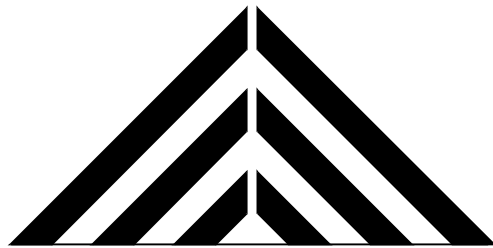


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## **Section 2**



**Level of the Economy**

**Wisconsin's  
New North Region**

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## ***Level of the Economy***

Section 1 statistically and visually identified the elements of the economy relating to each industry's proportion of contribution, growth, and consistency. Section 2 examines the level of the economy as it pertains to growth in "quality and size" relative to the people living and working in the area. In this Section, the area is statistically compared to the state, the nation, and the ten strongest and weakest Metropolitan or Micropolitan area economies in the United States.

POLICOM Corporation ranks the 361 Metropolitan (METRO) areas and the 577 Micropolitan (MICRO) areas for "Economic Strength." Economic Strength is the "long term tendency for an area to consistently grow in both size and quality." After determining the strongest and weakest areas, the characteristics of each are studied. Some of the results of that study are included in this Section as the averages for the ten **strongest** and the ten **weakest** economies are used for comparison. For a complete list of the economic strength rankings and a discussion of the methodology, go to [www.policom.com](http://www.policom.com) and click "Metropolitan Areas."

The following are the ten strongest and weakest METROS and MICROS based upon the 2006 POLICOM rankings.

### **Ten Strongest Metropolitan Areas**

- 1 Charlotte-Gastonia-Concord, NC-SC (MSA)
- 2 Nashville-Davidson-Murfreesboro, TN (MSA)
- 3 Washington-Arlington-Alexandria, DC- (MSA)
- 4 Birmingham-Hoover, AL (MSA)
- 5 Minneapolis-St. Paul-Bloomington, MN-WI (MSA)
- 6 Atlanta-Sandy Springs-Marietta, GA (MSA)
- 7 Columbus, OH (MSA)
- 8 Phoenix-Mesa-Scottsdale, AZ (MSA)
- 9 Indianapolis-Carmel, IN (MSA)
- 10 Las Vegas-Paradise, NV (MSA)

### **Ten Strongest Metropolitan Areas**

- 1 Concord, NH (McrSA)
- 2 Lebanon, NH-VT (McrSA)
- 3 Hilton Head Island-Beaufort, SC (McrSA)
- 4 Edwards, CO (McrSA)
- 5 Easton, MD (McrSA)
- 6 Augusta-Waterville, ME (McrSA)
- 7 Helena, MT (McrSA)
- 8 Daphne-Fairhope, AL (McrSA)
- 9 Hilo, HI (McrSA)
- 10 Bozeman, MT (McrSA)

### **Ten Weakest Metropolitan Areas**

- 361 Danville, IL (MSA)
- 360 Danville, VA (MSA)
- 359 Johnstown, PA (MSA)
- 358 Pocatello, ID (MSA)
- 357 Pascagoula, MS (MSA)
- 356 Odessa, TX (MSA)
- 355 Pine Bluff, AR (MSA)
- 354 Florence-Muscle Shoals, AL (MSA)
- 353 Grand Forks, ND-MN (MSA)
- 352 Houma-Bayou Cane-Thibodaux, LA (MSA)

### **Ten Weakest Metropolitan Areas**

- 577 Pecos, TX (McrSA)
- 576 Tallulah, LA (McrSA)
- 575 Silver City, NM (McrSA)
- 574 Atchison, KS (McrSA)
- 573 Wauchula, FL (McrSA)
- 572 West Helena, AR (McrSA)
- 571 Williston, ND (McrSA)
- 570 Jennings, LA (McrSA)
- 569 Portales, NM (McrSA)
- 568 Maryville, MO (McrSA)

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To visually compare the growth of the economy of the area to the rest of the nation, much of the data is **“factored.”** This simply means the data for all the areas is statistically brought to a common denominator for direct visual comparison. The mathematics are rather simple. First, the annual percentage increase from the previous year is calculated for each year of the study term (the study term in this Section is from 1975 through 2004). Second, the annual percentage increase is multiplied by the same number or factor for each area. It does not matter what number it is, as long as it is the same number for all areas. POLICOM chooses 1000 as the factor beginning.

Some of the data is adjusted for inflation prior to the factoring process (CPI). Earnings and wages are brought to the value of the 2004 dollar, then the growth percentages are calculated, then the data is factored.

The year 1975 serves as the basis year. All areas begin at 1000 at this point. Where they wind up is determined by their respective percentage increase. This process is similar to the start of a track race. Every runner begins at the same spot. By factoring the data, direct, visual comparisons can be made. The following are the categories examined in detail in the section:

- Annual Earnings Per Worker - Wages
- CPI Adjusted Wages
- % of Gain of the Wages
- CPI Factored Wages
- Factored Comparisons – Population, Earnings, Employment
- Population – Factored Comparisons
- Earnings – CPI Factored
- Employment – Factored
- Per Capita Personal Income – CPI Factored
- Government Transfers

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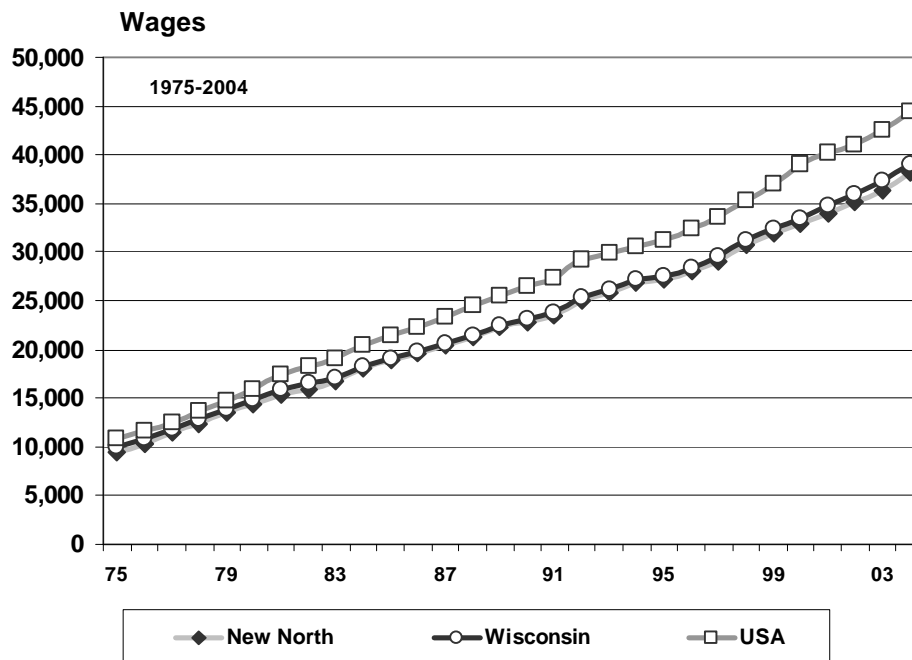
## *Annual Earnings per Worker (Wages)*

One of the best means to measure the “quality” of a local economy is to examine the growth in the Annual Earnings per Worker (Wages). The annual earnings by people in an area, and respective growth, establishes the level of their “standard of living.” How much money they earn each year determines the quality of their housing, the food they eat, the amount of taxes they can pay, and the size of their savings or retirement account.

Earl Nightingale, the famous writer and philosopher, was fond of saying, “there is nothing more important than money... for those things for which money is intended.”

Since the amount of money people are paid each year, for the vast majority of the people, determines their lifestyle and standard of living, the annual earnings per worker will be examined thoroughly for the area.

The following graph shows the actual Wages for the New North Region, the state, and the nation from 1975 to 2004.

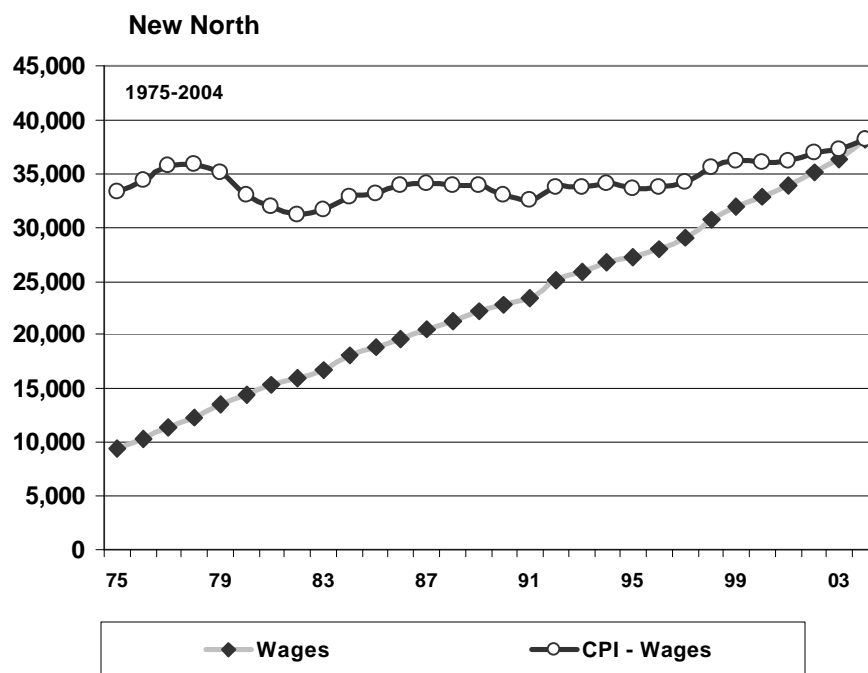


## *CPI Adjusted Annual Wages*

The previous graph showed the actual Wages for the area. While the growth trend could be visualized, it is difficult from that graph to identify relative improvement in Wages. Due to inflation over the years, the value of the earnings in 2004 is different from the value in previous years. If an area gained 3% in one year while inflation was 5%, the value of the Wages, or quality of the growth, actually declined.

To determine if the quality of the economy has grown, Wages need to be adjusted for inflation. Using published inflation information provided by the Bureau of Economic Analysis, the Wages for each year were brought to the value of the 2004-dollar. By adjusting for inflation, we can determine if the quality of the economy has actually improved over the course of time. The graph below shows the actual Wages along with the CPI Adjusted Wages. Every economy dipped during the high inflationary period in the late 70's and early 80's.

The adjusted line shows the “real” growth in the quality of the economy relative to inflation. Note whether or not the area’s adjusted wage in 2004 is higher than the 1975 level. Unfortunately, there are many economies in the country in which it is not. Also note the line pattern for the last ten years. Is it declining, flat, or increasing? This represents the trend for the quality of the economic growth for the area by this measure.



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## *% the Area Wage Is Of ...*

Having now determined if the quality of the economy has grown, stayed the same, or declined, based upon the CPI-Wages, it is important to discover if this pattern is unusual, good, or bad relative to rest of the nation. Has the quality of the growth in the New North Region gained or lost ground relative to the state or the nation?

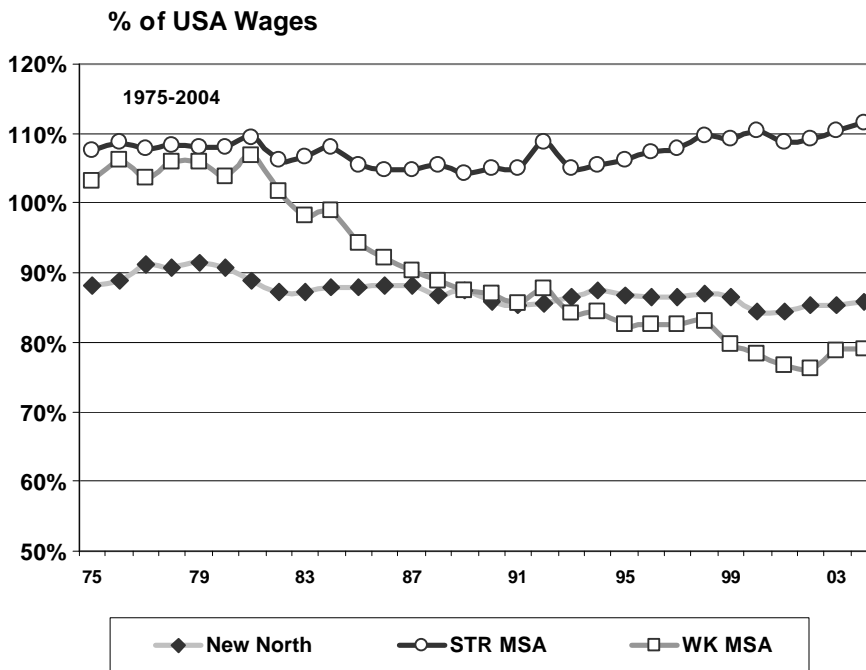
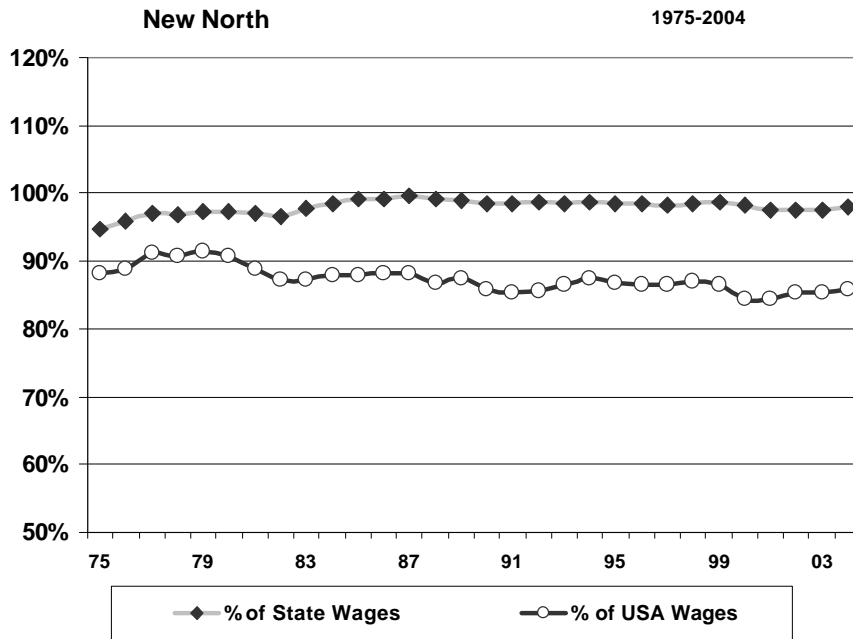
Since the cost of living varies among areas in the country, comparing the actual Wages is not statistically valid. An individual earning \$30,000 per year in a rural county in Kansas has much more purchasing power than an individual earning the same amount of money living in New York City. Therefore, other methods are used to make comparisons.

The first method of comparison is to calculate the percentage the New North Region's unadjusted Wages are of the state and the USA. For each year, Wages were divided by the Wages for the state and the nation. As an example, if the area's Wages for 2004 were \$25,000 and the state's Wages were \$26,000, the percentage of the area's Wages of the state's would be 96%.

By doing this calculation for all of the years, a pattern or trend can be determined. The question is: "Has the quality of the economy gained or lost versus the state or nation?"

If, in one year, the area's Wages were 90% of the state's, and the next year they were 92%, the area gained against the state. However, if the following year the area's Wages were 88% of the state, then it did not improve as much as the state.

The first graph on the following page shows the percentage the New North Region's average Wage is of the state and the USA for each year. The second graph shows the percentage the Wages are of the USA along with the average of the strongest 10 economies and the weakest 10 economies. Each time the line goes up, the area gained, when it goes down, it lost.



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## *CPI Factored Wages*

Finding the percentage the area's Wages are of the state and the nation is one method to determine the relative growth or decline of the quality of the economy. A second method is to review the CPI Factored Wages. (See "Factored Data" in the beginning of this Section for an explanation of this concept.)

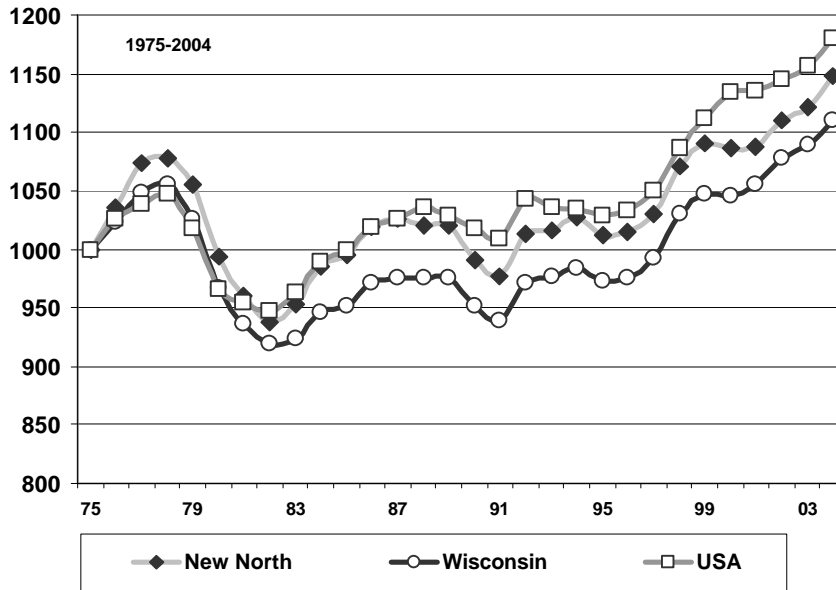
By factoring the inflation adjusted Wages for each area, we can visually compare the growth of the quality of each economy.

Beginning at the same starting point in 1975 (1000), the CPI Factored Wages demonstrates the level of the quality of the economy to 2004. Remember communities suffered a decline in quality during the high inflationary period in the late 70's and 80's.

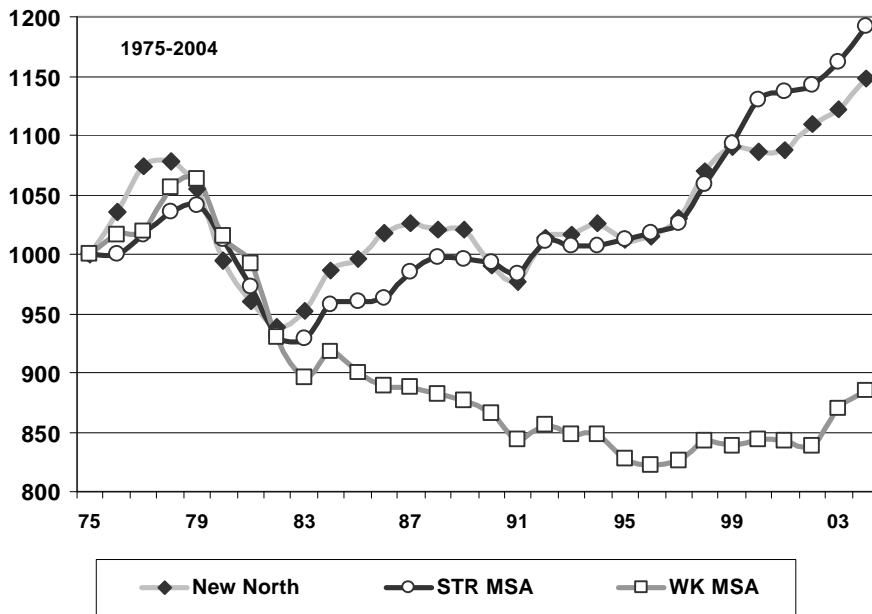
The first graph compares the New North Region to the state and the USA and the second graph compares it to the ten strongest and weakest economies in the nation.

Note how the strongest areas have a level significantly higher in 2004 than in 1975 and the weakest significantly lower.

**CPI Factored Wages**



**CPI Factored Wages**



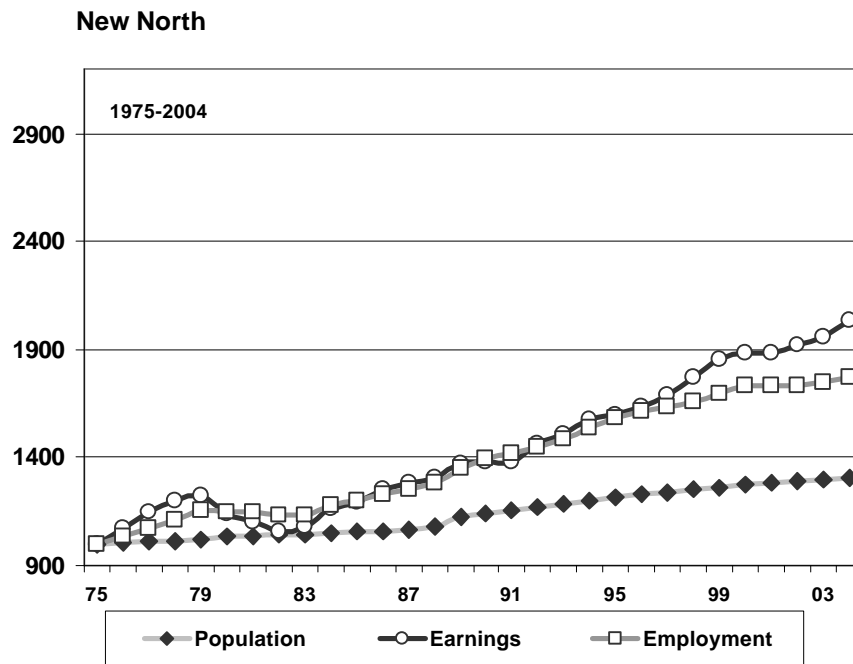
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## *Factored Comparisons – Population, Earnings, Employment*

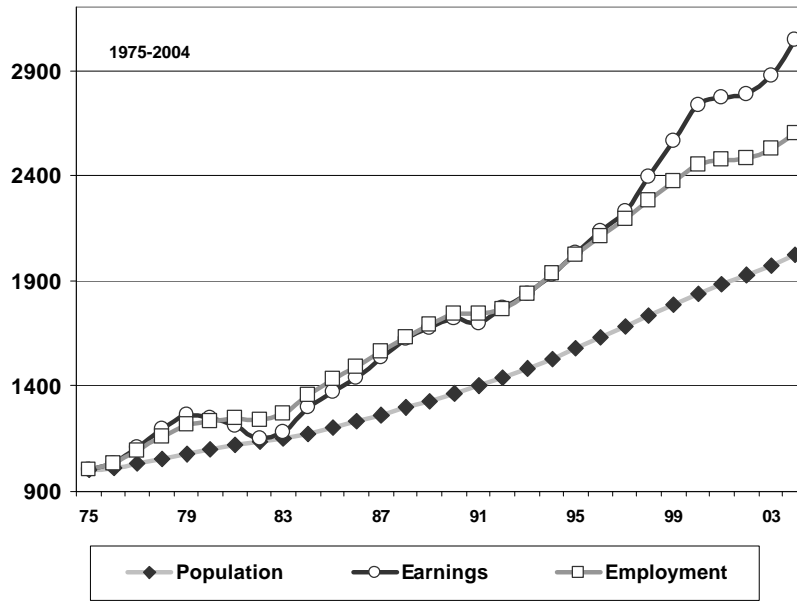
The previous graphs measured and compared the “quality” of the economic growth for the New North Region. The following discusses the “size or volume” of the economic growth. Growth in size is reflected in the growth of total earnings, total employment and the relationship to the growth of the population.

The growth rates for population, CPI adjusted earnings, and employment have been factored for the following graphs for direct comparison. Three important characteristics should be noted when studying the following graphs. In strong economies: 1) both lines for earnings and employment will be increasing, 2) the rate of growth of population should be slower than the growth of both earnings and employment, and 3) the rate of growth for earnings should be higher or be “pulling away” from the growth line for employment.

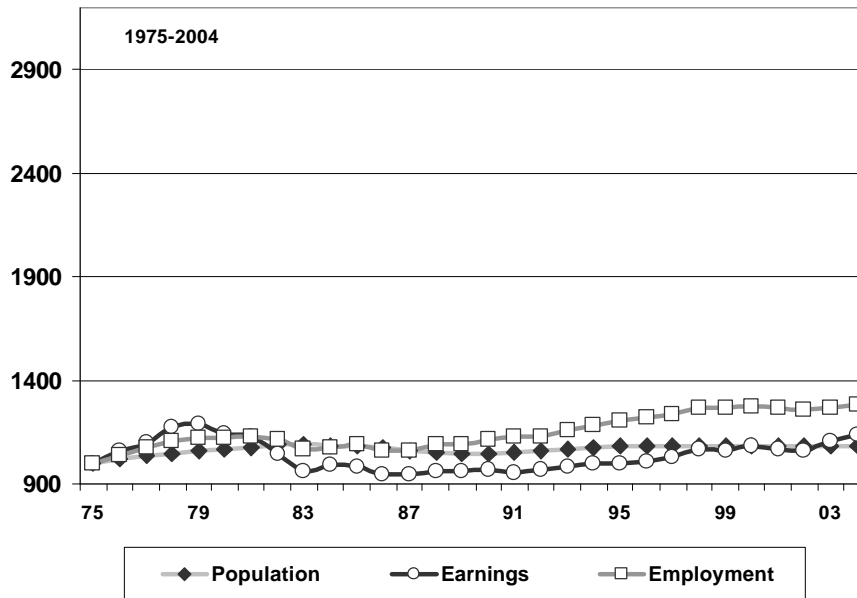
Graphs for both the Strongest and Weakest METROS and MICROS are provided on the following pages for visual comparison.



**STR MSA**

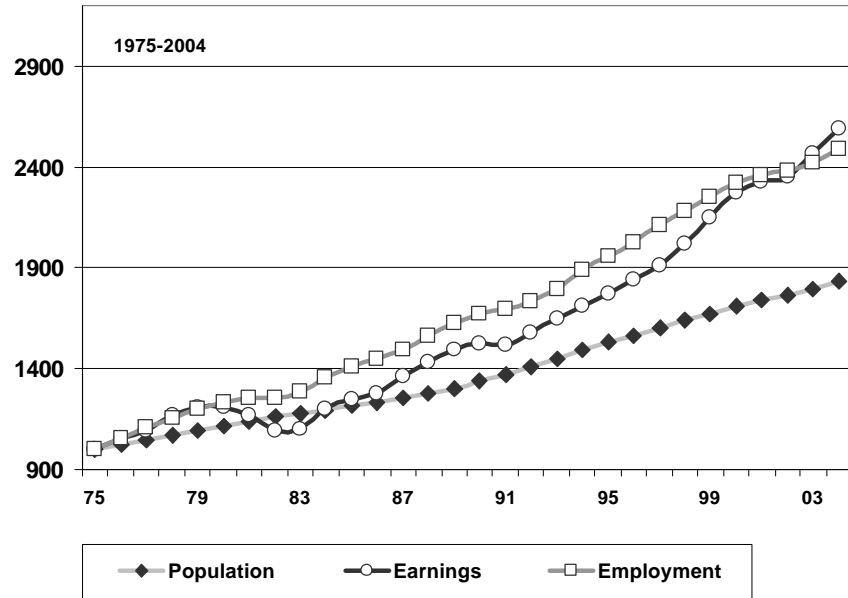


**WK MSA**



# MICRO

## STR MICRO



## WK MICRO



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## *Population*

It is a characteristic of strong economies to grow in population, but not all areas, which have grown significantly in population, have strong economies. However, the strongest economies typically do not have the fastest population growth rate in the United States.

Of the 50 strongest METRO areas, only 11 are among the 50 fastest growing areas in population over the ten year period from 1995 to 2004. Among the 50 strongest MICRO areas, 12 placed in the top 50 in population growth among the 577 MICROS.

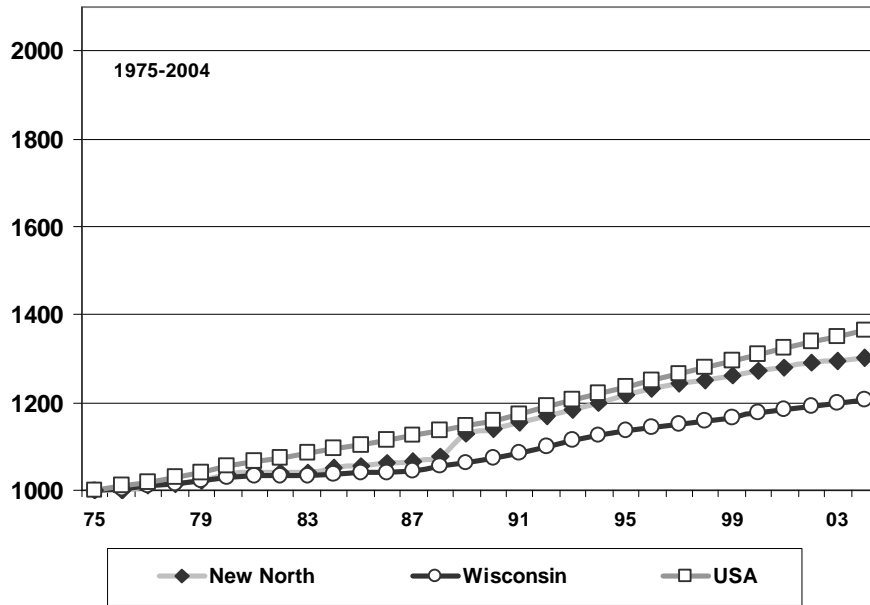
Overall, it is a characteristic of weak economies to have extremely slow population growth or actual population decline. Among the 50 weakest METRO areas, 24 lost population and only 6 grew in population at a rate faster than the USA average from 1995-2004. Among the 50 weakest MICROS, 30 lost population and only 3 grew at or better than the nation as a whole.

Growth in population, however, is a natural occurrence in strong economies. As a result of quality employment opportunities, fewer young people leave the area to seek a career, choosing to remain “at home” to start their families. Additionally, there is in-migration of others to the strong areas, typically from weak economies, because of the economic opportunities.

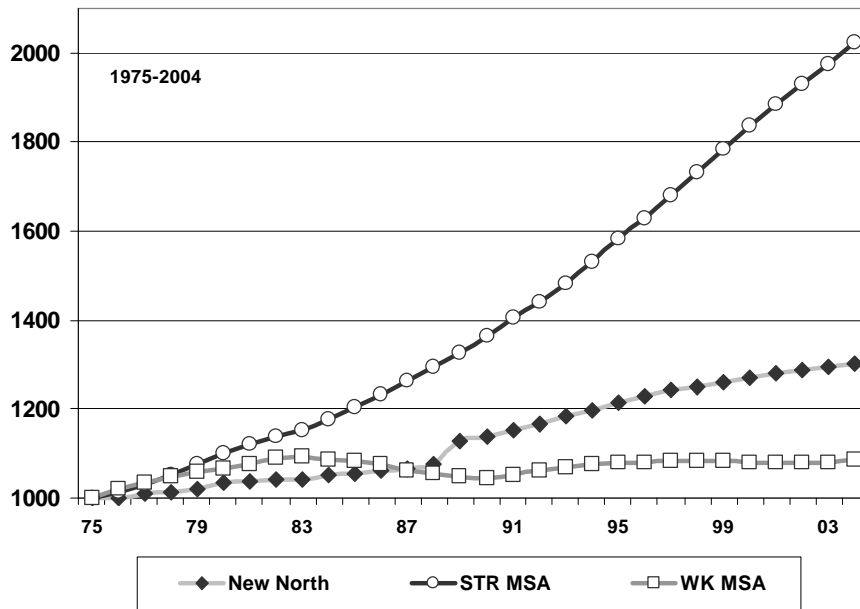
The reverse is the case for weak economies. Residents many times have to move from their homes to other areas to find basic employment. For highly educated and skilled individuals, they leave as quality “career” jobs many times to not exist in the weak areas.

An area will grow in population for three reasons: 1) a strong economy, 2) in-migration of non-working individuals (typically retirees), and 3) immigration from a foreign country (prevalent along the border with Mexico.)

Population Factored



Population Factored



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## ***CPI Factored Earnings***

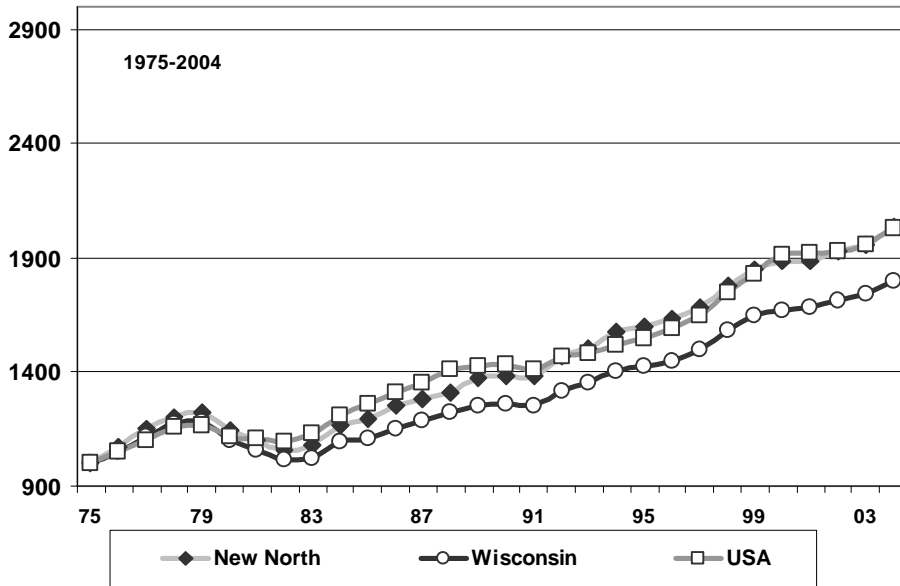
One of the two best ways to measure the growth in the size of the economy is to examine the total Earnings in the area. Earnings are the volume of money being moved throughout the economy via the various industries through wages paid to workers and the earnings of small business proprietors. Please see Section 1 for the meaning of Earnings.

The relative growth of Earnings demonstrates the increase in the volume of the economy. Total Earnings have been adjusted for inflation just like Wages to create the CPI Adjusted Earnings. The CPI Adjusted Earnings were then factored.

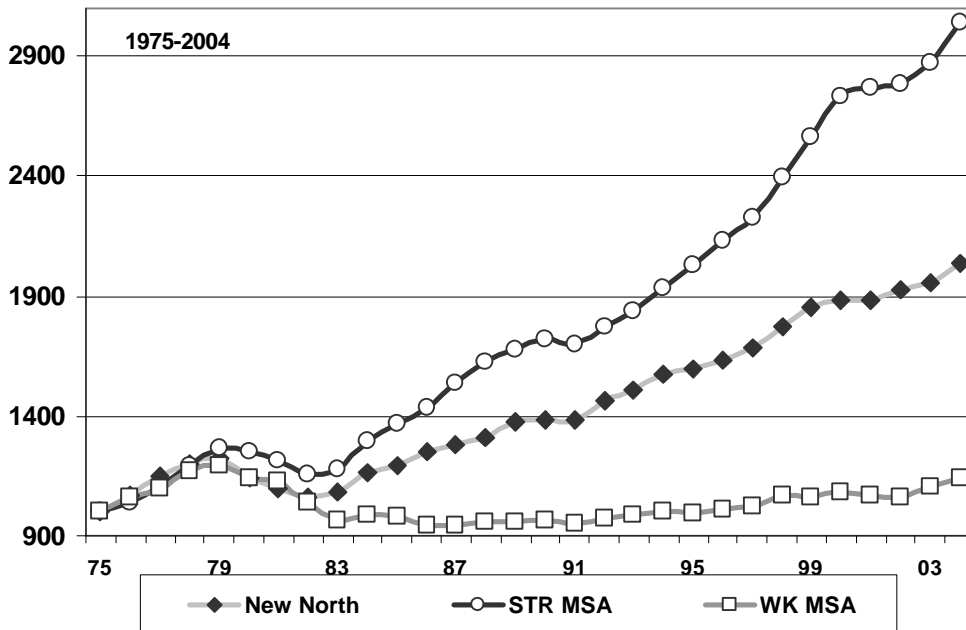
On the following graphs, the CPI Factored Earnings are compared to the state and nation and to the strongest and weakest economies.

Note how the strongest economies have had smooth, consistent growth in the quantity of their Earnings while the weakest areas have basically had no relative growth for the last fifteen years.

### CPI Earnings Factored



### CPI Earnings Factored



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## ***Employment - Factored***

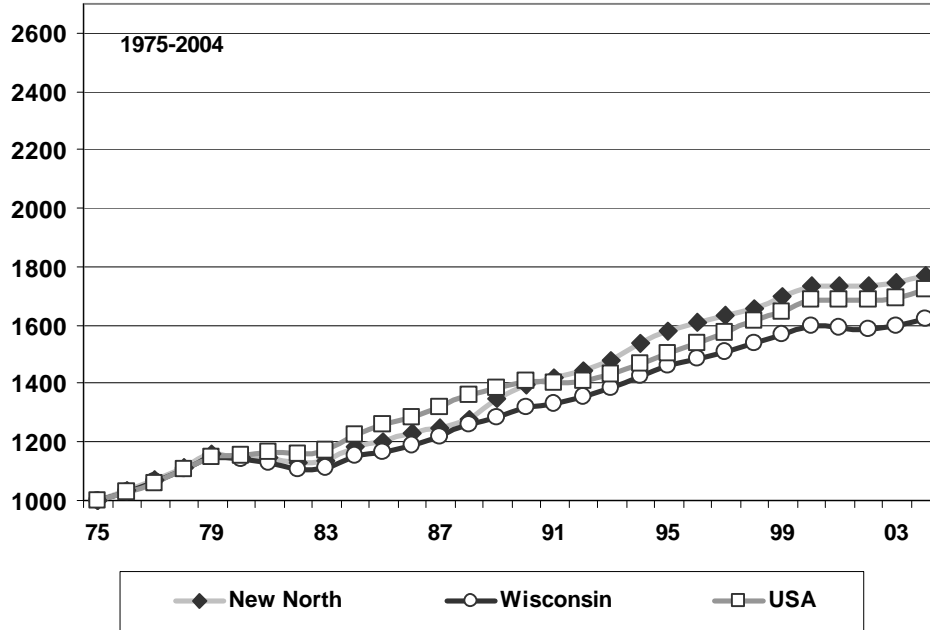
A second, corresponding way to measure the growth in the size of the economy is to examine the total Employment in the area. Employment is the number of people moving the money throughout the economy via the various industries. Please see Section 1 for the meaning of Employment.

As with Earnings, the growth of Employment demonstrates the increase in the size of the economy. Total Employment is not affected by inflation and has not been adjusted for changes in CPI. The growth rate for employment has been factored for comparison.

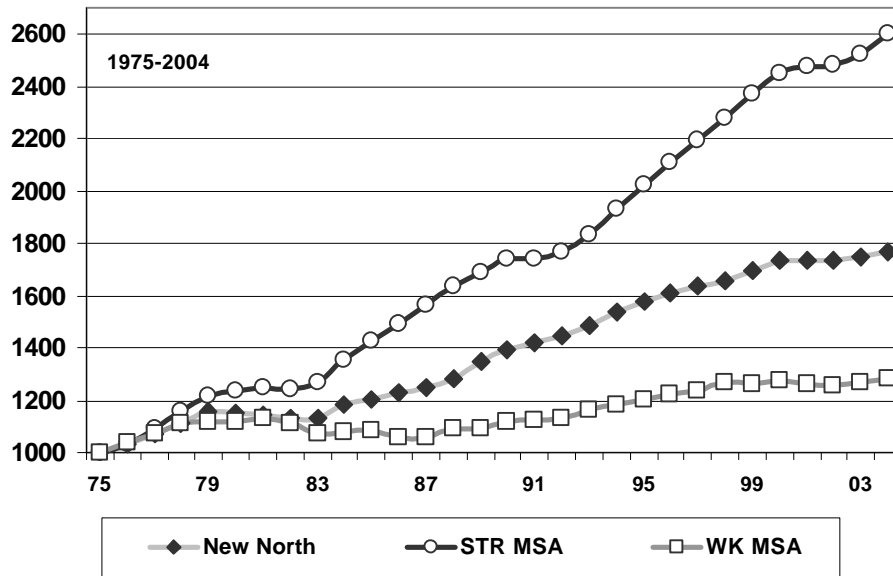
On the following graphs, the Factored Employment is compared to the state and nation and to the strongest and weakest economies.

Note how the strongest economies have had a smooth consistent growth in the quantity of their employment. The weakest areas have had some increase in the number of jobs over the last fifteen years, but the increase is extremely low.

### Employment Factored



### Employment Factored



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## *Per Capita Personal Income – CPI Factored*

Per Capital Personal Income (PCPI) is the Total Personal Income for the area divided by the resident population (mid-year population estimate). Please see Section 1 for an explanation of Total Personal Income (TPI).

Growth in PCPI has been a traditional method of measuring the growth in the quality of an economy but should be used with trepidation. Due to the methods used to calculate both TPI and PCPI, the results can be very misleading regarding the condition of the local economy.

As stated in Section 1, TPI has three components: 1) earnings by place of residence, 2) passive income, and 3) government transfers.

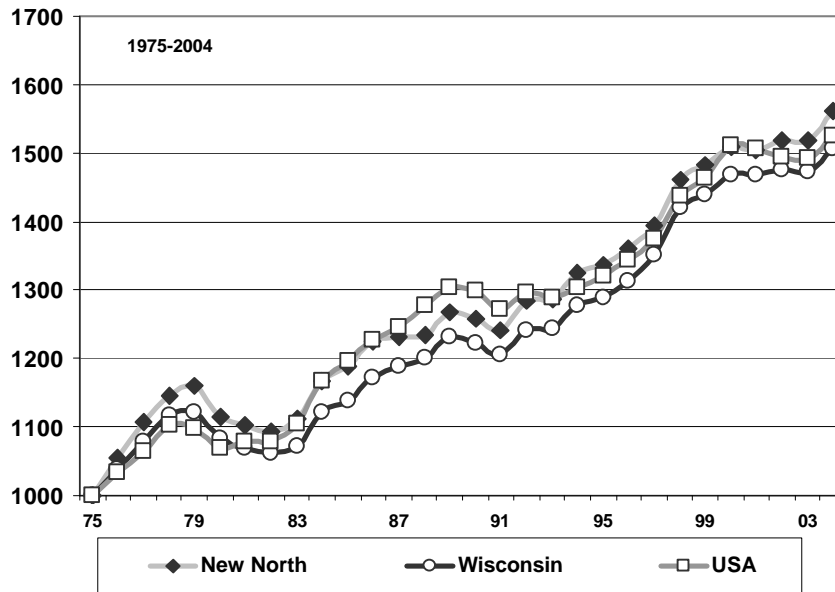
Data for the first two is collected from personal income tax. When an individual files personal income tax, the individual identifies a county of residence. It is to this county the individual's earnings and passive income is credited. Some states have tax policies which encourage out of state individuals to own a second home in the state, claim the state as their legal residence, and file their income tax from that state, even though the income was actually earned in another state. This practice increases the TPI for county and state of declared residence while the income has nothing to do with the local economy.

Additionally, distressed areas typically grow in the amount of Government Transfers related to aiding the poor, such as Medicaid and income maintenance payments. Once again, the TPI increased, but only because the economy is weak, not strong.

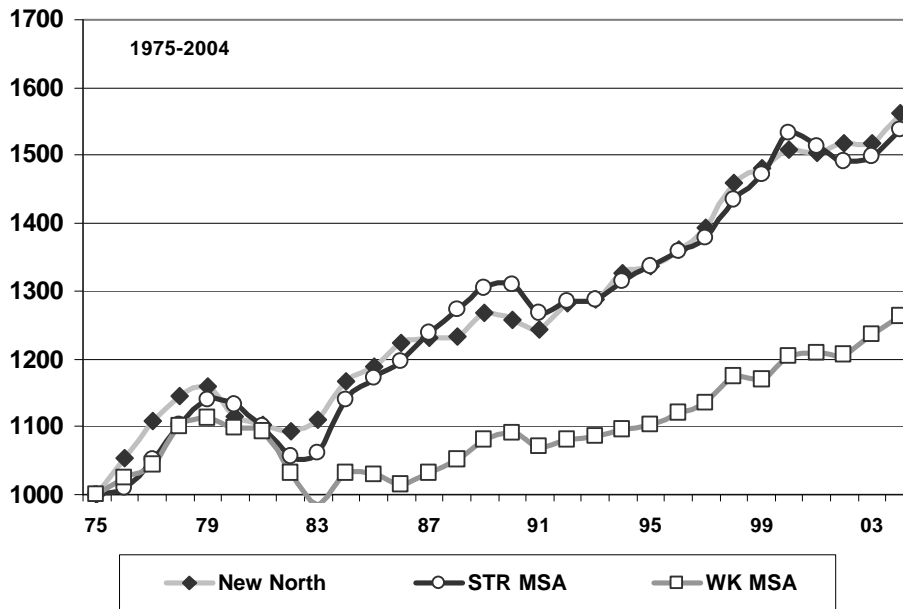
Another distortion can occur due to population anomalies. The presence of a prison or a large university in the area can increase the population count, diluting the PCPI.

The PCPI has been adjusted for inflation and factored. On the following graphs, note the line for the strongest areas is similar to the growth line for CPI Factored Wages. However, for the weakest areas, the line has gone up, while their CPI Factored Wages went down. This phenomenon can be explained by examining Government Transfers.

**CPI Factored PCPI**



**CPI Factored PCPI**



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## *Government Transfers*

From the previous graphs for CPI Factored PCPI, it was discovered the weakest economies grew in this category while declining in CPI Factored Wages. This can be attributed to the growth of Government Transfers. Please see Section 1 for an explanation of Government Transfers.

The percentage Government Transfers are of the Total Personal Income not only is an indication of the strength of a local economy, but also can be one of the causes of the condition of the economy. When Government Transfers are spent, the money typically enters the economy in either the Services or Retail sectors. Services and Retail are typically two of the lowest paying employment sectors in a local economy. Areas with a high percentage of Government Transfers have a much greater proportion of the workforce employed in the lowest paying sectors of the economy than areas with a lower percentage of Government Transfers.

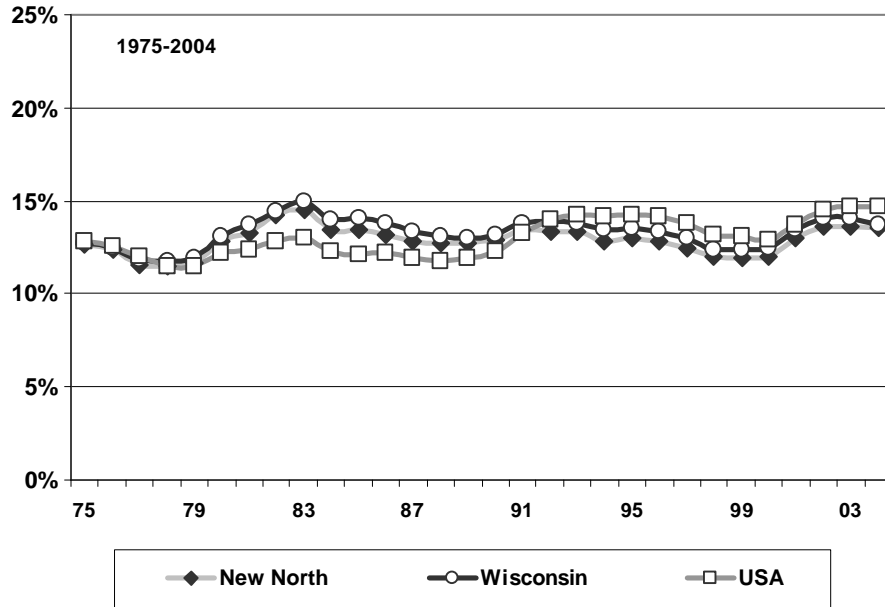
Areas with a high percentage of Government Transfers have 1) a large portion of the population over the age of 65, 2) high economic distress, or 3) a combination of both.

It was noted in Section 1 – Total Personal Income, that it is a characteristic of strong economies to have a relatively low percentage of Government Transfers as a component of TPI and a high percentage attributed to Earnings. The opposite is true for weak economies.

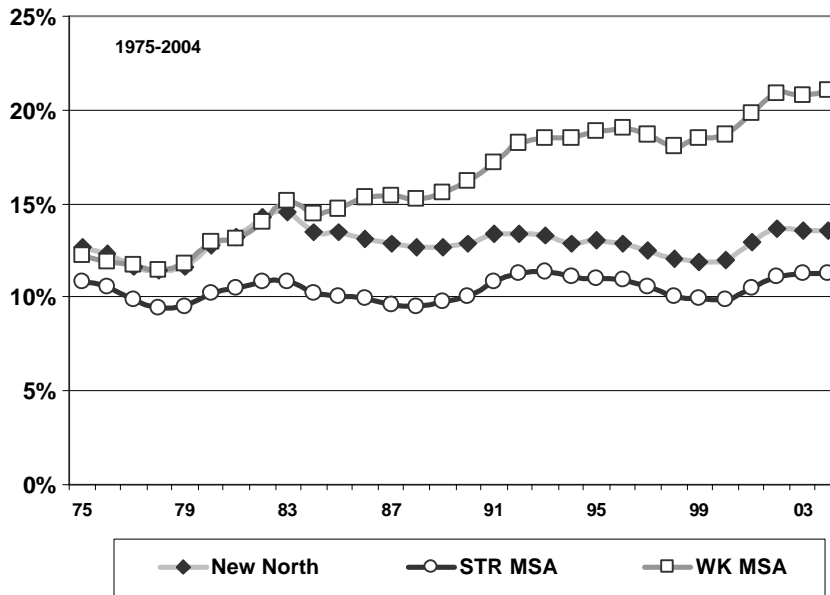
The first of graphs show the annual percentage Government Transfers are of TPI. Note how in the weakest areas this percentage has grown since 1975.

The stacked bar graphs, which follow, demonstrate the shift from 1975 to 2004 in the composition of TPI. Graphs are provide for both METRO and MICRO areas. Note how the strong economies have maintained a large percentage of TPI attributed to earnings by residence and a small percentage of Government Transfers, while the reverse is true for the weak areas.

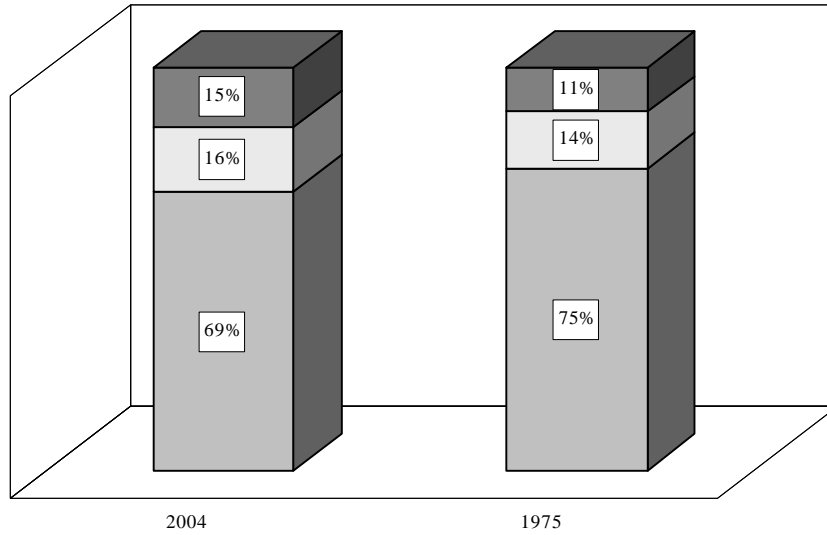
**Transfers % of TPI**



**Transfers % of TPI**

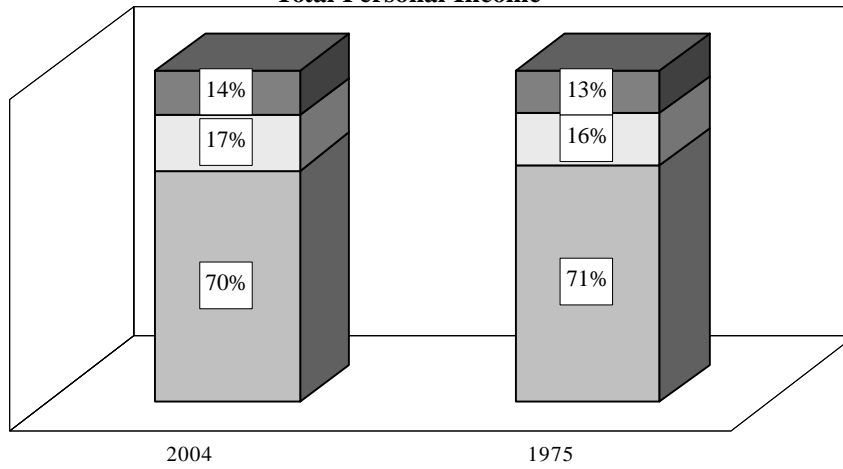


**USA**  
**Total Personal Income**



■ Earn ■ Div ■ Trans

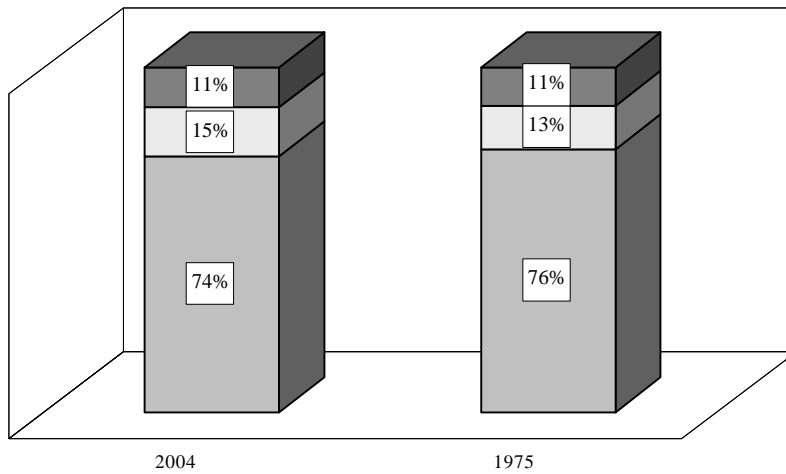
**New North**  
**Total Personal Income**



■ Earn ■ Div ■ Trans

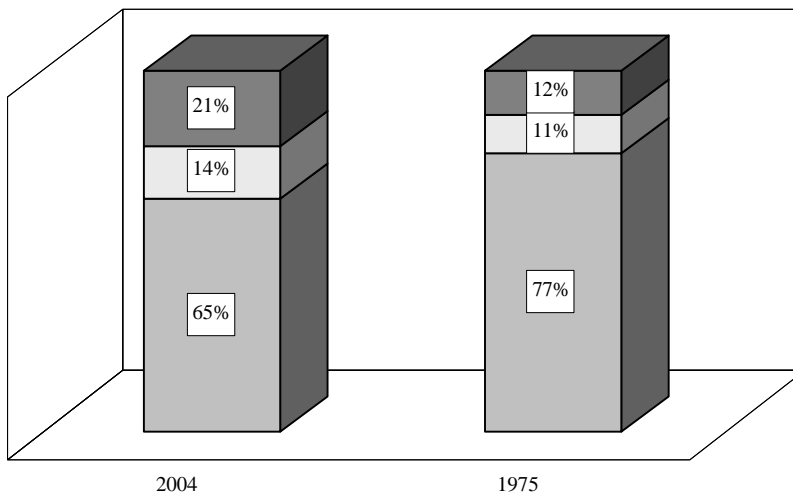
## STR MSA

### Total Personal Income

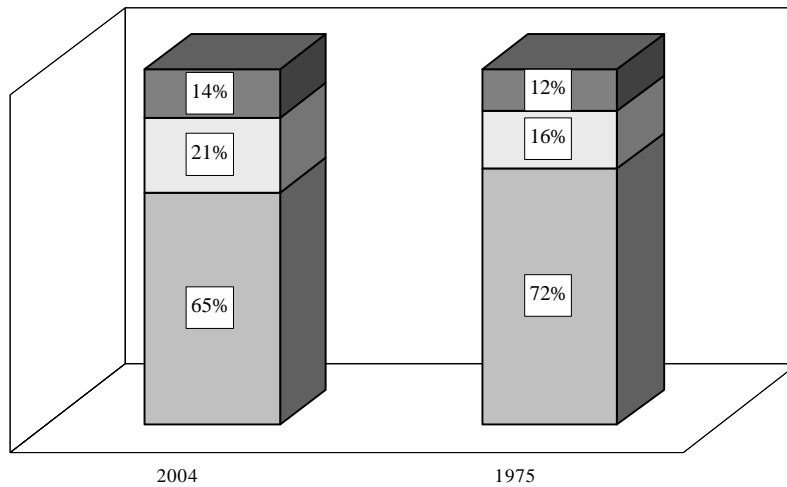


## WK MSA

### Total Personal Income

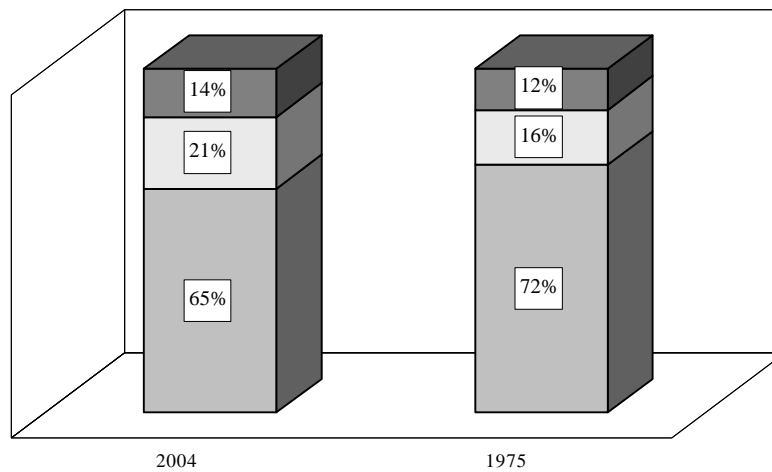


**STR MICRO**  
Total Personal Income



■ Earn ■ Div ■ Trans

**STR MICRO**  
Total Personal Income



■ Earn ■ Div ■ Trans