

# Spring Economic Outlook Forum



Center for  
Research  
**On the**  
**Wisconsin**  
Economy  
University of Wisconsin-Madison

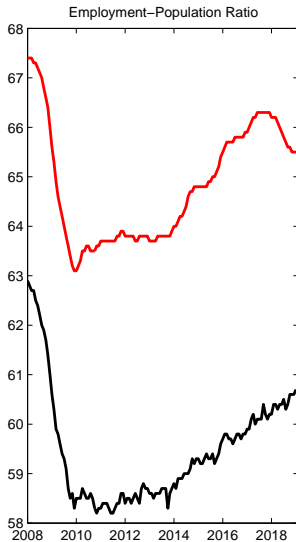
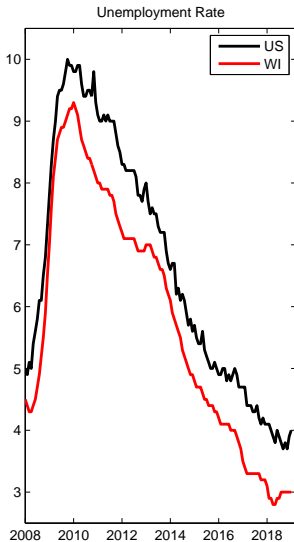
# CROWE: Brief Introduction

- Center for Research on the Wisconsin Economy (CROWE) established in Fall 2017 in Department of Economics, UW-Madison
- **Primary mission:** support and disseminate economic policy research, with particular focus on Wisconsin economy and state-level economic policy issues.
- Provide economic research opportunities for UW-Madison students, outreach from UW to business and policy
- **New announcement:** Associate Director Kim Ruhl, inaugural Mary Sue and Mike Shannon Chair in Economics.
- Follow us at <https://crowe.wisc.edu>

- Long and continued recovery since the Great Recession
- Tight labor market: low unemployment, high employment-population ratio
- **Labor force challenges:** low population growth, aging workforce, low migration
- Forthcoming CROWE research: Migration (Walker)
- Current CROWE research: Business dynamism (Alder)
- Forecasts for 2019 (Guo and Williams): slowing growth in US and state

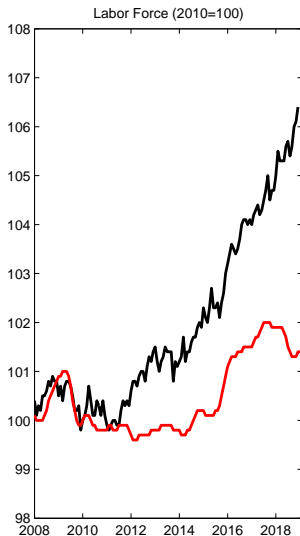
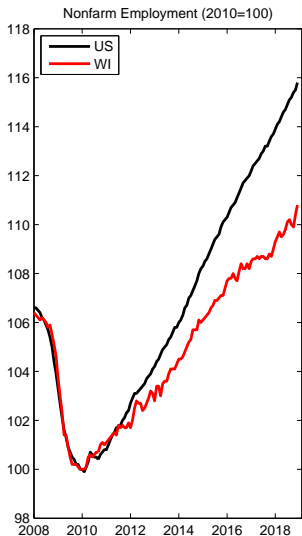
# The Labor Market Remains Tight

WI Unemployment: 2.9%, participation: 67.5%  $\Rightarrow$   
Employment-population 65.6% (US 60.7)

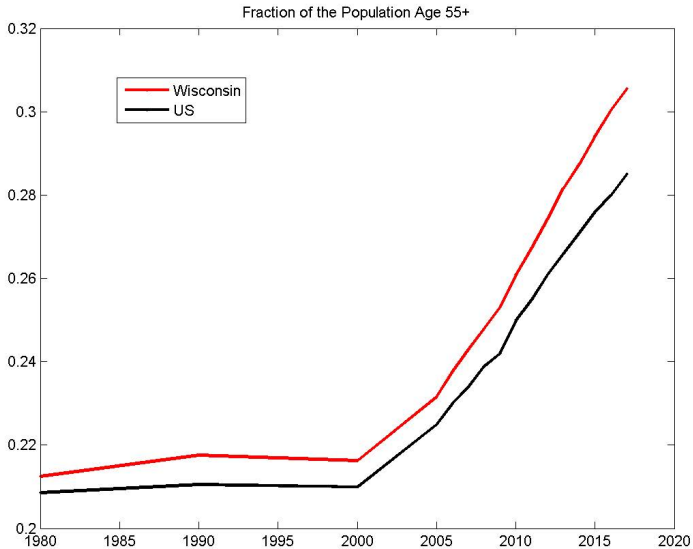


# Employment and Labor Force

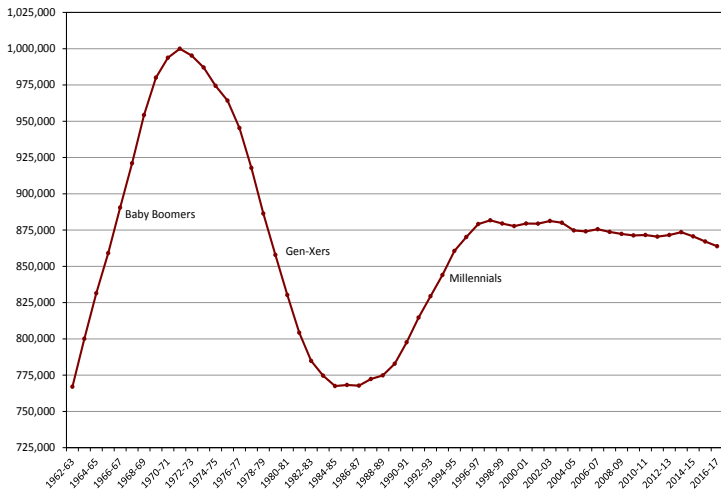
Job growth steady but lower in WI, slow workforce growth



# Aging of the Population

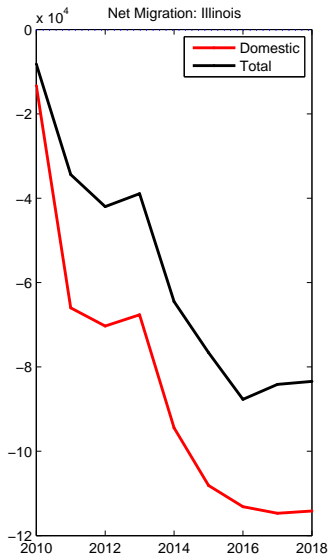
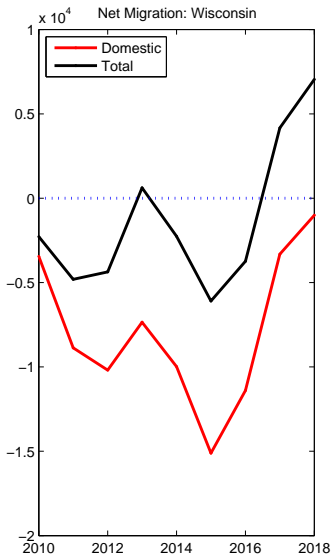


## Wisconsin's School Enrollment, 1962-2016



# Net Migration: Wisconsin and Illinois

WI outmigration abated recently. Contrast with IL



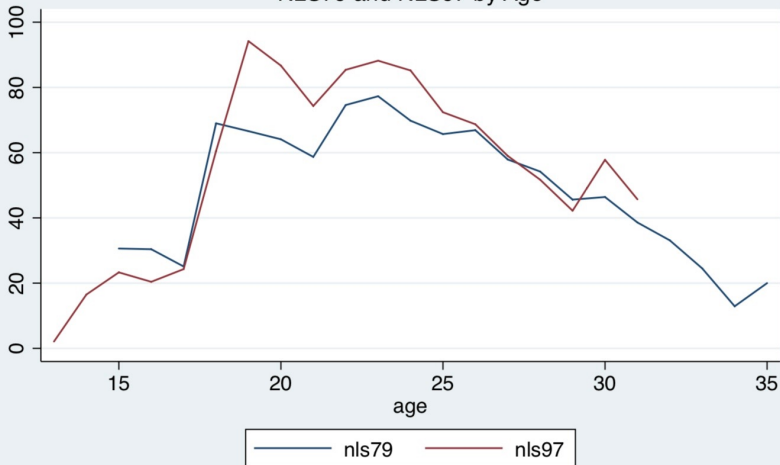


# Declining? Spatial Mobility in the United States

- Conventional wisdom is that interstate migration rates have fallen by 50% from 1970-2010, based on CPS data.
- Apparent lower geographic mobility spurred numerous stories about America being “stuck”, less dynamism, fading American dream. Search for causes and policy remedies.
- Forthcoming CROWE report by Faculty Fellow James Walker shows that the reported decline in interstate migration is due to data problems.
- Other sources (Census, ACS) show much smaller declines, and most reliable, the National Longitudinal Study, shows **no change**.
- Encouraging mobility is focus for Wisconsin. Will examine factors affecting it, important that no long run decline.

# Interstate Migration Rates

## Interstate Migration Rate per 1000 NLS79 and NLS97 by Age



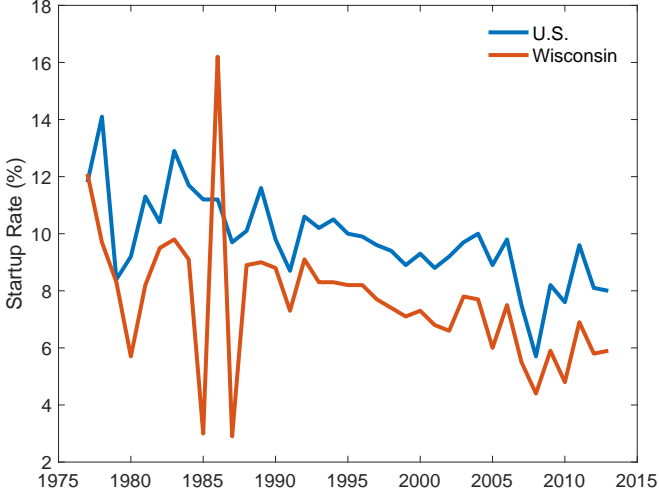
1979 Cohort from 1980s; 1997 Cohort from 2000s

# Business Dynamism in the U.S. and in Wisconsin

Broad consensus on decline of business dynamism in the U.S.:

- ▶ Scarcity of young, high-growth firms (“gazelles”) (Decker et al., 2016; Pugsley et al., 2018)
- ▶ Corporate concentration (Gutierrez and Philippon, 2017, Rossi-Hansberg et al., 2019)
- ▶ Mark-ups (de Loecker et al., 2018)
- ▶ Start-up activity (Hopenhayn et al., 2018)

# Startup Activity



## Startup Activity: A Decomposition (I)

$$\underbrace{\lambda}_{\text{Startup Rate}} = \underbrace{\xi}_{\text{Exit Rate}} - \widehat{\text{AFS}} + \widehat{\text{EMP}}$$

	U.S.	Wisconsin
Startup Rate	9.8%	7.6%
Exit Rate	8.7%	7.0%
Average Firm Size Growth	0.5%	0.8%
BDS Employment Growth	1.6%	1.4%

# Startup Activity: A Decomposition (II)

## Development Accounting

	$\lambda_{US} - \lambda_{WI}$	$\xi_{US} - \xi_{WI}$	$\widehat{AFS}_{US}$ $-\widehat{AFS}_{WI}$	$\widehat{EMP}_{US}$ $-\widehat{EMP}_{WI}$
Average Difference (1977-2014)	2.2 pp	1.7 pp	-0.3pp	0.2 pp
Contribution to $\lambda_{US} - \lambda_{WI}$		79.4%	12.6%	8.0%

# Startup Activity: A Decomposition (III)

## Growth Accounting

	US	Wisconsin
Change in exit rate	39.5%	27.3%
Change in average firm size growth	-12.5%	1.9%
Change in BDS employment growth	72.9%	70.8%
Total	100%	100%

# Startup Activity: A Decomposition (IV)

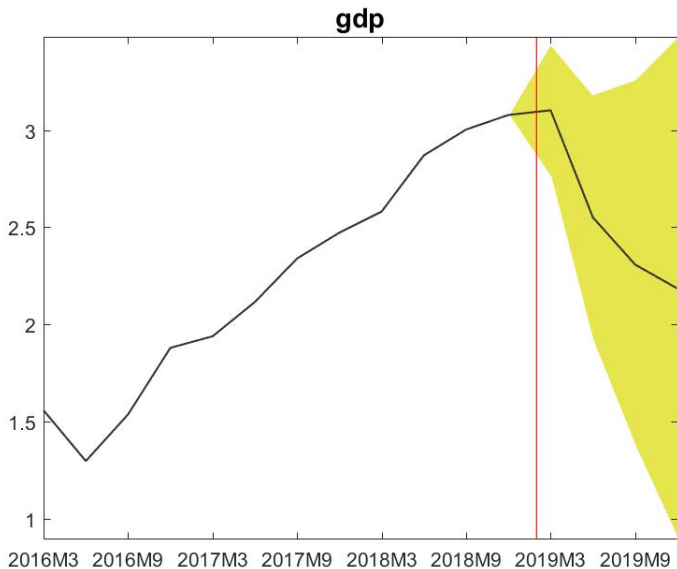
Growth Accounting: Demographic Trends

	U.S.	Wisconsin
Change in $\widehat{EMP}$	-2.7 pp	-2.7pp
⋮	⋮	⋮
Change in $\widehat{LFPR}$	-1.1 pp	-1.8pp

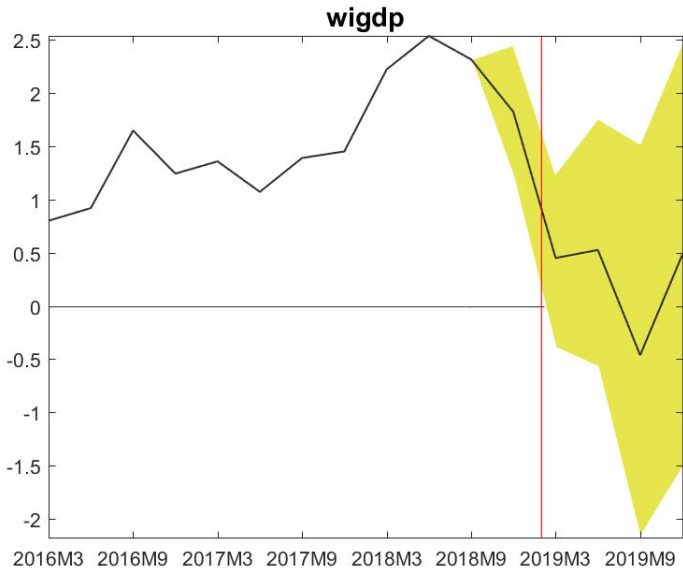


- Recently at CROWE we have constructed a forecasting model for the US and WI economies
- We adapt an approach that was used the Federal Reserve Bank of Minneapolis to forecast the US economy.
- For 2019 we see a growth slowdown for the US and WI.
- We forecast national growth to slow from 3.1% to 2.2%, WI unemployment rate to increase from 3% to 3.9%.

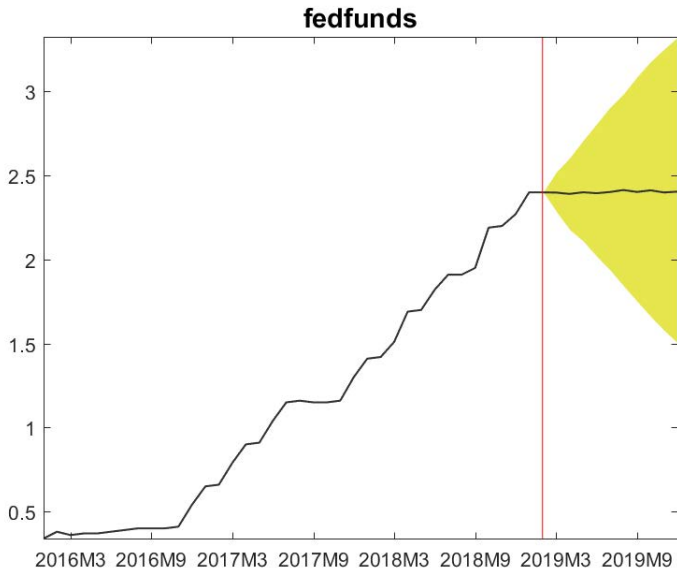
# National Forecast: GDP Growth



# Wisconsin Forecast: GDP Growth



# National Forecast: Federal Funds Rate



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