

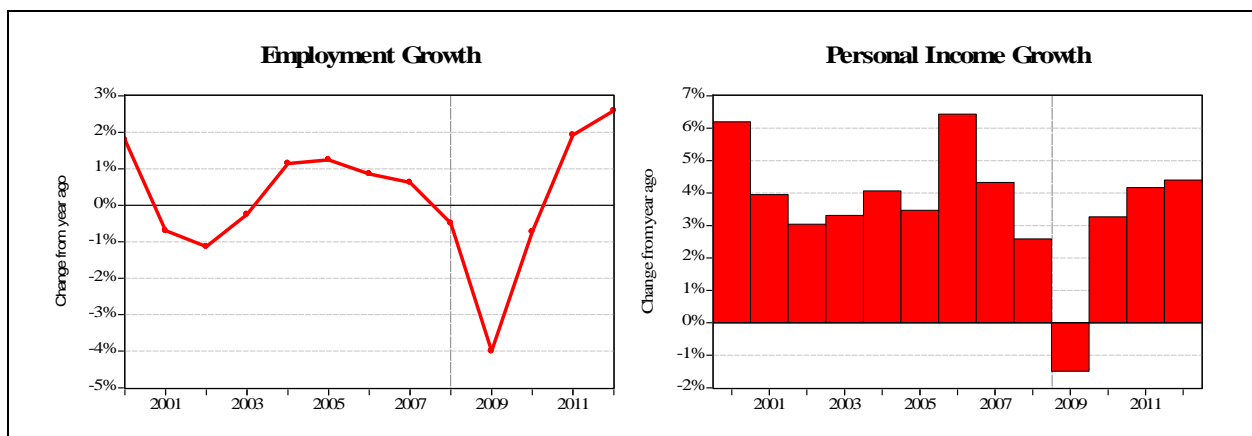
WISCONSIN ECONOMIC OUTLOOK

The recession that started in December 2007 cost 163,800 Wisconsin jobs and 7.2 million U.S. jobs through November, 2009. Wisconsin and U.S. employment losses should stop this quarter and job growth resume during the rest of the year. The projected total job losses during the current recession and its aftermath represent 5.7% of the peak employment level for Wisconsin, and 5.5% for the U.S. These are the worst losses in any single recession since WWII. Most of the economic decline in the current recession happened during 2009 and a recovery, though weak, will be underway in 2010. The still weak labor market, cautious consumers, tight credit markets, and subdued housing sector will moderate the pace of the recovery.

The December national outlook from IHS Global Insight calls for a real GDP decline of 2.5% in 2009 and a growth of 2.2% in 2010. The U.S. labor market will hit bottom this quarter after losing 7.6 million jobs, an employment decline of 0.4% and 3.7% in 2008 and 2009 respectively. IHS Global Insight expects a subdued recovery as credit conditions remain tight and consumer spending sluggish. Business spending will increase in the equipment category, but the decline in business structures spending will more than offset this growth given the poor outlook for commercial construction. The outlook for exports is positive given the turnaround in Asian economies and some signs of improvement in Europe. However, imports will also increase due to the improvement of the U.S. economy and the need to rebuild the depleted inventory. Thus, trade will be a drag on GDP growth throughout 2012. Inflation will return in 2010 (1.7%) after the 0.3% decline in CPI in 2009 but is not a near-term threat given the underutilized resources and weak wage inflation.

As shown in the left panel of Chart I.1, Wisconsin employment declined 0.5% in 2008 and should show a decline of 4.0% in 2009. Wisconsin will add jobs beginning second quarter of 2010 but will still post a year-over-year decline of 0.7% in 2010. Employment will return to growth in 2011, advancing 1.9% in 2011 and 2.6% in 2012. Employment increases will be led by strong growth in services industries and the return to positive growth in the Trade, Transportation and Utility and Manufacturing sectors after suffering significant job losses in the previous years.

Chart I.1



Wisconsin personal income rose 4.3% in 2007 and just 2.6% in 2008. The forecast anticipates a decline of 1.5% in 2009 but calls for growth of 3.3% in 2010 and growth in excess of 4% in 2011 and 2012.

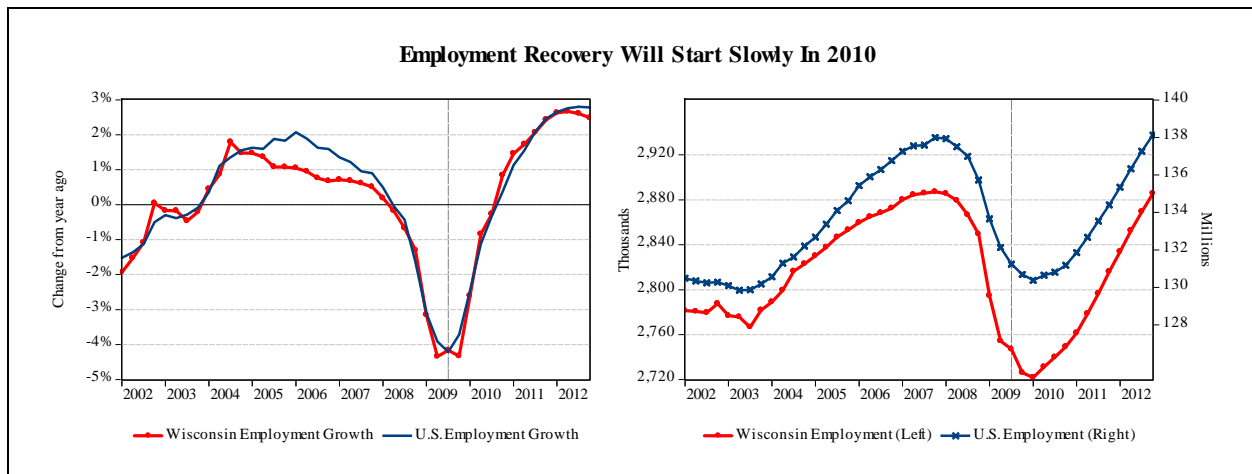
Employment Outlook

Total employment in Wisconsin declined 0.5% in 2008. It should post a final total decline of 4% in 2009 and 0.7% in 2010. It will return to positive annual growth in the following year.

The left panel of Chart I.2 shows total nonfarm employment growth for the U.S. and Wisconsin. The vertical line at the third quarter of 2009 separates history from forecast. The severe decline of Wisconsin employment in 2009 was led by sizable job losses in the Manufacturing, Trade, Transportation and Utilities, and Professional and Business Services sectors, representing more than 90% of the total annual loss.

The Wisconsin economy should start adding jobs in the second quarter of 2010, but it will not be until the end of the year that employment will begin to post year-over-year growth rates. These will yield a 1.9% growth in 2011 and a strong 2.6% growth in 2012.

Chart I.2



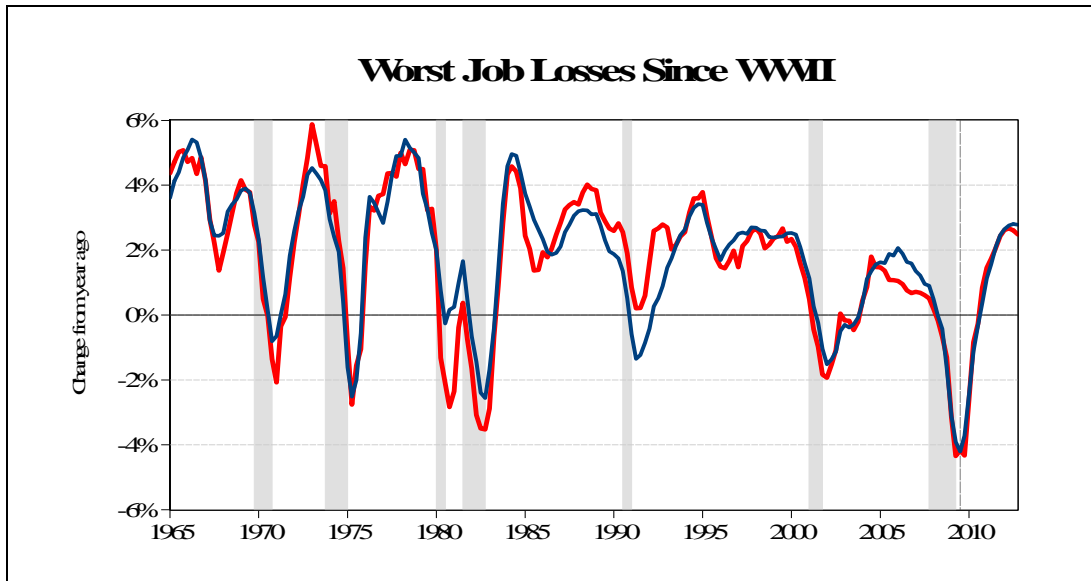
The right panel of Chart I.2 shows total nonfarm employment levels for Wisconsin and the U.S. The light dotted line shows that Wisconsin employment peaked in the last quarter of 2007 and will reach its trough during the first quarter of 2010 according to the forecast. Beginning in the second quarter of 2010, the Wisconsin economy will add jobs, but it will take until the end of 2012 to reach the pre-recessionary level of employment. The pace of the recovery will be slow, taking eleven quarters, adding an average of 15,000 jobs a quarter, to recover the more than 165,000 jobs lost. The services sectors will lead the recovery in 2010, with the Education and Health Services and the Professional and Business Services sectors being the only two sectors posting annual job gains in 2010. Toward 2011 almost all private sectors will post job gains, totaling a job gain of 52,600 that year.

Chart I.3 shows total nonfarm employment growth for the U.S. and Wisconsin since 1965. The shaded areas mark the national recessions as dated by the National Bureau of Economic Research (NBER). As shown in Chart I.3, the current recession yielded the worst job loss than any other single recession in the last 50 years for Wisconsin and the U.S.

The total peak-to-trough job loss during the current recession is expected to be 5.7% of total employment in Wisconsin and 5.5% for the U.S. on a quarterly basis. By comparison, the 1981-82 recession, which was the previously worst recession in terms of job losses, posted employment declines of 3.0% and 4.5% for the U.S. and Wisconsin respectively. However, as pointed out in previous reports, Wisconsin employment never recovered from the 1980 recession. As a result, what is nationally dated as two separate recessions, in 1980 and 1981/82, could be considered one long recession for Wisconsin. In this case, the Wisconsin total job loss was 7.0%, considerably higher than the job loss during the current recession (5.7%).

Considering U.S. employment, the current job losses of 5.5% or 7.6 million, widely exceed the previously worst job loss of 3.0% during the 1981-82's recession. However, IHS Global Insight expects the rate of employment growth during the current recovery to be lower than the one experienced after the 1981-82 recession, taking three times longer to recover the pre-recession level of employment. It will take eleven quarters to recover the loss of jobs of this recession, compared to four quarters for the 1981-82 recession.

Chart I.3



Housing

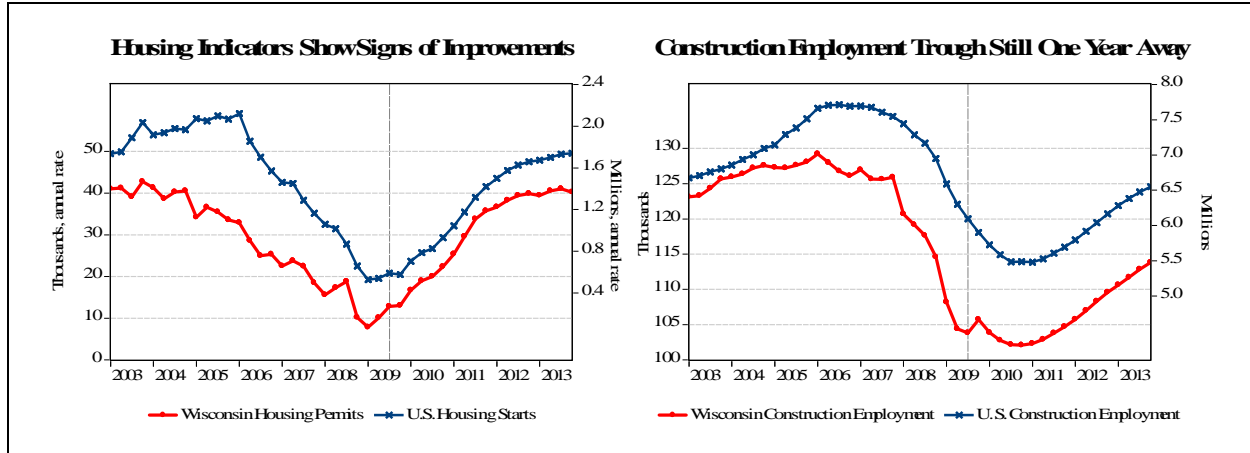
The housing sector continues showing signs of slow recovery at the national and state level, with mixed signals. On the one hand, Wisconsin existing home sales were up in the third quarter of 2009, with median prices still falling but at moderated rates. Also, Wisconsin housing building permits seem to have reached their trough. On the other hand, foreclosures and delinquencies rates are still on the rise, posing some risk to the recovery.

According to the Wisconsin Realtors Association, existing home sales were up in the third quarter of 2009, for the first time since the recession began two years ago. Existing home sales in Wisconsin increased 5.8% from the third quarter of 2008, more than the Midwest Region which grew at a 5.2% and close to the nation's growth of 5.9%. The median home price statewide declined 6.3% from the third quarter of 2008, to \$148,000, lower than the 9.9% decline in the previous quarter. However, this decline is significantly affected by the \$8,000 federal tax credit for first-time homebuyers, as those purchases tend to be for lower-cost starter homes.

Home prices in Wisconsin started to fall in early 2008, though not as hard as in other parts of the country. The Wisconsin Purchase-Only House Price Index for the third quarter of 2009, released by the Federal Housing Finance Agency (FHFA), was 2.3% lower than a year ago and 0.8% lower than the second quarter of 2009.

Wisconsin building permits grew in the second and third quarter of 2009 (see left panel of Chart I.4). Wisconsin permits in the third quarter were 12,800, still 32.0% lower than a year ago, but higher than the 10,100 permits in the second quarter of 2009. Wisconsin permits have been declining since its peak at 42,700 in the last quarter of 2003. The forecast is signaling a trough for permits occurred in early 2009 and is forecasting a slow but steady recovery. However, the forecast does not expect the level of permits to return to the 2003 peak levels. Wisconsin permits will surpass the 30,000 level by the second half of 2011.

Chart I.4



There are still some significant risks to the recovery of the housing sector at the national and state levels, but they were reduced in part by the extension and expansion of the federal homebuyer tax credit. Foreclosures and mortgage delinquencies are still on the rise. RealtyTrac released its third quarter 2009 foreclosure data that show the highest quarterly total since RealtyTrac began issuing its report in 2005. National foreclosure filings increased 5% from the previous quarter and nearly 23% over the third quarter of 2008. Following the national trend, foreclosures in Wisconsin also increased in the third quarter of 2009 to 11,181, or 11.2% above the previous quarter. Wisconsin ranked 19th in the nation, with one out of 229 households in foreclosure in the third quarter of 2009, compared with one out of every 136 households in foreclosure nationwide and one out of every 23 households in foreclosure in Nevada, which leads the ranking.

The Mortgage Bankers Association of America reported that the decline in mortgage performance continues. The delinquency rate in the third quarter of 2009 broke the record set the previous quarter, based on national data dating back to 1972. The delinquency rate includes loans that are at least one payment past due but does not include loans in the process of foreclosure. The delinquency rate for mortgage loans on one-to-four-unit residential properties rose to a seasonally adjusted rate of 9.6% of all loans outstanding as of the third quarter of 2009, up 40 basis points from the second quarter of 2009, and up 265 basis points from one year ago, according to the Mortgage Bankers Association's (MBA) National Delinquency Survey. The percentages of loans 90 days or more past due, loans in foreclosure, and foreclosures started all set new record highs.

The Office of the Comptroller of the Currency and the Office of Thrift Supervision released the Mortgage Metrics Report for the third quarter of 2009. The report states that "Overall, mortgage performance continued to decline as a result of continuing adverse economic conditions including rising unemployment and loss in home values. Of particular note, delinquencies among prime mortgages, the largest category of mortgages, continued to climb." The report noted that the percentage of current and performing mortgages in the portfolio fell to 87.2% in the third quarter of 2009 from 88.6% in the previous quarter. In addition, serious delinquencies¹ reached 6.2% of the servicing portfolio, an increase of 16.7% from the previous quarter.

The real estate transfer fee collections are another key housing indicator that reflects the pulse of the Wisconsin housing sector. The fee is imposed on all real estate conveyances at a rate of \$0.30 per \$100 of value. Collections peaked in 2005 at \$80.2 million and have been declining since. Collections in 2008 fell 24.8% to \$51.8 million. For the first three quarters of calendar year 2009, the real estate transfer fee declined 31.6% year-over-year. The pace of contraction is showing some moderation in recent months.

¹ Serious delinquencies are loans 60 or more days past due and loans to delinquent bankrupt borrowers

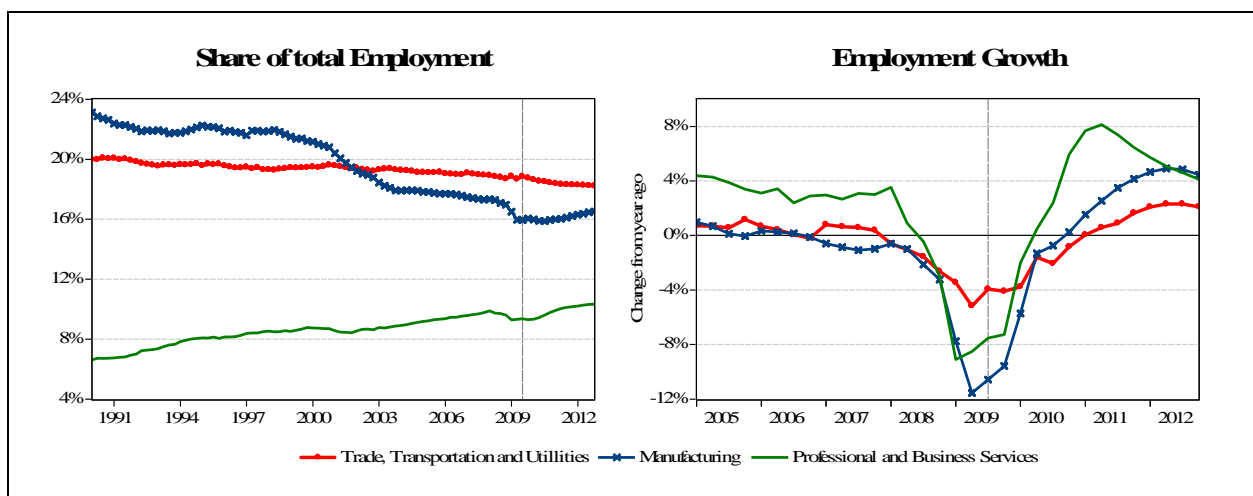
Employment Sectors

The cycle of the housing industry has a direct impact on employment in the Construction sector. As shown on the right panel of Chart I.4, Wisconsin employment in the Construction sector stagnated in 2004 following the decline in housing permits. Toward the third quarter of 2006, Wisconsin Construction employment started to post negative year-over-year growth. Wisconsin employment in the Construction sector declined 1.2% in 2007 and 6.4% in 2008, losing 1,500 and 8,000 construction jobs respectively. Construction employment is expected to decline 10.6% in 2009, losing another 12,500 jobs. Wisconsin lost 25,400 jobs (19.7%) in the Construction sector since its peak in the first quarter of 2006. This means that one-fifth of workers employed in the Construction sector lost their job in the past four years. U.S. Construction employment peaked in the third quarter of 2006 and has lost 1.6 million jobs (20.9%) through the third quarter of 2009. The outlook for Wisconsin Construction employment calls for one more year of job losses, reaching bottom by the end of 2010 and recovering with mild but positive growth in 2011. The forecast expects a decline of 2.7% in 2010 and increases of 0.7% and 4.1% in 2011 and 2012 respectively.

The two largest sectors of the Wisconsin economy in terms of employment, Manufacturing and Trade, Transportation and Utilities, posted large job losses in 2008 and 2009. They should post the largest job losses of all sectors for 2010. The Manufacturing sector was the biggest loser of the recession. Employment in the manufacturing sector peaked in the second quarter of 2006 and has lost 68,400 jobs (13.5%) through the third quarter of 2009. Since the beginning of the recession in December 2007, Manufacturing shed 62,800 jobs (12.6%) and it is expected to lose another 8,600 jobs (-1.9%) in 2010, before recovering 12,800 jobs in 2011 as shown on the right panel of Chart I.5. The intense job losses in the Manufacturing sector during the 2001 recession cost the sector its first place as employer in the state, leaving that title to the Trade, Transportation and Utilities sector.

Trade, Transportation and Utilities showed weak growth during the expansionary phase of the last cycle. With the drastic deterioration of domestic demand in the current recession, the sector declined 1.5% in 2008 and should post a final decline of 4.2% in 2009. The forecast calls for another decline of 2.1% or 10,700 jobs in 2010 and, as shown on the right panel of Chart I.5, slowly start posting job gains, adding 4,000 jobs (0.8%) in 2011 and 11,200 jobs (2.2%) in 2012.

Chart I.5



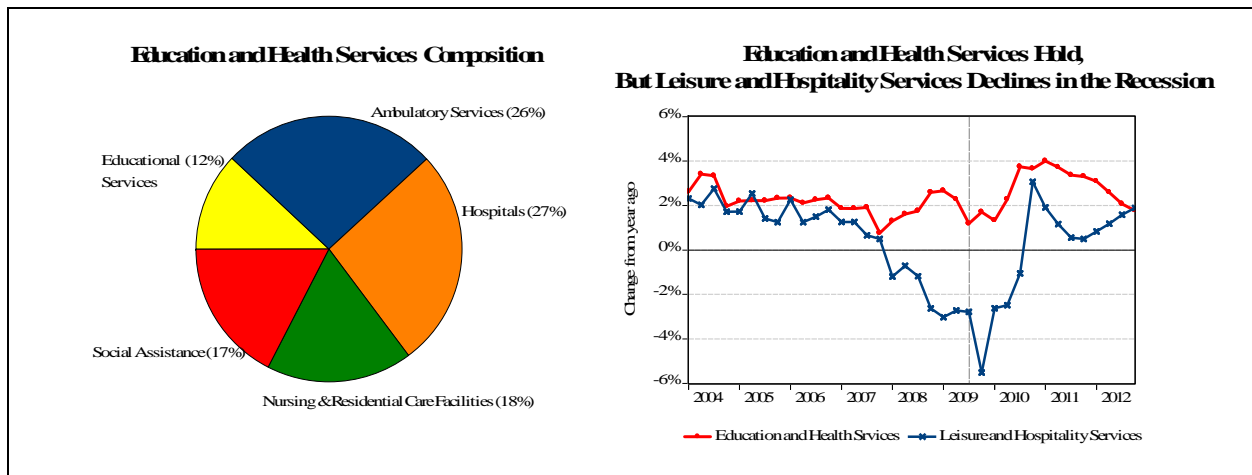
The third sector posting the largest job losses in 2009 was the Professional and Business Services sector. As shown on the left panel of Chart I.5, this sector has increased its share of total employment from 6.7% or 150,600 jobs in 1990 to 9.3% or 256,700 jobs in 2009. The Professional and Business Services sector held up during 2008 posting a 0.2% growth but rapidly fell in 2009 as the recession took full wind, declining 8.1% in

2009. As the recovery starts to gain speed in 2010, this sector will be one of the only two sectors, jointly with Education and Health Services, posting job gains in 2010 and strong job growth in 2011 and 2012 (see right panel of Chart I.5).

The Education and Health Services (EHS) sector in 2009 employed an average of 413,100 workers in Wisconsin. The left panel of Chart I.6 shows how those jobs were distributed between the main five subsectors. The Educational Services subsector employs about 12%, just below 50,000 workers, of the total employment in EHS. Within what is called Health Services, the Hospitals subsector is the largest in terms of employment with 27% of the EHS workforce (107,700 jobs). The Hospitals subsector is followed by the Ambulatory Services subsector, employing 26% of the workers in the EHS sector. The other two subsectors, which involve more social than health services, are the Nursing and Residential Care Facilities and Social Assistance subsector. The Nursing and Residential Care Facilities subsector employs 18% or 73,700 workers of the EHS sector, with almost half of that employed in the Nursing Care facilities subsector. Employment in the Social Assistance subsector comprises 17% of the total employment in EHS. This subsector includes child care workers, social workers, personal and home care aides, and social and human service assistants among other occupations.

The Education and Health Services sector was the only sector posting annual job gains each year during the recession. The sector grew 1.8% in 2008 and 2.0% in 2009 and is expected to continue posting strong growth rates in the next three years, as shown on the right panel of Chart I.6. The forecast expects employment in this sector to grow 2.8% in 2010, 3.6% in 2011, and 2.4% in 2012.

Chart I.6



As shown on the right panel of Chart I.6, employment in the Leisure and Hospitality sector declined 1.4% during the first year of the recession (2008), impacted by the dramatic decline in discretionary spending given the fall in household wealth, rising unemployment and tight credit conditions. In 2009, the Leisure and Hospitality sector employment fell another 3.5% and should post another, though milder, 0.8% decline in 2010. After the decline in 2010, the forecast calls for a growth of 1.0% in 2011 and 1.4% in 2012.

Employment in the Finance sector held up until mid 2008, which allowed it to post job gains in 2008 despite the turmoil in the financial markets. Finance employment grew 0.2% in 2008, though it has declined since mid 2008. Finance employment peaked in May of 2008, five months after the national financial sector, and since then has lost 7,600 jobs (4.6%) through November 2009. The sector is expected to post a final decline of 2.6% in 2009. As the financial sector continues its restructuring process, the forecast expects employment in the sector to fall another 2.6% in 2010 and 1.1% in 2011, before returning to positive growth in 2012.

The Other Services sector grew 1.2% in 2008 but should post a final loss of 4.5% in 2009. The forecast expects employment in this sector to decline 1.1% in 2010 and return to strong growth in 2011 and 2012, growing at 2.2% and 2.4% respectively.

The Information sector declined 0.2% in 2008 and should decline 1.9% in 2009. Following the national trend, Wisconsin employment in the Information sector is expected to show another year of job losses before it resumes positive growth in 2011. Information employment is forecasted to decline 2.9% in 2010 and grow above 1% in the next two years.

The Natural Resources and Mining sector is the smallest sector in terms of employment, representing just 0.1% of total Wisconsin employment or about 3,000 jobs. The sector lost, on average, 7.8% of its workforce in each of the last three years. Employment in the sector is expected to fall 4.0% in 2010 and 1.4% in 2011 and return to post job gains in 2012.

The Government sector grew about 1.0% in 2008 and 2009. The outlook calls for a 1.0% decline in 2010 despite the 5.2% boost in federal Government employment from the Census. The weak fiscal position of state and local governments will reduce government employment by 1.0% again in 2011. Toward 2012, government budgets should improve, bringing employment growth of 1.1%.

The Wisconsin seasonally adjusted unemployment rate rose from 4.7% in 2008 to 8.4% in 2009, but it seems to be stabilizing in recent months. The unemployment reading for Wisconsin was 8.2% in November, compared to a rate of 10.0% at the national level. The Wisconsin unemployment rate peaked in mid 2009 at 9.0% in June and July and has fallen since. However, the labor force has also fallen in recent months, so part of the unemployed may have stopped looking for work and thus not counted in the labor force and the unemployed.

The Bureau of Labor Statistics (BLS) releases new alternative measures of labor underutilization for states. The more inclusive of these measures is the so called U-6 rate, which measures the total unemployed, plus all marginally attached workers² and workers working part-time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers. This measure accounts, in part, for the distortion of a decline of the unemployment rate due to people leaving the labor force. BLS publishes this alternative measure for the states on annual averages. The latest data released show that both the U.S. and Wisconsin U-6 rate continue to increase. Wisconsin U-6 rate for annual period ending in the third quarter of 2009 was 13.2%; this is 1.3 percentage points higher than the 11.9% rate registered for the annual period ending one quarter earlier, i.e., ending in quarter 2 of 2009. However, the Wisconsin U-6 rate is still below the national rate of 15.2%.

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

² Marginally attached workers (Current Population Survey): Persons not in the labor force who want and are available for work, and who have looked for a job sometime in the prior 12 months (or since the end of their last job if they held one within the past 12 months), but were not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey. Discouraged workers are a subset of the marginally attached.

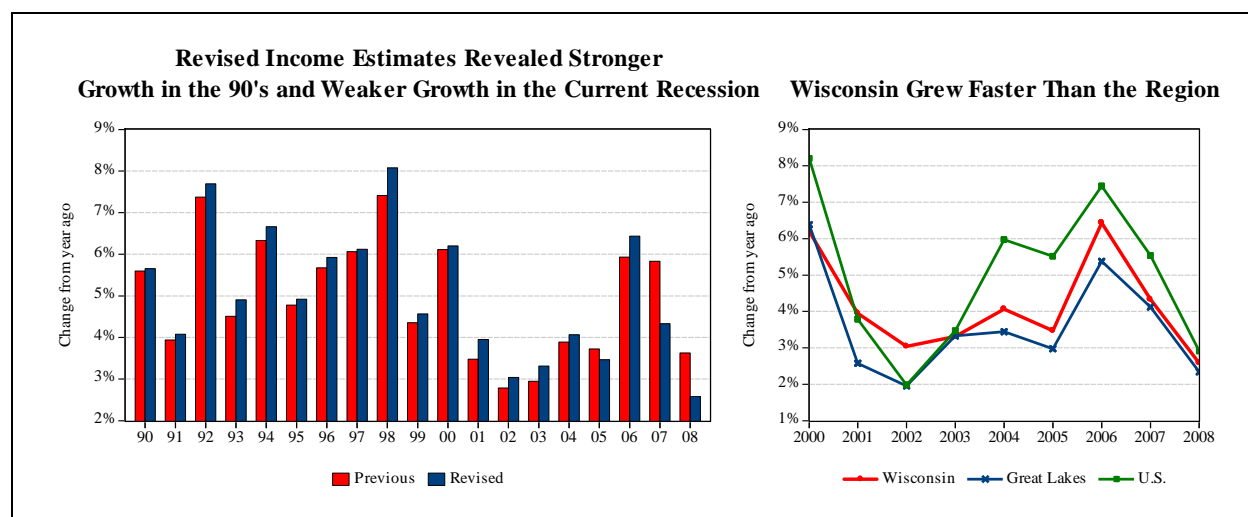
Income Revisions

Since the last outlook, the Bureau of Economic Analysis (BEA) released revised state personal income estimates from 1969 to incorporate the comprehensive revision of the National Income and Product Accounts (NIPA). These comprehensive revisions are undertaken every four to five years as part of BEA’s regular process for improving and modernizing its accounts to keep pace with the ever-changing U.S. economy. BEA also released preliminary third quarter 2009 estimates for personal income and its components.

As shown in the left panel of Chart I.7, the revised numbers shows that Wisconsin personal income grew during the 1990’s faster than previously thought, at an average 5.9% instead of 5.6%. Wisconsin personal income growth was also revised up for most of the years of the period 2000-2006, showing an average revised growth of 4.4%. However, the revision significantly downgraded the growth in personal income for the years 2007 and 2008.

The largest revision was to the year 2007, which is showing a growth rate of 4.3%, 1.5 percentage points lower than the previous estimate of 5.8%. The revised numbers shows that Wisconsin personal income grew just 2.6% in 2008, 1 percentage point lower than the early estimate of 3.6% (see left panel of Chart I.7).

Chart I.7



As shown on the right of Chart I.7, Wisconsin personal income growth continues to outperform the region and is closing the gap with the U.S. However, given the 3.3% increase in prices in 2008, the U.S., the Great Lakes region and Wisconsin all saw a decline in real personal income in 2008. The Great Lakes region grew 2.3% in 2008, with Wisconsin ranking in second place. In 2008, Wisconsin personal income grew 2.6%, below Indiana (3.2%) but above that of Illinois (2.5%), Ohio (2.1%), and Michigan (1.8%).

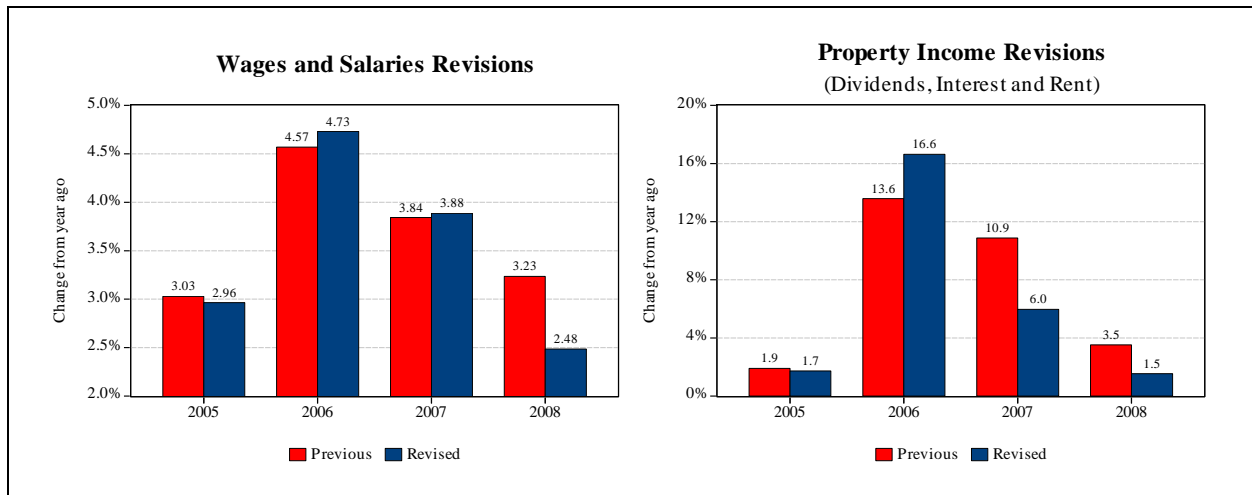
The revisions to Wisconsin personal income in the last two years were mainly driven by downward revisions to property income in 2007 and to wages and salaries in 2008.

The wage and salary disbursements component that accounts for more than half of total personal income showed upward revisions for every year since 1992 without impacting much of the overall annual growth rates, except for 2008. As shown in the left panel of Chart I.8, Wisconsin wages and salaries growth in 2008 was revised down to 2.5%, instead of the 3.2% before revisions, yielding a decline of real wage and salaries due to inflation.

The downward revision of total personal income growth in 2007 is mainly explained by a strong downward revision to property income growth (see right panel of Chart I.8). Property income grew 6.0 % in 2007

instead of 10.9% as shown by the previous estimates. This revision was the result of a strong downward revision to growth in dividends income.

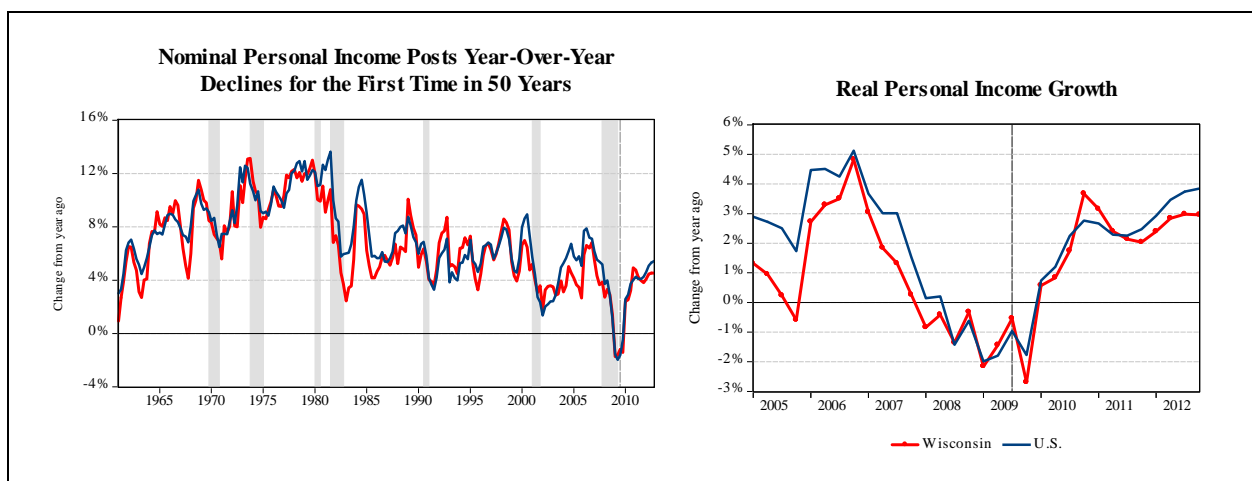
Chart I.8



Income Outlook

Wisconsin personal income grew 2.6% in 2008, lower than the national growth of 2.9%. Quarterly personal income data shows Wisconsin personal income posting year-over-year declines for the first time in 50 years (see left panel of Chart I.9). Wisconsin personal income declined 1.7%, 1.6% and 1.2% year-over-year in the first three quarters of 2009 and is expected to decline 1.4% in the last quarter of 2009. The forecast expects an annual decline of 1.5% in 2009, with wages falling 3.5%. Wisconsin personal income will return to growth in 2010, advancing 3.3%. The expected mild recovery will produce moderate personal income growth rates of 4.2% and 4.4% in 2011 and 2012, respectively.

Chart I.9



The personal consumption expenditures price index grew 3.3% in 2008, erasing the weak 2.6% growth of personal income and yielding a real decline of personal income of 0.7% in 2008. Prices are expected to post a mild but still positive rate of change in 2009, advancing 0.2%. This produces a larger decline in Wisconsin real personal income of 1.7% in 2009.

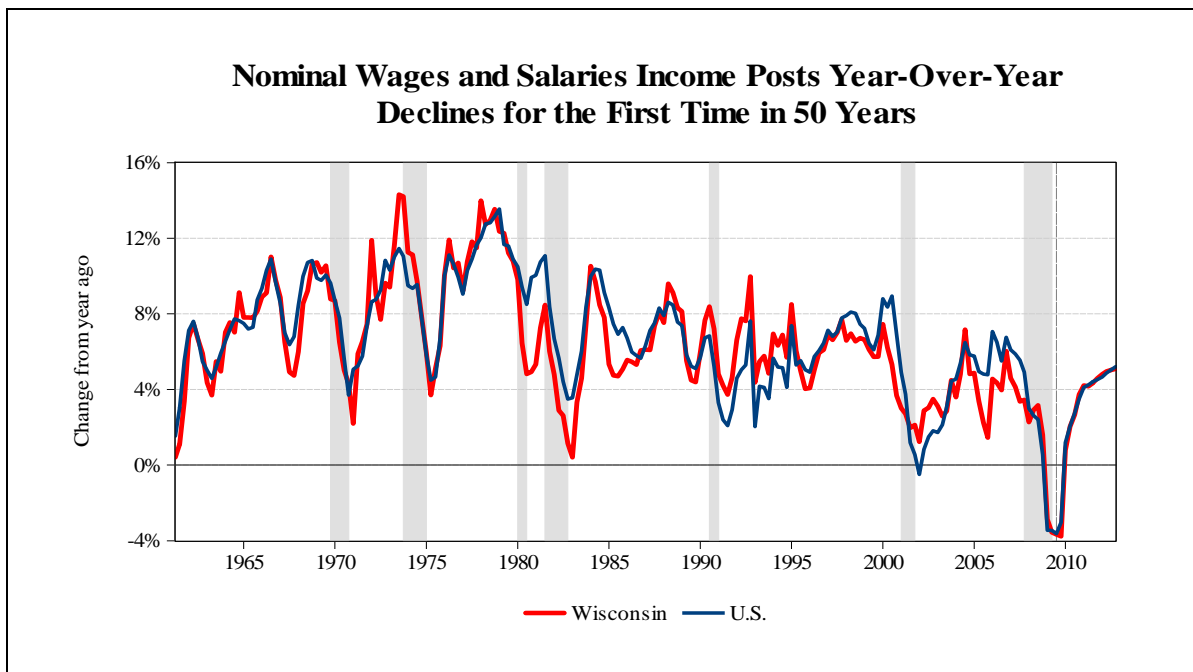
IHS Global Insight foresees a moderate growth in prices during the recovery with growth of the personal consumption expenditures price index around 1.6% through 2012. As a result, real personal income will grow 1.7% in 2010, 2.4% in 2011, and 2.8% in 2012.

Personal Income Components

Wage and salary disbursements, being the biggest component of personal income, accounted for 54.5% of Wisconsin total personal income in 2008, down from 56.0% in 2004 at its peak during the current cycle. Wisconsin wage and salary disbursements grew 2.5% in 2008, less than the 3.3% inflation in 2008. Thus, in real terms wages and salaries declined 0.8% in 2008. Furthermore, during the first three quarter of 2009, nominal wages and salaries income declined for the first time in 50 years, as shown in Chart I.10. The forecast expects wages and salaries to fall 3.5% in 2009. Adjusting for inflation, real wages and salaries fall 3.7% in 2009.

The outlook for wage and salaries income expects mild growth of 2.3% in 2010 as the economy stops shedding jobs. Stronger growth of 4.3% and 5.0% is expected for 2011 and 2012, respectively, as employment recovers. Supplements to wages and salaries³ grew 3.0% in 2008 and are expected to grow just 0.9% in 2009. The forecast calls for strong growth of supplements to wages and salaries income in the next three years, posting an average of 4.8% between 2010 and 2012.

Chart I.10



Proprietor’s income declined 1.3% in 2008 but will be a big drag to personal income in 2009, declining 13.6%. Proprietor’s income will return to growth toward 2010, growing 9.3%. Rental income climbed 48.4% in 2008 after three years of declines. It is now expected to post 29.8% growth in 2009 and 10.8% in 2010, after which it is expected to decline again throughout 2012.

³ This component of personal income consists of employer contributions for employee pension and insurance funds and employer contributions for government social insurance.

Dividend income fell 10.2% in 2008 and should decline another 17.4% in 2009, before returning to growth in 2010. The forecast calls for Dividend income to grow an average of 7.6% between 2010 and 2012. Interest income grew 8.6% and 3.2% in 2007 and 2008. The weak growth of interest income in 2008 is a consequence of the Fed's policy of easing interest rates in response to the economic crisis. Personal interest income is expected to decline 4.3% in 2009 and grow just 0.2% and 3.5% in 2010 and 2011 before resuming strong growth of 7.6% in 2012.

Related Income Measures

Wisconsin disposable personal income (total after-tax income received by persons available for spending or saving) grew 3.2% in 2008, higher than personal income, given the 1.8% decline in personal tax due to the 2008 federal fiscal recovery package. Personal tax payments should decline more than 20% in 2009 as a consequence of the federal recovery act. Thus, disposable income will show timid but positive growth in 2009 in spite of the decline of total personal income in 2009. In 2010 and 2011 Wisconsin disposable personal income should regain steady growth, growing at 3.0% and 3.2% as total personal income recovers and personal tax payments grow again. Toward 2012, with stronger personal income growth (4.4%) and lower personal tax payments growth, disposable income will climb 4.2%.

Per capita income grew 2.1% in 2008 to \$37,767; in real terms it fell 1.2% in 2008. It will decline 2.0% in nominal and 2.3% in real terms during the worst year of the recession, 2009. In the first year of the recovery, 2010, per capita income will post 2.7% growth and 1.1% when adjusted for inflation. It will return to healthier growth rates toward 2011 with 3.6% and 3.8% growth rates in nominal terms for 2011 and 2012, respectively.

Per capita income as a percent of U.S. personal income was 94.1% in 2008 and should increase to 94.4% in 2009 and 94.7% in 2010.

State GDP data is released on an annual basis. The latest data show that real Wisconsin GDP grew 0.9% in 2008, higher than the 0.4% growth of national real GDP. The forecast expects a 2.6% decline of real Wisconsin GDP in 2009 and a return to growth in 2010.

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