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INTRODUCTION

This report summarizes recent research conducted by the Chippewa Valley Center for Economic Research and Development at the University of Wisconsin-Eau Claire. For the last several years student and faculty researchers affiliated with the Center have collected, maintained, and analyzed data on the economy of the Eau Claire metropolitan area and the broader Chippewa Valley region.

One of the chief economic concerns of many people in the Chippewa Valley is the fact that average incomes here are significantly lower than in other metropolitan areas. This fact raises a number of questions: Why are incomes lower, on average, in Eau Claire? Should this be a concern for policy makers? Could different public policies help Eau Claire catch up to other metropolitan areas?

Questions such as these are the focus of the first part of this report. Student researchers at the University of Wisconsin-Eau Claire have documented and analyzed the income differences between Eau Claire and other areas. They have identified some factors that can partly account for Eau Claire's lower average income, such as the area's lower wage levels and its relatively high student population. But these factors cannot fully explain why Eau Claire's average income is lower, so this will remain an open question for future research.

The second half of this report updates several data series that describe regional economic trends. In the last few years the Eau Claire economy has been growing at a healthy pace, continuing strong trends first established about ten years ago. Our earlier research showed that the Eau Claire area's economy is strongly affected by national economic trends; but in the last few years the Eau Claire area has grown even faster than the national economy in some important respects.

Much of this report was researched and written by undergraduate student researchers at the University of Wisconsin-Eau Claire. Those who had a hand in this effort included:

- Terry Alexander, who recently graduated with a major in economics and now works as an economic analyst with the Wisconsin Department of Revenue in Madison.
- Karena Andraska, who recently graduated with a double major in economics and mathematics and now works as a consultant with Andersen Consulting.
- Scott Sandok, who graduated with a degree in economics and is now working toward a Ph.D. in economics.

Faculty members in the Department of Economics at the University of Wisconsin-Eau Claire provided guidance and editorial support. Any questions, suggestions, or comments should be directed to them:

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PER CAPITA PERSONAL INCOME

Per capita personal income in Eau Claire is significantly lower than in most other metropolitan areas in the Upper Midwest. This raises a number of interesting questions: Why are incomes lower (on average) in Eau Claire? Has Eau Claire been catching up to other areas over time? Can regional economic development efforts help Eau Claire catch up? Questions such as these have been the focus of several recent research projects at the University of Wisconsin-Eau Claire. This section provides an overview of the evidence on regional income differences and summarizes some research findings.

First, Figure 1 compares Eau Claire's per capita personal income with levels in three other metropolitan areas of similar size: La Crosse, Wausau, and St. Cloud, Minnesota. (St. Cloud and Grand Forks, North Dakota are the only metropolitan areas in the Upper Midwest with income levels lower than Eau Claire's.) The figure also shows changes in average per capita income for the Great Lakes region for comparison; this series matches the national series fairly closely throughout this period.

All data in Figure 1 are expressed in 1996 dollars to eliminate the effects of inflation. These data were collected by the Bureau of Economic Analysis, a research branch of the federal Department of Commerce. They obtained the data from state unemployment insurance programs, federal income tax returns, and other sources.

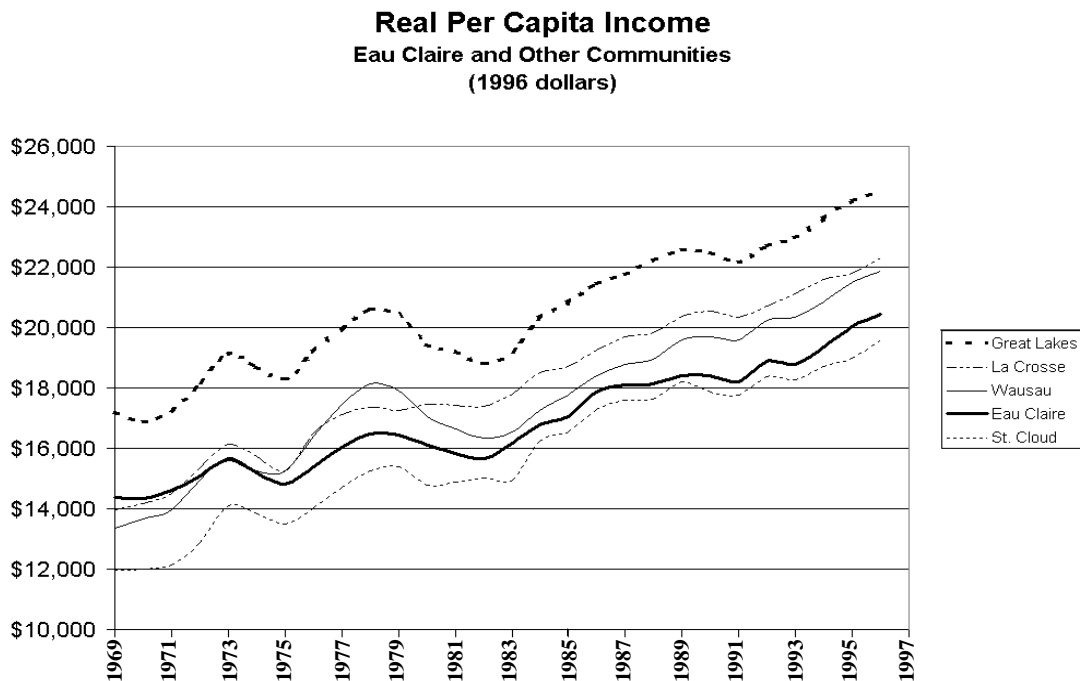


Figure 1



Over time, per capita income in Eau Claire, like most other indicators of regional economic activity, tends to follow national economic trends. In Figure 1 we can see that the national recessions in the mid-1970s and early 1980s caused sharp drops in income levels in all four metropolitan areas, but that the recession in the early 1990s had only a small effect on cities in the Upper Midwest.

Eau Claire fell behind La Crosse and Wausau in per capita income about thirty years ago, but its per capita income has grown a little faster during this decade. Table 1 shows average annual growth rates in inflation-adjusted per capita personal income the last five years. This has been a period of steady economic expansion, so personal income has grown relatively rapidly. Eau Claire’s average growth rate of 1.62% per year in the last five years compares favorably with the growth rate of 1.55% per year for the Great Lakes region in general. Eau Claire’s faster growth added an additional \$100 (approximately) to its per capita income over this period.

Table 1 - annual growth rate of real per capita income over the last five years

Eau Claire	1.62%
La Crosse	1.50%
St. Cloud	1.31%
Wausau	1.56%
Great Lakes average	1.55%
U.S. average	1.16%

A Closer Look at Per Capita Income in West-Central Wisconsin Counties

The evidence above referred to income levels in metropolitan areas, but we can extend our regional coverage by looking at incomes at the county level. In 1997 per capita income in west-central Wisconsin ranged from a high of \$26,000 for St. Croix County to approximately \$15,600 for Rusk County. In the Chippewa Valley the 1997 per capita income was \$20,300 for Chippewa County, \$17,700 for Dunn County and \$21,150 for Eau Claire County. For La Crosse, Outagamie and Winnebago counties, which have population and industry characteristics that are similar to the Chippewa Valley counties, the per capita incomes were \$22,800, \$25,800 and \$24,700 respectively.

In an attempt to understand why per capita income levels vary, a research study conducted by the Center for Economic Research and Development examined several population, labor force and industry factors that might be important. These included each county’s industry mix and wage levels; the age, gender and race composition of the population and participation in the labor force; the education, training and unemployment levels of the labor force; the proportion of welfare and Social Security recipients in the population; and the proportion of students and part-time workers

in the labor force. Data for these variables for the years 1980, 1990 and 1994 were analyzed using “least squares” regression techniques. Table 2 shows the results for the 1994 data set. Per capita income was most closely related to the educational and wage levels of the labor force, the age distribution of the labor force and the area unemployment rate. The number of part-time workers in the labor force and the proportion of households without earned income were less important but statistically significant.

Using the results to perform “what if” simulations can suggest how per capita income in an area would change in response to a change in the value of one of the explanatory variables. If the average wage in the area increased to equal the state’s average wage (holding other things constant), the per capita income in the area would increase by about 4.6%. For Eau Claire County this would be approximately \$840, for Chippewa County it would be \$800 and for Dunn County it would be about \$700. A 1% decrease in the unemployment rate would increase the per capita income by approximately 1.5%. If the Chippewa Valley counties managed to maintain the relatively high educational level of their labor force while raising their values of other explanatory factors to the statewide averages, their per capita income would increase by 8.7%. But even these large and unlikely changes would only increase per capita income in the region by \$1300 to \$1600. Since policies that would change these underlying factors would be difficult to implement and would be slow to act, it is unlikely that the relative per capita income rankings will improve much in the near future.

Table 2 - Factors Influencing Per Capita Income

Dependent Variable is Per Capita Income				
Independent Variables	Coefficient	Standard Error	t-Statistic	Probability
College	13832.23	2259.63	6.12	.0000
NoEarning	-8056.47	4112.89	-1.96	.0546
AgeDist	15523.66	3884.15	4.00	.0002
Part-time	-14321.81	7772.91	-1.84	.0701
Wage	5551.50	983.73	5.64	.0000
UnempRate	-16885.30	3545.76	-2.02	.0000

R-squared = .85 Adjusted R-squared = .84

College = % of Labor Force with College Degree
 NoEarning = % of households in population with no earned income
 AgeDist = % of Labor Force age 24 - 64
 Part-time = % of Labor Force employed part-time
 Wage = area’s mean wage as % of Wisconsin mean wage
 UnempRate = area’s unemployment rate



Another student researcher at UW-Eau Claire investigated changes in income inequality between Wisconsin counties over time. Although economic theory would dictate that variances in income across counties should decrease over time, empirical evidence points to the contrary. A trend toward equality in the seventies gave way to increased inequality in the eighties and nineties.

These research results are summarized in Figure 2, which uses the “coefficient of variation” to measure income inequality. The coefficient of variation measures the variance in the income distribution between counties in the state of Wisconsin for the years 1969 to 1995. A lower coefficient of variation indicates lower income inequality, while a higher coefficient indicates greater income inequality. The figure clearly indicates that since the 1980s there has been greater income inequality amongst the counties in Wisconsin.

What is the source of this growing disparity? A county might have relatively higher average wages if its employment is concentrated in higher-paying industries (manufacturing rather than agriculture, for example); if its workers tend to earn higher wages in all industries; or both. Research shows that some higher-wage counties (such as Dane County) enjoyed relatively rapid wage growth from 1975 to 1994 because of a shift toward higher-paying industries, while rapid wage growth in some others (such as Racine County) was caused by broad across-the-board increases in wages. Some of the state’s higher-wage counties (such as Rock County and Outagamie County) enjoyed more rapid wage growth because of both factors. In general, wages grew more rapidly in these high-wage counties from 1975 to 1994.

In the state’s lower-wage counties, on the other hand, wage growth tended to be slower from 1975 to 1994. For example, La Crosse County’s average wages grew relatively slowly because of a shift toward lower-wage industries (although across-the-board wages in La Crosse County grew relatively faster). At the bottom of the scale, average wage in Eau Claire County grew relatively slowly through 1994 because of adverse trends in both factors: Eau Claire County’s employment mix shifted toward lower-paying industries (such as services and retail trade), and wages grew relatively slowly across the board.

Income Inequality Between Counties

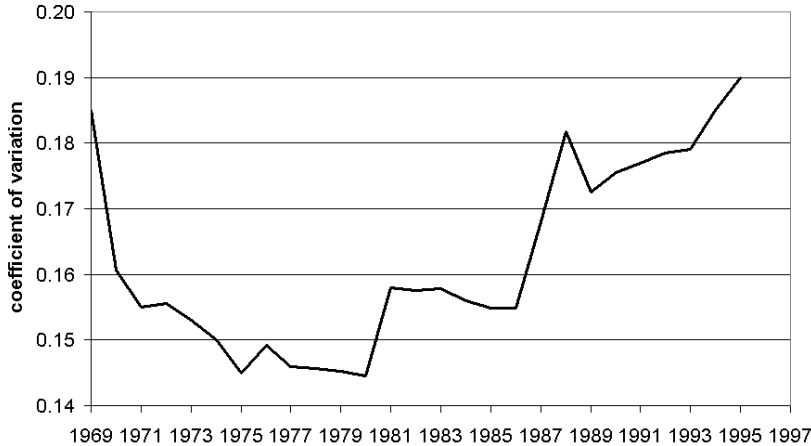


Figure 2

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National Economic Trends

One of the most important sources of fluctuations in the economic activity of the Eau Claire region is the national economy. As the national economy grows or contracts, the local producers of “regional exports” — goods sold outside the region — see changes in the demand for their products. As a result of these changes, they might change the number of workers they employ or the wages they pay, causing changes in local spending that have a ripple effect on other businesses in the area.

Changes in national output are best represented by data on inflation-adjusted gross domestic product, or real GDP. This is currently measured in terms of fixed 1992 dollars.

Figure 3 shows real GDP data along with the long-term trend in real GDP. This figure tells a familiar story. The national economy suffered a short recession in the 1982-1983 period, when real GDP decreased and fell below the trend path. From late 1983 to 1990 the economy enjoyed a sustained period of strong growth, followed by a long, relatively mild recession in the early 1990s. Since then the economy has grown steadily, often at a rate that exceeds its historical average.

These national economic fluctuations are mirrored in the broad outlines of the Eau Claire region’s economic trends, but in many ways the Eau Claire economy has struck out on a different, and often better, path. The relationships between the national and local economies are addressed at many points in this report.

U.S. Real GDP (billions of 1992 dollars)

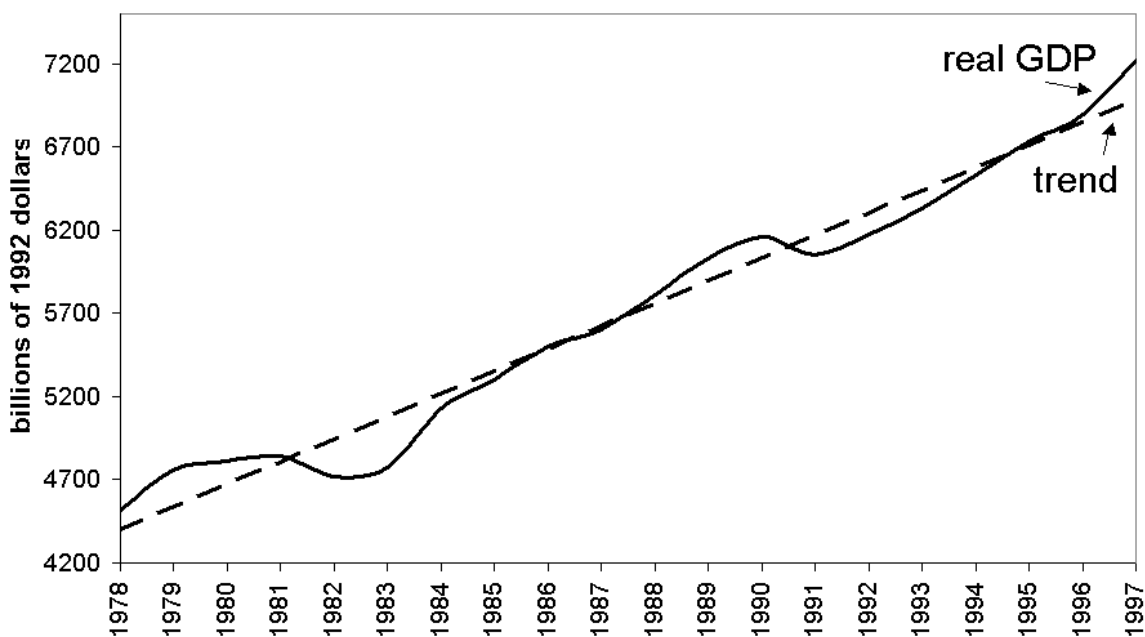


Figure 3

THE CHIPPEWA VALLEY LABOR MARKET

Employment

Figure 4 shows seasonally adjusted nonfarm employment in Eau Claire from 1979 until 1998 alongside an index of U.S. employment, with the index adjusted to coincide closely with the Eau Claire series for comparison.

The paths of U.S. and Eau Claire employment are remarkably similar over the earlier years of this period, showing the effects of the recessions in the early 1980s and the early 1990s. But the more remarkable trend in Figure 4 is Eau Claire's strong employment growth in the 1990s.

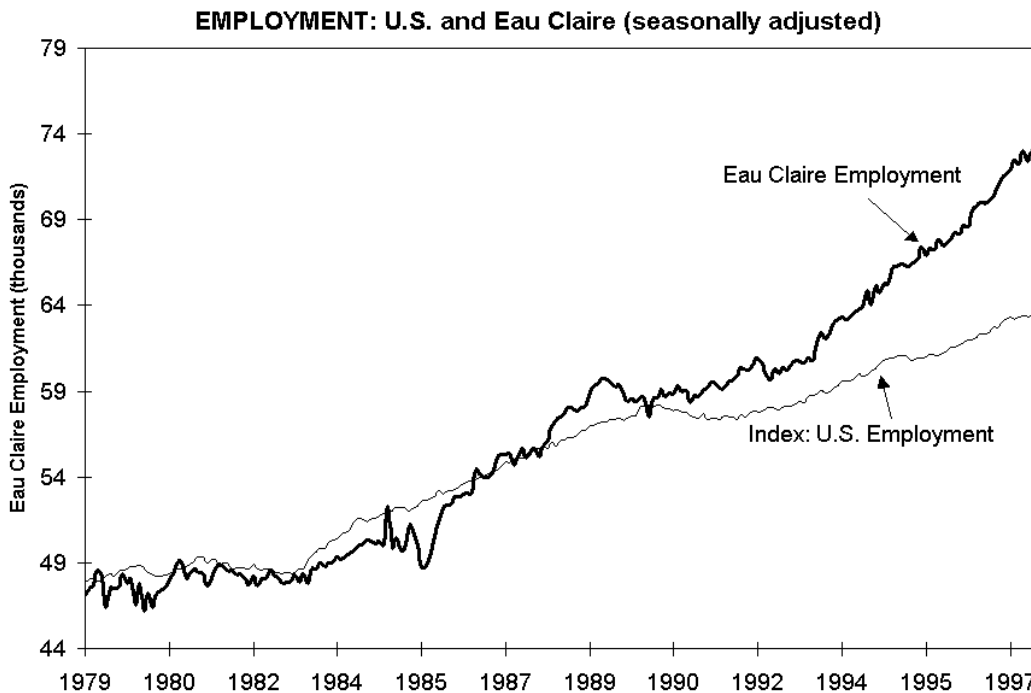


Figure 4

Sectoral trends in the local economy are highlighted in Figure 5, which shows how seasonally adjusted employment in four sectors - manufacturing, retail trade, services, and government - have varied over the past 10 years. Data for the employment in the retail trade sector in the late 1980s are somewhat inflated since some retail firms reported their regional or statewide employment through their Eau Claire offices during those years. Local labor market analysts made an adjustment around 1990 to correct for this. Even allowing for this correction, it appears that retail trade employment grew slowly instead of dropping as would be expected during the national recession of 1990-91. The service sector passed the retail sector in 1992 and has recently become the fastest growing sector in the Eau Claire economy.

THE CHIPPEWA VALLEY LABOR MARKET

Manufacturing employment reached a peak in 1989 before starting a decline due to the recession and several plant closings in the area. The most significant was the closing of the Uniroyal-Goodrich plant in Eau Claire that had employed about 1300 workers. The last of the Uniroyal layoffs happened in July of 1992. In the spring of 1993 the region's manufacturing employment was reduced by another 300 with the closing of the Supercomputer Systems Incorporated facility. Manufacturing employment in the Eau Claire region has grown since 1993 due to expansion of some existing companies and the opening of Hutchinson Technology.

The service sector has shown the greatest gains in employment in the area since 1992. This may be attributed to the expansion of the health care providers in the area, especially Sacred Heart and Luther Hospitals.

Retail sector employment has shown some growth, while government employment has changed little during this period.

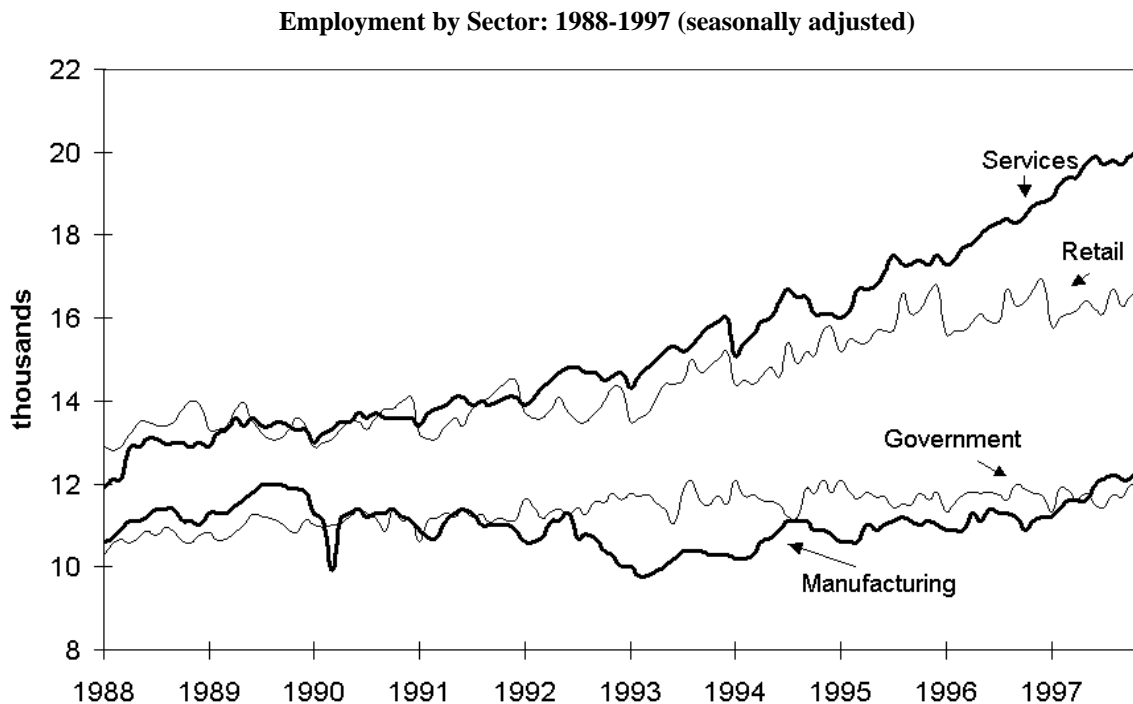


Figure 5

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THE CHIPPEWA VALLEY LABOR MARKET

Unemployment

Figure 6 shows the unemployment rate in the Eau Claire metropolitan area over the last twenty years. It is most remarkable that the unemployment rate in the Eau Claire area stayed relatively low during the period of 1991 - 1993 when Uniroyal, SSI, and some other major employers closed. The unemployment rate did rise sharply in the summer of 1992 when the last layoffs at Uniroyal occurred. It appears that many of these and other workers laid off during this period left the unemployment rolls fairly quickly. There was another sharp rise in the unemployment rate during 1993, but since this time the rate has been in a general decline.

The Eau Claire Job Service office attributes Eau Claire's low unemployment rates during those years in part to the "discouraged worker" phenomenon: many people dropped out of the labor force after an unsuccessful job search and thus were not counted as unemployed. This would explain the sharp drop in December 1992, for example. But the figures also give a clear picture of a surprisingly resilient local labor market, with strong employment growth in retail trade, services, and even in some smaller manufacturing establishments.

Unemployment Rate: Eau Claire MSA
(seasonally adjusted)

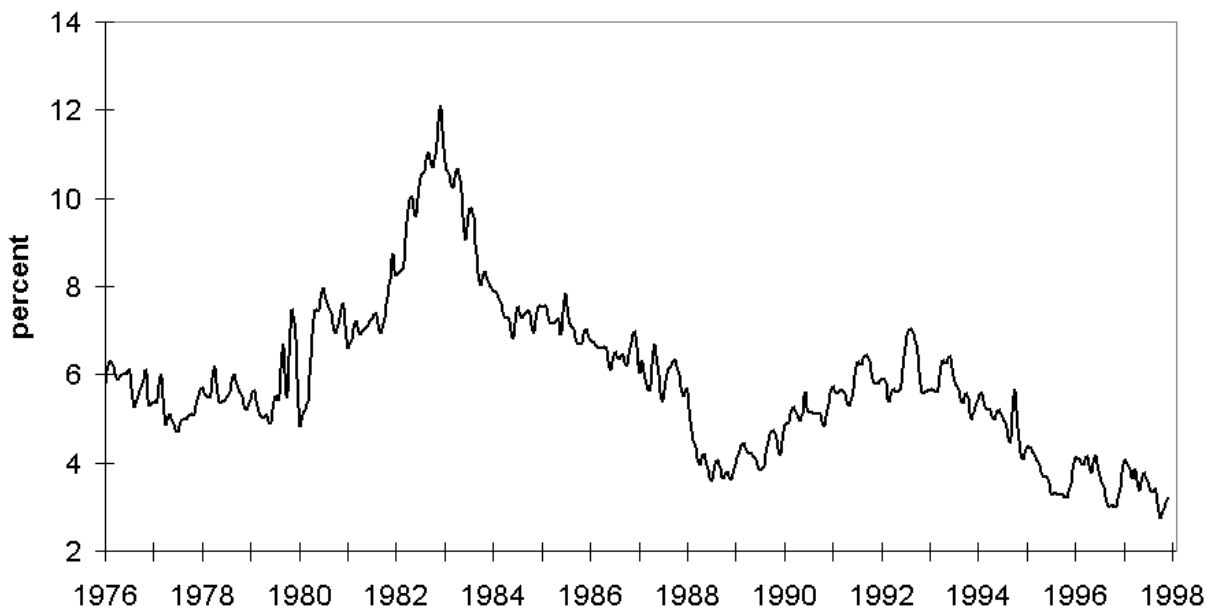


Figure 6

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THE CHIPPEWA VALLEY LABOR MARKET

Eau Claire Unemployment Compared with U.S. Unemployment

Figure 6 showed that Eau Claire's unemployment rate has been relatively low in recent years. But how does it compare with the national rate? Figure 7 shows that in the period from 1976 to 1980 the Eau Claire area unemployment rate was lower than the national rate. From late 1980 until 1988 Eau Claire had a rate very similar to the national rate. However, since 1988 Eau Claire's unemployment rate has been much lower than the national unemployment rate. This is another indicator of how much growth the local economy has seen compared to the national economy.

UNEMPLOYMENT: Eau Claire and U.S. (seasonally adjusted)

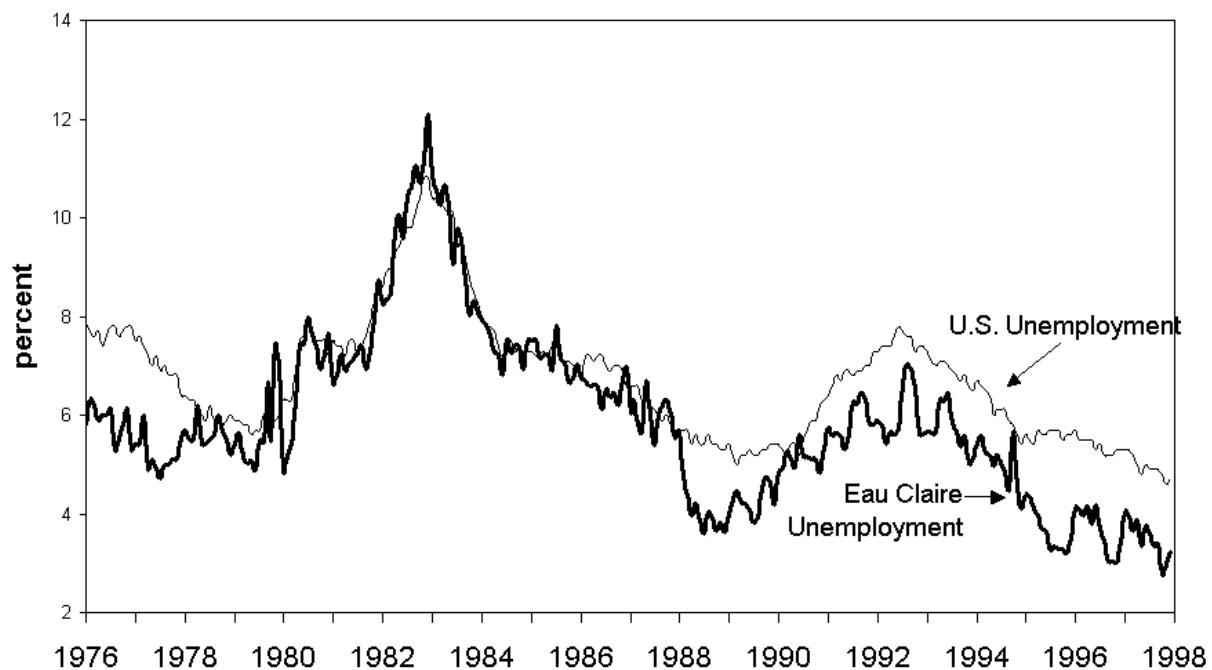


Figure 7

THE CHIPPEWA VALLEY LABOR MARKET

Help-Wanted Ads

The Eau Claire Leader-Telegram has supplied data on the number of help-wanted ads that were run in the newspaper for the past two decades. These data add to the total picture of the local labor market.

Figure 8 shows seasonally adjusted data on the help-wanted ads.

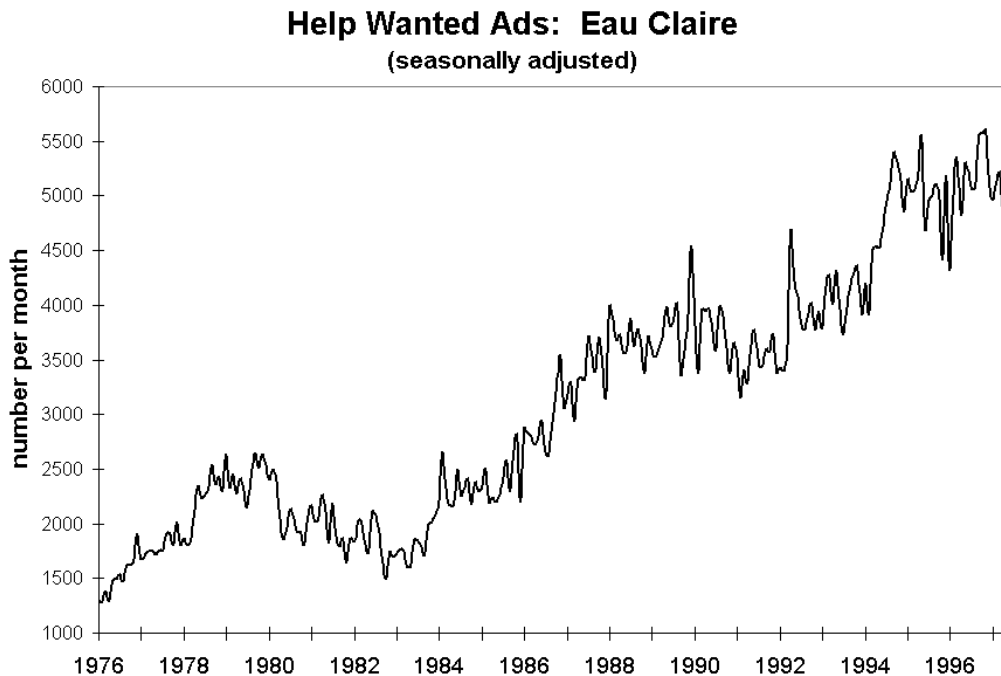


Figure 8

Like Figure 4 presented previously, Figure 8 displays a drop in local labor market activity contemporaneous with the national recession in 1990-91. It appears that help-wanted ads tend to lag behind local employment by two to four quarters. For example, in the last recession help-wanted ads returned to their previous level in 1992, while local employment rebounded the year before.