recessions as dated by the NBER, can be considered as only one recession for the state. Considering the early eighties recessions as one, peak to trough job losses were 138,300 jobs or 7.0% of the total employment, worse than the losses expected during the current recession.

The early 1980s recession hit the Midwest the hardest, and Wisconsin in particular, relative to the nation as a whole, because of its large share of durable manufacturing, which was almost 20% of total employment versus less than 14% for the U.S. as a whole. Durable goods industries are pro-cyclical as the demand for these products shrink dramatically during a recession. During the 1980's recessions, taken as one large recession, Wisconsin lost 104,400 jobs in the durable goods sector representing a loss of 5.3% of the total Wisconsin employment. On the other hand, U.S. job losses in the durable goods sector were 1.3 million, only 1.4% of the total national employment. Since the early eighties, Wisconsin has significantly lowered its share

of employment in the durable manufactures sector to about 10% of total employment. This structural change of the Wisconsin economy makes employment less exposed to cyclical changes than in the past.

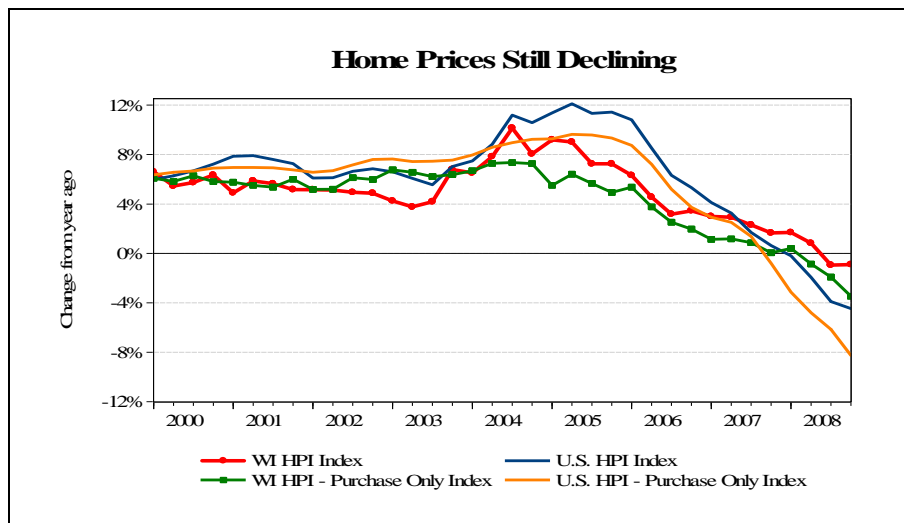
The housing sector has not yet hit bottom and continues to negatively impact the already critical situation of the financial sector. Inventories and foreclosures are still too high and prices are still falling. Conditions in the mortgage credit market are mixed; lenders have tightened their lending standards but mortgage rates have declined significantly. Global Insight forecasts a flat recovery in 2010, after housing starts hit bottom in the first half of 2009 and existing home sales hit bottom the first half of 2010.

The housing sector in Wisconsin did not experience the exorbitant growth in past years as the rest of the country. Hence it will not experience a negative impact as strong from the burst of the bubble. However, Wisconsin, as well as the national housing sector, has not reached bottom yet. Wisconsin home building permits continue to fall, and foreclosures continue to rise, maintaining a high excess of inventory in the market.

Home sales in Wisconsin are still declining. According to the Wisconsin Realtors Association, existing home sales in the fourth quarter of 2008 were down 17.4% year over year. Wisconsin home sales declined in 2008 by 19.2%, while the decline reached 14.9% in the Midwest and 13.1% nationwide. Home prices in Wisconsin continue their declining trend started in 2004, though it is not as steep as for the U.S. as a whole. Median home prices in Wisconsin fell just 3.7% to \$158,000 in 2008, outperforming the nation and the Midwest region.

The Office of Federal Housing Enterprise Oversight (OFHEO) also released its measures of home prices, the house price index (HPI) that includes valuations for refinancing operations and the purchase-only house price index. The chart below shows the still declining trend in both series for the U.S. and Wisconsin. The fourth quarter of 2008 was the second quarter that the four series posted year over year declines. The HPI was 0.9% lower than a year ago in Wisconsin and 4.5% lower in the U.S. The purchase-only HPI was 3.5% lower than a year ago in Wisconsin and 8.3% lower for the U.S.

Chart I.5

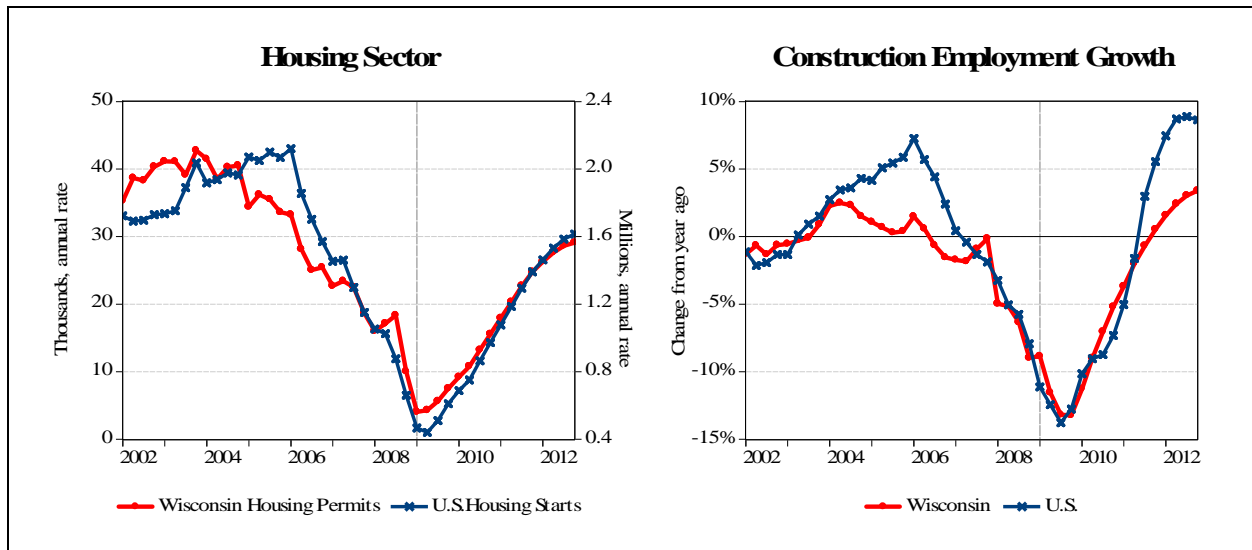


Wisconsin permits (see left panel of Chart I.6) declined 46% the fourth quarter of 2008 from a year earlier; permits in all of 2008 fell by 29%, continuing the declining path started in 2004. Wisconsin permits are expected to hit bottom the first half of this year. In the first two months of 2009, Wisconsin permits decreased year over year by a staggering 67% (January) and 36% (February). RealtyTrac released final 2008 foreclosure data showing that national foreclosures increased 81% last year, while Wisconsin foreclosures grew 62%. Wisconsin ranked 28<sup>th</sup> among all states, with Nevada leading the list. The year over year increase

of foreclosure activity in January and February 2009 was 18% and 30% nationwide, and 17% and 25% in Wisconsin.

The housing slowdown has a direct impact on employment in the Construction sector and an indirect impact in other sectors. Wisconsin employment in the Construction sector started to slow since 2004 following the decline in housing starts. Wisconsin employment in the Construction sector declined 1.2% in 2007 and 6.4% in 2008, losing 14,600 jobs since its peak in the first quarter of 2006. The outlook for Construction employment calls for three more years of job losses reaching bottom by early 2011. The forecast expects a decline of 11.7% in 2009 and 8.2% in 2010.

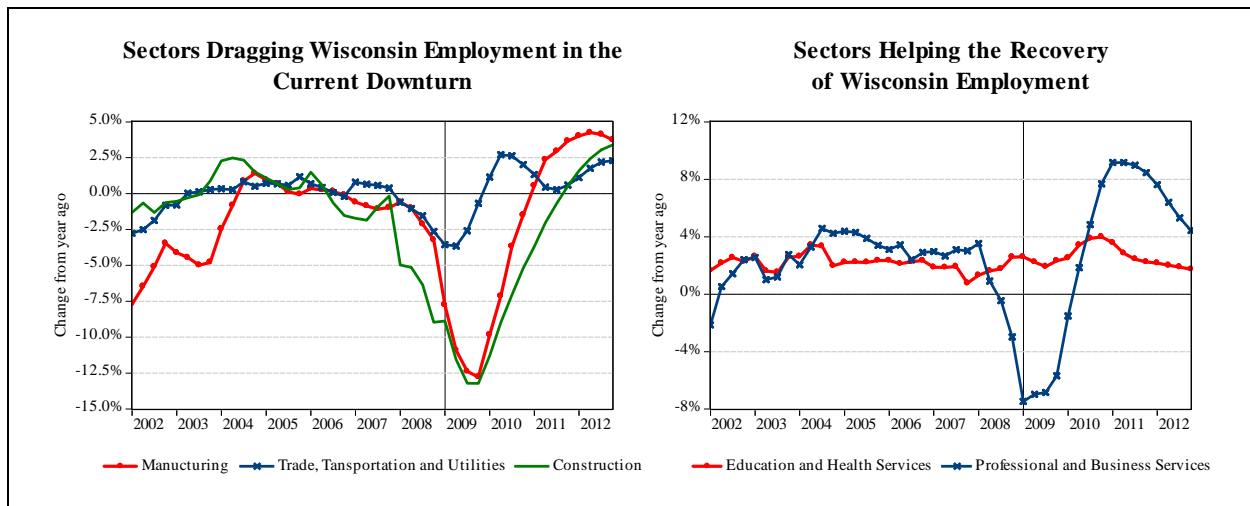
Chart I.6



The two largest sectors of the Wisconsin economy in terms of employment, Manufacturing and Trade, Transportation and Utilities, declined 1.7% and 1.5% in 2008 respectively. In the last four months of 2008 both sectors lost 35,700 jobs, while January and February posted the stunning job losses of 8,200 and 10,500 jobs for Manufacturing. As shown in the left panel of Chart I.7, the outlook for these sectors remains gloomy for the current year, but manufacturing is expected to suffer a deeper and longer downturn. Manufacturing employment is expected to fall 10.9% and 5.7% in 2009 and 2010, recovering positive growth in 2011 with 2.4% and 4.0% growth in 2011 and 2012. The Trade, Transportation and Utilities sectors will be a drag this year, declining 2.6%, but it is expected to recover in 2010 growing 2.1%. The Construction sector, despite representing little more than 4% of total employment in Wisconsin, contributed half of the 0.5% decline of total employment in 2008, with its decline of 6.4%. The sector lost 7,900 jobs or 6.8% of the employment in the sector during the last four months. The forecast calls for significant declines of 11.7% and 8.2% in 2009 and 2010.

The Education and Health Services sector is clearly the outlier in this recession, having grown 1.6% and 1.8% in 2007 and 2008 respectively and is expected to be the only private sector adding jobs in 2009. As shown on the right panel of Chart I.7, employment in the Education and Health Services sector is expected to continue showing strong job growth through the forecast period. The share of the Education and Health Services sector has been increasing over time and is forecasted to surpass the share of the manufacturing sector by 2010, reaching 16% of total nonfarm employment. The forecast for employment in the Professional and Business Services sectors calls for a decline of 6.8% for the current year, but for a rapid and strong recovery in the following years with 3.2% growth in 2010. The Leisure and Hospitality sector had been contributing to employment growth until 2007 but posted job losses of 1.4% in 2008 and is expected to also decline 2.8% in 2009. The sector is expected to slowly recover year over year toward the second half of 2010, posting a mild decline of 0.2% in 2010 and 0.2% growth in 2011.

Chart I.7



Employment in the Finance sector still grew 0.2% in 2008. The sector held up despite the turmoil in the financial markets aggravated after September 2008 that yielded a 1.9% decline in the sector nationwide. However, the forecast expects Finance employment to fall 1.7% in 2009 and stay flat the rest of the forecasted period. The Information sector was flat in 2008 and is expected to decline 1.6% in 2010 and 0.8% in 2011 before it resumes positive growth of 1.8% and 1.2% in 2011 and 2012 respectively. Employment in the Other Services sector grew 1.2% in 2008; the sector is expected to post a loss of 1,300 jobs (-1.0%) in 2009 and a 0.7% growth in 2010. The Natural resources and Mining sector is the smallest sector of Wisconsin employment, representing 0.1% of total employment. Employment in this sector declined more than 7% the last two years and is expected to continue this trend in 2009 and 2010, but decline at a lower pace the following two years.

The Government sector grew 1.1% in 2008 (1.5% growth in federal government employment and 1.1% in state and local government employment). The outlook calls for a decline of 0.5% in 2009. In 2010, due to the Census activities, government employment will decline only 0.2%, with federal government employment growing at 1.5% for the year.

The Wisconsin unemployment data was revised showing three years of unemployment rates at 4.7% (2006-2008). In 2009, the Wisconsin average annual unemployment rate is expected to be 8.3% and peak in 2010 at 8.9%. On a quarterly basis, Wisconsin and national unemployment are expected to peak in early and mid 2010 at 9.1% and 10.3%, respectively. The January and February readings of Wisconsin seasonally adjusted unemployment rate were 6.9% and 7.7%, respectively.

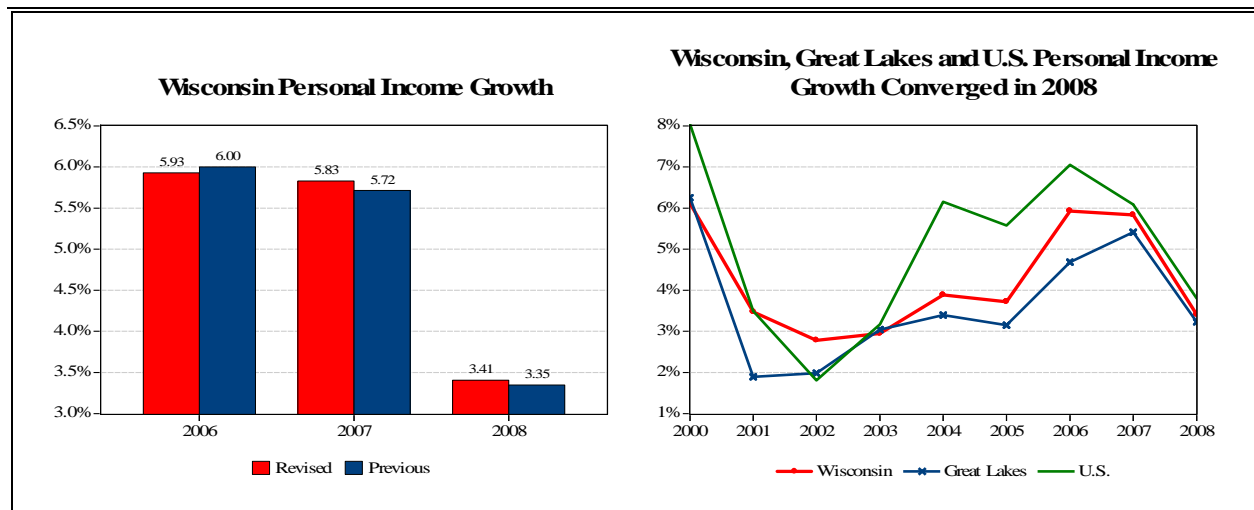
Details of the Wisconsin employment forecast are presented in Appendices 1 and 2.

**Income Revisions**

The U.S. Bureau of Economic Analysis (BEA) released preliminary 2008 personal income estimates on March 24. It also revised its quarterly and annual estimates of state personal income beginning with the first quarter of 2005. The revised numbers shows that Wisconsin personal income grew 5.8% in 2007 and 3.4% in 2008. Revisions to these figures will be released in late June and September by BEA.

Revisions in the March release were small, changing personal income annual growth rates by less than 0.1 percentage points for each year from 2006 to 2008. Wisconsin personal income was revised down by \$136 million in 2006 and up by \$75 and \$196 million in 2007 and 2008, respectively. The revised figures show that total personal income grew 5.9% in 2006, 5.8% in 2007, and 3.4% in 2008 (see left panel of Chart I.8).

Chart I.8



As shown on the right panel of Chart I.8, Wisconsin personal income growth continues to outperform the region, and it is closing the gap with the U.S. The Great Lakes region grew 3.2% in 2008, with Wisconsin ranking in second place after Illinois and above the rest of the states. In 2008, Wisconsin personal income grew 3.4%, below Illinois (4.0%) but above that of Indiana (3.3%), Ohio (3.1%), and Michigan (2.1%). However, in 2008, Wisconsin, the Great Lakes region and the U.S. converged at a personal income growth between 3.2% and 3.8%.

According to BEA’s quarterly preliminary estimates for 2008, personal income in Wisconsin grew 2.0% year over year, in the fourth quarter of 2008. However, real personal income was almost flat the last quarter of 2008, posting only a 0.1% growth year over year, as prices grew 1.9% for the same period. The weak situation of the labor market was also reflected in weak growth in wages and salaries that posted an increase of just 1.3% in the fourth quarter of 2008. Adjusting for the over year increase in prices, real wage and salary disbursements actually fell 0.7%, year over year. Looking at the change from the preceding quarter, total personal income fell 0.3% the fourth quarter of 2008, but real personal income grew 1.0% as prices fell 1.3% from the third quarter of 2008.

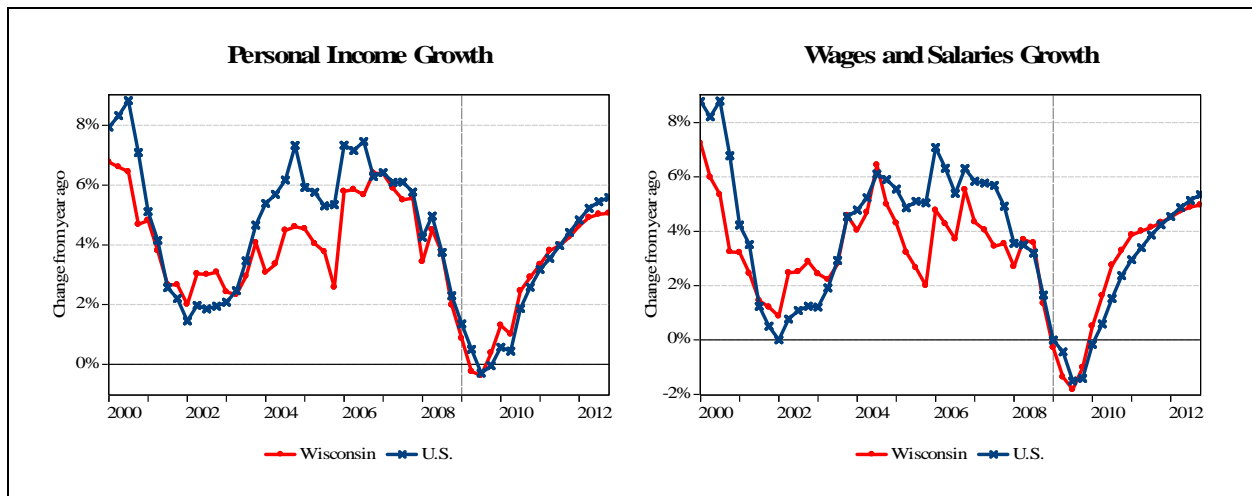
**Income Outlook**

The steady growth of Wisconsin personal income shown over the 2005-2007 period declined to 3.4% in 2008 and is expected to stall in 2009 posting almost no growth, as the recession deepens in early 2009 (See left panel of Chart I.9). A weak recovery is expected to start in 2010 with total personal income growth of 1.9% in 2010 and 3.9% in 2011.

Wage and salary disbursements, being the biggest component of personal income, accounted for 54% of Wisconsin total personal income in 2008. Wisconsin wage and salary disbursements grew 2.8% in 2008 but are expected to decline 1.1% in 2009 before slowly recovering beginning in 2010. Wages and salaries are forecasted to grow 2.0% in 2010 and 3.9% in 2011. Healthy growth rates will return in 2012 with 4.9% growth. Supplements to wages and salaries<sup>2</sup> grew 2.7% in 2008 and are expected to grow only 1.4% in 2009 and resume strong growth of 4.6% and 3.8% in the next two years.

<sup>2</sup> This component of personal income consists of employer contributions for employee pension and insurance funds and of employer contributions for government social insurance.

Chart I.9



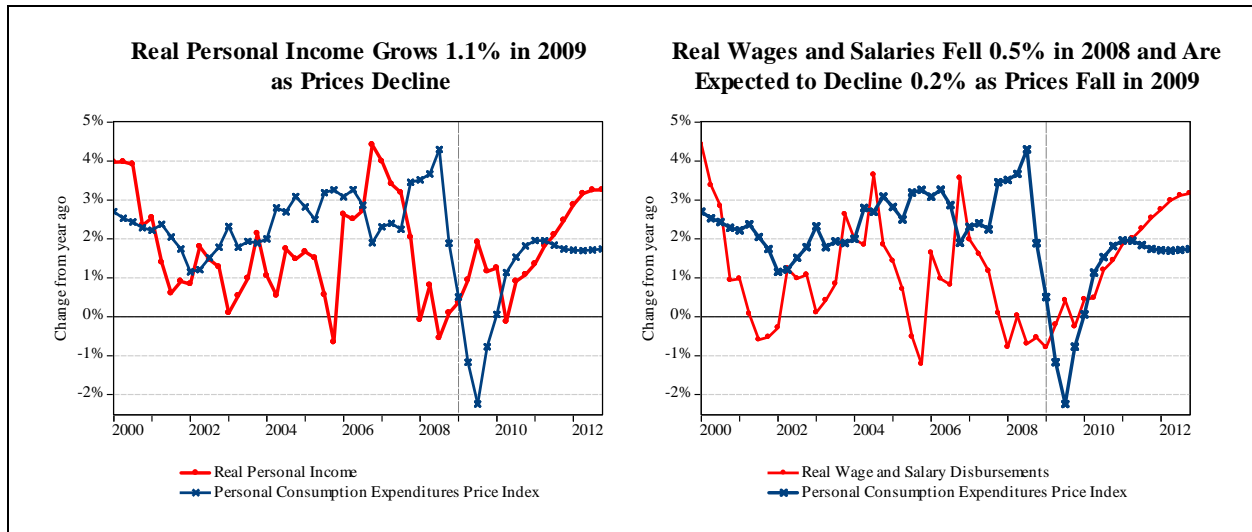
Proprietor's income declined 1.3% in 2008 and is expected to be a drag to personal income in 2009, declining 6.2%. Proprietor's income will return to a path of positive growth toward 2010, posting an average growth of 4.5% between 2010 and 2012. After three years of strong decreases in rental income with declines between 20% and 40% in 2005-2007, rental income grew 38.8% in 2008. The forecast calls for another year of strong growth (62.6%) in 2009 and moderate growth of 7.5% in 2010, before returning to negative growth rates in 2011 and 2012.

Dividend income grew 18.3% in 2007 and 10.0% in 2008 as the stock market peaked in late 2007. The forecast calls for two years of declines, 5.9% in 2009 and -4.4% in 2010 and weak positive growth in 2011 and 2012. Interest income grew 7.6% in 2007 and declined 0.5% in 2008, reflecting the market response to the reduction of interest rates by the Fed. Personal interest income is expected to post two more years of declines, 8.3% and 3.0% in 2009 and 2010 before resuming growth in 2011.

Wisconsin disposable personal income (total after-tax income received by persons available for spending or saving) grew 5.5% in 2007 and 3.6% in 2008 despite the weak growth in personal income, but helped by reduced personal taxes due to the 2008 federal stimulus package. In 2009, despite the almost zero growth in total personal income, disposable personal income will grow 2.2% due to fiscal policy implemented by the federal government in early 2009 (See special section for more details on the American Recovery and Reinvestment Act of 2009). The forecast expects disposable income to grow 2.0% in 2010 and regain steady growth toward 2011, growing at 3.7% in 2011 and 4.6% in 2012, as total personal income recovers a stronger growth pace.

Wisconsin real personal income grew 3.1% in 2006 and 2007 given the strong growth in personal income and moderate price increases (see Chart I.10). During 2008, as price increases accelerated and the growth of personal income slowed given the weakening in the labor and stocks markets, Wisconsin real personal income grew only 0.1%. The personal consumption expenditure price index posted a 3.3% growth in 2008 but is expected to decline 0.9% in 2009, thus helping real personal income to grow 1.1% in 2009, as shown in the left panel of Chart I.10. It will show moderate positive growth in 2010 and 2011 as personal income slowly recovers and prices start to increase again. Real per capita income in Wisconsin grew 2.5% in 2007 and declined 0.5% in 2008. Again, helped by the deflationary outlook in 2009, real per capita personal income will grow 0.5%. However, it is expected to grow at 0.2% in 2010 and 1.4% in 2011, as the economy slowly recovers and prices return to a normal pace of growth.

Chart I.10



As shown in the right panel of Chart I.10, Wisconsin real wages grew 1.7% and 1.2% in 2006 and 2007, but fell 0.5% in 2008 as the labor market weakened. Given that the national forecast is calling for prices to decline of 0.9% in 2009, real wages are expected to decline 0.2% in 2008 instead of the 1.1% decline of nominal wages. The outlook for real wages calls for an increase of 0.9% in 2010 and strong growth for the following two years, posting 2.2% in 2011 and 3.0% in 2012.

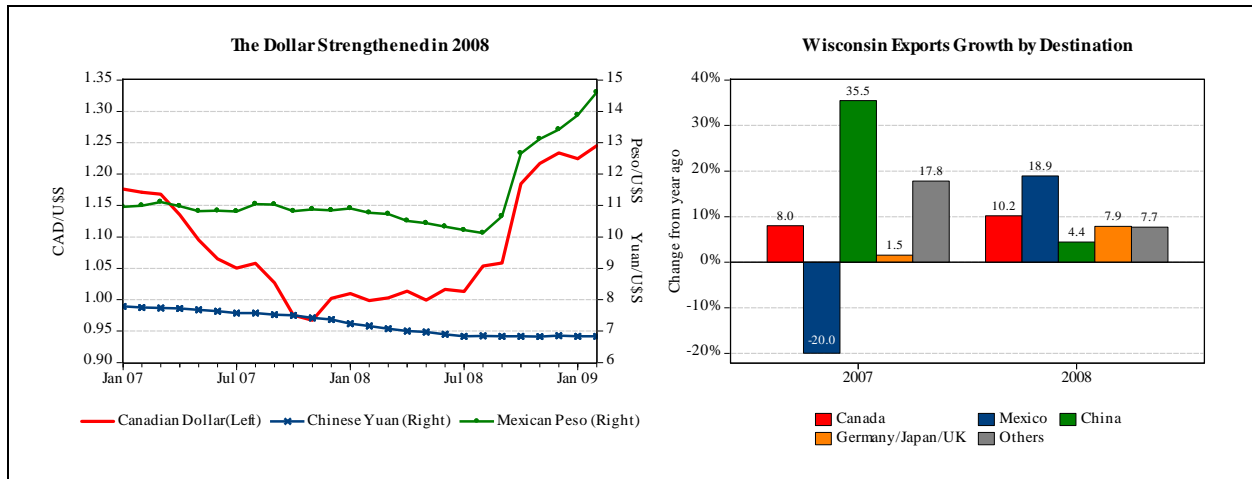
Details of the Wisconsin income forecast are presented in Appendices 3 and 4.

## Exports

The Wisconsin Department of Commerce released annual 2008 export data early this year. Wisconsin exports grew 9.2% in 2008. Canada continues to be the top destination for Wisconsin exports with a share of 32% of total Wisconsin exports, followed by Mexico with 8.6% of total Wisconsin exports. As shown in the right panel of Chart I.11, 2008 exports to Canada grew 10.2% in 2008, stronger than the 8.0% growth in 2007. The strong growth of last year was mainly explained by the appreciation of the Canadian dollar between January and September of this year, which made US exports more competitive, as shown in the left panel of Chart I.11. The Mexican peso was also strong for much of 2008 increasing American exports to Mexico. Accounting for almost 9% of Wisconsin exports, Mexico is the second main trade partner for Wisconsin. Exports to this destination fell 20.0% in 2007 and increased 18.9% in 2008. China has become the third largest destination for Wisconsin industries, representing about 6.0% of total exports in 2008. Exports to this country increased only 4.4% in 2008, after posting striking growth rates of 29.2% and 35.5% in 2006 and 2007 respectively.

As shown in the left panel of Chart I.11, the financial crisis has strengthened the dollar since September 2008. The dollar grew stronger as financial instability around the world resulted in a flight to quality, particularly in developing countries. This appreciation of the dollar was particularly strong with the two major export destinations for Wisconsin exports, Canada and Mexico, decreasing the competitiveness of Wisconsin exports. However, in the last two months the Canadian dollar seems to show signs of stabilization. The Chinese currency had stopped its appreciative path by mid 2008 and has stabilized since then, also diminishing the competitiveness of Wisconsin exports. Until the global financial instability resolves, the dollar is expected to continue in a strong position, damaging the export outlook for the U.S. and Wisconsin.

Chart I.11



The main products exported from Wisconsin in 2008 were: machinery manufactures (30% of total exports), computers and electronic products (15%), transportation equipment (13%), processed foods (6%), electrical equipment (5%), and chemical manufactures (5%). The categories of chemical and machinery manufacture and processed food have shown steady strong growth in the last two years. Exports of processed foods grew 42% in 2007 and 19% in 2008; exports of machinery grew 21% in 2007 and 13% in 2008, while chemical manufactures exports increased 12% in 2007 and 22% in 2008. Wisconsin exports of computers and electronic products are the second largest category of exports by industry. However, after posting double digit growth in 2005 and 2006, this category shows an exports decline of 4.3% in 2007 and a timid growth of 3.6% in 2008.

## METROPOLITAN AREA OUTLOOK

### March 2009 Update

The Department of Revenue published its Metropolitan Area Outlook in February, 2009. The outlook used employment data through the fourth quarter of 2008 and was based on the December 2008 Wisconsin Economic Outlook. Since then the economy has worsened. Nationally and within the state, unemployment claims have climbed further as job losses continue. The economic stimulus plan is expected to bring some relief but is not enough to offset the current downward trajectory of the economy.

Because of the poorer economic conditions, the current Wisconsin forecast presented in the March 2009 Wisconsin Economic Outlook has been lowered since December. This update to the metropolitan area forecast uses the revised forecast as a base. It does not fully replace the original February outlook, but revises the forecast for the next several years.

Recent data show the non-seasonally adjusted unemployment rates for Wisconsin's 12 Metropolitan Statistical Areas (MSAs) for February ranged from a low of 6.0% in Madison to a high of 13.0% in Janesville. Wisconsin's unemployment rate was at 8.8% during the second month of the year, below the non-seasonally adjusted U.S. rate of 8.9%.

Also in February, Wisconsin's total non-farm employment fell 3.2% compared to a year ago. The metropolitan areas of the state saw decreases mostly around 2.0 to 3.5%, with a low of -0.4% in Oshkosh-Neenah and a high of -5.7% in Janesville. Janesville's relatively high unemployment rate and steep loss of jobs are due to the closing of the GM assembly plant in late December 2008.

The forecast for the metropolitan areas of Wisconsin calls for continued job losses in 2009 and an increase in unemployment rates. Most of the metropolitan areas will see job losses similar to those of the state, at a 3.7% decrease. Janesville will see the largest decline, at 5.6%, while Madison will experience the smallest employment decline of 2.8%, followed by Fond du Lac, at 3.0%. Milwaukee-Waukesha-West Allis, Wisconsin's largest MSA, will see a 3.8% drop in employment in 2009. The non-metropolitan areas of the state are expected to see the number of jobs decline 4.0%.

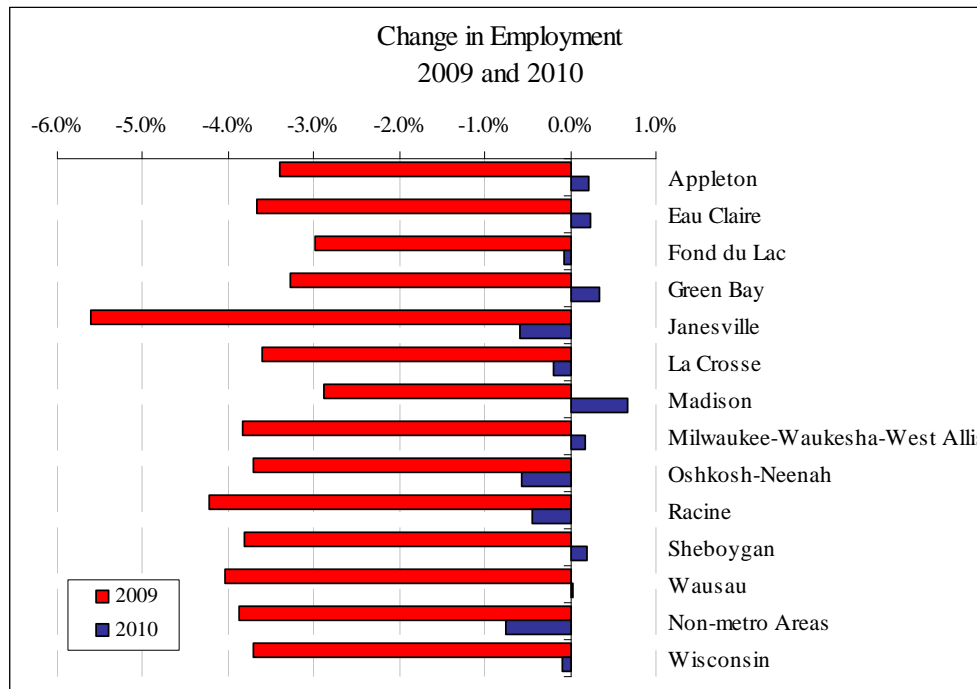
Employment will begin to grow around mid 2010. For the year, Wisconsin employment is expected to drop 0.1%. The change in employment in 2010 for the metro areas of Wisconsin ranges, from small declines of less than 1.0%, to a 0.7% increase in the Madison MSA. See the chart on the next page for changes in employment in 2009 and 2010.

Unemployment, meanwhile, is rising in all of the metropolitan areas. Unemployment is expected to peak in 2010, with the state unemployment rate at 8.9%. Janesville's rate will see the largest increase, peaking at 11.9% in 2010, followed by Racine at 10.9%. Madison, which historically has a relatively low unemployment rate, will peak at 7.2%. Unemployment rates will begin to decline in 2011 as employment growth picks up. Chart I.13 displays the forecasted unemployment rates for Wisconsin's metropolitan areas.

Total personal income growth will slow in the forecast. Wisconsin's personal income growth is nearly flat in 2009, with a small increase of 0.3%. Most of the change in personal income in the metropolitan areas is near that rate, although some of the areas will see a small decline of 0.3 to 0.1%. In 2010, personal income growth increases to around 2.0%, and in the years following, increases around 4.0% and 5.0%.

For more information on the metro areas of Wisconsin, please see the February Metropolitan Statistical Area Outlook at <http://www.revenue.wi.gov/ra/0902metr.pdf>.

Chart 1.12

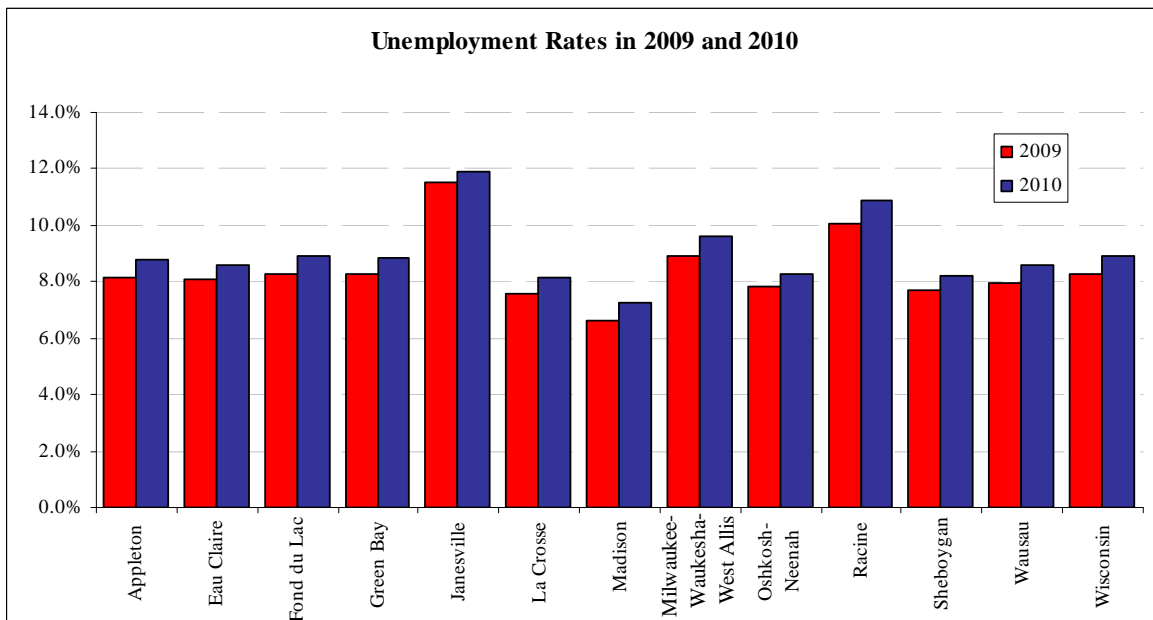


The employment and unemployment rate forecast is based on monthly data through December 2008 from the U.S. Bureau of Labor Statistics, except for employment data for Fond du Lac. This employment data is based on employment data from the Wisconsin Department of Workforce Development's Non-Metro County Industry Employment Estimates.

Personal Income and per capita personal income forecasts are based on annual data through 2007 from the U.S. Bureau of Economic Analysis.

A summary of the Metropolitan Statistical Areas Forecast is contained in Appendices 6-9.

Chart 1.13



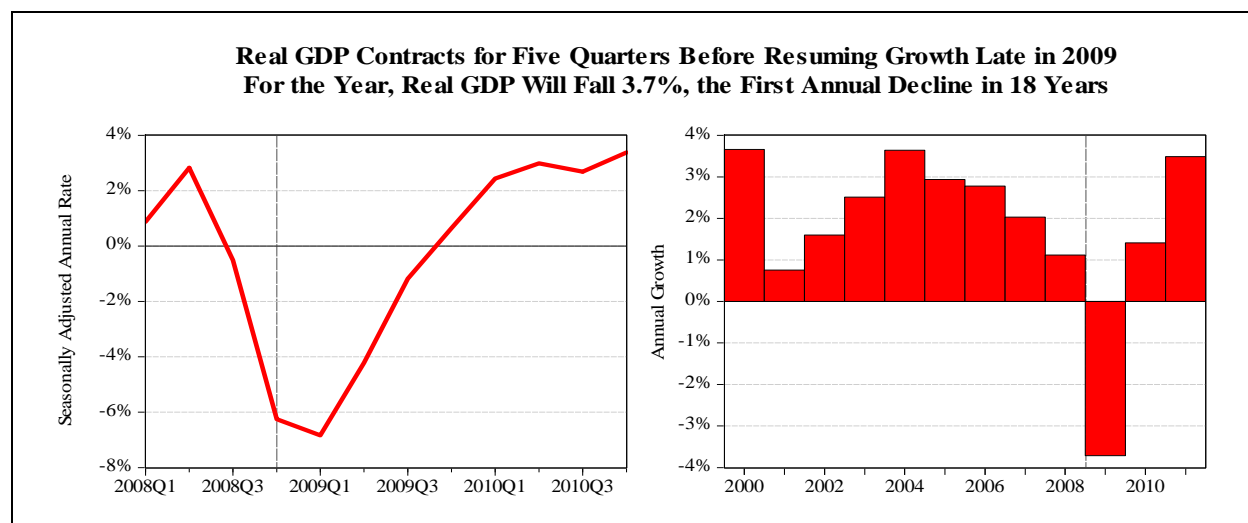
## U.S. OUTLOOK

The recession continues to deepen. Global Insight expects real GDP to decline sharply at least through mid-2009, with a first-quarter decline of 6.8%. The economy will contract 3.7% in 2009, and the unemployment rate will reach 10% by the end of the year. Governments and central banks are trying to unfreeze lending markets, but credit conditions will ease only slowly. The March forecast expects headline inflation to be well into negative territory by mid-2009. Fiscal stimulus prevents an even deeper recession, but the \$787-billion package now looks too small relative to the severity of the downturn.

### The Forecast in Brief

As the worst recession in the postwar era, the present downturn is now severe enough to warrant the description "great." Global Insight expects the fourth quarter of 2008 and first quarter of 2009 to show back-to-back declines in real GDP of more than 6% at an annual rate. And the forecast now pegs the peak-to-trough drop in GDP at 4.8%, without precedent in the postwar era (but still some distance from the 10% decline that some consider the mark of a depression). Given the extent of downward momentum, Global Insight expects real GDP to fall 3.7% in 2009, and the unemployment rate to peak at 10.3% in the first half of 2010.

Chart I.14



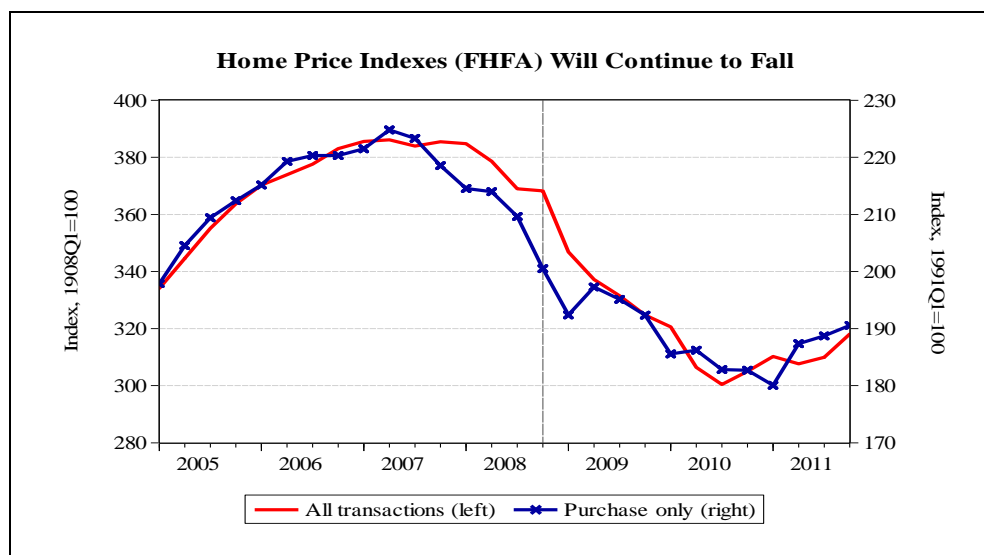
The government's efforts to inject demand through the fiscal-stimulus package, shore up the financial sector, and revive lending to consumers and businesses will take time to become effective, and will need to be expanded. In particular, a banking sector fix is not yet in place, and will require spending as yet unauthorized. The various stimulus efforts will gradually ease the rate of GDP decline as the year progresses and will produce a modest positive growth rate in the fourth quarter.

The initially estimated fourth-quarter GDP decline of "only" 3.8% was subsequently revised to a 6.2% drop, and the first quarter looks even worse. Inventories fell in the fourth quarter, instead of rising as originally reported, but are still far too high relative to sales and must contract sharply. Final sales are still falling steeply. Exports and producers' durable equipment spending will tumble again in the first quarter, while housing starts are reaching new lows. And nonresidential structures spending is now beginning to turn down, as both commercial construction (due to overcapacity and lack of financing) and drilling activity (due to low oil and natural gas prices) turn lower.

The only glimmer of good news is coming from the consumer, where January official retail sales and February chain-store sales have both outperformed expectations. But given tumbling employment, falling household wealth, and still-tight credit, it is hard to believe that consumption is already bottoming out. The 662,000 average employment loss over the last three months is the worst such period since 1945. In relation to the size of the economy, it is not quite as bad as the three months that ended in February 1975. But during 1975, the economy revived rapidly because the Fed was aggressively cutting interest rates, an option that is no longer available now.

On a calendar-year basis, the March forecast expects a consumer spending decline of 1.2% in 2009, after a 0.2% increase in 2008. Consumers have gotten some relief from tumbling oil prices, which the forecast assumes to hit a trough of \$33/barrel in the second quarter. The resulting drop in gasoline prices from their third-quarter 2008 peak is like a \$240-billion tax cut for consumers. In addition, further federal tax cuts are on the way. But cheaper gasoline and tax cuts cannot outweigh the squeeze from the crumbling labor market, falling home prices, tighter credit availability, and lower stock-market wealth. Real consumer spending is expected to decrease 1.2% in 2009.

Chart I.15



Housing remains a major drag on growth. Until the housing market stabilizes, it will be impossible to draw a line under the financial crisis. With the broader economy now turning down, that means higher unemployment, reduced household wealth, and greater insecurity among potential purchasers. The Federal Reserve's purchases of mortgage-backed securities have helped to drive 30-year mortgage rates down to around 5%, but the benefits seem mainly confined to refinancing, rather than home purchases. Housing starts will hit bottom in the second quarter of 2009, at just 441,000 units (annual rate), and will improve only very gradually thereafter. The FHFA house price index will drop 11.8% from the fourth quarter of 2008 to the fourth quarter of 2009, and another 6.1% by the fourth quarter of 2010.

Other key supports to growth are being knocked away. Declining consumer, housing, and export demand, coupled with tighter credit, are all making businesses pull back on capital spending. Equipment spending fell 28.8% in the fourth quarter, and is expected to decline 25.5% in the first quarter. For 2009 overall, Global Insight foresees a 17.1% drop in equipment spending.

During 2007 and the first half of 2008, rising private nonresidential construction helped cushion the blow from plunging residential construction. But the availability of financing for commercial real estate has tightened sharply, and the need for extra retail and office space is evaporating. The current forecast anticipates declines in private nonresidential building from the third quarter of 2008 through the third quarter of 2010. The average spending decline is 15.2% in 2009 and 17.4% in 2010.

In the state and local government sector, revenue growth is slowing or even negative, while financing has become more expensive. Real state and local government purchases will decline sharply in the first quarter. After that they will roughly stabilize through 2010, but only because of federal support of \$171 billion for current and capital spending.

With private demand declining, the government is trying to fill the gap. The fiscal-stimulus package is valued at around \$787 billion over ten years, and Global Insight assumes that \$561 billion of this is injected during the first two calendar years. But the stimulus package will not change the picture overnight. The economy's path for the first half of this year has largely been set already. Still, a combination of fiscal stimulus and the Fed's and Treasury's efforts to revive the financial sector should begin to stabilize the economy in the second half of 2009 and promote some recovery during 2010. Global Insight estimates that the stimulus will add about 0.8 percentage point to 2009 GDP growth and 1.3 percentage points to 2010 growth. It also creates or saves just under 2.5-million jobs by the fourth quarter of 2010. Unfortunately, the hole in private demand is far larger than imagined when the package was conceived, and it now looks too small, even before having time to take effect. Even with the stimulus package, the March forecast now expects a peak-to-trough decline in employment of more than 7 million.

The stimulus package, financial bailout costs, and recession will take the federal budget deficit to \$1.9 trillion in 2009 and \$1.7 trillion in 2010. For now, the need to support the economy trumps deficit fears, but once the recession is over, President Obama will face tough choices about his spending priorities. Eventually, other taxes must rise, as the president's 2010 budget document acknowledges.

The export outlook has deteriorated again. This recession is both deep and global. Global Insight now expects that world GDP will decline more than 2% this year, and national figures around the world are showing a collapse in world trade. Exports should decline for five quarters in a row, beginning in the fourth quarter of 2008, dropping 14.7% on a calendar-year basis in 2009. The damage from collapsing activity in the rest of the world is compounded by the rise in the dollar since mid-2008, as investors have fled risk, eroding the competitive advantage of U.S. producers.

The current-account deficit should fall about 40% in 2009. The reduction reflects a \$283-billion plunge in the bill for imported oil.

There have been some signs of stabilization in commodity prices, but deflation remains a real threat. By the third quarter of 2009, Global Insight expects headline CPI inflation to be as low as minus 3.6% year-on-year, largely on lower energy costs. Core consumer prices did edge up in January, but given the weakness in demand, that is likely temporary. The core price index will be rising just 0.5% year-on-year as of the third quarter, below the Fed's 1–2% comfort zone.

The Federal Reserve has run out of conventional ammunition. The central bank will hold the federal funds rate in its target range of 0–25 basis points through the fourth quarter of 2010. The Fed is about to launch its TALF (Term Asset-Backed Securities Loan Facility) program to provide financing directly into the securitized consumer and business credit markets. This should help to unclog some of the financing channels. But mending the financial system is not something that the Fed can do; it will require a more comprehensive plan from the Treasury.

### Key Forecast Assumptions

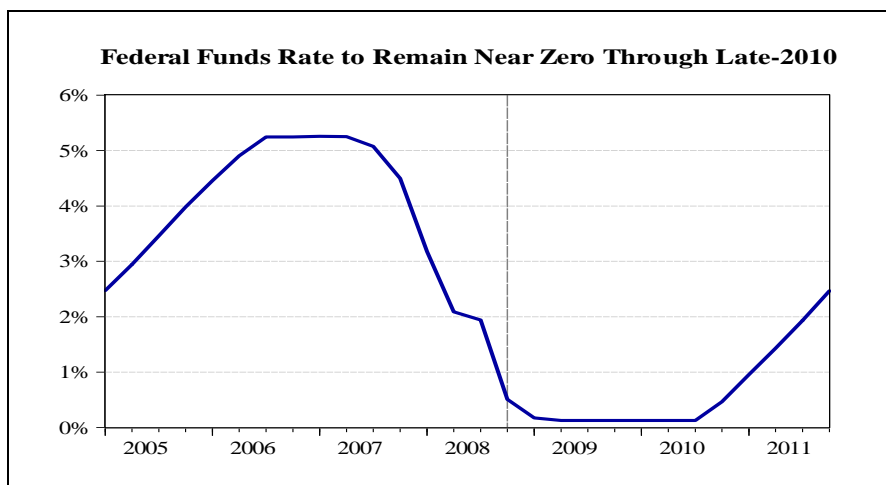
**Fiscal Policy:** Global Insight has incorporated the government's stimulus package, which has a face value of around \$787 billion over ten years. The forecast assumes that \$561 billion of stimulus is injected during the first two calendar years. The \$561 billion breaks down into \$143 billion in tax cuts for the personal sector (\$48 billion of which are classified as transfers because they exceed tax liabilities); \$97 billion in targeted transfer payments to the personal sector (e.g., food stamps, extended unemployment insurance); \$88 billion in corporate tax cuts; \$149 billion in transfers to the states (to support Medicaid and other current spending); and \$82 billion for infrastructure and other spending (partly channeled through the states). Global Insight does not consider the extension of AMT relief (worth \$70 billion) as stimulus, because it would have happened anyway. Beyond 2010, there will be a gradual increase in the income-tax burden, as signaled in the preliminary 2010 budget.

**TARP:** The Treasury has \$700 billion in budget authority under the Troubled Asset Relief Program. Of the first tranche of \$350 billion, about \$270 billion is allocated for capital infusions to banks; \$40 billion is allocated to AIG; \$20 billion is allocated to the term securities lending facility (TALF); and \$20 billion goes to the auto companies. These asset purchases and loans, including the auto loans, will be treated on a cash basis. Of the second tranche of \$350 billion, the forecast assumes about \$20 billion for further auto loans and \$75 billion for the new housing plan. The remaining \$255 billion will be allocated as follows: TALF II, \$80 billion; AIG II, \$56 billion; and other capital injections, \$119 billion. In addition, the forecast assumes roughly \$550 billion in funding under "Son of TARP" unspecified programs (less than the \$750 billion in the president's budget) and a cumulative \$173 billion in additional preferred capital funding for the GSEs. All of these financial programs push up the unified deficit substantially in 2009/10, and then reduce it during 2011/14 as these assets are sold off (at an assumed discount of one-third).

**Oil-Price Assumption Little Changed:** Declining demand drives the price of West Texas Intermediate down to a trough of \$33/barrel in the second quarter of 2009, down from the December's outlook of \$39/barrel. For 2009 as a whole, the average crude oil price forecast slid to \$38, down from \$43 in the December Outlook. Oil then climbs gradually to \$90/barrel by 2014.

**Federal Reserve to Hold Rates Near Zero:** The Fed has cut its federal funds target to a range of 0.0–0.25%. Global Insight assumes that this range stays in place for all of 2009, and that the Fed begins to tighten only in the fourth quarter of 2010.

Chart I.16



**Dollar Has Bounced on Risk Aversion:** A flight from risk has sent the dollar sharply higher against most currencies since mid-2008. Some of these gains were retraced in December, but the dollar has moved up again this year. The forecast assumes no major dollar shift during 2009, with year-end values of \$1.26/euro,

93 yen/dollar, and C\$1.19/dollar. China has slowed the pace of renminbi appreciation due to fears of weakening growth. The Chinese currency will appreciate just 1.4% against the dollar over the next 12 months.

**Foreign Economies Also in Recession:** The recession is global. GDP in the United States' major-currency trading partners will decline 3.0% in 2009, before rising 0.9% in 2010. GDP for other important trading partners is also projected to decline in 2009, by 1.1%, before rebounding 2.8% in 2010.

**Defense Spending Growth Expected to Slow:** Spending for the wars in Iraq and Afghanistan continues to climb. Real federal defense purchases rose 7.1% in calendar 2008, but the forecast expects a smaller 4.7% increase in 2009 and a 1.3% decline in 2010 as the new administration scales back defense commitments.

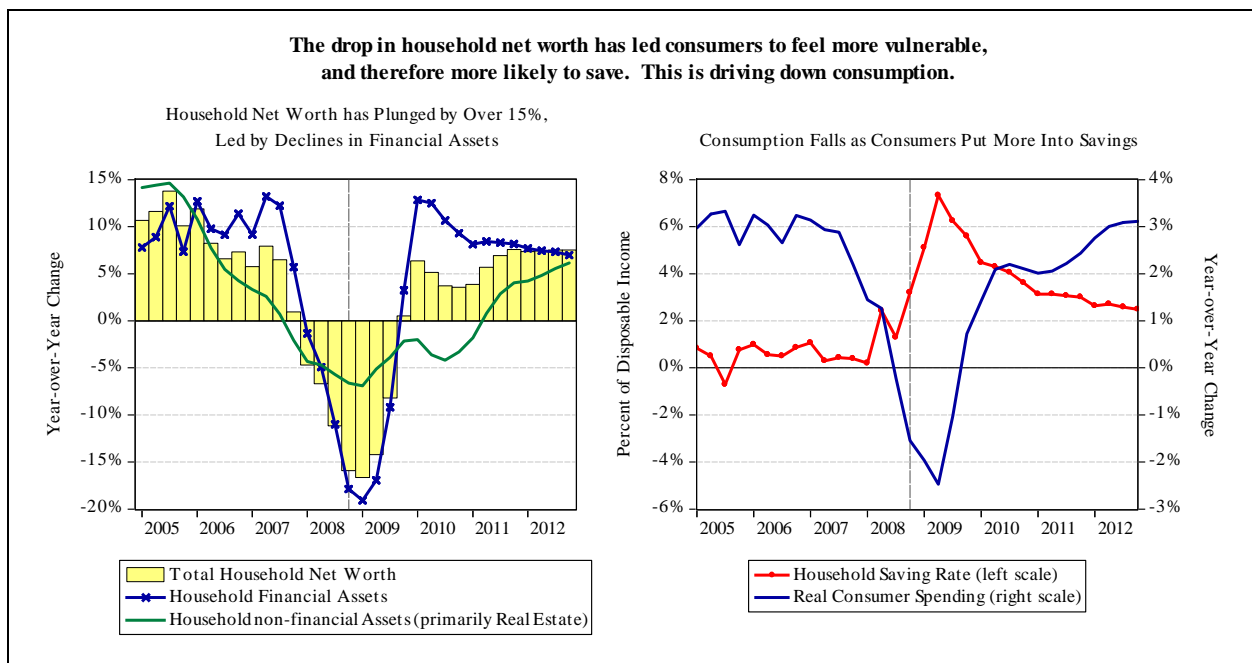
## DETAILS OF THE U.S. OUTLOOK

### Consumer Markets

Retail sales fell 0.1% in February, after an upwardly revised 1.8% increase in January. February's numbers were pulled down by a 4.3% drop at motor vehicle dealerships. Excluding the automotive segment, retail sales increased 1.6% in January and 0.7% in February, recovering a small portion of the declines registered in the closing months of 2008. Mild weather and early introductions of spring merchandise provided a lift to sales at apparel, general merchandise, electronics and appliance, and home furnishing stores in February. Rising unemployment will likely push down spending this spring, but the worst of the declines is now behind us.

With the stock market in a freefall and home values sinking, household net worth decreased by a record \$5.1 trillion in the fourth quarter of 2008. From the spring of 2007 to the end of 2008, household net worth fell \$12.9 trillion, more than the \$12.1 trillion in personal income earned last year. Over this period, households lost \$9.1 trillion in financial assets and \$3.3 trillion in real estate assets. The rapid deterioration in finances is taking a toll on purchases of vehicles, luxury products, and premium brands.

Chart I.17



Despite 3.3% growth in real disposable income, real consumer spending on goods and services is projected to decrease 1.2% this year, its first annual decline since 1980 and its biggest drop since 1942. Inflation-adjusted spending on durable goods is expected to fall 7.2%.

Consumers will continue to face stiff headwinds from the labor market in 2009. Three million jobs will be lost by the start of 2010, pushing the unemployment rate above 10%. In this context, the fiscal-stimulus program will give a timely boost to household incomes. A combination of tax cuts, refundable credits, and income-support payments will inject \$105 billion this year, \$136 billion in 2010, and \$67 billion in 2011 into disposable income. Consumers will also benefit from lower oil and gas prices, as their energy bills drop by \$180 billion, or \$1,600 per household, this year.

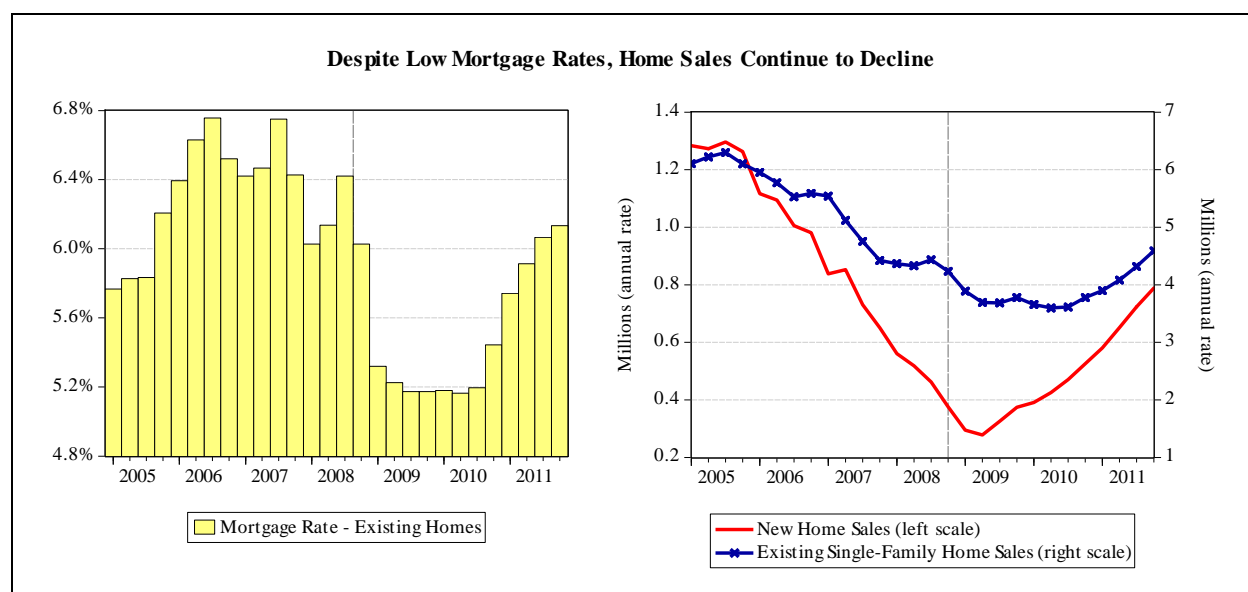
A gradual recovery in consumer spending is expected to begin this summer, sparked by fiscal stimulus, an easing of credit conditions, and an upturn in home sales. Led by a rebound in durables, real consumption is projected to increase 2.0% in 2010, 2.2% in 2011, and 3.0% in 2012. Reflecting consumer caution, the personal saving rate will climb from 1.8% in 2008 to 6.1% this year, its highest level since 1992.

### Housing and Construction

In January 2006, housing starts soared to a record high of 2.273-million units (annual rate), marking the high point of the greatest housing bubble in history. By January 2009, they had tumbled to a record low 466,000 units, with the bottom nowhere in sight.

Conditions in the market for new homes have not been this bad since the 1930s, and they continue to worsen. Housing statistics in January 2009 set many records. Setting record lows were housing starts, new home sales, existing home sales, condo/co-op sales, the Pending Home Sales Index, and the year-on-year growth rates of the S&P/Case-Shiller 10- and 20-city composite indexes. At record highs were the homeowner vacancy rate, the Mortgage Bankers Association’s foreclosure and delinquency rates, and the months’ supply of new homes. Moreover, the leading indexes point to rocky shores ahead. The Pending Home Sales Index plunged 7.7%. Single-family housing permits, the most important monthly housing indicator, tumbled 8.0% in January. In February, housing permits jumped 11.0%, but were still down 42.3% compared to the prior year. The only encouraging statistic in these miserable numbers was the Housing Affordability Index, which shows housing more affordable now than at least back to 1971, the index’s starting point.

Chart I.18



In the forecast, housing starts hit bottom in the first half of 2009, and then slowly start climbing as renewed economic growth and lean inventories of new homes induce builders to start putting up new houses. Global insight expects housing starts to drop from 904,000 units in 2008 to 507,000 in 2009, and then bounce back to 819,000 units in 2010. Residential investment will cut real GDP growth by nearly 1.4 percentage points in the first half of this year, but will start adding to growth in the fourth quarter.

Going forward, low mortgage rates will not do much to stimulate home sales. Lenders have tightened their lending standards and are requiring high FICO scores and 10-20% down payments. Those who qualify for loans often must be able to sell the home they are living in. Finally, workers are staying put in their current jobs and homes because of the recession. Thus, despite tentative signs of stabilization last year, existing home sales will slide over the next few months, hitting bottom in the first half of 2010. New home sales hit bottom in the first half of this year, but drop proportionately more than existing home sales because builders, who must cover their costs, continue to have trouble competing in markets where foreclosure rates are high.

Housing prices are near their equilibrium level, but they will continue to drop because current inventory levels remain near record highs and foreclosures are still rising. In the forecast, the median price of an existing home drops about 10% from fourth-quarter 2008 levels and bottoms out in early 2010.

**Business Investment**

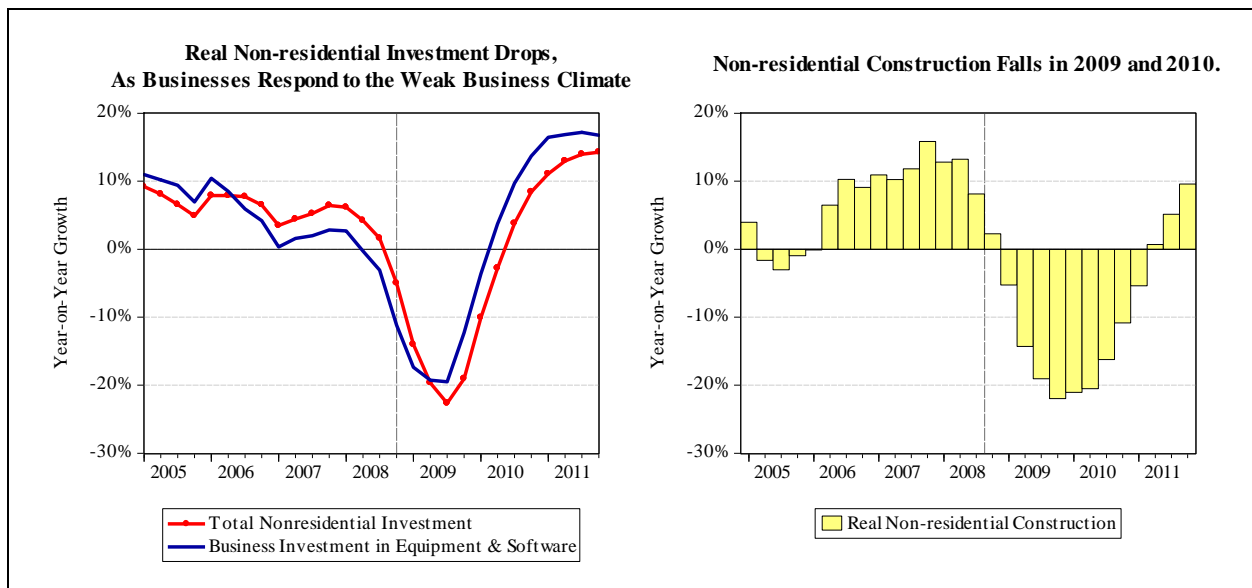
Spending on equipment and software plummeted 28.8% in the fourth quarter of 2008, the largest percentage drop in 51 years. The January orders and shipments of core capital goods (i.e., nondefense capital goods excluding software) and weak auto sales to businesses point to a similar-sized drop in the first quarter. Nearly every core category was declining in January, and most categories were dropping steeply. The first-quarter equipment spending numbers are being dragged down not only by the fast-sinking economy, but also by the accelerated depreciation allowances that expired December 31, and which shifted spending that would have taken place in 2009 into 2008. It remains unclear how strong this second effect has been.

Private nonresidential construction plummeted 4.3% in January, its largest drop since January 1994. January’s construction report also included downward revisions to November’s and December’s estimates, which will result in a downward revision to fourth-quarter spending on nonresidential construction, from minus 5.9% to nearly minus 10.0%. January’s weak numbers were spread across the board. Spending on hotels tumbled 4.3%, a preview of what to expect in the coming months, since far too many hotels were put up during the latest U.S. expansion. Commercial and office construction, two other overbuilt categories, also posted significant monthly declines.

The outlook for business investment over the next two years is grim, as firms have few reasons to start new buildings or renovate existing ones. In the March forecast, spending on nonresidential construction drops over the first seven quarters of the projection period. The decline is balanced and deep, with all of the major building categories posting double-digit declines in 2009 or 2010, or both. Total nonresidential construction falls 21.8% in 2009 and 12.5% in 2010.

Businesses are finding it difficult to finance even high net present-value projects because of the credit crunch. They are also opting to preserve cash rather than finance projects they would normally undertake, because of the recession. As a result, spending on equipment and software has plunged, and will continue to struggle over the next few quarters. In the forecast, real equipment and software spending drops 17.2% in 2009, but rebounds 5.7% in 2010. This is based on the assumption that few businesses took advantage of the accelerated depreciation allowances that expired at the end of 2008. If this proves to be incorrect, equipment and software spending could plunge more in the first quarter of 2009 than the expected 25.5%.

**Chart I.19**

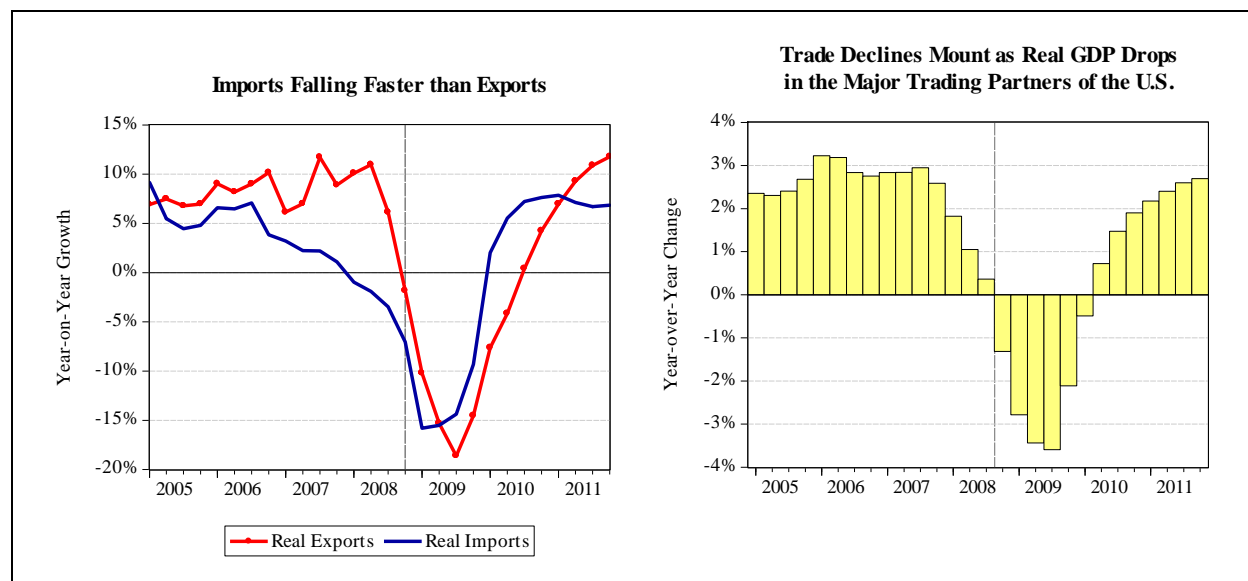


**International Trade**

The trade deficit shrank to \$36.0 billion in January (down \$3.9 billion from \$39.9 billion in December), thanks to a \$4.1-billion drop in oil imports. The big story is not the trade gap improvement, though, but collapsing imports and exports. Exports of goods fell 7.4% and imports of goods dropped 7.8%; year-over-year, goods going out tumbled 21.4%, while goods coming in plunged 26.3%. The collapse in trade is even larger when viewed as a six-month change, rather than a full-year decline; both sides of the ledger have plunged more than 30% since last July. As import and export numbers decline for the balance of the quarter, it will mark the first time that either goods imports or exports has fallen more than 20% since 1953, and the first time both have done so going back to 1948. Global trade is collapsing and pulling down industrial output worldwide.

World trade has slowed sharply. In the U.S., imports are being hit harder than exports in trade volume terms. This is a statistical plus for GDP, but it just means that the United States is cutting back faster than foreigners. Both sides of the trade ledger are losing volumes at a dramatic pace. The March forecast expects exports to drop 14.7% in 2009, and imports to fall 13.8%. The last simultaneous double-digit negatives for annual trade volumes was 1932.

**Chart I.20**



Imports will find a bottom first, falling until the third quarter. Exports trough only one quarter later, but then languish rather than rebound. Consumer goods and raw materials imports are getting hit by sales declines and inventory slashing. Exports are more sensitive to capital goods demands, however, and it will be years (rather than quarters) for world operating rates to improve enough to trigger another investment cycle as healthy as 2007-08. Last year’s weakness in the dollar also helped exporters (and trimmed sales of imports), but the currency will not get that weak again for some time. The trade engine turns positive in 2010, but more for imports than exports.

The 2009 current-account deficit will shrink to just 2.8% of GDP, falling under 3.0% for the first time since 1998, but the shortfall will widen again once demand and imports revive. The oil import bill will also nudge the balance of payments further into the red when prices rebound. The 2008 current-account deficit shrank to \$673.3 billion, from \$731.2 billion in the prior year, but the fourth-quarter deficit skidded to a \$531.3-billion annual rate as the oil bill shrank.

**Inflation**

The headline consumer price index rose 0.3% in January, but slipped 0.2% versus a year earlier. The monthly increase came primarily on an uptick in gasoline prices. Recent movements in the CPI have been almost entirely driven by fluctuations in energy prices. Excluding food and energy, “core” consumer prices climbed 0.2%. The increase resulted from a rebound in core commodities prices and the continued, steady gains of core service prices. Despite January’s elevated result, consumer retrenchment has gone a long way in relieving price pressures.

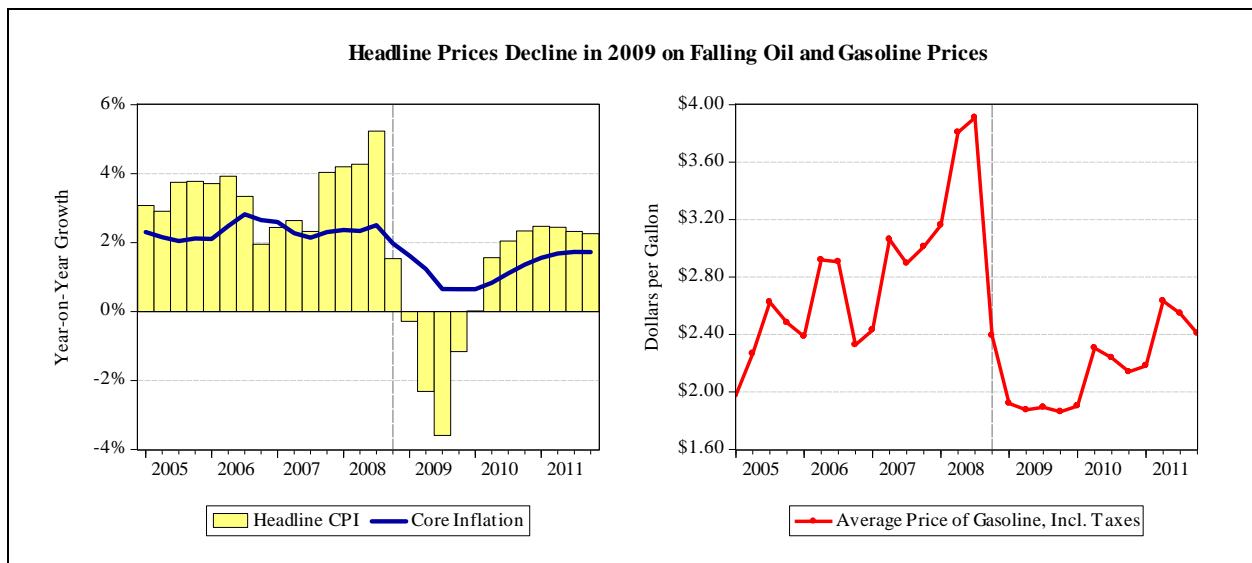
Producer prices increased 0.8% in January, which were driven up by energy, similar to the increase in consumer prices. The prices of finished energy goods rose 3.7%, as the price of oil oscillated around \$40/barrel. Excluding food and energy, core producer prices rose 0.4%. Typically, reduced demand results in lower prices, but automakers, aircraft manufacturers, and pharmaceutical companies all pushed prices higher.

Core personal consumption expenditures (PCE) inflation fell to 1.6% year-on year (y/y) in January, well within the Federal Reserve’s 1-2% comfort zone. For now, the Fed is free to hold its key interest rate near zero and continue to operate its various credit programs.

In 2009, the headline CPI is expected to drop 1.9%, which would be its first yearly decline in 54 years. The inflation picture has been flipped upside down over the last nine months. Fears of a prolonged period of high oil prices have given way to energy prices testing lows not seen in years. Excluding energy and food, the core CPI should stay positive, but is expected to increase only 1.0% in both 2009 and 2010. The prospect of deflation is a real concern among policymakers, given its potential to hamper any recovery. Falling prices will not only delay a resumption of consumer spending, they will also inhibit income growth. On the producer side, the PPI for finished goods should decrease 5.8% in 2009.

Core PCE inflation, the Fed’s preferred inflation gauge, should reach its trough in the final quarter of 2009, with a rate of just 0.4% y/y. The 10-year TIPS spread, a useful proxy of inflation expectations, averaged 1.12% in February, a substantial gain from the lows of previous months. That will help to ease deflation fears, but remains low enough to keep the Fed’s inflation-fighting credibility intact.

**Chart I.21**



**Employment**

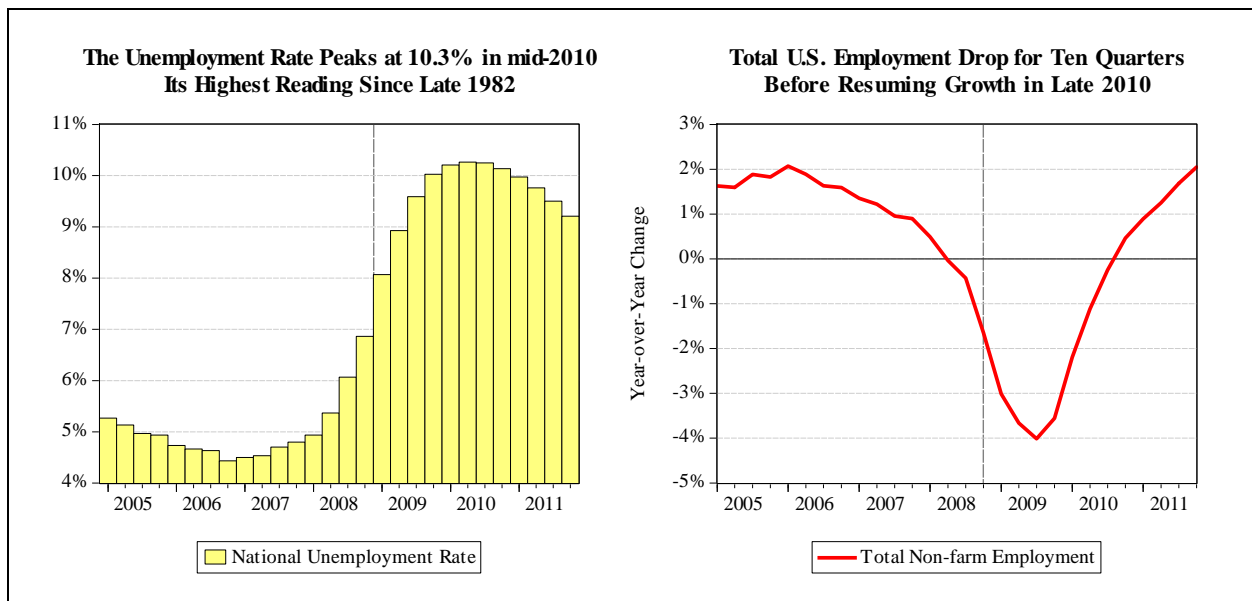
Payrolls fell hard and fast again in February. The economy lost another 651,000 jobs to push the cumulative tally for the recession up to 4.4 million; the last four months’ losses totaled 2.6 million. December job losses are now reported at 687,000 jobs, and represent the peak so far, but future revisions could boost February’s tally above that level.

February’s job losses were spread throughout the economy, with 276,000 in goods industries and 384,000 in private service-providing industries. Manufacturing shed 168,000 workers and construction trimmed 104,000. Professional and business services topped the list of service losses, with 180,000 fewer jobs, 78,000 of those being temporary jobs. Healthcare and social assistance remained in the black, with 30,000 jobs added, but that was the sole major segment in the private sector to sport gains. Government payrolls rose by 9,000, with a small rise in state and local education jobs; non-education payrolls at the state and local level drifted lower, but nowhere near as fast as revenues plunged. The jobless rate surged to 8.1%, for a 0.5-percentage-point monthly rise and a 3.3-point year-over-year gain.

Payrolls should fall another 2.75 million, before hitting bottom in early 2010. Declines will start to slow in the second quarter of 2009, but will remain uncomfortably high through the summer. Job losses have been so large that losing only 300,000 each month would seem like welcome relief. On a fourth quarter-to-fourth quarter basis, losses will total 4.8 million in 2009, but are followed by a modest increase in 2010 of just over half a million jobs. The three years from 2011 to 2013 will show employment gains of more than 2.5 million each year, but the hole dug during 2008-09 is so deep that it takes until early 2013 for payrolls to reach the prior peak of 138 million jobs seen in late 2007.

The unemployment rate keeps climbing as payrolls fall, reaching 10.0% before 2009 ends. The unemployment rate will then increase further, peaking at 10.3% in mid-2010. The labor force expands as job opportunities reemerge, keeping the unemployment rate high even as the rest of the economy recovers. The steepest decline in the unemployment rate will be in 2012, when job growth is at its greatest. However, even as far out as 2014, the unemployment rate falls only to about 7.0%.

**Chart I.22**



**Industrial Production**

The ISM purchasing managers’ index (PMI) remains well below the 50% threshold of expansion. In February, it was 35.8%, just a hair above the 35.6% seen in January. New orders for manufactured goods declined 1.9% in January but were down more than 21% year-over-year (y/y). Certain industries are seeing horrendous bookings. Orders for all durable goods tumbled nearly 26% y/y. Considering that orders are a leading indicator of the production process, 2009 is not starting well.

Industrial production figures further reflect the weakness in manufacturing. In December, manufacturing output fell 2.9% month-on-month, and in January it dropped another 2.7%. The only crumb of comfort is that manufacturing output fell less than expected (by 0.7%) in February, as vehicle output picked up and the decline in other sectors became less severe.

Throughout the United States and the rest of the world, consumers are not spending, corporations are slashing capital expenditures, and international trade has deteriorated. This does not bode well for manufacturers of consumer products, particularly durable goods; U.S. auto and parts makers will likely slash production 27% in this year. Producers of appliances and furniture are also likely to see output declines of near 20%.

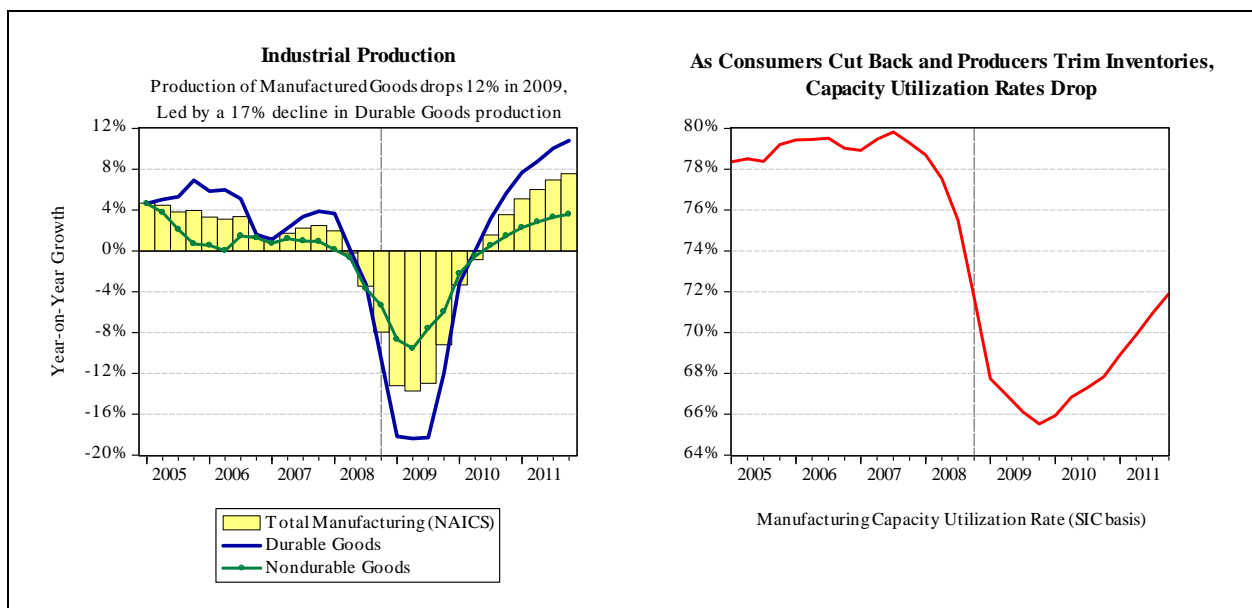
On the capital goods side, a massive decline in equipment investment will lead to production declines for machinery (down 19%) and electrical equipment (down 15%). Even the high-tech sector is not going to be spared. The semiconductor industry recently posted an operating rate of only 52% and scaled back spending on new equipment. In 2009, U.S. semiconductor output is projected to decline 30% and computer production is expected to drop 25%.

This year’s decline in construction activity, down 25% for residential and 22% for private nonresidential, will be devastating to the manufacturers of building materials. Wood products (down 25%), primary metals (down 33%) will all add to the general industrial slowdown during 2009.

The final hit this year will come from exports. As global GDP contracts 2%, it will take its toll on both industrialized and developing economies. This will translate into weak overseas sales of U.S. capital goods, industrial materials, chemicals, and other commodities such as food/feed grains and meat.

In fact, the next 12 months will be the worst of the postwar period for the U.S. industrial sector, with drops of 10.0% in total industrial production and 12.2% for manufacturing. Although the output declines will end by 2010, not until 2011 (up 6.4%) and 2012 (up 7.3%) will it seem like a real recovery.

**Chart I.23**



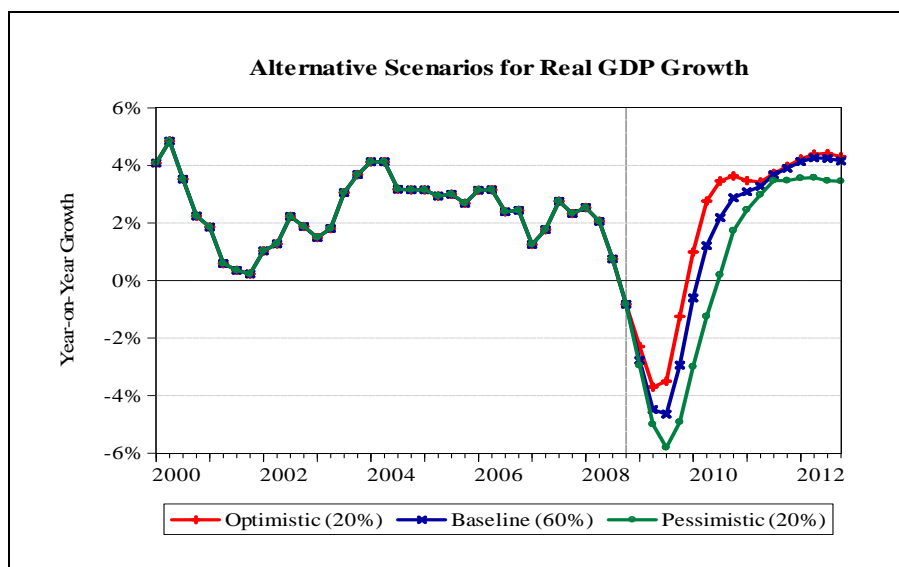
## RISKS AND ALTERNATIVES

Economic activity continues to drop at a rapid pace. From November 2008 through February 2009, the economy lost nearly 2 million jobs. Capital spending has sharply. Exports are also collapsing as the recession slams U.S. trading partners with a vengeance. Since the start of the year, the S&P 500 has dropped 25%. Nearly every housing statistic hit an all-time low in December, only to tumble still further in January. In May, this recession will become the longest of the eleven post-World War II recessions. The baseline forecast shows that it will also prove the worst, with output dropping 4.8% peak to trough, and unemployment climbing above 10%.

The pessimistic scenario builds on events that are now unfolding, and assumes that the financial crisis gets much worse. It assumes lower consumer spending, weaker business investment, slower foreign growth, and weak underlying productivity growth. It is a scenario with an even deeper postwar recession in the near term, and slow growth afterward.

In the optimistic scenario, the numerous policy salvos of the Federal Reserve, the Treasury, and the world's central banks turn the economy around sharply by the end of this year. With credit once again flowing, domestic consumer and business demands are rekindled, along with global demand. The U.S. economy still experiences a serious recession, but it is milder than in the baseline forecast, and the economy grows strongly through 2010.

Chart I.24



**Much Further to Fall (20% Probability):** The pessimistic scenario is more than a recession, but not quite a depression. The simulation assumes that the financial crisis worsens, sending the economy into a downturn nearly twice as deep as any other since the Great Depression. Credit markets remain clogged, both domestically and across the world. Without access to credit, domestic spending contracts and the housing market falls into an even deeper hole.

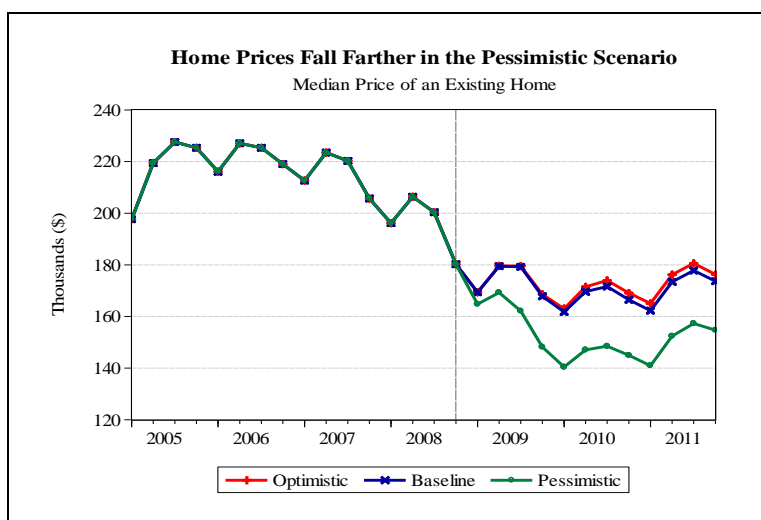
The pessimistic scenario assumes that the downward spiral in financial markets continues into 2010. The Treasury-eurodollar (TED) spread is still above 150 basis points in the first half of 2009 (normally, it is less than 50 basis points). The spread between 30-year fixed mortgage rates and the 10-year Treasury note yield also remains much wider than normal through 2010.

Oil prices are lower in the short run because world demand is falling. As a result, bottom-line inflation is lower. Core inflation is also lower because demand is so weak. The low inflation readings give the Federal Reserve leeway to keep interest rates in the 0.0–0.25% target range, just as in the baseline, through 2010. But when the economy gets off the mat, inflation starts creeping up because of rising energy prices, a slowdown

in productivity, and a weaker dollar. The Fed responds by steadily raising interest rates. But its response is a bit too little, too late, and inflation continues to climb. Eventually, core inflation stabilizes, but at about 3%, nearly a full percentage point above the baseline rate.

Prior to 2008, housing starts had not fallen under 1.0-million units in a calendar year since 1945. But in this scenario, they drop from 904,000 units in 2008 to 475,000 in 2009 (compared with 507,000 in the baseline), and 668,000 in 2010 (compared with 819,000 in the baseline). The median price of existing homes falls 13% below the baseline in 2010. Home sales are also much lower. The weakness in housing undermines consumer confidence. This, along with the drop in wealth associated with falling home prices and a slowdown in job growth, causes consumers to retrench sharply. Hit especially hard are light-vehicle sales, which fall to 8.1-million units in 2009 (versus 9.5 million in the baseline), and "other" consumer durables (i.e., jewelry, sporting equipment, motorcycles and pleasure boats, and aircraft).

Chart I.25



Capital spending is also weaker, as firms respond to a bleaker outlook by scuttling long-term projects. Business fixed investment drops over eight straight quarters. Foreign economic growth is lower, which cuts into export growth. Indeed, real GDP among the United States' major-currency trading partners falls over seven quarters, starting in the second quarter of 2008 (this category does not include China). As a result, exports deduct 2.1 and 0.7 percentage points from GDP growth in 2009 and 2010, respectively.

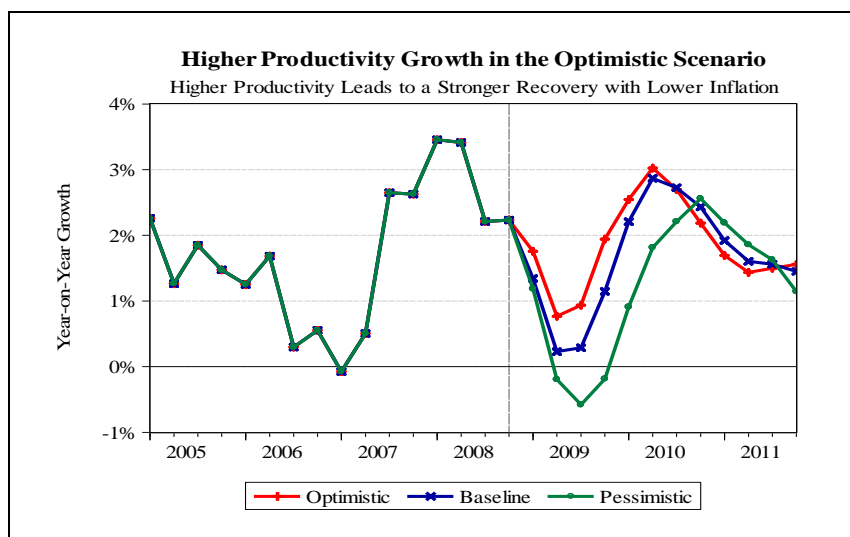
Over the longer term, GDP growth remains slower than in the baseline, mainly because productivity advances only 1.3% on average over the next 10 years, compared with 1.8% in the baseline. Inflation is higher because of the slower productivity gains and a weaker dollar, and because the Fed, after allowing inflation to creep above 3%, decides to stabilize it at that higher level, rather than risk another recession by bringing it down.

In this scenario, real GDP contracts 4.7% in 2009 and 0.6% in 2010 (compared with a 3.7% drop and a 1.4% gain, respectively, in the baseline). Employment drops for 11 straight quarters, with the economy losing 9.2-million jobs. Manufacturing output also falls for 11 straight quarters, and real GDP drops for six quarters, starting with the third quarter of 2008. Unlike the previous two recessions, those of 1991 and 2001, this one takes a heavy toll. Peak to trough, real GDP drops 6.6%, which is nearly twice as large as the losses during the 1973–75 and 1981–82 recessions. Unlike those recessions, however, the economy emerges from this downturn weaker, and facing more troubles ahead.

**A Midyear Trough (20% Probability):** In the optimistic scenario, the rapid response of the Federal Reserve to the crisis in financial markets, coupled with the Treasury's "rescue" plan, Congress' stimulus package and help from central banks abroad, prevents the United States from entering an even deeper downturn. The recession is still a nasty one, though. There is no additional economic stimulus above the level in the baseline, but the primary difference is that the wheels of stimulus start to achieve traction sooner.

In addition, the standard optimistic scenario assumption of stronger total factor productivity growth is also in place. Total factor productivity, a measure of how technological progress augments economic growth, is enhanced by reinvigorated innovation in the technology sector. This allows lower inflation over the long term. But in the short term, a stronger economy means that inflation is higher in the optimistic scenario than in the baseline. The stronger sales pace during 2009 in the optimistic scenario requires less of an inventory reduction than in the baseline, with demand recovery trimming inventories back to desirable levels. Gross domestic purchases fall 3.0% in 2009 in the more optimistic scenario, as opposed to a 4.0% drop in the baseline, and inventory reductions are both milder and end sooner.

Chart I.26



With credit again flowing late this year, business fixed investment rebounds 5.6% in 2010, after suffering a severe 16.2% contraction in 2009. This compares with a steeper 18.8% decline during 2009 in the baseline forecast and a 0.5% drop during 2010. The downturn in residential investment is also less severe in the optimistic scenario, with housing starts beginning to recover during the second half of 2009 and averaging 570,000 units for the year, compared with a much weaker baseline of 507,000 units.

The optimistic scenario also assumes faster growth in the rest of the world, and a dollar that is initially weaker than the baseline, but later on is stronger. The dollar helps GDP early in the forecast period, but restrains it later on. Finally, the optimistic scenario assumes slightly higher energy prices in the near term due to stronger global demand, but lower prices in the longer term due to a more optimistic assumption about supply. Oil prices remain near the middle of the \$40-55/barrel range for most of 2009 and then gradually rise to the low \$80s by the end of 2014.

On net, these assumptions produce a much brighter economic outlook than the dismal pictures painted by the baseline and pessimistic scenarios. Real GDP falls 5.0% in the first quarter and 3.0% in the second, but then rebounds smartly, gaining 2.8% in the final quarter of 2009—and it does even better in 2010. The unemployment rate peaks at 9.4% in late 2009 and falls below 6.5% by late 2013.

Inflation implications of the milder recession in the optimistic scenario are modest. Consumer prices fall less than in the baseline and rebound more sharply at first, but by 2011 lower oil prices and improved productivity growth bring inflation below its baseline pace. In short, the optimistic alternative sees more-muted cycle dynamics, and a quicker turn in the cycle than the baseline.

A summary of the U.S. Forecast is contained in Appendices 5.

## APPENDICES

- Appendix 1: Wisconsin Employment Forecast: Industry Detail (Annual)
- Appendix 2: Wisconsin Employment Forecast: Industry Detail (Quarterly)
- Appendix 3: Wisconsin Income Summary: Personal Income by Major Source (Annual)
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- Appendix 6: Wisconsin Metropolitan Area Employment Forecast (Annual)
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## APPENDIX 1

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL  
(THOUSANDS OF WORKERS)

	History				Forecast			
	2005	2006	2007	2008	2009	2010	2011	2012
Total Nonfarm	2,842.0	2,866.4	2,884.4	2,870.3	2,764.0	2,761.6	2,808.9	2,871.2
% Change	1.2	0.9	0.6	-0.5	-3.7	-0.1	1.7	2.2
Private Nonfarm	2,426.7	2,451.2	2,468.7	2,449.8	2,345.8	2,344.2	2,394.1	2,455.2
% Change	1.3	1.0	0.7	-0.8	-4.2	-0.1	2.1	2.6
Natural Resources & Mining	4.0	3.9	3.6	3.4	3.1	2.8	2.7	2.7
% Change	3.0	-0.6	-7.4	-7.8	-8.4	-7.5	-3.4	-0.6
Construction	127.6	127.5	126.0	118.0	104.2	95.7	94.2	96.7
% Change	0.6	0.0	-1.2	-6.4	-11.7	-8.2	-1.5	2.6
Manufacturing	504.9	505.8	501.3	492.7	438.8	414.0	423.8	440.9
% Change	0.4	0.2	-0.9	-1.7	-10.9	-5.7	2.4	4.0
Trade, Transportation & Utilities	543.2	544.5	547.8	539.8	525.6	536.8	540.4	550.3
% Change	0.8	0.2	0.6	-1.5	-2.6	2.1	0.7	1.8
Information	49.7	49.3	50.3	50.2	49.4	49.0	49.9	50.5
% Change	-0.3	-0.9	2.0	-0.2	-1.6	-0.8	1.8	1.2
Financial Activities	159.8	161.8	163.1	163.5	160.6	160.8	160.6	161.3
% Change	0.7	1.3	0.8	0.2	-1.7	0.1	-0.1	0.5
Professional & Business Services	263.0	270.8	278.7	279.4	260.5	268.8	292.8	310.1
% Change	4.0	3.0	2.9	0.2	-6.8	3.2	8.9	5.9
Education & Health Services	383.3	392.0	398.3	405.5	414.7	429.0	440.9	449.4
% Change	2.2	2.3	1.6	1.8	2.3	3.5	2.8	1.9
Leisure & Hospitality	255.2	259.5	261.9	258.2	250.9	250.4	250.8	253.8
% Change	1.7	1.7	0.9	-1.4	-2.8	-0.2	0.2	1.2
Other Services	136.0	136.0	137.6	139.2	137.9	136.9	138.0	139.4
% Change	0.6	0.0	1.2	1.2	-1.0	-0.7	0.8	1.0
Government	415.3	415.2	415.7	420.4	418.3	417.4	414.8	416.0
% Change	0.8	0.0	0.1	1.1	-0.5	-0.2	-0.6	0.3
Federal Government	29.2	29.2	29.2	29.6	29.8	30.2	28.9	28.7
% Change	-1.2	0.0	-0.1	1.5	0.5	1.5	-4.5	-0.6
State & Local Government	386.1	386.0	386.5	390.8	388.5	387.2	385.9	387.3
% Change	0.9	0.0	0.1	1.1	-0.6	-0.3	-0.3	0.4

## Household Survey Employment Measures

Labor Force	3,031.8	3,070.5	3,093.8	3,084.1	3,091.6	3,102.6	3,128.4	3,156.4
% Change	0.4	1.3	0.8	-0.3	0.2	0.4	0.8	0.9
Employment	2,886.6	2,927.3	2,948.1	2,937.9	2,835.1	2,825.3	2,869.8	2,926.5
% Change	0.6	1.4	0.7	-0.3	-3.5	-0.3	1.6	2.0
Unemployment Rate (%)	4.8	4.7	4.7	4.7	8.3	8.9	8.3	7.3

## APPENDIX 2

WISCONSIN EMPLOYMENT FORECAST: INDUSTRY DETAIL  
(THOUSANDS OF WORKERS)  
Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2009:4
Total Nonfarm	2,885.6	2,879.4	2,866.6	2,849.5	2,796.7	2,766.2	2,749.6	2,743.8
% Change	-0.2	-0.9	-1.8	-2.4	-7.2	-4.3	-2.4	-0.8
Private Nonfarm	2,467.8	2,460.4	2,446.6	2,424.7	2,378.2	2,347.6	2,331.6	2,325.7
% Change	-0.6	-1.2	-2.2	-3.5	-7.4	-5.1	-2.7	-1.0
Natural Resources & Mining	3.5	3.3	3.3	3.3	3.2	3.1	3.0	3.0
% Change	3.9	-26.9	8.4	-3.9	-10.5	-12.6	-9.6	-8.5
Construction	120.7	119.2	117.6	114.6	110.0	105.4	102.1	99.4
% Change	-15.6	-4.9	-5.0	-9.9	-15.2	-15.6	-11.9	-10.0
Manufacturing	500.1	497.2	489.9	483.5	461.3	442.9	429.2	421.7
% Change	0.4	-2.3	-5.7	-5.2	-17.1	-15.1	-11.8	-6.8
Trade, Transportation & Utilities	545.7	542.3	538.9	532.4	526.3	522.5	524.9	528.8
% Change	-0.8	-2.5	-2.5	-4.8	-4.5	-2.8	1.9	2.9
Information	50.0	50.5	50.3	50.1	49.6	49.4	49.5	49.2
% Change	-6.2	4.1	-1.1	-2.1	-3.8	-1.2	0.4	-2.6
Financial Activities	164.0	164.6	163.6	161.7	160.8	160.6	160.5	160.6
% Change	0.3	1.4	-2.3	-4.6	-2.3	-0.4	-0.2	0.2
Professional & Business Services	285.3	280.4	278.2	273.6	264.0	260.8	259.1	258.0
% Change	4.8	-6.8	-3.1	-6.4	-13.4	-4.7	-2.6	-1.6
Education & Health Services	401.3	404.2	407.8	408.7	411.8	413.2	415.6	418.2
% Change	2.9	2.9	3.6	1.0	3.0	1.4	2.3	2.6
Leisure & Hospitality	258.9	260.1	258.2	255.5	251.5	251.4	250.5	250.3
% Change	-5.3	1.9	-2.8	-4.2	-6.1	-0.2	-1.5	-0.2
Other Services	138.2	138.7	138.7	141.3	139.7	138.2	137.2	136.5
% Change	0.1	1.5	-0.2	7.8	-4.3	-4.2	-3.0	-2.1
Government	417.8	419.0	420.0	424.8	418.5	418.6	418.0	418.1
% Change	2.0	1.2	0.9	4.7	-5.8	0.1	-0.6	0.1
Federal Government	29.4	29.6	29.9	29.6	29.8	29.8	29.7	29.8
% Change	3.7	2.7	4.1	-3.5	2.8	-0.9	-0.9	1.2
State & Local Government	388.5	389.5	390.1	395.2	388.7	388.8	388.2	388.3
% Change	2.0	1.0	0.7	5.4	-6.5	0.2	-0.6	0.1

## Household Survey Employment Measures

Labor Force	3,082.6	3,077.1	3,079.4	3,097.3	3,101.0	3,090.2	3,087.1	3,088.2
% Change	-0.6	-0.7	0.3	2.3	0.5	-1.4	-0.4	0.1
Employment	2,945.2	2,940.8	2,935.6	2,929.9	2,870.8	2,838.2	2,819.5	2,811.8
% Change	-0.5	-0.6	-0.7	-0.8	-7.8	-4.5	-2.6	-1.1
Unemployment Rate (%)	4.4	4.4	4.7	5.4	7.4	8.2	8.7	8.9

## APPENDIX 3

WISCONSIN INCOME SUMMARY  
PERSONAL INCOME BY MAJOR SOURCE  
(\$ Billions)

	History				Forecast			
	2005	2006	2007	2008	2009	2010	2011	2012
Total Personal Income	181.153	191.895	203.084	209.999	210.332	214.379	222.635	233.563
% Change	3.7	5.9	5.8	3.4	0.2	1.9	3.9	4.9
Wages and Salaries	102.143	106.809	110.912	114.038	112.752	115.055	119.753	125.475
% Change	3.0	4.6	3.8	2.8	-1.1	2.0	4.1	4.8
Supplements to Wages and Salaries	24.861	25.781	26.350	27.073	27.452	28.722	29.825	31.022
% Change	5.2	3.7	2.2	2.7	1.4	4.6	3.8	4.0
Proprietor's Income	11.819	12.166	13.198	13.028	12.224	12.732	13.408	13.947
% Change	3.2	2.9	8.5	-1.3	-6.2	4.2	5.3	4.0
Rental Income	1.337	0.792	0.601	0.834	1.356	1.457	1.299	1.031
% Change	-40.5	-40.7	-24.1	38.8	62.6	7.5	-10.9	-20.7
Personal Dividend Income	10.344	12.471	14.749	16.222	15.269	14.595	14.978	15.235
% Change	5.2	20.6	18.3	10.0	-5.9	-4.4	2.6	1.7
Personal Interest Income	17.092	19.418	20.884	20.787	19.060	18.486	19.186	21.355
% Change	5.8	13.6	7.6	-0.5	-8.3	-3.0	3.8	11.3
Current Transfer Receipts	26.013	27.504	29.688	32.031	35.528	36.791	38.148	40.090
% Change	7.3	5.7	7.9	7.9	10.9	3.6	3.7	5.1
Residence Adjustment	3.320	3.476	3.779	3.909	3.882	4.065	4.335	4.644
% Change	4.6	4.7	8.7	3.5	-0.7	4.7	6.6	7.1
Contributions to Government Social Ins.	15.774	16.523	17.078	17.632	17.191	17.524	18.297	19.235
% Change	3.8	4.7	3.4	3.2	-2.5	1.9	4.4	5.1
Personal Tax & Nontax Payments	21.023	23.370	25.332	25.031	22.042	22.286	23.430	25.168
% Change	10.4	11.2	8.4	-1.2	-11.9	1.1	5.1	7.4
Disposable Personal Income	160.131	168.525	177.752	184.151	188.29	192.093	199.205	208.395
% Change	2.9	5.2	5.5	3.6	2.2	2.0	3.7	4.6

## Related Income Measures

Personal Income (2000 \$) (\$ Billions)	162.349	167.332	172.602	172.722	174.611	175.968	179.382	185.010
% Change	0.8	3.1	3.1	0.1	1.1	0.8	1.9	3.1
Per Capita Income (2000 \$)	29,389	30,134	30,894	30,725	30,874	30,931	31,350	32,154
% Change	0.2	2.5	2.5	-0.5	0.5	0.2	1.4	2.6
Per Capita Income (\$)	32,793	34,557	36,350	37,356	37,190	37,683	38,910	40,592
% Change	3.2	5.4	5.2	2.8	-0.4	1.3	3.3	4.3
Per Capita Income as a Percent of U.S.	94.7	94.2	94.3	94.2	94.4	95.2	95.7	95.7
GDP (Current Dollars)	214.085	223.394	232.294	237.261	234.608	241.192	252.746	265.529
% Change	4.0	4.3	4.0	2.1	-1.1	2.8	4.8	5.1
GDP (2000 \$) (\$ Billions)	189.389	191.465	193.871	193.689	189.422	193.2	200.1	207.452
% Change	0.7	1.1	1.3	-0.1	-2.2	2.0	3.5	3.7

## APPENDIX 4

WISCONSIN INCOME SUMMARY  
PERSONAL INCOME BY MAJOR SOURCE (\$ Billions)  
Quarterly Data (Seasonally Adjusted, % Change at an Annual Rate)

	History				Forecast			
	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2009:4
Total Personal Income	207.640	210.787	211.102	210.468	209.460	210.278	210.318	211.272
% Change	2.5	6.2	0.6	-1.2	-1.9	1.6	0.1	1.8
Wages and Salaries	113.250	114.146	114.569	114.188	112.924	112.582	112.479	113.022
% Change	2.1	3.2	1.5	-1.3	-4.4	-1.2	-0.4	1.9
Supplements to Wages and Salaries	26.832	27.155	27.167	27.136	27.103	27.260	27.563	27.881
% Change	2.1	4.9	0.2	-0.5	-0.5	2.3	4.5	4.7
Proprietor's Income	13.383	13.066	13.044	12.619	12.254	12.137	12.175	12.332
% Change	2.2	-9.1	-0.7	-12.4	-11.1	-3.8	1.3	5.2
Rental Income	0.620	0.627	0.633	1.456	1.203	1.345	1.418	1.459
% Change	9.3	4.3	4.1	2696.5	-53.4	56.2	23.7	12.1
Personal Dividend Income	15.632	16.219	16.382	16.654	15.743	15.447	15.081	14.803
% Change	9.2	15.9	4.1	6.8	-20.1	-7.3	-9.1	-7.2
Personal Interest Income	20.906	20.753	20.899	20.592	19.702	19.231	18.768	18.539
% Change	-4.7	-2.9	2.9	-5.8	-16.2	-9.2	-9.3	-4.8
Current Transfer Receipts	30.644	32.642	32.074	32.764	34.023	35.641	36.054	36.394
% Change	8	28.7	-6.8	8.9	16.3	20.4	4.7	3.8
Residence Adjustment	3.905	3.865	3.940	3.928	3.848	3.865	3.890	3.926
% Change	5.3	-4.0	8.0	-1.2	-7.9	1.8	2.6	3.8
Contributions to Government Social Ins.	17.531	17.685	17.701	17.609	17.340	17.229	17.109	17.084
% Change	5.9	3.6	0.4	-2.1	-6.0	-2.5	-2.8	-0.6
Personal Tax & Nontax Payments	25.713	23.1	25.693	25.62	22.586	22.159	21.743	21.682
% Change	-4.1	-34.9	53.1	-1.1	-39.6	-7.3	-7.3	-1.1
Disposable Personal Income	181.456	184.785	184.75	185.615	186.875	188.119	188.575	189.59
% Change	2.4	7.5	-0.1	1.9	2.7	2.7	1.0	2.2

## Related Income Measures

Personal Income (2000 \$) (\$ Billions)	172.626	173.424	171.57	173.267	173.262	175.05	174.850	175.283
% Change	-1.1	1.9	-4.2	4.0	0.0	4.2	-0.5	1.0
Per Capita Income (2000 \$)	30,778	30,873	30,497	30,752	30,704	30,975	30,893	30,924
% Change	-1.7	1.2	-4.8	3.4	-0.6	3.6	-1.1	0.4
Per Capita Income (\$)	37,021	37,524	37,524	37,354	37,119	37,208	37,160	37,273
% Change	1.9	5.6	0.0	-1.8	-2.5	1.0	-0.5	1.2
Per Capita Income as Percent of U.S. (%)	94.2	94.2	94.3	94.3	94.1	93.8	94.5	95.0
GDP (Current Dollars)	235.726	238.298	238.654	236.365	235.975	235.591	231.872	234.994
% Change	2.9	4.4	0.6	-3.8	-0.7	-0.6	-6.2	5.5
GDP (2000 \$) (\$ Billions)	193.833	195.404	193.816	191.724	190.503	190.474	187.159	189.554
% Change	0.2	3.3	-3.2	-4.2	-2.5	-0.1	-6.8	5.2

## APPENDIX 5

U.S. ECONOMIC FORECAST  
IHS GLOBAL INSIGHT (MARCH 2009)

	2005	2006	2007	2008	2009	2010	2011	2012
<b>Real GDP and its Components (Billions of Chain Weighted 2000 Dollars)</b>								
Gross Domestic Product	10,989.5	11,294.9	11,523.9	11,652.7	11,219.8	11,377.8	11,774.3	12,268.4
% Change	2.9	2.8	2.0	1.1	-3.7	1.4	3.5	4.2
Consumption	7,791.7	8,029.0	8,252.8	8,272.0	8,173.0	8,333.0	8,514.9	8,769.8
% Change	3.0	3.0	2.8	0.2	-1.2	2.0	2.2	3.0
Investment (Incl. Inventory)	1,873.5	1,912.5	1,809.7	1,691.9	1,267.5	1,378.6	1,659.6	1,921.7
% Change	5.8	2.1	-5.4	-6.5	-25.1	8.8	20.4	15.8
Nonresidential Structures	249.8	270.3	304.6	339.6	265.6	232.5	242.3	279.1
% Change	1.3	8.2	12.7	11.5	-21.8	-12.5	4.2	15.2
Business Equipment	989.6	1061.0	1078.9	1046.4	866.4	916.0	1070.1	1209.9
% Change	9.3	7.2	1.7	-3.0	-17.2	5.7	16.8	13.1
Residential Fixed	595.4	552.9	453.8	359.6	269.9	291.9	374.9	450.5
% Change	6.3	-7.1	-17.9	-20.7	-25.0	8.1	28.5	20.2
Inventory Change	38.9	42.3	-2.5	-27.6	-98.3	-3.4	46.8	61.0
Exports	1,205.3	1,314.8	1,425.9	1,514.0	1,291.1	1,266.2	1,389.6	1,541.9
% Change	7.0	9.1	8.4	6.2	-14.7	-1.9	9.7	11.0
Imports	1,821.9	1,930.5	1,972.4	1,906.3	1,642.8	1,734.6	1,858.1	1,990.6
% Change	5.9	6.0	2.2	-3.4	-13.8	5.6	7.1	7.1
Federal Government	724.5	741.0	752.9	798.1	838.7	847.6	818.2	803.8
% Change	1.2	2.3	1.6	6.0	5.1	1.1	-3.5	-1.8
State and Local Government	1,214.3	1,230.2	1,259.0	1,273.5	1,254.8	1,249.6	1,239.0	1,238.8
% Change	-0.1	1.3	2.3	1.2	-1.5	-0.4	-0.9	0.0
GDP (Current Dollars)	12,421.9	13,178.4	13,807.6	14,264.6	13,896.2	14,204.4	14,876.1	15,703.7
% Change	6.3	6.1	4.8	3.3	-2.6	2.2	4.7	5.6
<b>Employment, Unemployment, Wages and Prices</b>								
Nonfarm Employment (Millions)	133.7	136.1	137.6	137.0	132.2	131.1	133.1	136.4
% Change	1.7	1.8	1.1	-0.4	-3.6	-0.8	1.5	2.5
Unemployment Rate (%)	5.1	4.6	4.6	5.8	9.2	10.2	9.6	8.5
Compensation per Hour (% Change)	4.0	3.8	4.1	3.7	4.4	2.6	1.9	2.3
Consumer Price Index (% Change)	3.4	3.2	2.9	3.8	-1.9	1.5	2.4	2.3
Producer Price Index (% Change)	7.3	4.7	4.8	9.8	-12.8	1.4	3.0	3.6
GDP Price Deflator (% Change)	3.3	3.2	2.7	2.2	1.1	0.8	1.2	1.3
Industrial Production (% Change)	3.3	2.2	1.7	-1.8	-10.0	-0.3	4.9	5.5
Price of WTI Crude Oil (\$ Per Barrel)	56.6	66.1	72.2	99.8	37.8	48.5	61.0	74.0
<b>Financial Markets</b>								
Money Supply (M2) (\$ Billions)	6,636.1	6,981.7	7,384.8	8,014.1	8,585.5	9,019.3	9,541.5	10,055.3
% Change	4.1	5.2	5.8	8.5	7.1	5.1	5.8	5.4
Prime Commercial Rate (%)	6.2	8.0	8.1	5.1	3.3	3.3	4.7	6.3
Three Month Treasury Bills (%)	3.1	4.7	4.4	1.4	0.3	0.6	2.2	3.4
Ten-Year Treasury Note Yield (%)	4.3	4.8	4.6	3.7	2.8	2.9	3.8	4.5
General Obligation AAA Municipals (%)	4.3	4.2	4.1	4.6	5.1	4.9	5.2	5.3
Thirty-Year Mortgage Rate (%)	5.9	6.4	6.3	6.0	4.9	5.0	5.8	6.2
S&P 500 Stock Index	1,207.1	1,310.7	1,476.7	1,220.9	774.7	941.2	1,073.8	1,203.9
<b>Income, Profits and Savings</b>								
Personal Income (\$ Billions)	10,269.8	10,993.9	11,663.3	12,106.9	12,152.6	12,318.5	12,784.4	13,458.6
% Change	5.6	7.1	6.1	3.8	0.4	1.4	3.8	5.3
Personal Income (\$ 2000) (\$ Billions)	9,203.1	9,586.6	9,912.4	9,957.8	10,088.8	10,111.5	10,300.7	10,660.8
% Change	2.6	4.2	3.4	0.5	1.3	0.2	1.9	3.5
Personal Tax & Nontax Payments	1,207.8	1,353.2	1,492.8	1,461.1	1,260.2	1,315.1	1,457.2	1,652.3
% Change	15.4	12.0	10.3	-2.1	-13.7	4.4	10.8	13.4
Disposable Personal Income	9,062.0	9,640.7	10,170.5	10,645.8	10,892.5	11,003.5	11,327.2	11,806.3
% Change	4.4	6.4	5.5	4.7	2.3	1.0	2.9	4.2
Savings Rate (%)	0.4	0.7	0.5	1.8	6.1	4.1	3.1	2.6
Corporate Profits Before Tax (\$ Billions)	1,448.0	1,668.5	1,642.4	1,476.6	1,226.3	1,366.7	1,532.0	1,636.9
% Change	17.6	15.2	-1.6	-10.1	-17.0	11.5	12.1	6.8

APPENDIX 6  
TOTAL NONFARM EMPLOYMENT  
WISCONSIN'S METROPOLITAN STATISTICAL AREAS  
(Thousands)

	History				Forecast			
	2005	2006	2007	2008	2009	2010	2011	2012
Appleton	117.8	118.3	118.9	117.8	113.8	114.1	116.3	119.0
<i>Percent Change</i>	1.9%	0.5%	0.4%	-0.9%	-3.4%	0.2%	1.9%	2.4%
Eau Claire	80.0	82.3	83.6	83.0	79.9	80.1	81.7	83.8
<i>Percent Change</i>	2.6%	2.9%	1.6%	-0.7%	-3.7%	0.2%	2.0%	2.5%
Fond du Lac	48.3	48.4	48.4	48.9	47.5	47.4	48.4	49.5
<i>Percent Change</i>	0.4%	0.3%	0.0%	1.1%	-3.0%	-0.1%	1.9%	2.3%
Green Bay	168.3	169.1	170.0	168.8	163.2	163.8	167.2	171.5
<i>Percent Change</i>	0.7%	0.5%	0.6%	-0.8%	-3.3%	0.3%	2.1%	2.6%
Janesville	69.3	70.5	69.8	68.2	64.4	64.0	64.7	65.8
<i>Percent Change</i>	1.4%	1.7%	-1.0%	-2.3%	-5.6%	-0.6%	1.1%	1.6%
La Crosse	72.5	74.9	75.0	75.4	72.7	72.5	73.8	75.4
<i>Percent Change</i>	0.1%	3.4%	0.1%	0.5%	-3.6%	-0.2%	1.7%	2.3%
Madison	344.9	346.2	347.5	347.4	337.4	339.7	346.5	355.2
<i>Percent Change</i>	2.6%	0.4%	0.4%	0.0%	-2.9%	0.7%	2.0%	2.5%
Milwaukee-Waukesha-West Allis	840.7	850.6	857.3	852.2	819.6	821.1	837.0	857.0
<i>Percent Change</i>	1.0%	1.2%	0.8%	-0.6%	-3.8%	0.2%	1.9%	2.4%
Oshkosh-Neenah	91.9	92.6	93.6	94.2	90.7	90.2	91.5	93.3
<i>Percent Change</i>	1.5%	0.8%	1.0%	0.6%	-3.7%	-0.6%	1.4%	2.1%
Racine	80.1	80.6	80.6	80.1	76.7	76.4	77.4	78.7
<i>Percent Change</i>	0.0%	0.6%	0.0%	-0.6%	-4.2%	-0.4%	1.3%	1.8%
Sheboygan	63.7	64.3	64.6	63.9	61.4	61.6	62.7	64.2
<i>Percent Change</i>	3.0%	0.8%	0.5%	-1.1%	-3.8%	0.2%	1.9%	2.3%
Wausau	72.9	73.0	73.3	72.0	69.1	69.2	70.3	71.8
<i>Percent Change</i>	3.7%	0.2%	0.4%	-1.7%	-4.0%	0.0%	1.7%	2.1%
Non-Metro State	791.7	795.6	801.8	798.4	767.5	761.6	771.6	786.0
<i>Percent Change</i>	0.7%	0.5%	0.8%	-0.4%	-3.9%	-0.8%	1.3%	1.9%
Wisconsin	2,842.0	2,866.4	2,884.4	2,870.3	2,764.0	2,761.6	2,808.9	2,871.2
<i>Percent Change</i>	1.2%	0.9%	0.6%	-0.5%	-3.7%	-0.1%	1.7%	2.2%

APPENDIX 7  
UNEMPLOYMENT RATE  
WISCONSIN'S METROPOLITAN STATISTICAL AREAS

	History				Forecast			
	2005	2006	2007	2008	2009	2010	2011	2012
Appleton	4.5	4.5	4.7	4.8	8.1	8.8	8.2	7.3
<i>Change from Prior Year</i>	-0.2	0.0	0.2	0.1	3.4	0.7	-0.6	-0.9
Eau Claire	4.6	4.4	4.7	4.6	8.1	8.6	8.0	7.0
<i>Change from Prior Year</i>	-0.2	-0.2	0.2	0.0	3.4	0.5	-0.7	-0.9
Fond du Lac	4.7	4.7	4.8	5.0	8.3	8.9	8.2	7.3
<i>Change from Prior Year</i>	0.0	0.0	0.1	0.2	3.3	0.6	-0.7	-0.9
Green Bay	4.7	4.7	4.8	4.9	8.3	8.9	8.2	7.3
<i>Change from Prior Year</i>	-0.1	0.0	0.1	0.1	3.3	0.6	-0.7	-0.9
Janesville	5.9	5.1	5.6	6.5	11.5	11.9	11.1	9.8
<i>Change from Prior Year</i>	0.3	-0.8	0.6	0.9	5.0	0.4	-0.9	-1.3
La Crosse	4.1	3.8	4.1	4.4	7.6	8.1	7.5	6.7
<i>Change from Prior Year</i>	-0.1	-0.3	0.3	0.3	3.2	0.6	-0.6	-0.9
Madison	3.4	3.5	3.7	3.7	6.6	7.2	6.8	6.0
<i>Change from Prior Year</i>	-0.1	0.1	0.2	0.1	2.9	0.6	-0.5	-0.7
Milwaukee-Waukesha-West Allis	5.0	4.9	5.1	5.2	8.9	9.6	8.8	7.8
<i>Change from Prior Year</i>	-0.4	-0.1	0.2	0.1	3.8	0.7	-0.8	-1.1
Oshkosh-Neenah	4.5	4.5	4.6	4.6	7.8	8.3	7.6	6.7
<i>Change from Prior Year</i>	-0.1	0.0	0.1	0.0	3.3	0.4	-0.7	-0.9
Racine	6.0	5.7	6.0	6.1	10.1	10.9	10.0	8.8
<i>Change from Prior Year</i>	0.0	-0.4	0.3	0.1	4.0	0.8	-0.8	-1.2
Sheboygan	4.0	4.0	4.3	4.7	7.7	8.2	7.6	6.8
<i>Change from Prior Year</i>	-0.4	-0.1	0.3	0.4	3.0	0.5	-0.6	-0.8
Wausau	4.2	4.3	4.4	4.8	8.0	8.6	7.9	7.0
<i>Change from Prior Year</i>	-0.2	0.1	0.1	0.3	3.2	0.6	-0.6	-0.9
Wisconsin	4.8	4.7	4.7	4.7	8.3	8.9	8.3	7.3
<i>Change from Prior Year</i>	-0.2	-0.1	0.0	0.0	3.6	0.6	-0.6	-1.0

APPENDIX 8  
TOTAL PERSONAL INCOME  
WISCONSIN'S METROPOLITAN STATISTICAL AREAS  
(\$ Billions)

	History			Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012
Appleton	7.165	7.521	7.972	8.266	8.287	8.479	8.836	9.316
<i>Percent Change</i>	4.8%	5.0%	6.0%	3.7%	0.3%	2.3%	4.2%	5.4%
Eau Claire	4.412	4.659	4.913	5.112	5.121	5.234	5.448	5.732
<i>Percent Change</i>	5.5%	5.6%	5.5%	4.1%	0.2%	2.2%	4.1%	5.2%
Fond du Lac	3.124	3.251	3.449	3.559	3.554	3.621	3.758	3.942
<i>Percent Change</i>	2.9%	4.1%	6.1%	3.2%	-0.2%	1.9%	3.8%	4.9%
Green Bay	9.636	10.038	10.585	11.022	11.056	11.321	11.810	12.455
<i>Percent Change</i>	3.3%	4.2%	5.5%	4.1%	0.3%	2.4%	4.3%	5.5%
Janesville	4.455	4.802	4.947	5.171	5.163	5.261	5.462	5.731
<i>Percent Change</i>	2.9%	7.8%	3.0%	4.5%	-0.1%	1.9%	3.8%	4.9%
La Crosse	3.887	4.107	4.332	4.490	4.499	4.599	4.788	5.038
<i>Percent Change</i>	4.1%	5.7%	5.5%	3.6%	0.2%	2.2%	4.1%	5.2%
Madison	20.709	21.963	23.158	24.162	24.312	24.957	26.092	27.569
<i>Percent Change</i>	5.4%	6.1%	5.4%	4.3%	0.6%	2.7%	4.5%	5.7%
Milwaukee-Waukesha-West Allis	57.351	60.906	63.873	65.788	65.565	66.661	69.019	72.218
<i>Percent Change</i>	4.4%	6.2%	4.9%	3.0%	-0.3%	1.7%	3.5%	4.6%
Oshkosh-Neenah	5.211	5.457	5.809	5.997	6.003	6.131	6.377	6.704
<i>Percent Change</i>	4.2%	4.7%	6.5%	3.2%	0.1%	2.1%	4.0%	5.1%
Racine	6.475	6.853	7.193	7.431	7.414	7.545	7.819	8.189
<i>Percent Change</i>	2.5%	5.8%	5.0%	3.3%	-0.2%	1.8%	3.6%	4.7%
Sheboygan	3.850	4.036	4.261	4.393	4.387	4.470	4.638	4.863
<i>Percent Change</i>	3.5%	4.8%	5.6%	3.1%	-0.1%	1.9%	3.8%	4.9%
Wausau	4.109	4.317	4.564	4.725	4.732	4.836	5.033	5.295
<i>Percent Change</i>	5.2%	5.1%	5.7%	3.5%	0.1%	2.2%	4.1%	5.2%
Non-Metro State	50.770	53.985	58.028	59.883	60.240	61.264	63.555	66.511
<i>Percent Change</i>	2.2%	6.3%	7.5%	3.2%	0.6%	1.7%	3.7%	4.7%
Wisconsin	181.153	191.895	203.084	209.999	210.332	214.379	222.635	233.563
<i>Percent Change</i>	3.7%	5.9%	5.8%	3.4%	0.2%	1.9%	3.9%	4.9%

APPENDIX 9  
PER CAPITA PERSONAL INCOME  
WISCONSIN'S METROPOLITAN STATISTICAL AREAS  
(\$ per person)

	History			Forecast				
	2005	2006	2007	2008	2009	2010	2011	2012
Appleton	33,455.0	34,786.2	36,563.4	37,598.0	37,389.5	37,948.3	39,237.7	41,013.7
<i>Percent Change</i>	3.9%	4.0%	5.1%	2.8%	-0.6%	1.5%	3.4%	4.5%
Eau Claire	28,518.6	29,836.6	31,133.5	32,159.3	31,980.4	32,455.6	33,553.7	35,066.3
<i>Percent Change</i>	4.6%	4.6%	4.3%	3.3%	-0.6%	1.5%	3.4%	4.5%
Fond du Lac	31,745.4	32,922.9	34,792.6	35,756.8	35,556.6	36,085.3	37,308.1	38,992.8
<i>Percent Change</i>	2.7%	3.7%	5.7%	2.8%	-0.6%	1.5%	3.4%	4.5%
Green Bay	32,502.6	33,626.6	35,150.8	36,284.5	36,085.2	36,636.5	37,902.7	39,644.7
<i>Percent Change</i>	2.6%	3.5%	4.5%	3.2%	-0.5%	1.5%	3.5%	4.6%
Janesville	28,467.1	30,356.0	30,990.3	32,262.5	32,081.6	32,561.8	33,671.3	35,199.6
<i>Percent Change</i>	2.2%	6.6%	2.1%	4.1%	-0.6%	1.5%	3.4%	4.5%
La Crosse	30,049.8	31,594.0	33,090.6	34,049.1	33,859.4	34,358.2	35,512.4	37,103.0
<i>Percent Change</i>	3.7%	5.1%	4.7%	2.9%	-0.6%	1.5%	3.4%	4.5%
Madison	38,280.9	40,088.1	41,679.2	42,955.2	42,716.9	43,347.6	44,805.8	46,814.9
<i>Percent Change</i>	4.1%	4.7%	4.0%	3.1%	-0.6%	1.5%	3.4%	4.5%
Milwaukee-Waukesha-West Allis	37,361.3	39,536.1	41,357.8	42,488.2	42,251.2	42,869.2	44,301.2	46,275.2
<i>Percent Change</i>	4.2%	5.8%	4.6%	2.7%	-0.6%	1.5%	3.3%	4.5%
Oshkosh-Neenah	32,572.4	33,874.4	35,825.1	36,740.6	36,535.8	37,074.6	38,321.4	40,039.4
<i>Percent Change</i>	3.5%	4.0%	5.8%	2.6%	-0.6%	1.5%	3.4%	4.5%
Racine	33,404.3	35,209.1	36,869.4	37,959.5	37,748.2	38,296.6	39,568.2	41,321.2
<i>Percent Change</i>	1.7%	5.4%	4.7%	3.0%	-0.6%	1.5%	3.3%	4.4%
Sheboygan	33,860.8	35,419.0	37,208.6	38,197.4	37,984.4	38,538.6	39,823.3	41,594.2
<i>Percent Change</i>	3.1%	4.6%	5.1%	2.7%	-0.6%	1.5%	3.3%	4.4%
Wausau	32,147.9	33,444.4	35,121.0	36,099.3	35,898.5	36,433.0	37,667.6	39,368.2
<i>Percent Change</i>	4.5%	4.0%	5.0%	2.8%	-0.6%	1.5%	3.4%	4.5%
Non-Metro State	28,154.7	29,859.2	31,910.3	32,695.1	32,654.8	32,977.5	33,976.5	35,323.3
<i>Percent Change</i>	1.6%	6.1%	6.9%	2.5%	-0.1%	1.0%	3.0%	4.0%
Wisconsin	32,792.8	34,557.4	36,350.3	37,355.9	37,190.1	37,682.6	38,909.6	40,591.9
<i>Percent Change</i>	3.2%	5.4%	5.2%	2.8%	-0.4%	1.3%	3.3%	4.3%

## II. SPECIAL REPORT

### Tax Benefits to Wisconsin Families and Businesses from the American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) provides a \$787 billion dollar (\$787,000,000,000) economic plan to pull the American economy out of its deep recession. The plan includes a series of tax cuts to businesses and individuals, money for infrastructure and other projects, and aid to states for Medicaid and other priorities.

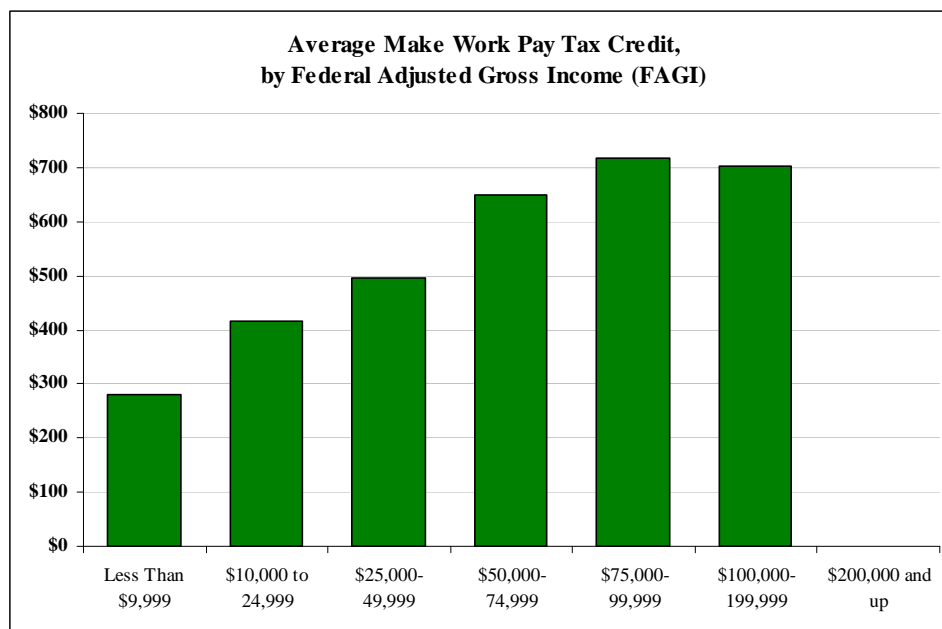
The ARRA includes \$5.2 billion in tax benefits for Wisconsin taxpayers, comprised of multiple tax cuts, deductions, and credits. For individuals, the changes in tax law will provide an estimated \$4.6 billion in federal tax-savings to Wisconsin taxpayers over the next three years (FY 2009-2011). Wisconsin businesses will receive an estimated \$561 million in federal tax savings by the end of 2011.

#### Provisions for Individuals

The largest benefit to individual taxpayers in Wisconsin comes through the Making Work Pay Credit. This credit will be distributed primarily through reduced withholding payments for tax years 2009 and 2010 and will equal \$400 per year for individuals and \$800 for married couples filing jointly. The credit will be phased out for individuals with federal adjusted gross incomes (FAGI) over \$75,000 (or \$150,000 for joint filers). It is a refundable credit but can be no more than 6.2% of earned income.

Over the next two years, the Making Work Pay Credit will yield an estimated \$2.3 billion in reductions on federal taxes for Wisconsin taxpayers. In tax year 2009, 2.3 million Wisconsin taxpayers (81% of all taxpayers) will receive a total of \$1.15 billion from this credit, with the average credit equaling \$506. Three-fourths of the total Making Work Pay Credit will go to Wisconsin taxpayers with an FAGI of \$75,000 or less.

Chart II.1



The chart on the previous page shows the distribution of the Making Work Pay Credit by income class. For taxpayers with an FAGI of \$9,999 or less, the average tax credit is \$282. The average credit increases as income rises, to \$718 for taxpayers making between \$75,000 and \$99,999. The average credit decreases for taxpayers making between \$100,000 and \$199,999 as the credit is phased out. The largest group of taxpayers receiving this credit has FAGI between \$25,000 and \$49,999. The average credit for these taxpayers is \$495.

Another benefit for Wisconsinites is the Economic Recovery Payment to Retirees. This is a one-time \$250 federal payment to retirees, disabled individuals, and Supplemental Security Income (SSI) recipients who are currently receiving benefits from the Social Security Administration, Railroad Retirement, or the U.S. Department of Veterans Affairs. However, if a recipient is also eligible for the Making Work Pay credit, that benefit would be reduced by \$250.

Wisconsin residents will receive an estimated \$267 million through this provision. An estimated 83% of the recipients have an FAGI of less than \$75,000. Two percent of those receiving this credit have incomes over \$200,000. All total, 578,000 Wisconsin residents will receive this payment.

Another provision in the ARRA is an extension of the Earned Income Tax Credit (EITC) that increases the federal EITC credit rate for families with three or more qualifying children from 40% to 45% of earned income. In addition, it increases the income at which the credit phase out begins for married joint filers in an effort to reduce any marriage penalty. These changes apply to tax years 2009 and 2010 only. As Wisconsin's earned income tax credit is linked to the federal EITC, Wisconsin families could see an increase in both their federal and Wisconsin credits.

For eligible Wisconsin filers in tax year 2009, these changes will provide an estimated \$104.5 million in additional federal credits and an estimated \$37 million in additional state credits. On average, a qualifying Wisconsin family will see an additional \$506 in the federal credit and an additional \$170 in the state credit.

Wisconsin taxpayers may also be eligible for an increase in the refundable portion of the federal Child Tax Credit for tax years 2009 and 2010. This credit will be available to taxpayers with a federal adjusted gross income of under \$75,000 for individuals and \$110,000 for married joint filers, and is equal to \$1,000 per child. The changes to the credit will result in an additional \$230.7 million in federal tax savings to Wisconsin taxpayers in 2009 and 2010.

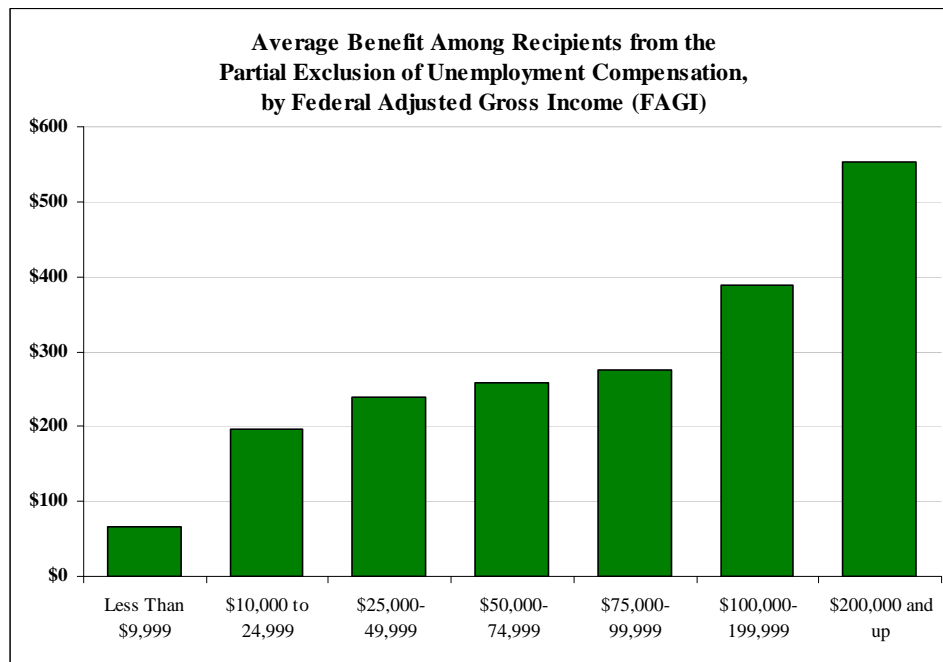
The ARRA also excludes the first \$2,400 of unemployment compensation from federal income taxes for tax year 2009. Wisconsin's current exclusion for certain unemployment insurance income would continue unchanged. The partial federal exemption of unemployment insurance taxes will benefit an estimated 276,000 Wisconsin taxpayers in tax year 2009, with federal tax savings of \$68.6 million. The average benefit under this provision is estimated to be \$250.

Chart II.2 on the next page shows the average federal tax benefit to unemployment compensation recipients by FAGI. The average savings from the partial exclusion of unemployment compensation rises as income rises. Those with an FAGI of \$9,999 and less will receive an average credit of \$66, as many taxpayers in this bracket are already paying little to no taxes. Unlike most of the other provisions, this exclusion is not phased out for those in the upper income classes. However, three-fourths of the benefit will go to taxpayers with a FAGI of less than \$75,000, and only 1% of this credit will be received by filers with an AGI of over \$200,000.

Wisconsin taxpayers may also benefit from an increase in the exemption levels for the 2009 federal Alternative Minimum Tax. The exemption amounts for tax year 2009 are increased to \$70,950 for married couples and \$46,700 for single filers. These increased exemption levels will reduce Wisconsin taxpayers' federal liability by an estimated \$1.3 billion in tax year 2009.

The ARRA also includes the American Opportunity Tax Credit, which was formerly called the federal HOPE credit. It provides a \$2,500 tax credit for post-secondary education expenses and will save Wisconsin taxpayers a combined \$217.4 million on their federal taxes in 2009 and 2010.

Chart II.2



First-time home purchasers may be eligible for an increased credit through the refundable First-Time Home Buyer Credit. Under this provision, first-time home buyers are eligible for a refundable credit of \$8,000 in 2009, up from \$7,500, for qualifying home purchases made between January 1, 2009 and November 30, 2009. In addition, home buyers will not be required to repay the credit, as earlier versions stipulated. Through this credit, Wisconsin residents will receive an estimated \$74.6 million in tax benefits in 2009.

There are also savings for car purchases in 2009, which will net an estimated \$25.5 million for Wisconsin taxpayers. This provision allows taxpayers to deduct from federal taxable income the amount of sales tax paid on a new car, truck, SUV, or motorcycle purchased between February 17, 2009 and December 31, 2009. The deduction would apply to up to \$49,500 of the purchase price and would be phased out for taxpayers with incomes over \$125,000 (or \$250,000 for joint returns).

### **Provisions for Businesses**

The largest contribution of savings for Wisconsin businesses is from the deferral of certain income from cancellation of debt as a result of a repurchase by the taxpayer of a debt instrument that was issued by the taxpayer. The provision applies only to cash repurchases of debt that occurs between January 1, 2009 and December 31, 2010. This provision allows business to defer paying taxes on income from the cancellation of debt for four to five years; taxpayers would be required to report the income evenly over five years. It is estimated that this provision will save Wisconsin businesses an estimated \$298 million in federal taxes.

Another large source of savings for Wisconsin businesses is from a one-year extension of the bonus depreciation for capital expenditures. This allows businesses to recover the costs of these expenditures more quickly. For tax year 2009, businesses will be allowed to immediately write off 50% of a new capital expenditure. This will provide \$235 million in savings for Wisconsin businesses.

A five-year carryback of net operating losses for small business will bring an additional \$25.5 million in savings to Wisconsin businesses. This provision allows businesses with gross receipts of \$15 million or less to use a net operating loss for tax year 2008 to offset taxable income for the prior five years. Previously, businesses could only carry back a loss for the two years prior.

Other federal tax savings for Wisconsin businesses include an expansion to small business expensing, a capital gains exclusion for small business stock, and a reduction in the built-in gains holding period for S-class corporations.

The estimated federal tax benefits received by Wisconsin families and businesses from the ARRA provisions are shown in Table II.1.

Table II.1

## Summary of Tax Benefits

## Individuals

Credit/Provision Name	Years in Effect	Benefit Amount (millions)
Making Work Pay Credit	2009 and 2010	\$ 2,300.0
Payment to Retirees	2009 only	\$ 267.0
Earned Income Tax Credit	2009 and 2010	\$ 141.5
Child Tax Credit	2009 and 2010	\$ 230.7
Suspension of Taxation of Unemployment Benefits	2009 and 2010	\$ 73.4
Increased Exemption Levels for AMT	2009 only	\$ 1,300.0
American Opportunity Tax Credit	2009 and 2010	\$ 217.4
Refundable First-Time Home Buyer Credit	2009 only	\$ 74.6
Deduction for Sales Tax on Auto Purchases	2009 only	\$ 25.5
<b>Total</b>		<b>\$ 4,630.1</b>

## Businesses

Credit/Provision Name	Years in Effect	Benefit Amount (millions)
Deferral of Certain Income from Cancellation of Debt	2009 and 2010	\$ 298.0
Bonus Depreciations	2009 only	\$ 235.0
5-year Carryback on Net Operating Losses	2008	\$ 25.5
Expanded Small Business Expensing	2009 only	\$ 5.9
Capital Gain Exclusion for Small Business Stock	2014-2016	\$ 12.2
Reduce Built-in Gains Holding Period of S-Corporations	2009 and 2010	\$ 1.8
<b>Total (includes amounts beyond 2011)</b>		<b>\$ 578.4</b>

Special thanks to our colleague Brad Caruth for his work on the Wisconsin impacts of the ARRA.