

Understanding the Wisconsin Economy

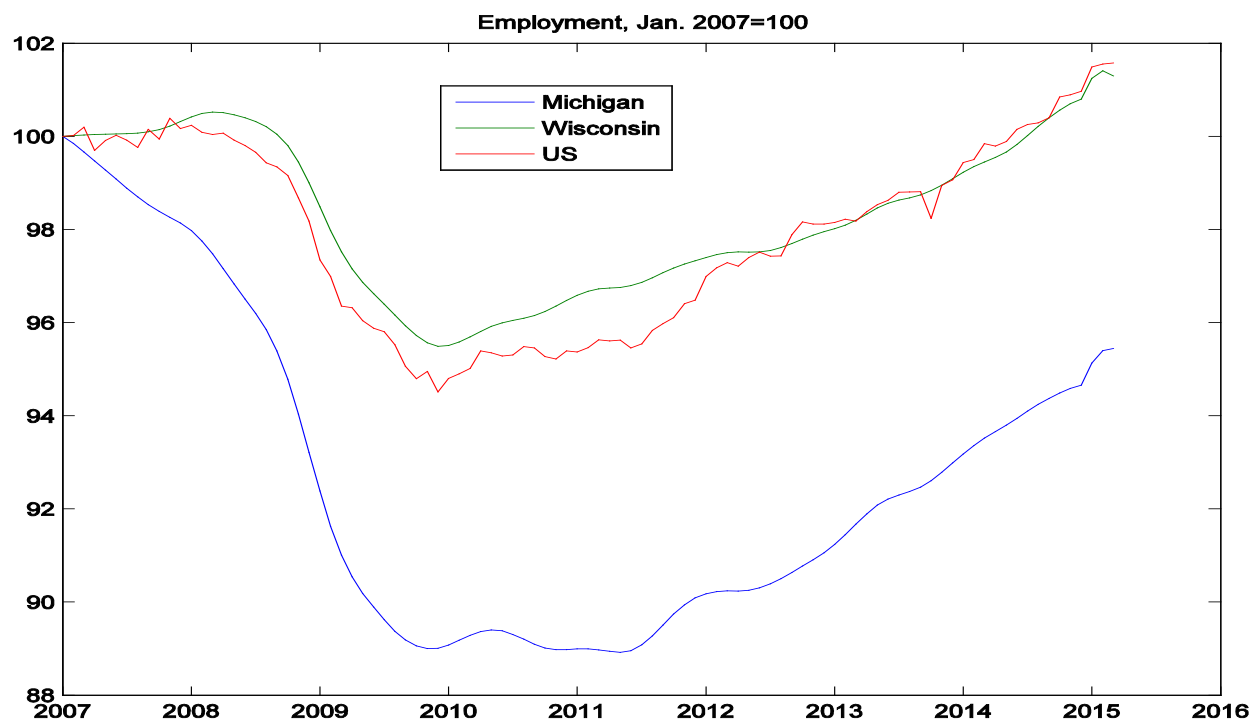
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Recently there have been several stories in the press (<http://huff.to/1DHE1OF>, <http://bit.ly/1aYoGSS>, <http://bit.ly/1OOKHRp>) that provide a misleading picture of the economy in the state of Wisconsin. These stories base their economic analysis on the rankings by state of job growth and wage growth from Quarterly Census of Employment and Wages provided by the Bureau of Labor Statistics. (A press link to the data is here: <http://bit.ly/1OkQ5Ro>.) The most recent statewide rankings show that Wisconsin has slipped into the 40th place in job growth and 42nd in wage growth. While these figures are accurate, they provide a very limited and misleading outlook on the statewide labor market and broader economy. In particular, a look at broader data shows that the economy in Wisconsin is much healthier than these indicators suggest, and has outperformed the overall national economy in many ways.

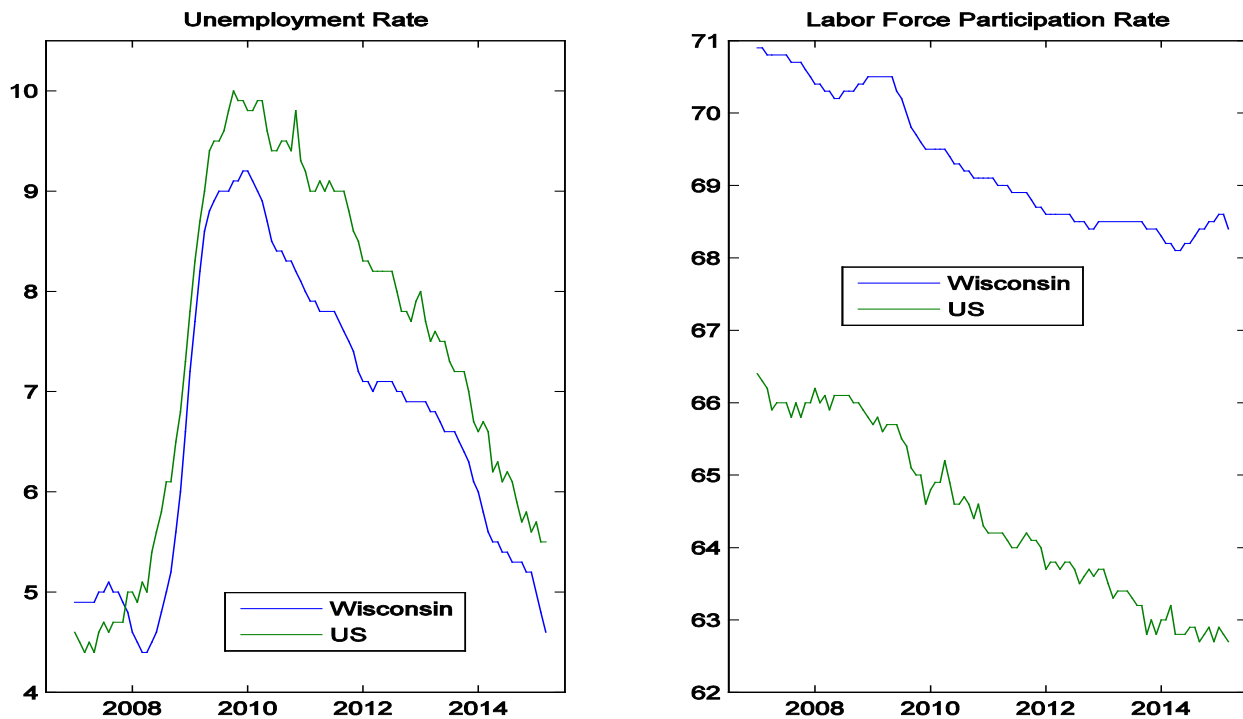
Employment

- Looking at broader labor market data shows that Wisconsin has significantly outperformed higher ranked states like Michigan, and has outpaced the national average along many dimensions.

The job growth indicator does not provide an accurate overall impression of the labor market and employment dynamics in each state. For example, economies which were hardest hit by the recession of 2007 would need to have higher job growth simply to return to the same place. To be sure, the economy in North Dakota, which has been consistently at the top of the rankings for the past several years, is booming, with employment growth driven largely by the energy boom. But the rankings also show that Wisconsin has been ranked between 31st and 41st over the past three years, while Michigan has been regularly in the top ten until slipping a bit recently. However looking at broader labor market data shows that Wisconsin has significantly outperformed Michigan, and has outpaced the national average along many dimensions.



The figure above shows the employment data, drawn from the BLS Household Survey, which provides the more commonly used data underpinning the unemployment rate. The figure shows employment for Michigan, Wisconsin, and the US as a whole, with January 2007 indexed to 100. The figure makes clear that employment growth in Michigan has indeed been relatively rapid since the middle of 2011. But this was largely due to the fact that employment had collapsed so dramatically in the recession from 2007-2009, and so employment remains 4% below its 2007 level. By contrast, Wisconsin tracks the national average rather closely. The recession was somewhat milder in Wisconsin than in the nation as a whole, and so job growth after the recession was somewhat slower. But over the past three years job growth in Wisconsin tracks the national average rather closely. Thus although job growth in Wisconsin has not matched some of the fastest growing states, it has been at least as strong as the national average.



Some other indicators highlight other aspects of the labor market where Wisconsin has outperformed the national average. The figure above shows the unemployment rate and the labor force participation rate for Wisconsin and the US as a whole. The unemployment rate in Wisconsin did not spike as dramatically as in the rest of the nation during the recession, but even from the lower peak it has fallen rapidly, especially over the past couple of years. Since the beginning of 2014 the unemployment rate has fallen by 1.5 percentage points, and now stands at 4.6% in comparison to the 5.5% national average.

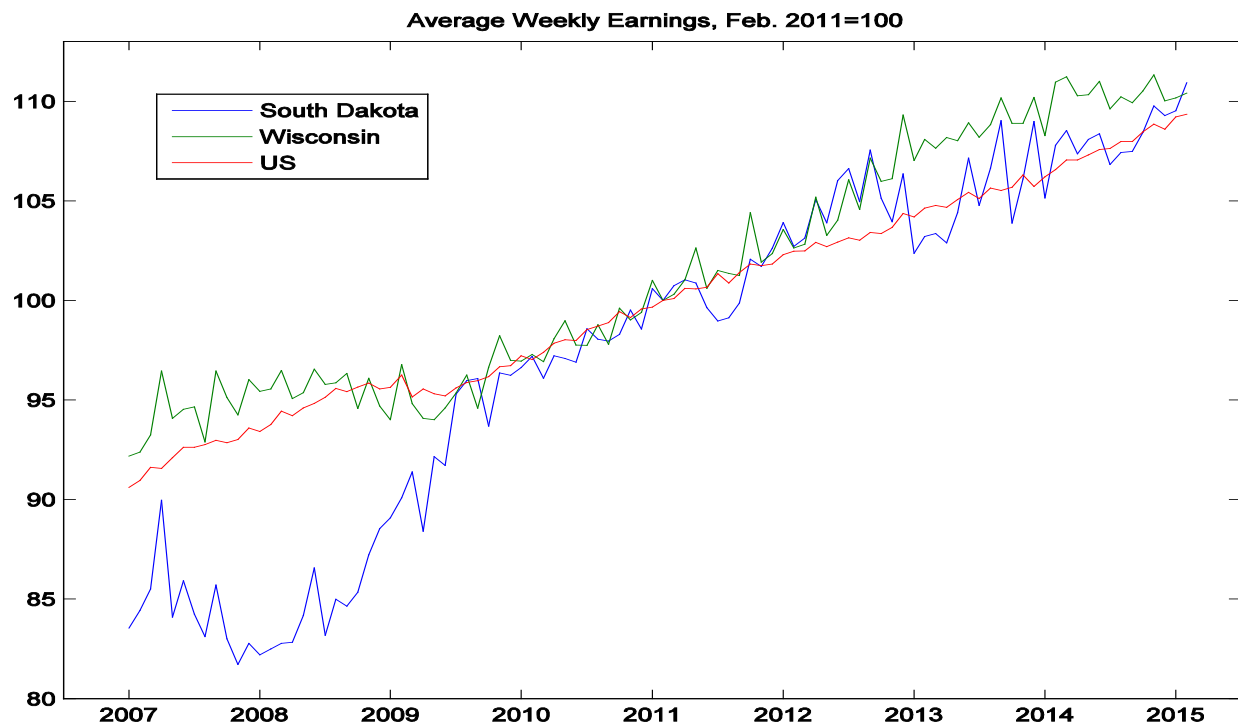
In addition, a significant component of the reduction in the unemployment rate nationwide has been a decline in the labor force participation rate. Some of the decline in participation has been due to longer run demographic factors, driven by the aging of the population. However a significant component has been a cyclical, with unemployed workers stopping searching for a job. The labor force participation rate in Wisconsin has historically been above the national average, and it has declined since 2007, but it has increased over the past year and has been roughly stable since the beginning of 2012. By comparison, if the labor force participation rate in the US as a whole had remained constant since January 2012 (rather than falling by one percentage point), the national unemployment rate would now be 7.0% rather than

5.5%. Thus the national unemployment rate hides some additional weaknesses in the labor market which are not present in Wisconsin, as participation in the state has remained strong and even increased as the unemployment rate has fallen.

Wages, Earnings, and Income

- Average earnings growth in Wisconsin has matched higher ranked states like South Dakota, and has been faster than the national average. In addition, broader measures of household income have increased recently in Wisconsin while falling nationally.

Beyond employment, earnings of workers and incomes of households are important aspects of the economy. We are not just interested in whether workers are employed but whether households are improving economically. Along those lines, the other labor market indicator which has been cited recently has been the state rankings on wage growth. Overall, the data there has been more mixed, with Wisconsin ranking in the 20s or better for most of the period from 2011-2013, before slipping to the 30s in 2014 and down to 42nd in the most recent survey. North Dakota is again at the top of the table for most of the sample period, and in addition South Dakota is ranked in the top 10 for most of the period, frequently in the top 5. Again, while this ranking sheds some light on the earnings and incomes of workers in each state, it provides an incomplete and perhaps misleading picture.



The figure above shows data from a different source, monthly data from 2007-2014 on average weekly earnings provided by the BLS. To make this data comparable to the wage growth data in the Quarterly Census, I have indexed February 2011 to 100, and I plot the data for South Dakota, Wisconsin, and the US as a whole. Although the data are noisy, the figure shows that rather than stagnating or being outpaced by states like South Dakota, average earnings growth in Wisconsin has matched South Dakota, and has been faster than the national average. In particular, over that span average earnings have grown by over 10% in Wisconsin, more than one percentage point faster than the national average.



In addition, Wisconsin has done even better when looking at broader measures of household income. The figure above shows real median household income, provided by the Census Bureau on an annual basis from 2007-2013 (the last date for which data are available), in the United States and Wisconsin. Despite having only a few data points, this provides a broader measure income for a typical household, going beyond the labor market earnings which were discussed above, and so arguably provides a better indicator of household welfare. Median incomes in Wisconsin have been above the national average throughout the sample, and both have declined from the pre-recession peak in 2007. But median incomes in Wisconsin stabilized in 2011-2012 and grew significantly in 2013, while they continued to fall nationally in 2011 and remained low thereafter. From the end of 2010, real median household income in Wisconsin has grown by 2.7% while it has fallen by 1.3% nationwide.

Summary

Overall, the economy of Wisconsin has performed quite well since the end of the recession, and in particular since the start of Governor Walker's first term in 2011. To be sure, problems still remain and overall growth and growth in employment have not yet reached their potential or been as rapid as one might hope. Policies and other factors at the national level impact the states and should not be immune from sharing the blame. But the overall state of the economy in Wisconsin is strong and improving.