7 Rivers Region:
An Economic Update

October 1, 2015

- ***Economic Indicators and Trends***
  Taggert J. Brooks, Ph.D.
  UW-La Crosse Economics Department

Economic Indicators

Economic Indicators: An Update for the 7 Rivers Region reports on a long-term study of regional economic indicators. The research is ongoing and spans a period of time to enable us to understand and report trends. This project is expected to continuously build on a base of economic information and provide decision makers with valuable tools for strategic planning. The information will also provide a basis for comparison with other regions and a measure of our progress.

State Bank Financial sponsors this research project in collaboration with the University of Wisconsin-La Crosse College of Business Administration and the *La Crosse Tribune*.

Specific goals of this project are:

- Support business owners in their business decisions by gathering key local economic indicators and trend information.
- Develop specific economic indicators for this region that are not readily available to decision makers.
- Develop tools to assess our progress in economic growth. Prepare baseline measures that will allow comparison with other regions and measure future progress of the region.
- Track the region's participation in the "new economy" and development in the high tech arena.
- Bring professionals together with business owners for discussion about the local economy and related critical issues.
- Create a business recruitment and retention tool by publishing the information.

Core economic indicators cover the following areas:

- Employment
- Income
- Cost of Living
- Consumer Attitude and Behavior
- Real Estate and Housing
- Interest Rates
- Equity Performance

Economic Indicators and Trends
Taggert J. Brooks, Ph.D., UW-La Crosse Department of Economics

October 2015:

Over the summer President Obama made a historic appearance in La Crosse to talk about "Middle Class Economics."[1] One of the ideas he briefly discussed was a new rule proposed by the Department of Labor which seeks to update the wage test of the Fair Labor Standards Act (FLSA).[2] The FLSA, among other things, governs who is covered by the Federal minimum wage, and when and how much is paid for overtime. Currently the rules require all hourly employees who work more than 40 hours be paid a minimum wage and are paid premium overtime for more than 40 hours of work. It also requires that salaried workers who make less than $455 per week be paid overtime wage premium in the event they work more than 40 hours. The proposed rule change will take the salary test from $455 to about the 40th percentile of the wage distribution, which is about $970 per week. Anyone that is making a salary less than the new salary ($50,440 per year) would be subject to the FLSA and be eligible for overtime premium pay.

Currently in the United States according to rough estimates based on the Bureau of Labor and Statistics[3] employment data and estimates from the American Action Forum,[4] we have approximately 130 million people employed that are aged 16+, with about 41% or 53 million salaried, while the remaining workers are hourly and thus currently covered by both minimum wage laws and overtime pay laws. Of the salaried workers about 17.6 million (33.6% of salaried workers) currently make between $455 and $970 week. However not all of the 17.6 million workers currently work more than 40 hours per week. Estimates from the conservative think tank, the American Action Forum, indicate about 3.0 million of those (or 5.7% all salaried workers) currently work more than 40 hours.

Calculating the number of workers in the region for which this rule will bind requires some "back of the envelope" calculations. The following table comes from the Bureau of Labor and Statistics Occupational Employment Statistics. TOT_EMP represents the total employment for

[1] "Remarks by the President on the Economy – La Crosse, WI," *The White House, Office of the Press Secretary,* July 2, 2015, https://www.whitehouse.gov/the-press-office/2015/07/02/remarks-president-economy-la-crosse-wi
[2] "Fact Sheet: Proposed Rulemaking to Update the Regulations Defining and Delimiting the Exemptions for 'White Collar' Employees," *United States Department of Labor, Wage and Hour Division,* http://www.dol.gov/whd/overtime/NPRM2015/factsheet.htm
[3] *United States Department of Labor, Bureau of Labor Statistics,* http://www.bls.gov/
[4] Gitis, Ben. "Primer: Overtime Pay Regulation," *American Action Forum,* November 20, 2014, http://americanactionforum.org/research/primer-overtime-pay-regulation

all occupations in La Crosse MSA, which includes the counties of La Crosse, WI and Houston, MN. Recall the new rule proposes to increase the salary test from about $455 per week to about $970 per week, or from about $23,660 to about $50,440 annually. Recall this will only apply to those that are salaried, since hourly workers are already covered regardless of their annual income.

I've tried to provide a rough estimate of the number of people who will be impacted by this new rule by interpolating the percentage of the distribution affected by the reported annual wages. The final column shows roughly the number of employees in each industry who currently make an annual wage between $23,660 to about $50,440. The total represents about 35,000 employees or nearly half of the workforce in the region. However, it is important to realize that a majority of those employees are probably already covered and receive premium overtime pay because they are paid on an hourly basis. Nationally about 60% of all workers are in fact paid hourly. So on average only 40% of the workers in the "impacted" category will now be non-exempt. Our region is likely to have a slightly smaller percentage of people who are paid on a salary basis than the national average, due to demographics of industry mix. That suggests at most 14,000 people are newly subjected to this rule since they are salaried and earn between $23,660 and $50,440 annually.

Of these 14,000 workers, many of them probably already work 40 hours or less and thus would not receive overtime pay. Using the American Action Forum numbers would suggest only about 17% of the workers work more than 40 hours per week, bringing the number of people impacted down to about 2,386, or about 3.2% of the total workforce.

May 2013 La Crosse, WI-MN Metropolitan Area Occupational Employment and Wage Estimates[5]

OCC_TITLE	TOT_EMP	A_PCT10	A_PCT25	A_MEDIAN	A_PCT75	A_PCT90	Impacted
Food Preparation and Serving Related	7,570	15,900	16,720	18,090	19,510	24,910	833
Personal Care and Service	3,240	16,480	17,990	20,540	23,710	30,990	616
Sales and Related	7,720	16,480	18,040	22,410	37,210	60,650	2084
Building and Grounds Cleaning and Maintenance	2,300	16,720	18,740	23,520	29,470	36,370	1127
Farming, Fishing, and Forestry	50	17,000	19,810	26,720	34,140	37,010	32
Arts, Design, Entertainment, Sports, and Media	960	17,660	20,860	32,460	44,470	58,540	499
Transportation and Material Moving	5,130	17,660	22,090	32,360	41,250	49,770	3386
Protective Service	1,120	17,900	21,910	34,020	50,780	59,970	538
Office and Administrative Support	10,990	19,230	24,560	30,280	37,450	46,770	7913
Production	5,900	19,650	26,220	34,090	42,390	49,570	4189
Healthcare Support	2,770	20,290	22,430	26,780	33,100	38,170	2022
Installation, Maintenance, and Repair	2,820	23,370	30,920	38,240	47,850	59,360	1974
Community and Social Service	1,240	23,930	32,080	40,670	54,270	65,750	744
Education, Training, and Library	4,510	24,700	31,350	45,570	58,500	71,580	2120
Life, Physical, and Social Science	520	27,100	37,900	52,540	70,560	90,020	213
Construction and Extraction	2,120	27,790	35,310	47,090	61,430	74,300	1018
Business and Financial Operations	2,510	30,350	38,910	48,400	66,100	86,460	1180
Legal	230	31,110	37,240	49,080	97,810	138,340	104
Management	2,940	34,250	50,070	72,290	100,130	139,070	706
Healthcare Practitioners and Technical	**	35,130	44,610	53,620	64,230	91,900	
Computer and Mathematical	960	36,510	45,010	57,270	74,580	96,940	326
Architecture and Engineering	770	37,570	46,050	59,590	73,470	90,680	239
All Occupations	73,490	17,540	21,530	32,740	48,060	66,830	35275

[5] The data comes from *United States Department of Labor, Bureau of Labor Statistics,* http://www.bls.gov/oes/current/oes_29100.htm.

The question is who pays for this new rule for the 3 million cases where the new rule is likely to "bind." Do employers pay? Do workers pay? Well the answer is - it depends. While employers will be legally required to pay overtime, they are not legally required to pay a specific hourly wage rate, except for it to be above minimum wage. So there are two possible outcomes explained by two distinct models. The first model is called the fixed job model; the second model is the fixed wage model. In the fixed job model, "straight time" wages adjust so that pay after overtime is equivalent to what it was before; thus there is no effect on the wages or hours worked. In the fixed wage model the employer pays overtime, which results in a decrease in quantity of labor demanded due to the higher costs and there is therefore a reduction in hours.

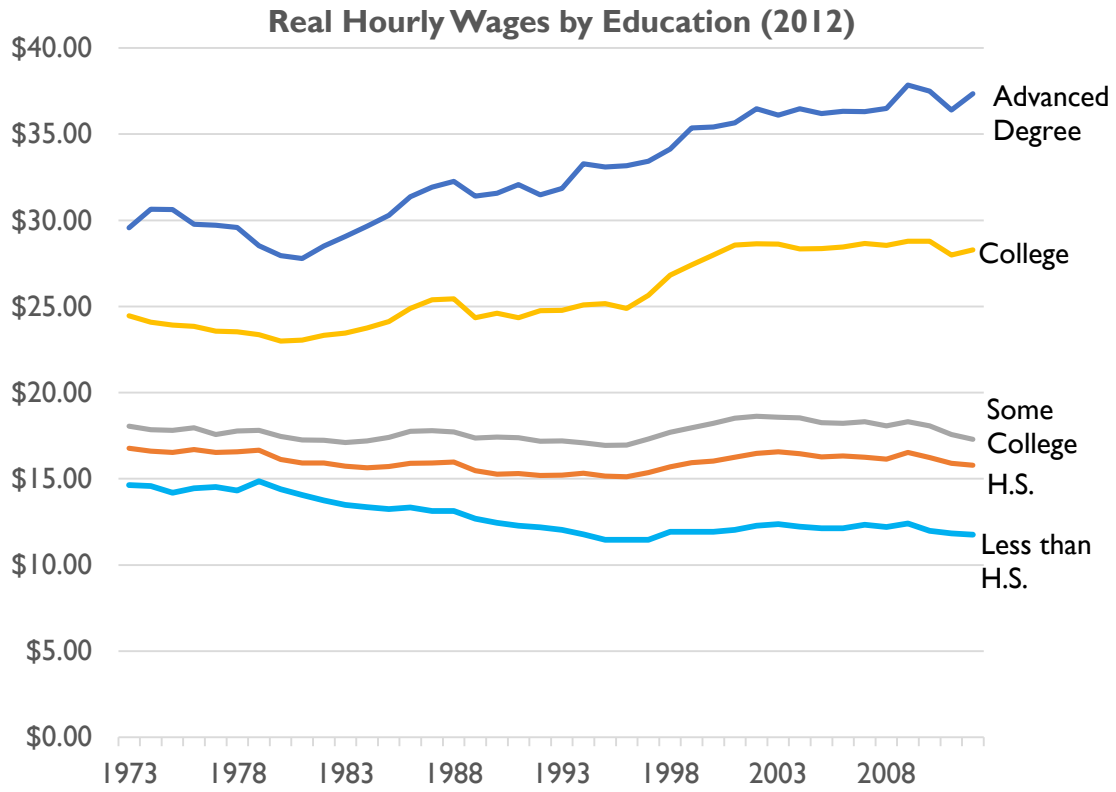
Let's provide a more concrete example of the first case. Let's say before the new rule goes into effect the employee works 50 hours per/week at an effective $800 weekly salary or about $40,000 per year. This gives them an implied hourly rate of $16/hr. After the new rules goes into effect the worker still works 50 hours, but now 40 hours is regular time plus 10 hours at time and a half. The hourly wage rate is lowered to $14.55 at 50 hours per week with overtime pay means $800 per week. The worker works the same number of hours for the same pay.

Empirical evidence suggests that much of the straight time wages are adjusted to counteract the effects of the overtime pay but not entirely. Some of this is because of the minimum wage that binds or that firms have trouble adjusting straight time wages to offset the effects of the rule change.[6]

Higher Education

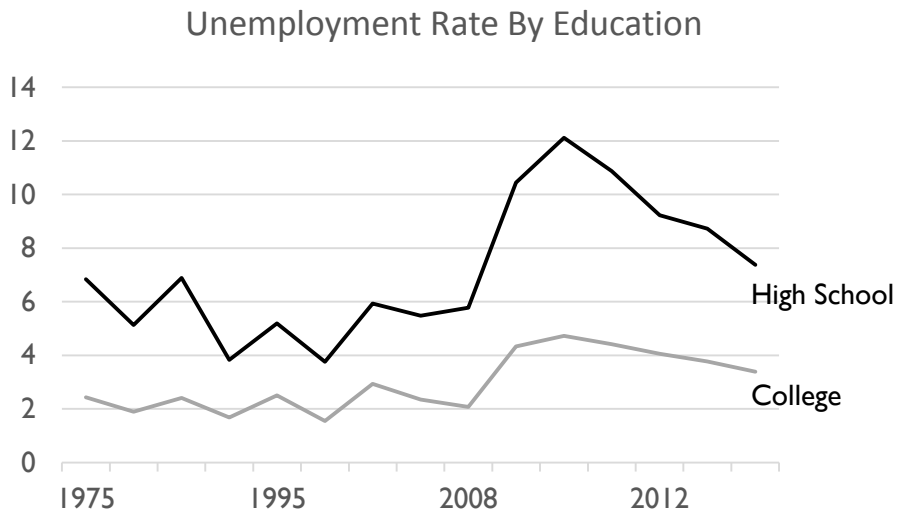
The special focus of this breakfast meeting is on higher education. The first graph I will share shows the average real hourly wages in 2012 dollars by education level. This graph clearly demonstrates that wages have been stagnating or declining for all levels of education except for those that have completed college or gone on to an advanced degree. It also demonstrates a large and increasing premium earned by the average worker who has at least completed a college degree. In fact the premium has risen from 45% back in the 1970s to 80% today.

[6] Trejo, Stephen J. 1991. "The Effects of Overtime Pay Regulation on Worker Compensation." *American Economic Review*, Vol. 81, No. 4 (September), pp. 719–40.
Hamermesh, Daniel S., and Stephen J. Trejo. 2000. "The Demand for Hours of Labor: Direct Evidence from California." *Review of Economics and Statistics*, Vol. 82, No. 1 (February), pp. 38–47.



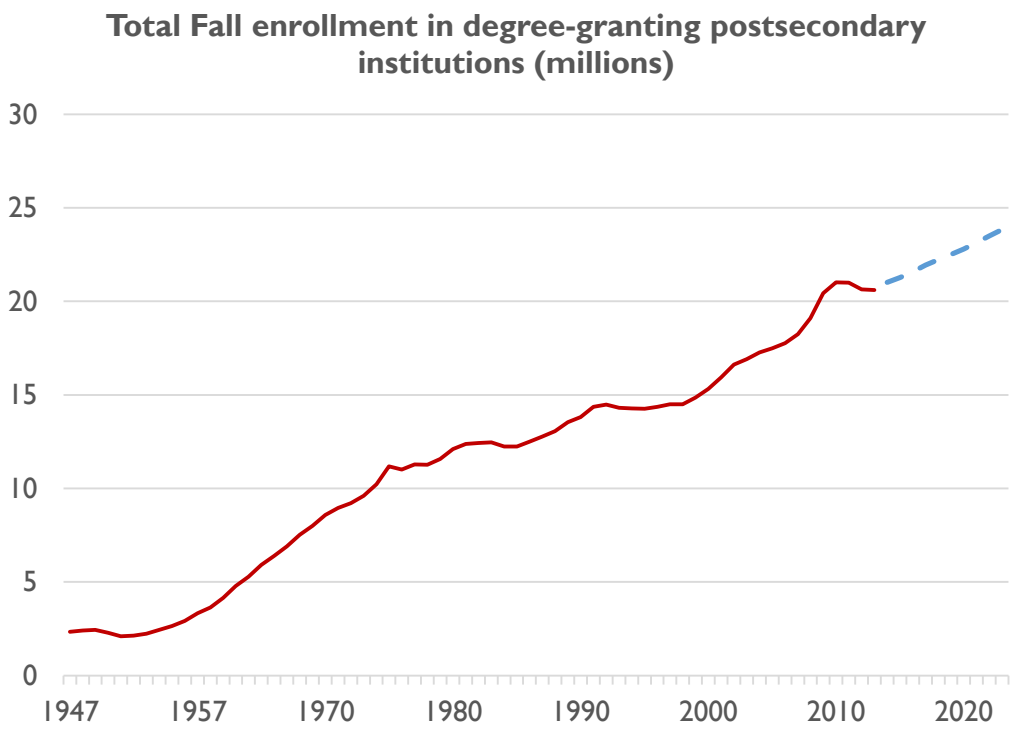
The premium in hourly wages is one benefit of having more education, the other is that you are less likely to become unemployed or stay unemployed. The following graph shows the Unemployment Rate by education level for the 24-65 year olds.[7] The black line represents the unemployment rate for those with only a high school education, while the grey line depicts those with a college degree. Not only is the unemployment rate always lower for the college educated, but the response to the recession was also more muted for college graduates.

[7] "Table 501.80. Unemployment rates of persons 16 to 64 years old, by age group and highest level of educational attainment: Selected years, 1975 through 2014," *National Center for Education Statistics,* http://nces.ed.gov/programs/digest/d14/tables/dt14_501.80.asp



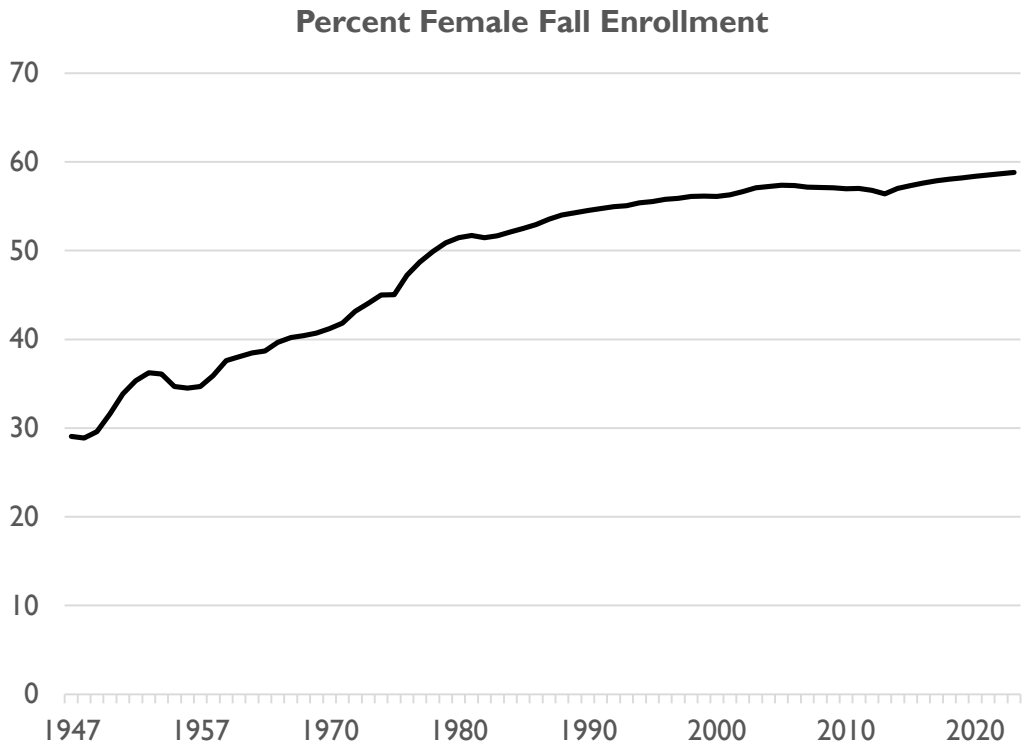
The wage premium for a college education has risen despite the fact that we have witnessed dramatic increases in enrollments at colleges and universities throughout the US. The next graph shows the total fall enrollment in degree-granting postsecondary institutions[8] along with a forecast for the next 10 years.

[8] "Table 303.10. Total fall enrollment in degree-granting postsecondary institutions, by attendance status, sex of student, and control of institution: Selected years, 1947 through 2023," *National Center for Education Statistics,* http://nces.ed.gov/programs/digest/d13/tables/dt13_303.10.asp



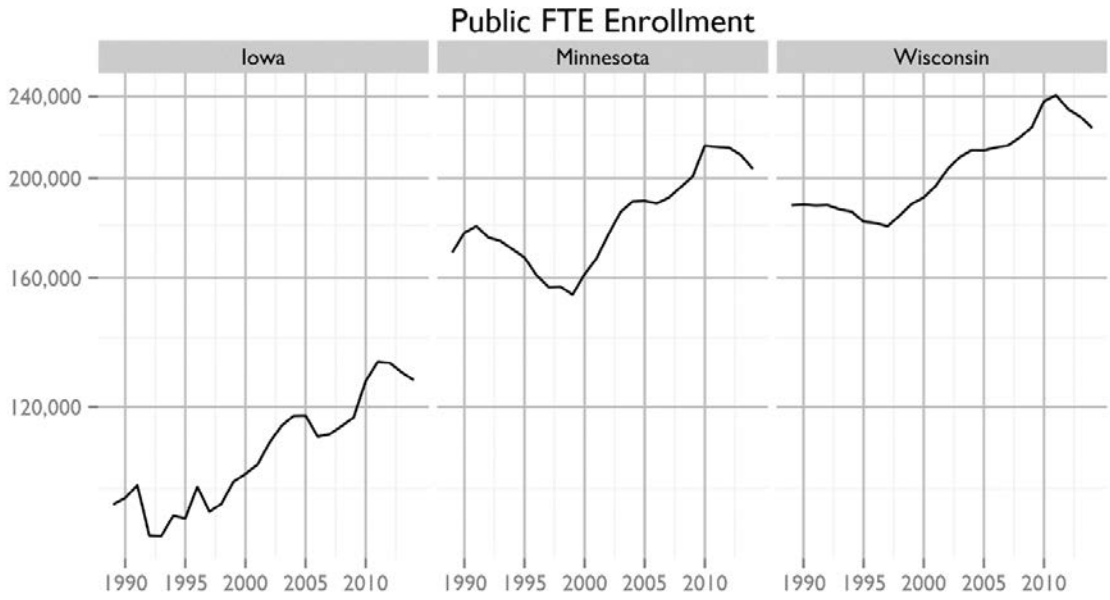
The graph clearly depicts the recent surge of enrollments during the recession and the collapse of enrollments immediately after the recession as the labor market improved. Interestingly though, the National Center for Education Statistics predicts that growth in enrollments will return to the pre-recession growth trend in the near future. One would expect this growth to continue so long as the wage premium continues to persist, and the rate of return on a college degree continues to exceed alternative investment returns.

Part of the dramatic increases in enrollment has come from the dramatic increase in college going rates of females. Fewer than 30% of females attended college back in the 40s while females currently make up nearly 60% of all enrolled students.

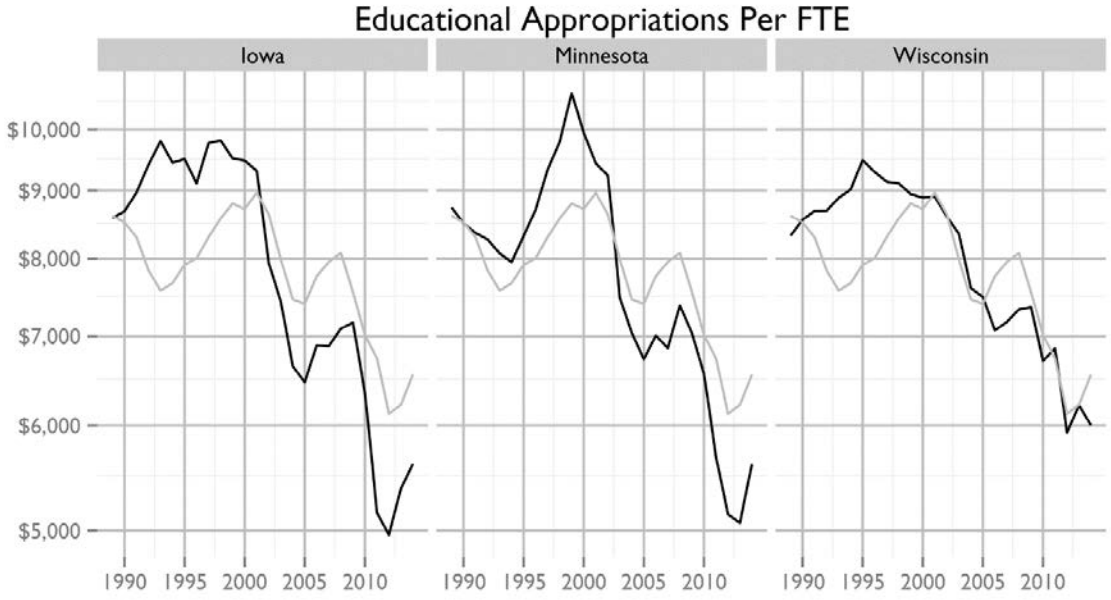


The next series of graphs rely on data from The State Higher Education Executive Officers (SHEEO).[9] This data focuses on the public institutions of higher education. They have a fairly extensive description of their data collection and adjustment methods which can be found at the link below. The important point is they have diligently attempted to make their data comparable across states. The first graph shows Public Full Time Equivalent enrollment by the three states Iowa, Minnesota and Wisconsin. All three states show a similar pattern of accelerating enrollment immediately following the onset of the recession, and a decline in enrollment through the recovery. Given the previous estimates for enrollment from the National Center from Educational Statistics we would expect these declines to be reversed in the near future.

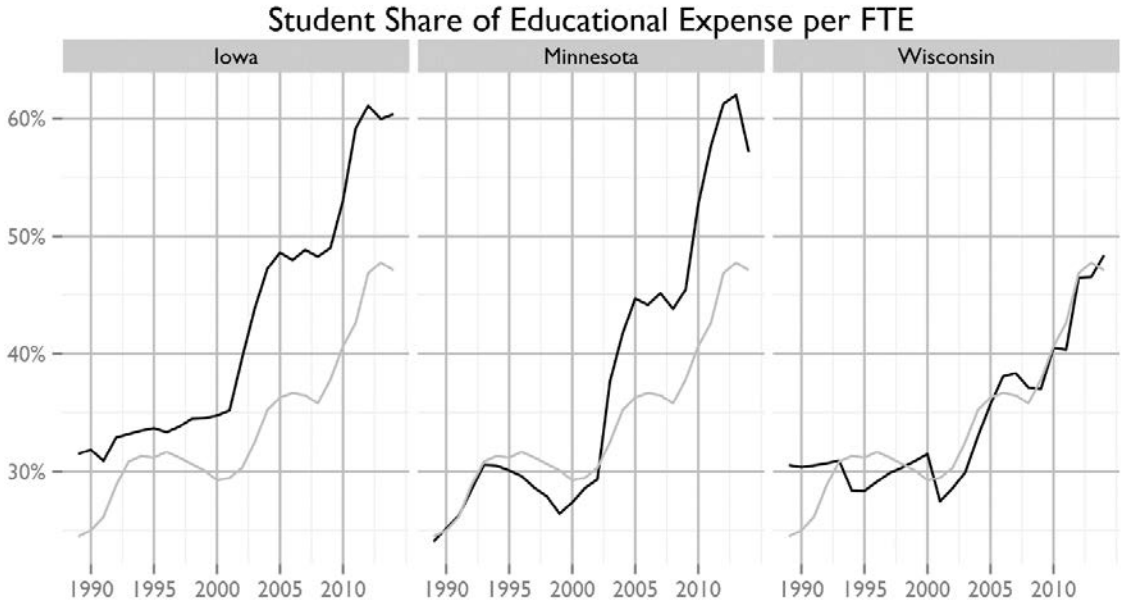
[9] *State Higher Education Executive Officers Association,* http://www.sheeo.org/projects/shef-%E2%80%94-state-higher-education-finance



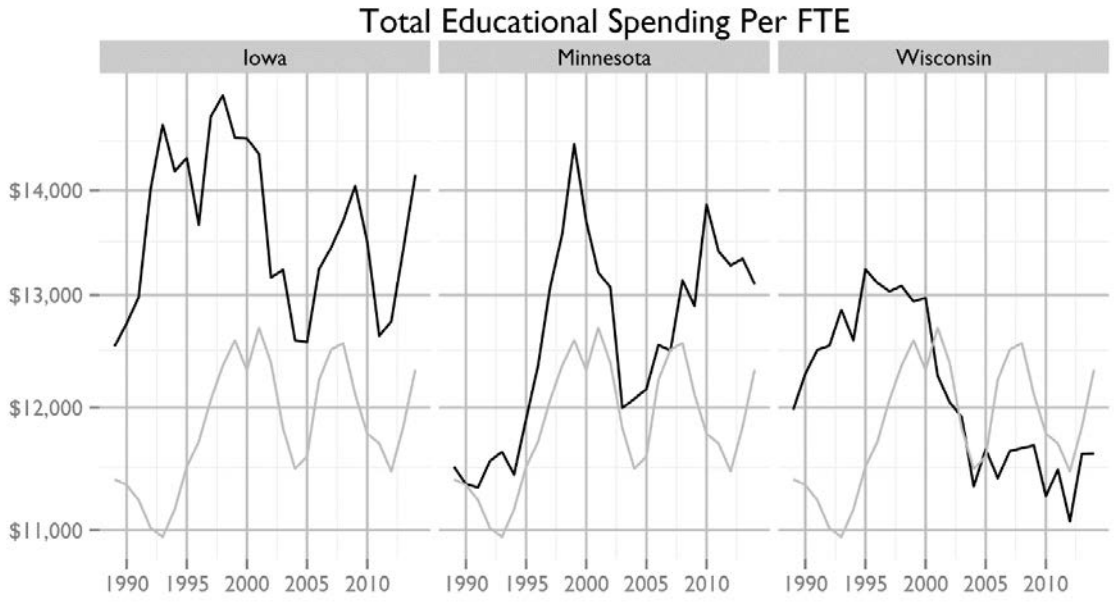
One of the main benefits of this data is the standardization of public expenditures on higher education on a per Full Time Equivalent (FTE) basis student. In the next graph and the ones that follow, the data for each state is represented by the black line, while the grey line on each panel represents the average for the United States. Here we can see a few important similarities and differences between the states. In all cases, state support on a per FTE basis has been generally declining since the late 90s. It's important to note a few other things. The decline has been larger for Minnesota and Iowa than the decline for Wisconsin, although Wisconsin's level of support never matched the other states. Wisconsin's level of support is higher than the other states, though recent events suggest that new data will render that statement false. Minnesota increased support for higher education in the last budget, while Wisconsin made large cuts.



State appropriations are only part of the picture. Students also contribute to their own educational costs as well. In the following graph I share the percentage of educational expenses paid by the student. Here we can see that Iowa and Minnesota place a higher burden on the student than Wisconsin and the rest of the country.

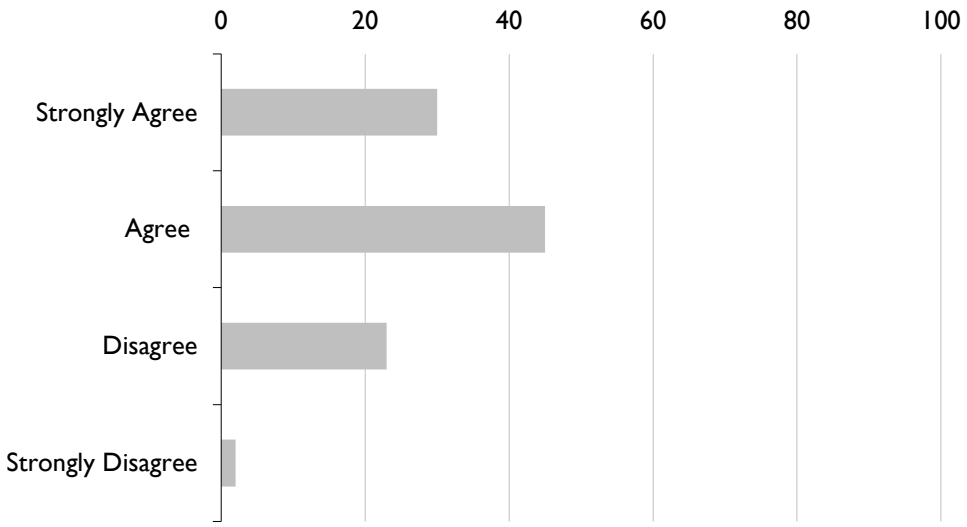


The final data to present from SHEEO shows the total educational spending per FTE. While Minnesota asks their students to pay a higher burden this also results in their educational spending being higher than Wisconsin and higher than the national average.



Whereas Iowa and Minnesota have tended to spend more on education than the nation, through the entire survey period Wisconsin has spent less than the rest of the nation since 2000. This is largely due to a version of the "Baptist and Bootleggers problem." This generally refers to a situation when two parties favor regulation, but for the opposite reasons. Baptists preferred the prohibition of alcohol because they believed its consumption was sinful, while bootleggers supported prohibition because they profited from the black market. In the educational version Republicans view state spending on higher education as wasteful spending on bureaucratic organizations, while Democrats want to keep college affordable to students and thus resist increases in tuition. Both groups conspire to reduce the total expenditures on higher education.

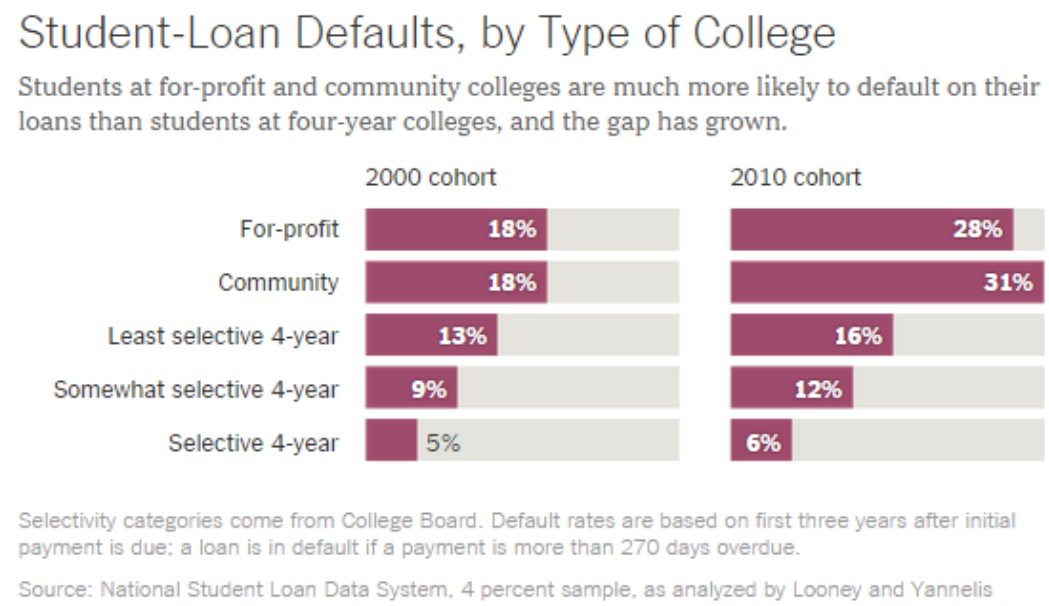
As part of the biannual consumer sentiment survey I included questions on higher education. Approximately 140 responded to the statement "*The current state of financial aid is a problem for enrollment*" with nearly 75% at least agreeing with the statement. Recent data suggests this might not be the most important challenge.



The current state of financial aid is a problem for enrollment.

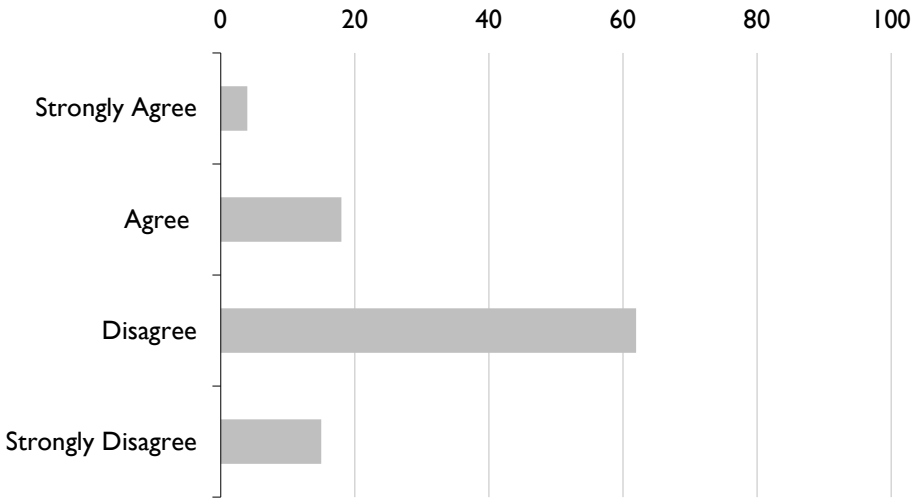
One of the arguments that have been made to limit the growth in tuition is that it leads to large student loan burdens and defaults.[10] The recent release of new data provides us with a better picture of the source of increased student defaults. Most of the defaults are concentrated in students at For-profit or community colleges for which they sometimes pay a lot of money, and are less likely to graduate or their earnings on graduation do not justify the debt burden.

[10] Dynarski, Susan. "New Data Gives Clearer Picture of Student Debt," *The New York Times,* September 10, 2015, http://www.nytimes.com/2015/09/11/upshot/new-data-gives-clearer-picture-of-student-debt.html

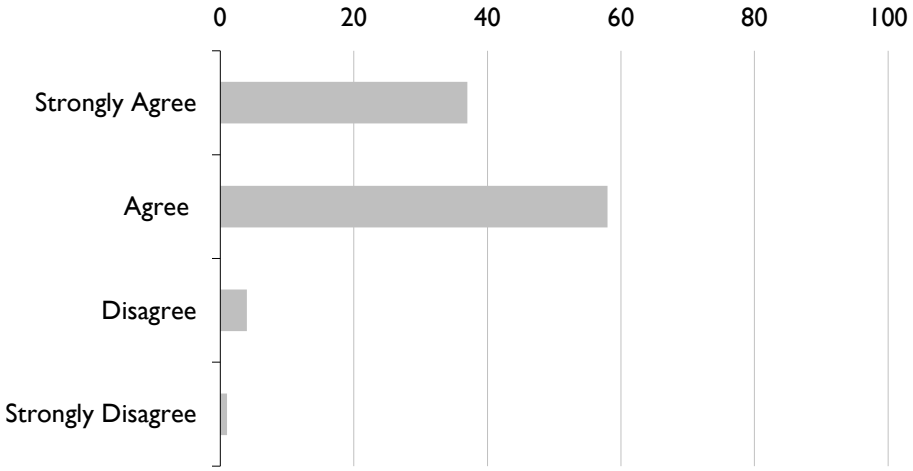


Source: Dynarski, Susan. "New Data Gives Clearer Picture of Student Debt," *The New York Times*, September 10, 2015, http://www.nytimes.com/2015/09/11/upshot/new-data-gives-clearer-picture-of-student-debt.html

The last two questions on the survey get at the heart of what lies ahead for higher education. We cannot continue to do business as usual. Technology is changing and we need to change as well.



The current way that colleges and universities are doing business is sustainable for the long-term future.



Changes in technology will greatly change the way institutions offer/run their classes in the future.

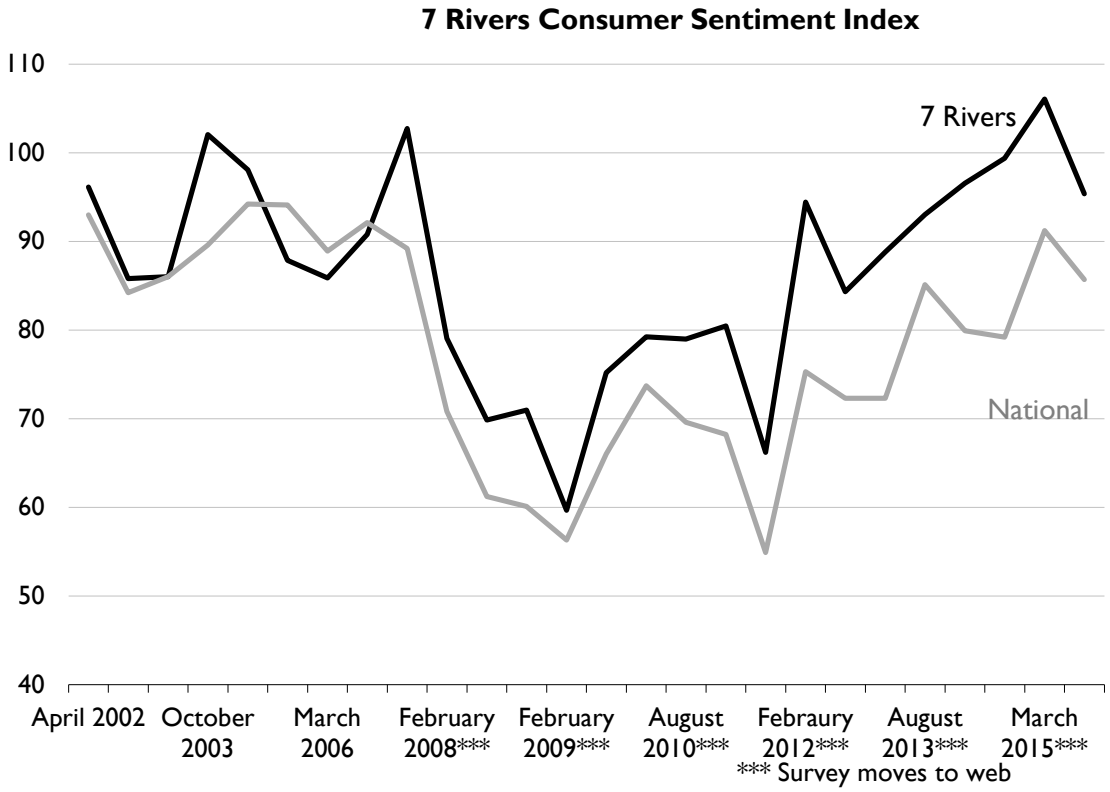
September 2015: Consumer Sentiment

During the week of Sept 8th I distributed, via email, the biannual consumer sentiment survey to approximately 1,400 past participants in programs related to the 7 Rivers Region. I received 140 responses for an overall response rate of 10%. A table with all the data since the inception of the regional survey is available below. We see from February of 2009 to March 2015 the regional overall consumer sentiment index has generally risen, but always remained above the national index. The most recent month of September shows a precipitous drop off for the 7 Rivers Region, driven mostly by a decline in the consumer expectations sub-index, while the current conditions index also declined. The declines are markedly larger than those found in the national data, suggesting recent local condition might not be tracking the national economy.

Consumer Sentiment Index Data

	Consumer Sentiment		Current Conditions		Consumer Expectations	
	7 Rivers	**National**	**7 Rivers**	**National**	**7 Rivers**	**National**
April 2002	96.1	93	94.7	99.2	97.1	89.1
November 2002	85.8	84.2	97.0	93.1	78.6	78.5
April 2003	86.0	86	94.4	96.4	80.6	79.3
October 2003	102.0	89.6	104.6	99.9	100.4	83.0
April 2004	98.1	94.2	102.9	105	95.0	87.3
February 2005	87.9	94.1	100.7	109.2	79.6	84.4
March 2006	85.9	88.9	107.6	109.1	71.9	76.0
November 2006	90.8	92.1	96.7	106	86.9	83.2
April 2007***	102.7	89.2	113.7	111.1	95.7	75.1
February 2008***	79.1	70.8	91.3	83.8	71.2	62.4
August 2008***	69.9	61.2	76.5	73.1	65.6	53.5
December 2008***	70.9	60.1	87.0	69.5	60.6	57.8
February 2009***	59.7	56.3	75.9	65.5	49.2	50.5
July 2009***	75.2	66	83.7	70.5	69.7	63.2
February 2010***	79.2	73.7	91.8	84.1	71.2	66.9
August 2010***	79.0	69.6	91.5	69.0	70.9	64.1
April 201***	80.5	68.2	88.2	83.6	75.5	58.3
August 2011***	66.2	54.9	80.8	69.3	56.8	45.7
February 2012***	94.4	75.3	102.4	83.0	89.3	70.3
August 2012***	84.3	72.3	96.8	82.7	76.3	65.6
April 2013***	88.8	72.3	99.9	84.8	81.6	64.2
August 2013***	93.0	85.1	103.3	98.6	86.4	76.5
March 2014***-	96.6	79.9	108.4	96.1	89.0	69.4
August 2014***-	99.4	79.2	106.8	99.6	94.6	66.2
March 2015***	106.0	91.2	115.3	103.0	100.1	83.7
September 2015***	95.4	85.7	108.8	100.3	86.7	76.4

***** Survey moved to the web.**


7 Rivers Consumer Sentiment Index
110
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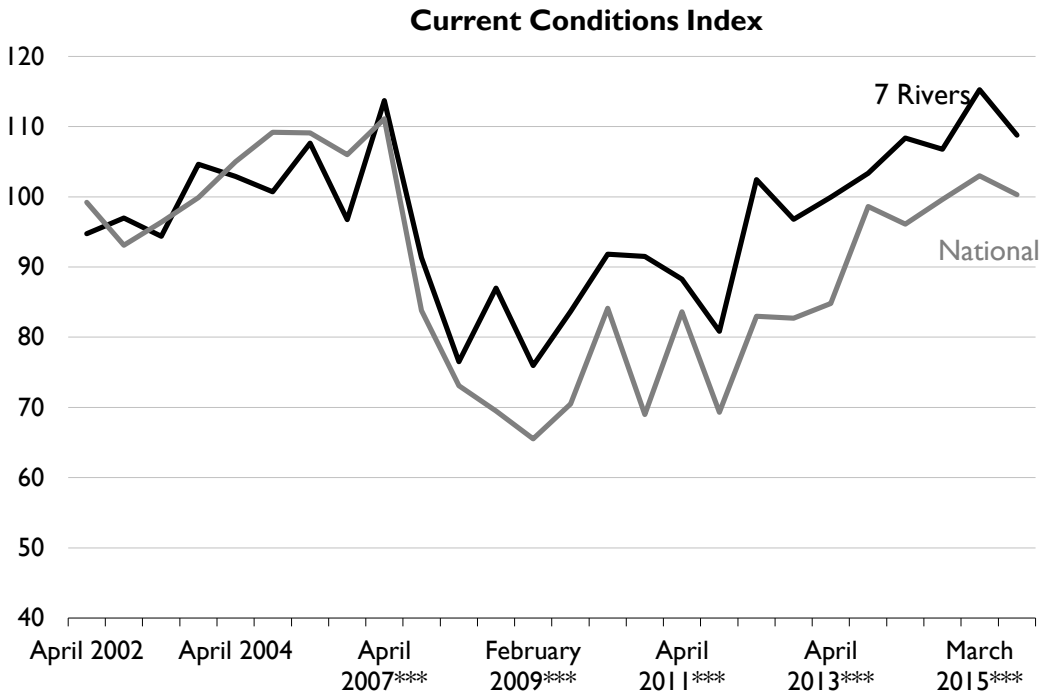
70
60
50
40
7 Rivers
National
April 2002
October 2003
March 2006
February 2008***
February 2009***
August 2010***
Febraury 2012***
August 2013***
March 2015***
*** Survey moves to web

Appendix



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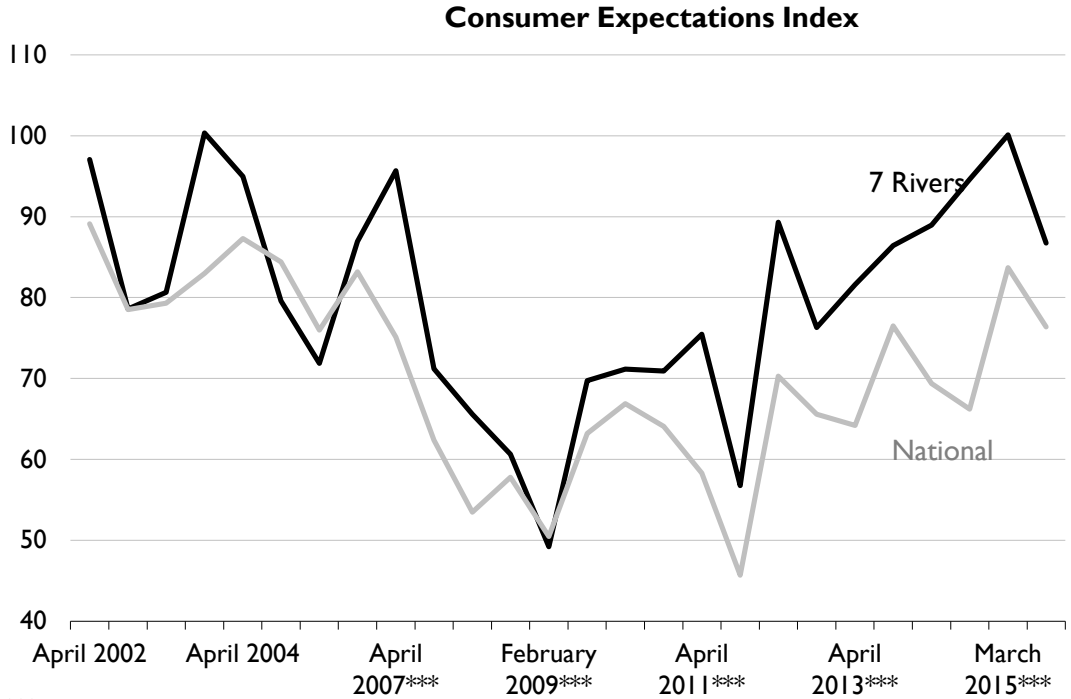

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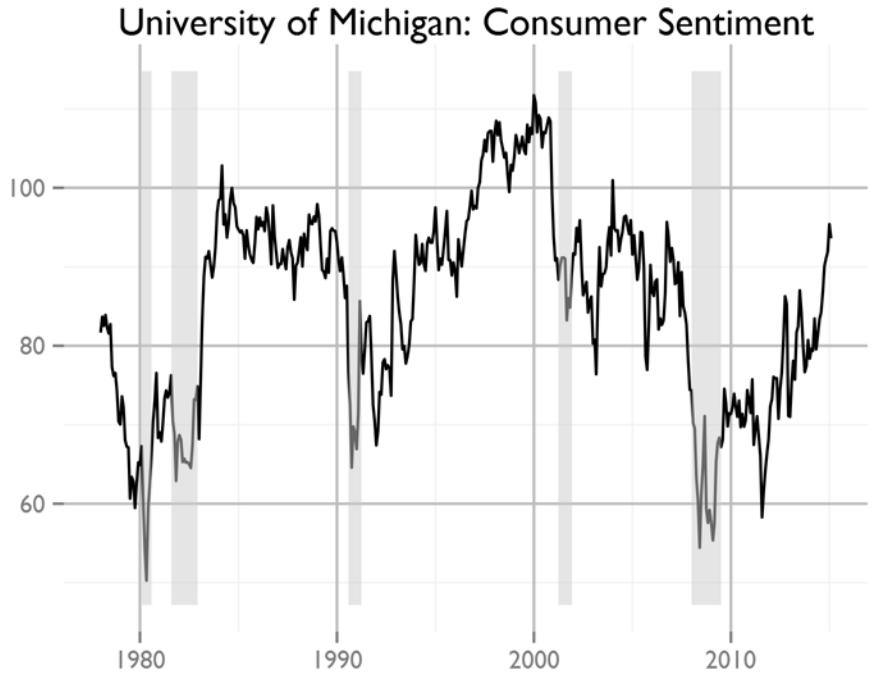
University of Michigan: Consumer Sentiment
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1980
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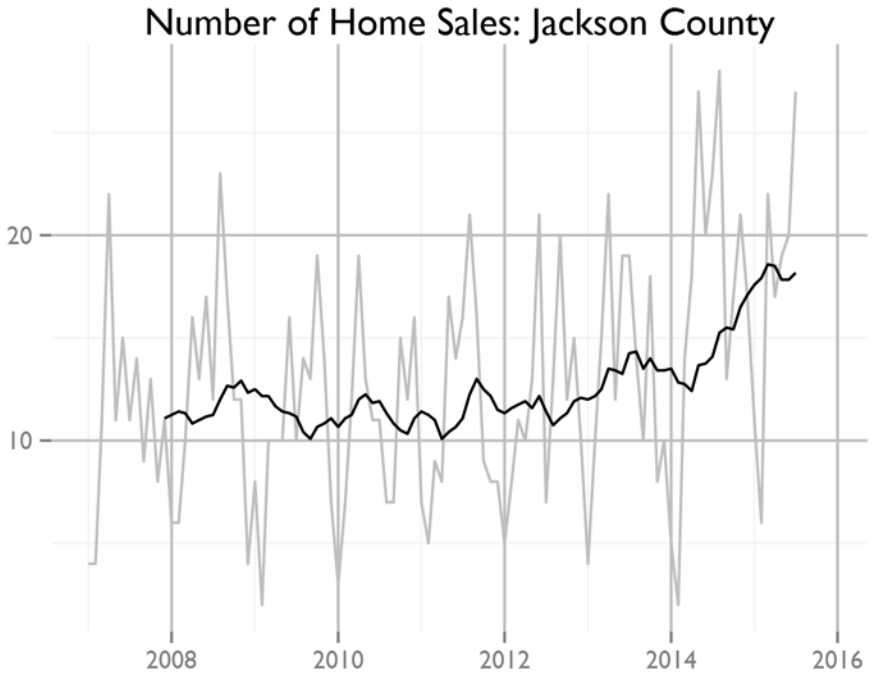
Housing


Number of Home Sales: Jackson County
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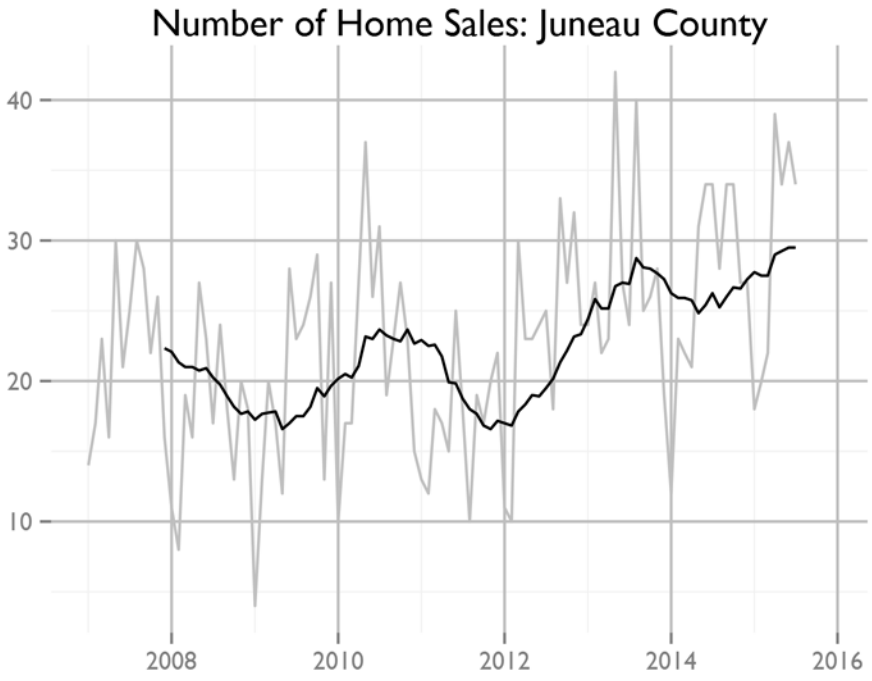
Number of Home Sales: Juneau County
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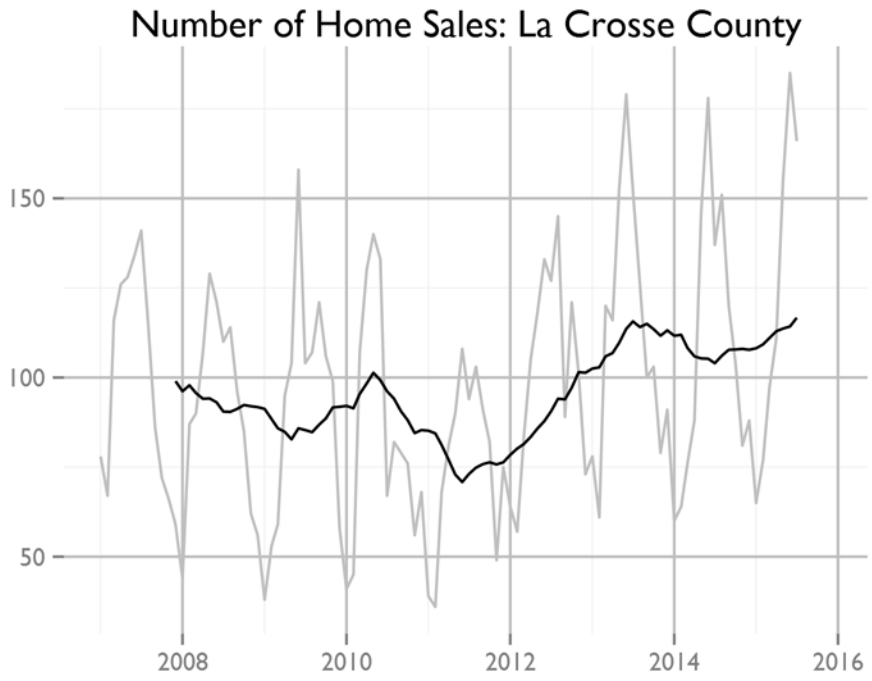
2008
2010
2012
2014
2016


Number of Home Sales: La Crosse County
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2012
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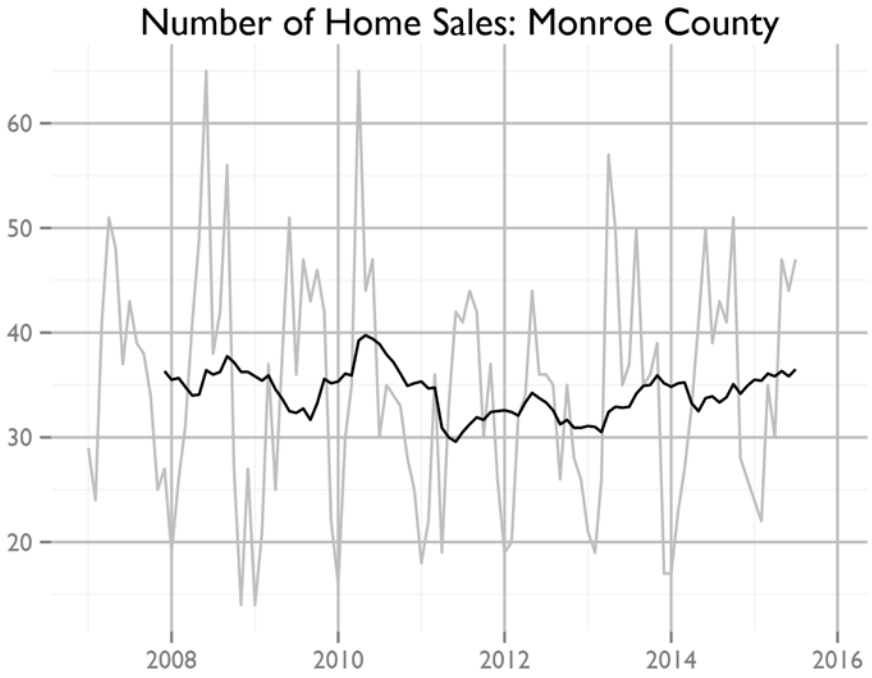
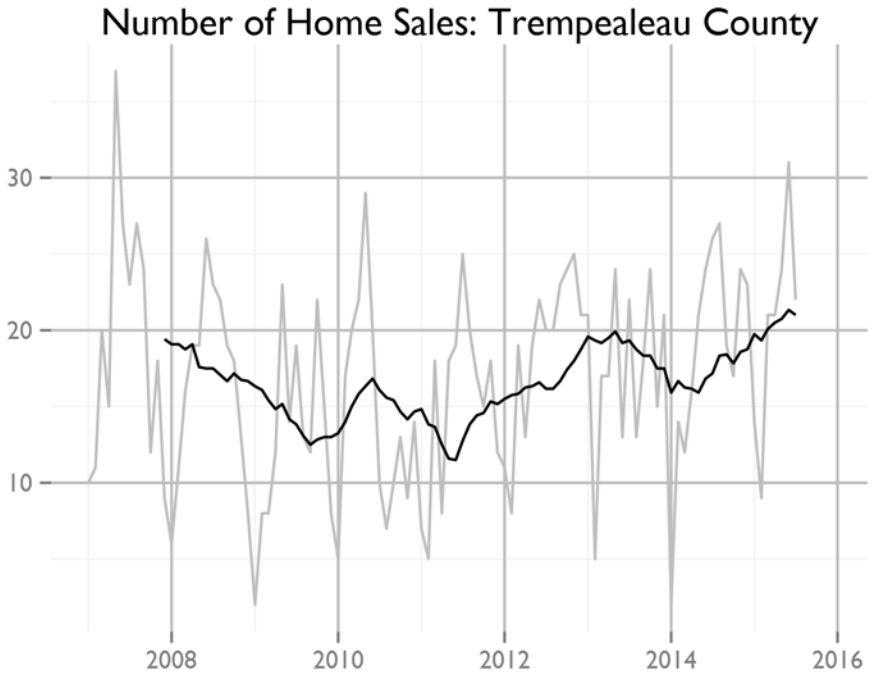
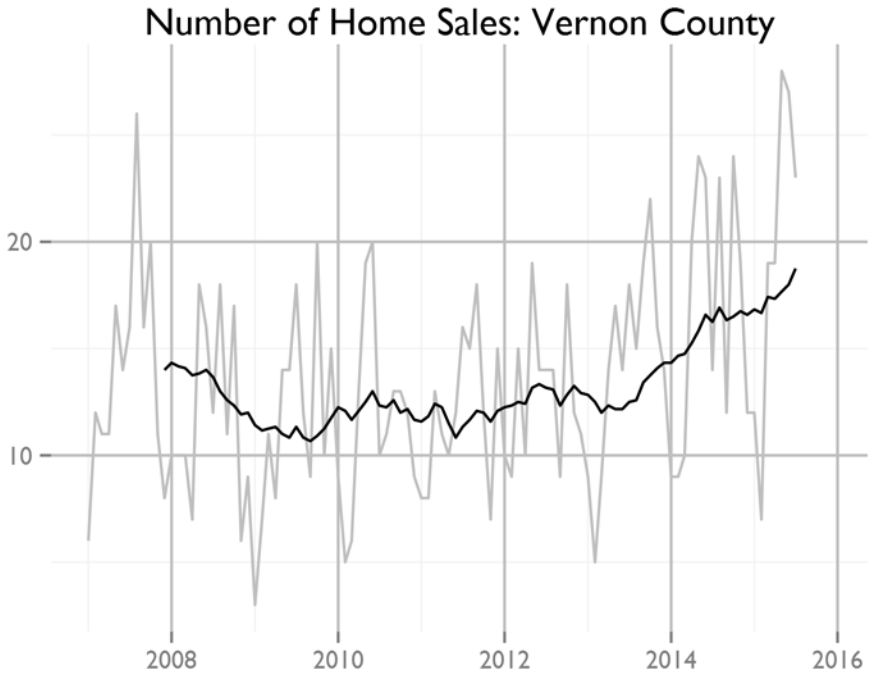
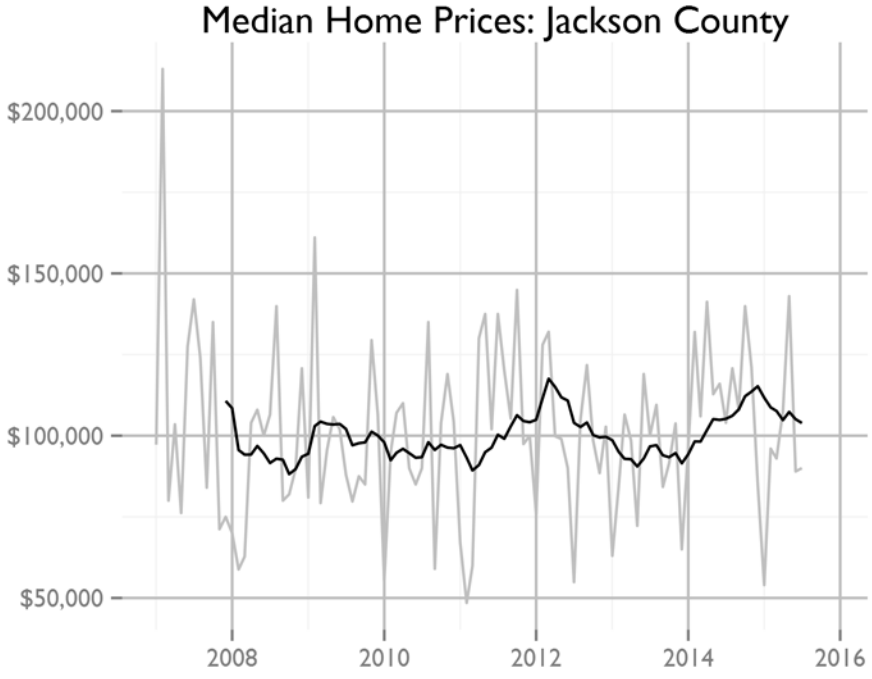
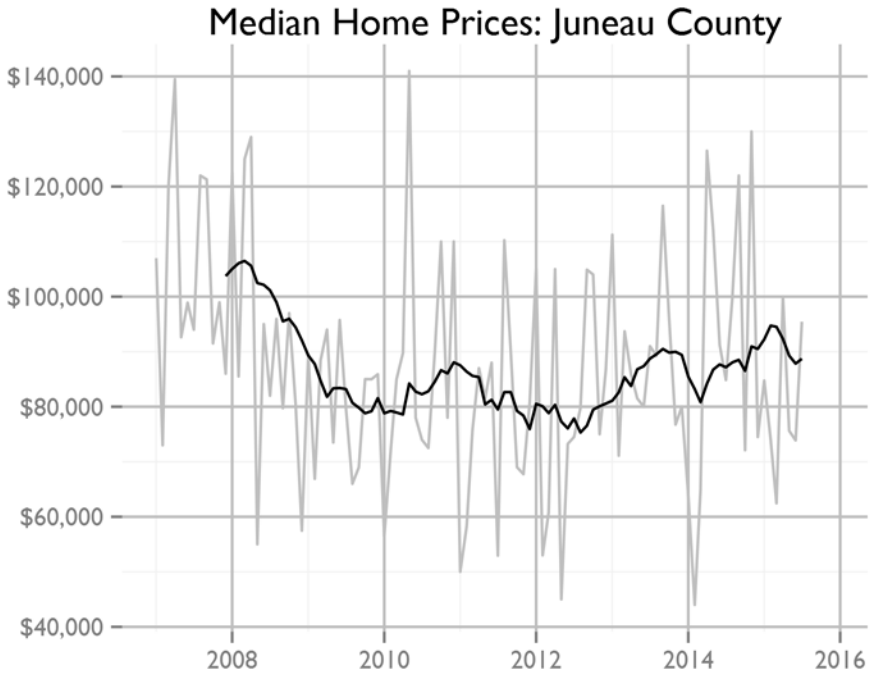
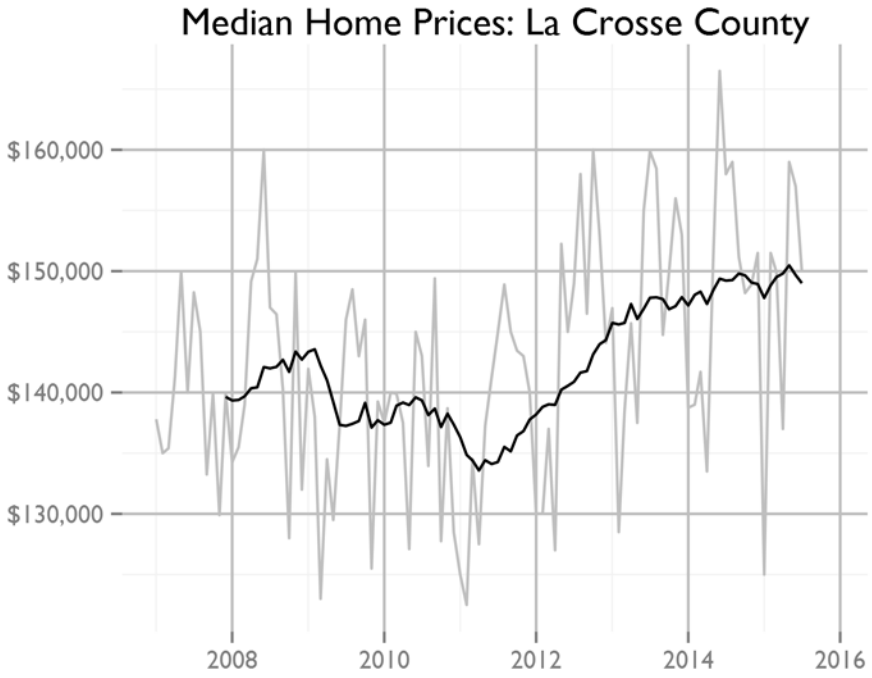

Number of Home Sales: Monroe County
60
50
40
30
20
2008
2010
2012
2014
2016

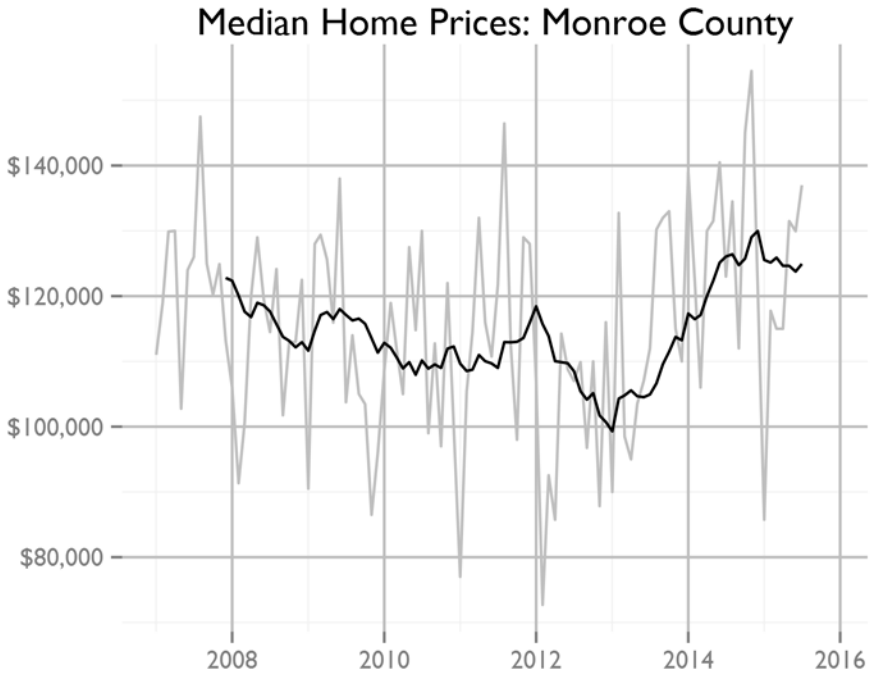

Number of Home Sales: Trempealeau County
30
20
10
2008
2010
2012
2014
2016

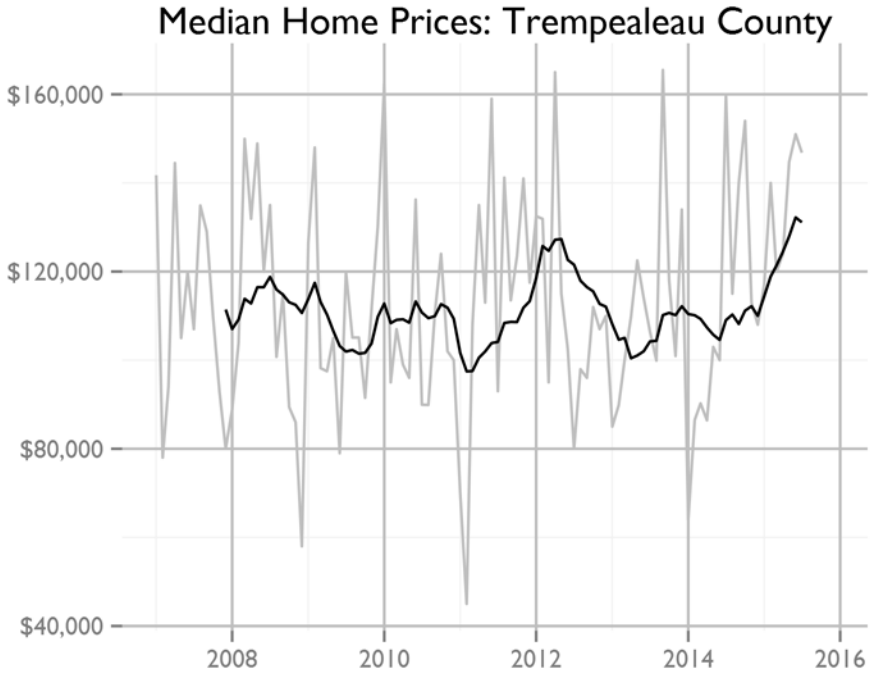

Number of Home Sales: Vernon County
20
10
2008
2010
2012
2014
2016

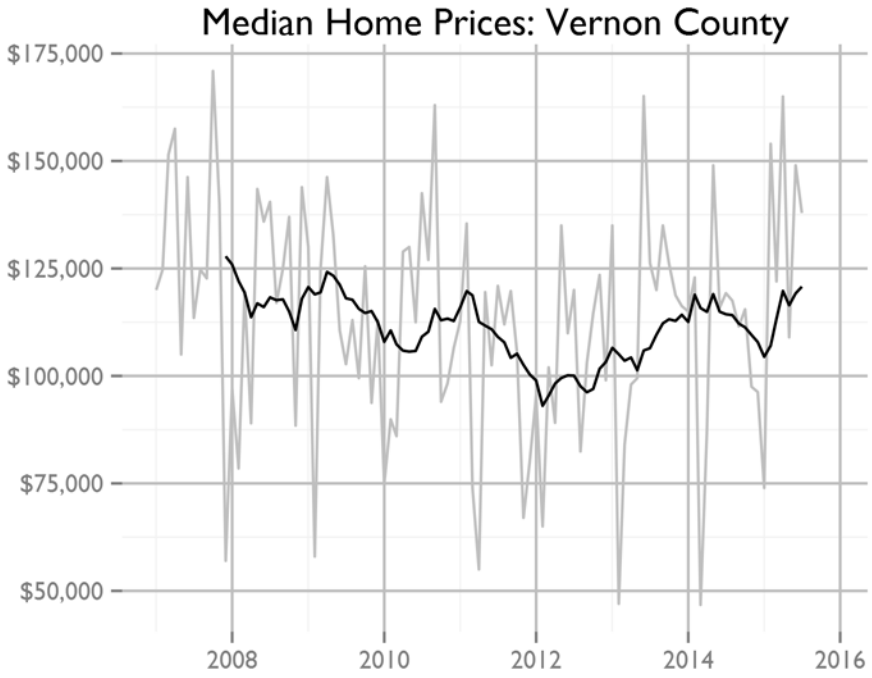

Median Home Prices: Jackson County
$200,000
$150,000
$100,000
$50,000
2008
2010
2012
2014
2016

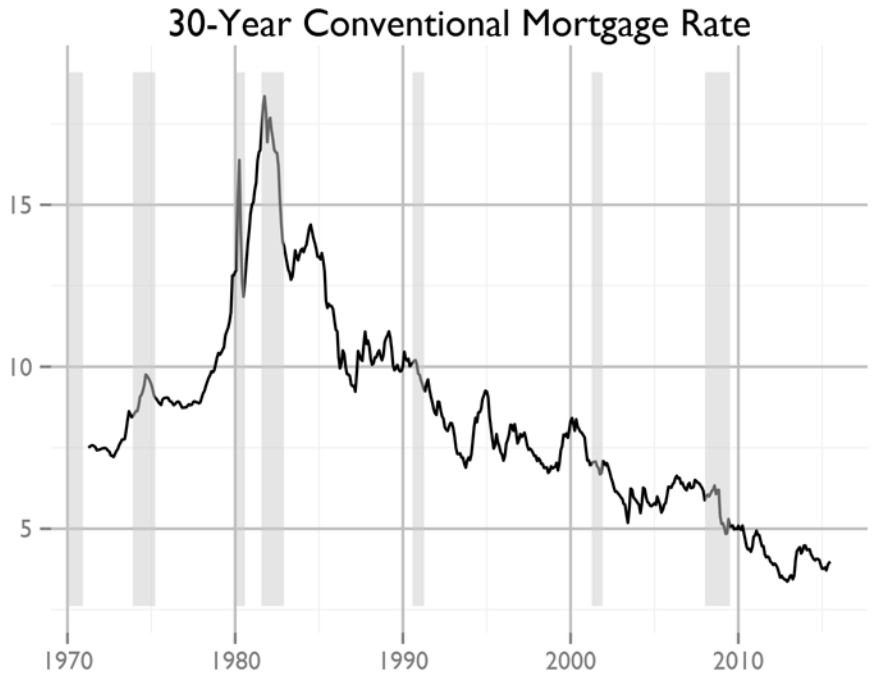

Median Home Prices: Juneau County
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
2008
2010
2012
2014
2016

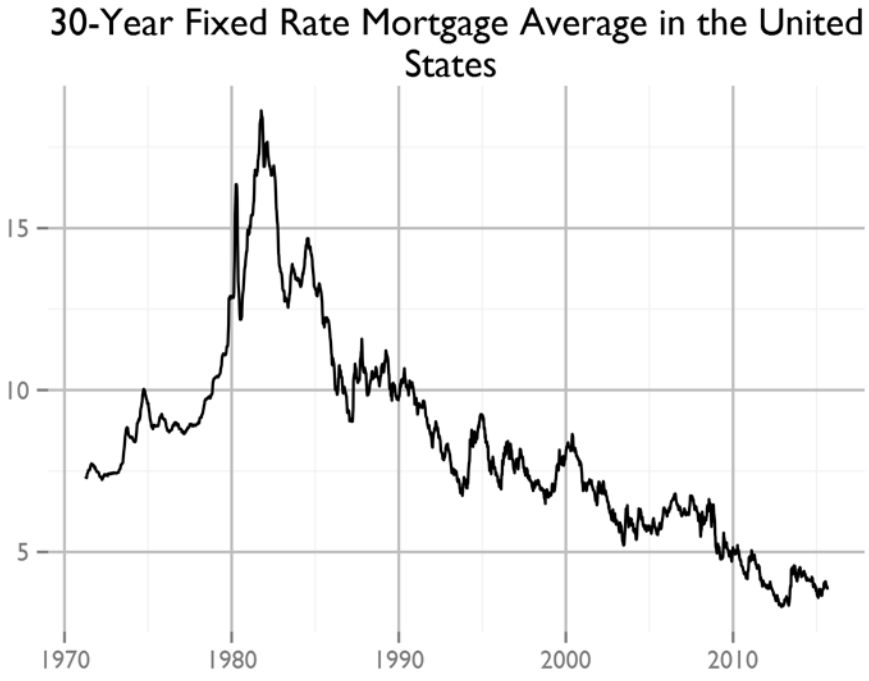

Median Home Prices: La Crosse County
$160,000
$150,000
$140,000
$130,000
2008
2010
2012
2014
2016

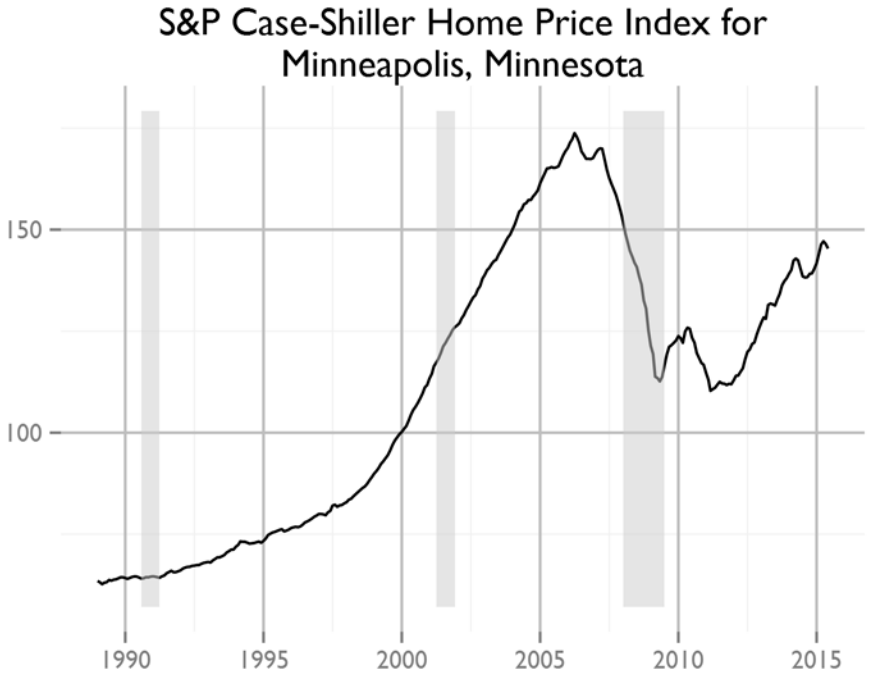

Median Home Prices: Monroe County
$140,000
$120,000
$100,000
$80,000
2008
2010
2012
2014
2016

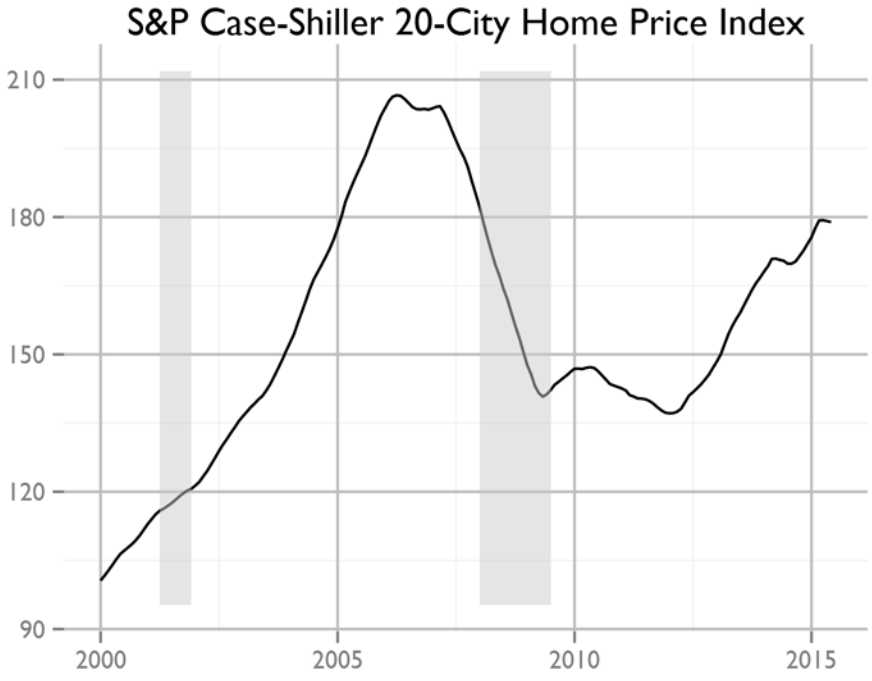

Median Home Prices: Trempealeau County
$160,000
$120,000
$80,000
$40,000
2008
2010
2012
2014
2016

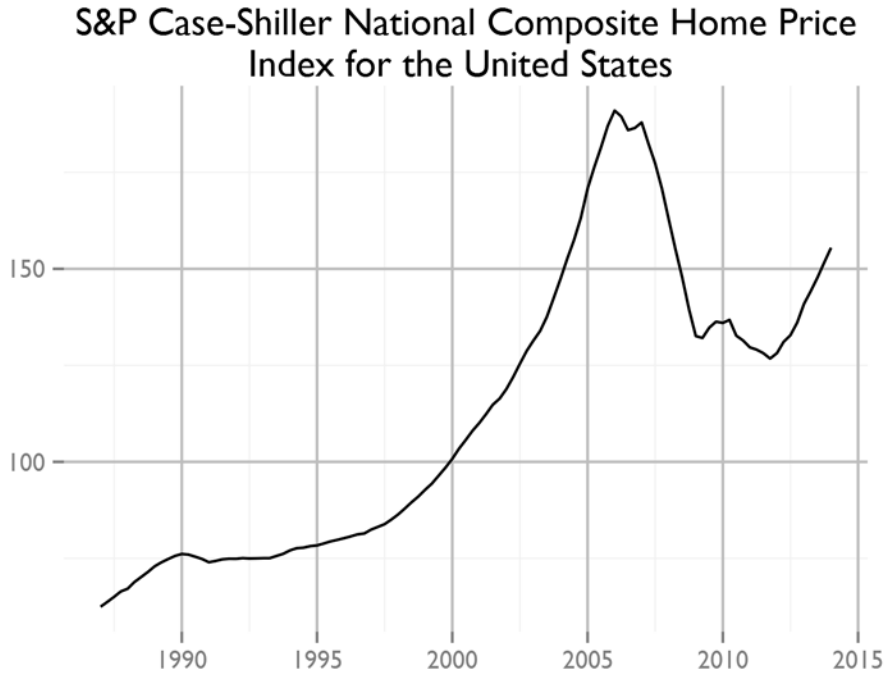

Median Home Prices: Vernon County
$175,000
$150,000
$125,000
$100,000
$75,000
$50,000
2008
2010
2012
2014
2016

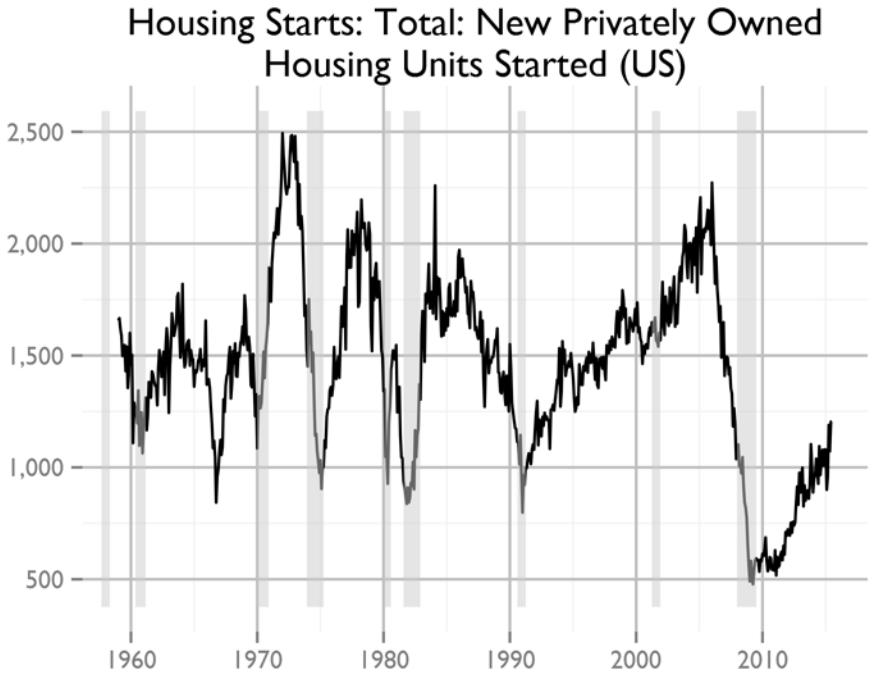

30-Year Conventional Mortgage Rate
15
10
5
1970
1980
1990
2000
2010

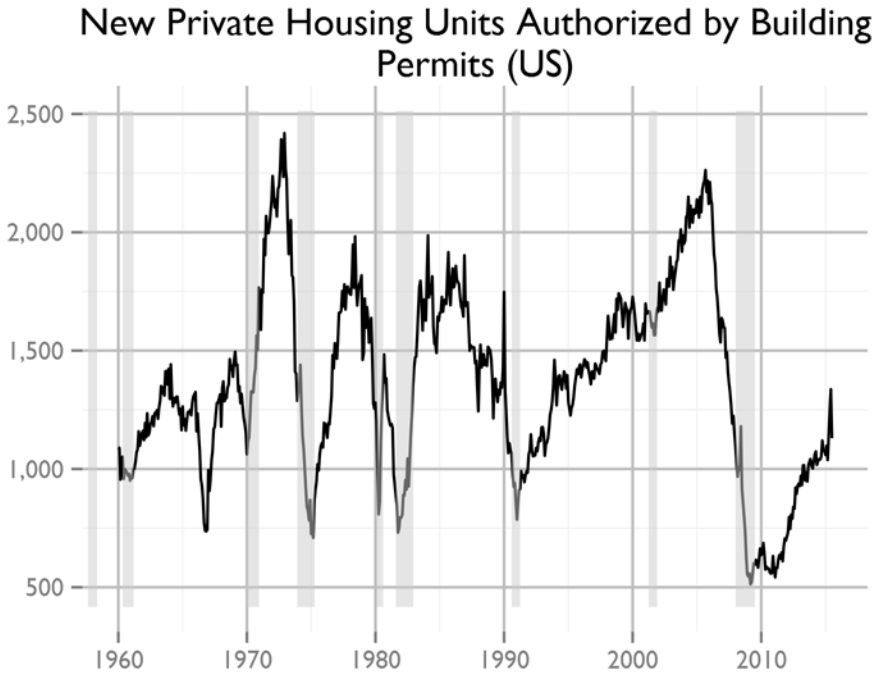

30-Year Fixed Rate Mortgage Average in the United States
15
10
5
1970
1980
1990
2000
2010

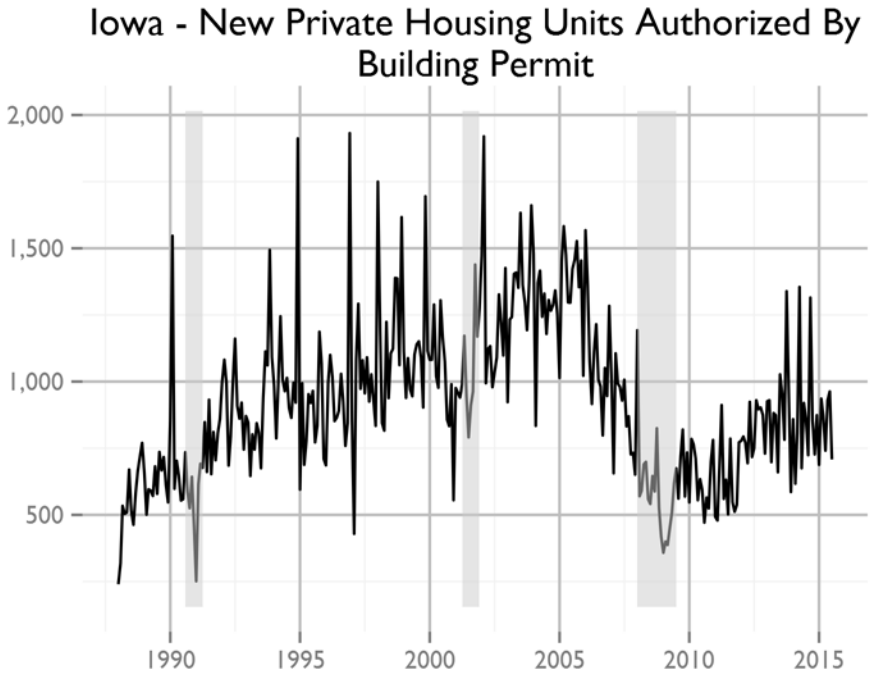

S&P Case-Shiller Home Price Index for Minneapolis, Minnesota
150
100
1990
1995
2000
2005
2010
2015

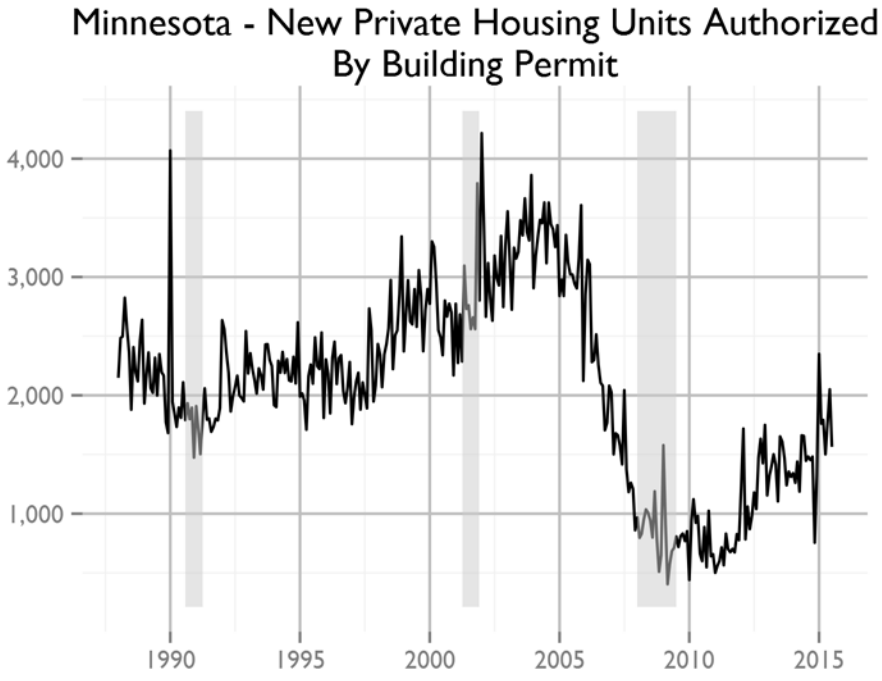

S&P Case-Shiller 20-City Home Price Index
210
180
150
120
90
2000
2005
2010
2015

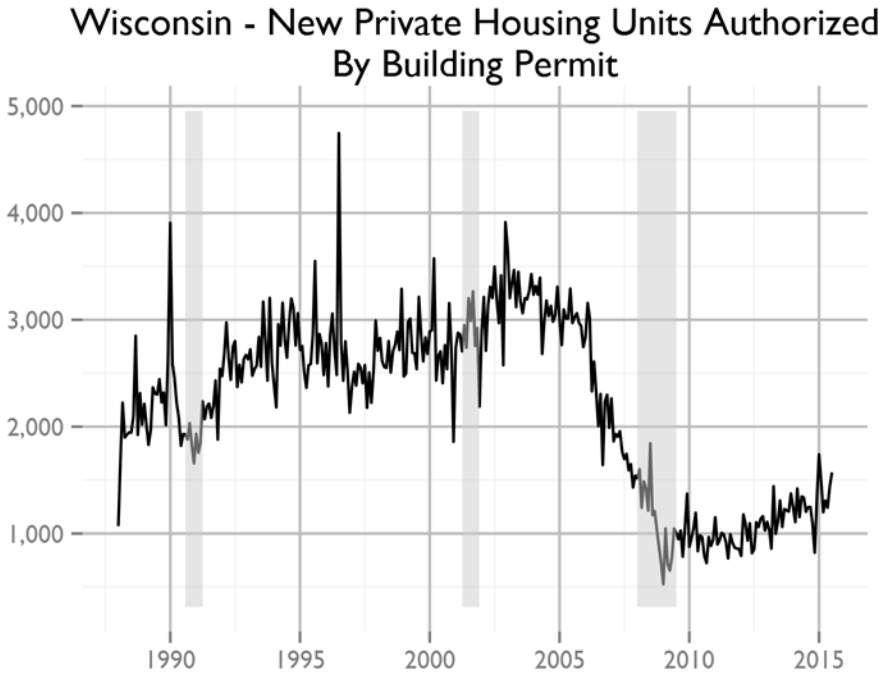

S&P Case-Shiller National Composite Home Price Index for the United States
150
100
1990
1995
2000
2005
2010
2015

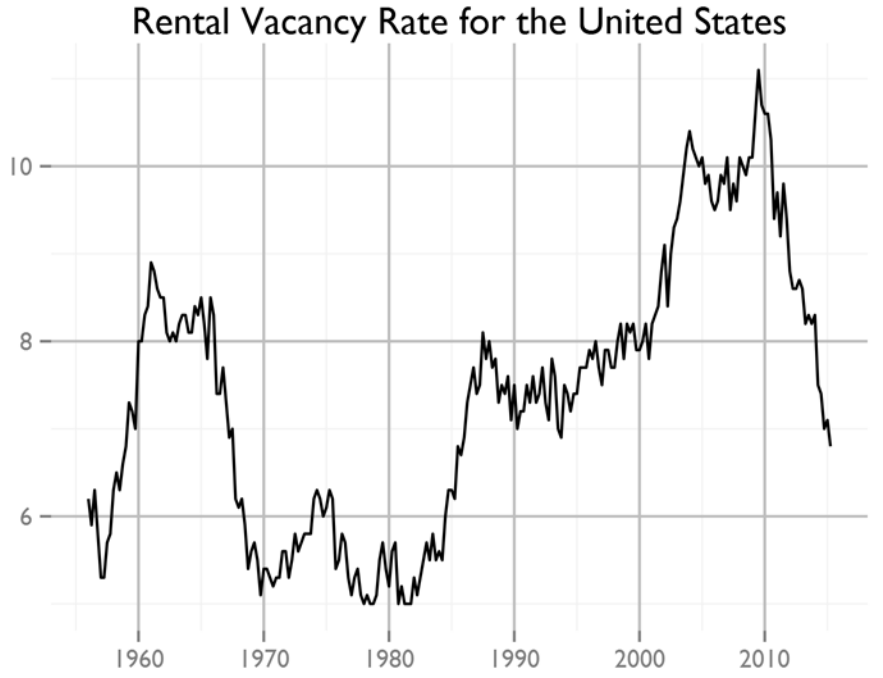

Housing Starts: Total: New Privately Owned Housing Units Started (US)
2,500
2,000
1,500
1,000
500
1960
1970
1980
1990
2000
2010


New Private Housing Units Authorized by Building Permits (US)
2,500
2,000
1,500
1,000
500
1960
1970
1980
1990
2000
2010


Iowa - New Private Housing Units Authorized By Building Permit
2,000
1,500
1,000
500
1990
1995
2000
2005
2010
2015


Minnesota - New Private Housing Units Authorized By Building Permit
4,000
3,000
2,000
1,000
1990
1995
2000
2005
2010
2015


Wisconsin - New Private Housing Units Authorized
By Building Permit
5,000
4,000
3,000
2,000
1,000
1990
1995
2000
2005
2010
2015


Rental Vacancy Rate for the United States
10
8
6
1960
1970
1980
1990
2000
2010

State Bank Financial, dedicated to the economic growth of the region, sponsors this research and community forum to deepen our understanding of regional economic trends to provide tools for decision makers.

Tim Kotnour, President & CEO
Kevin Leslie, Executive Vice-President
Wayne Oliver, Executive Vice-President

The *La Crosse Tribune* is a partner in this and many other regional initiatives to promote economic growth. Media coverage extends throughout the region in a network of Lee Enterprises publications.

Mike Burns, Publisher

UW-La Crosse College of Business Administration contributes faculty and administrative support for this regional initiative. The project team tracks core economic indicators, analyzes trends, and prepares periodic reports.

Dr. Laura M. Milner, Dean
Dr. Glenn Knowles, Associate Dean
Anne Hlavacka, SBDC Director