Regional Economic Overview

A Presentation to the 2018 Midwestern States Association of Tax Administrators

By

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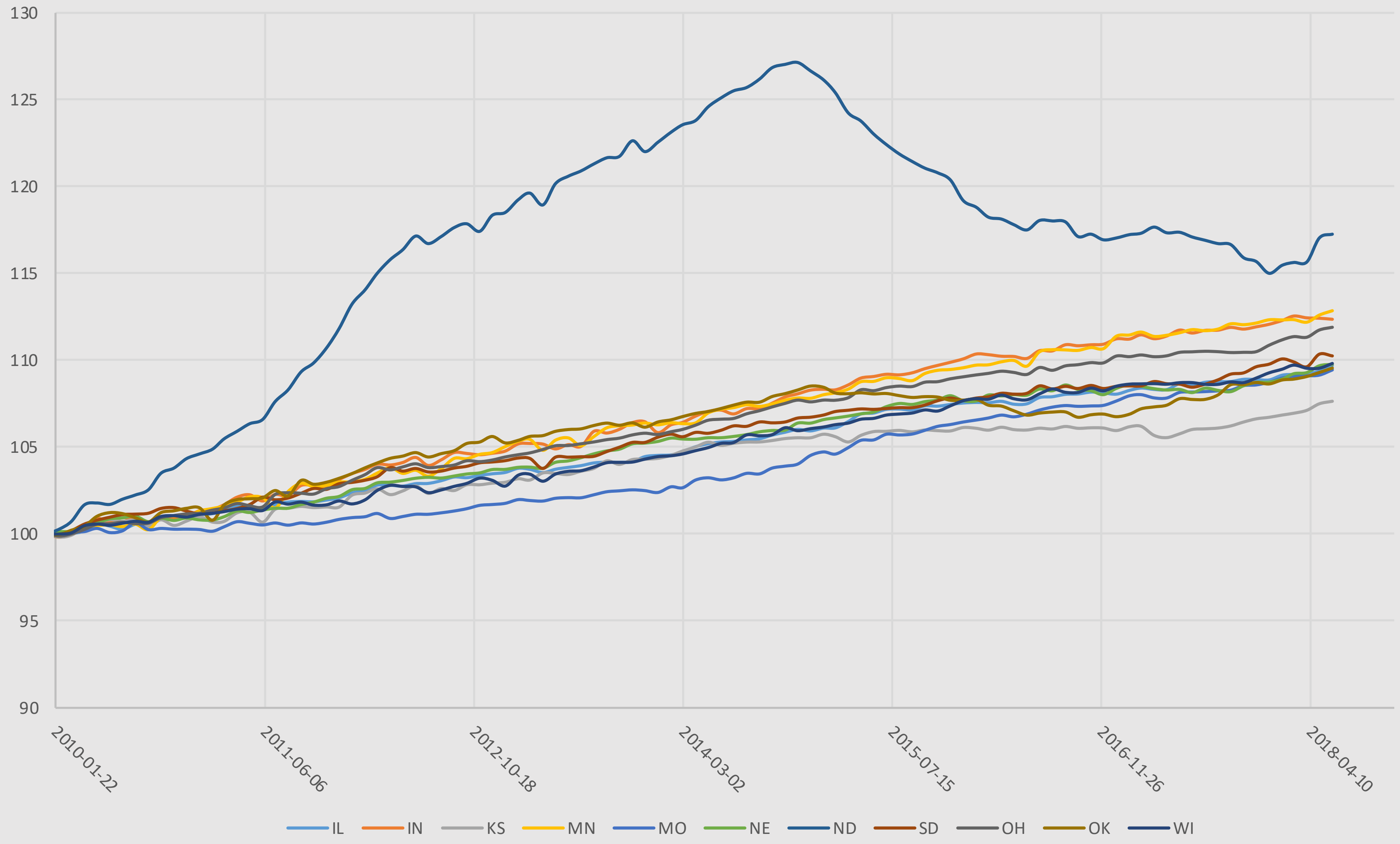
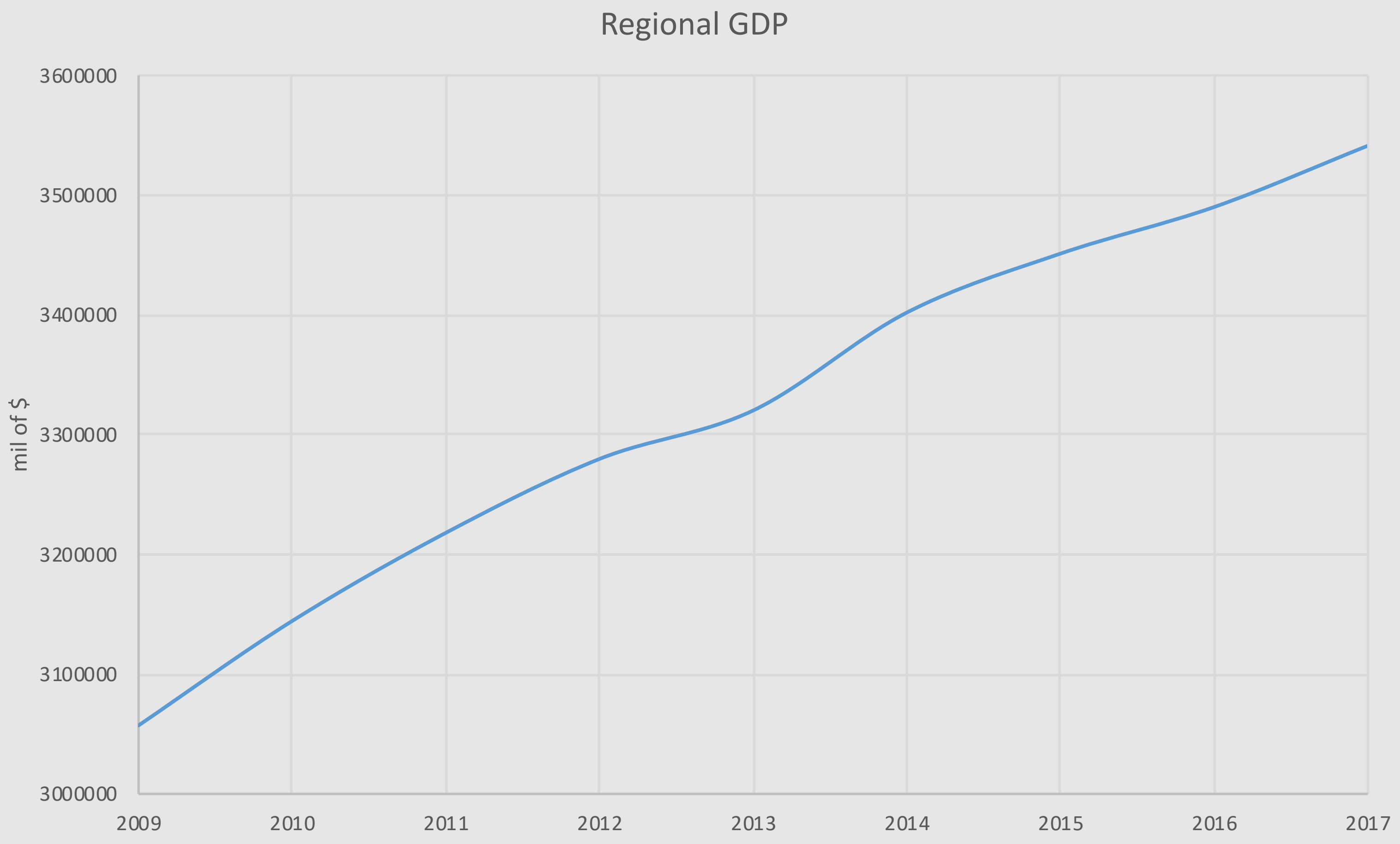
Payroll Employment by State, Indexed to Jan 2010

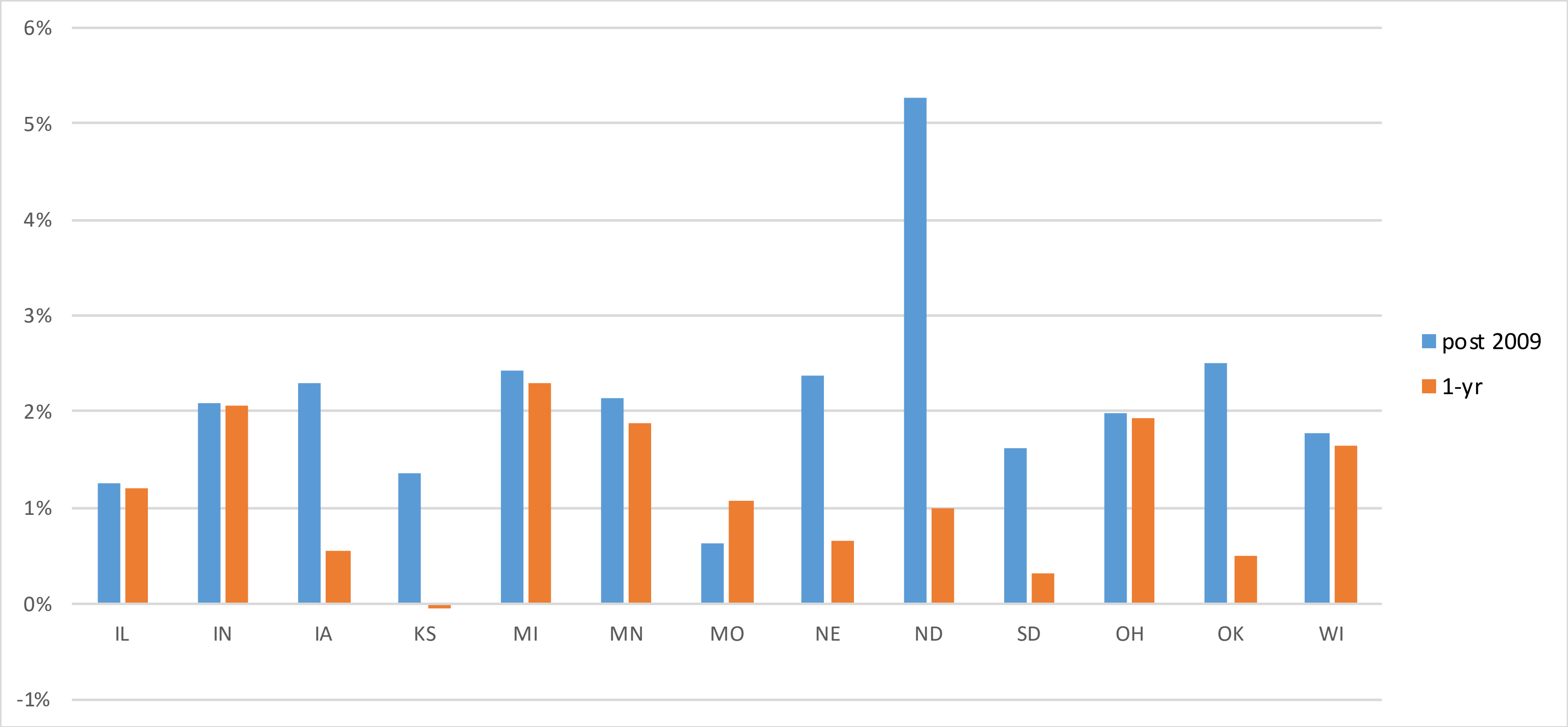


State	Cumulative Pct Change Jan 2010-Jun 2018
Illinois	9.7
Indiana	12.4
Kansas	7.6
Minnesota	12.6
Missouri	9.5
Nebraska	9.8
North Dakota	17.3
South Dakota	10.3
Ohio	11.9
Oklahoma	9.6
Wisconsin	9.8
U.S.	14.7



Avg annual growth rate since end of Great Recession:
U.S. : 2.15 %
13-state North Central Region: 1.85 %

Growth Rates by States in the North Central Region



Beige book regional synopses

Cleveland
The District economy grew moderately. Labor markets tightened, with wage pressures noted broadly. Rising fuel and metals costs are pressuring manufacturers, construction firms, and transportation companies. Stronger confidence in the economy boosted demand in nonfinancial services and the retail sector. Construction activity remained strong.

Chicago
Growth in economic activity slowed to a modest pace. Manufacturing production increased moderately, while employment, consumer spending, business spending, and construction and real estate activity grew modestly. Wages and prices increased modestly, and financial conditions improved modestly. The outlook for agriculture income dimmed some.

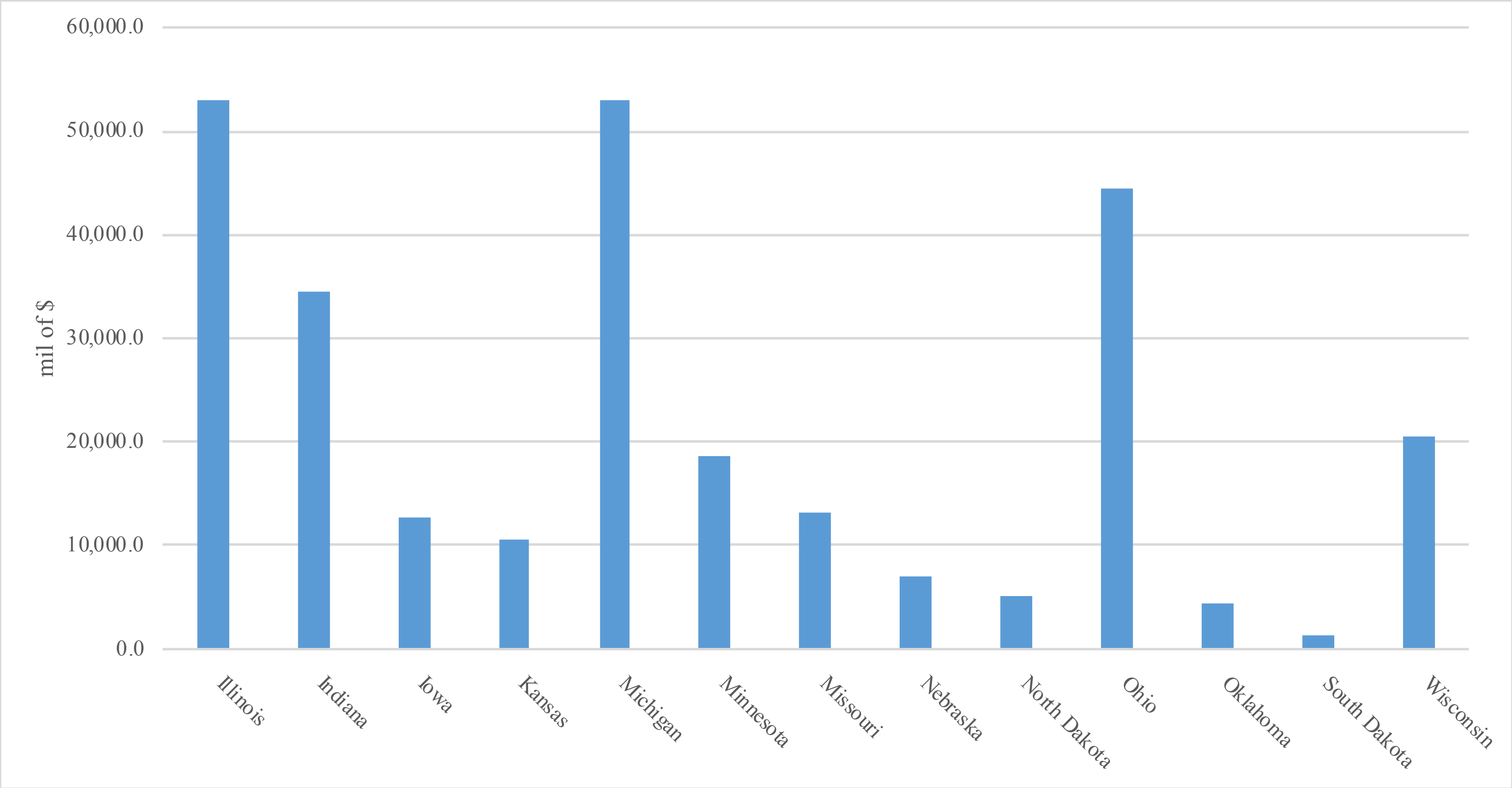
St. Louis
Economic conditions improved slightly. Labor market conditions remained tight and wage growth was modest. Local contacts reported robust increases in shipping costs across all sectors due to higher fuel prices and driver shortages. Businesses' reports on the impact of tariffs have varied by industry.

Beige book regional synopses (cont.)

Minneapolis
Economic activity in the Ninth District grew moderately, led by strong growth in manufacturing. Hiring demand remained strong, but workers were harder to find. Wages grew moderately with some signs of stronger growth among union wages. Professional services firms saw growth across the board, and lodging demand appeared robust heading into the summer tourism season.

Kansas City
Economic activity expanded moderately since the previous survey, and growth was expected to continue in the months ahead. Most sectors expanded, including a slight pickup in energy activity, modestly higher consumer spending and business services, moderately stronger real estate activity, and continued robust gains in the manufacturing sector. Capital spending plans across the District were positive.

Values of Commodity Exports by State, 2017



- Accounts for 21.7 pct of U.S. commodity exports

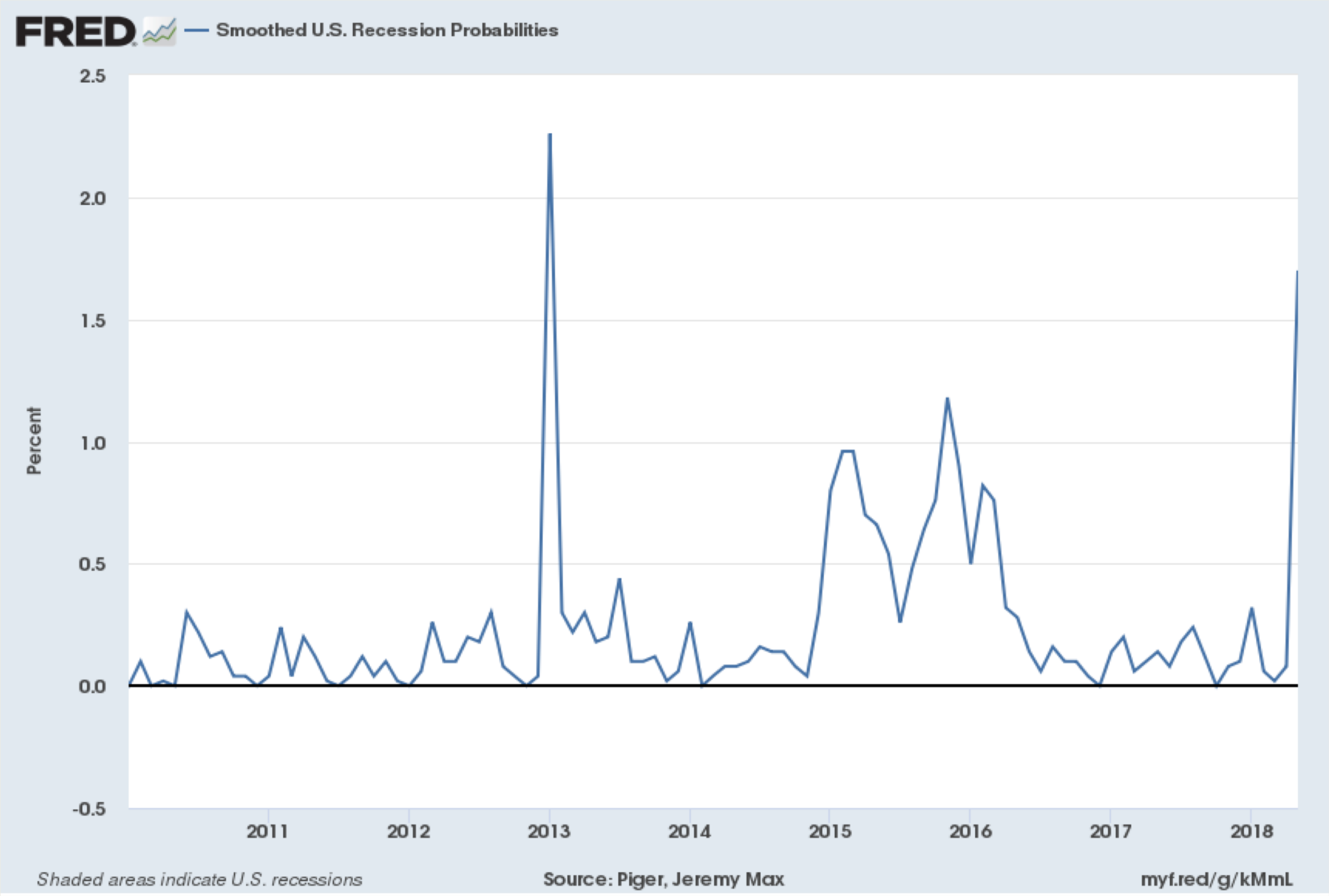
The effects of tariffs on U.S. economy: Tax Foundation

- According to the Tax Foundation model, the tariffs enacted so far by the Trump administration would reduce long-run GDP by 0.06 percent ($15.7 billion) and wages by 0.04 percent and eliminate 48,585 full-time equivalent jobs.

- If the Trump administration enacts additional tariffs on automobiles and parts and additional Chinese tariffs, GDP would fall by an additional 0.36 percent ($89.6 billion), resulting in 0.26 percent lower wages and 277,825 fewer full-time equivalent jobs.

- Other countries have also announced intentions to enact tariffs on U.S. exports. If these tariffs are fully enacted, we estimate that U.S. GDP would fall another 0.05 percent ($12 billion) and cost an additional 38,376 full-time equivalent jobs.

Summary: If all tariffs announced thus far were fully enacted, U.S. GDP would fall by 0.47 percent ($117.6 billion) in the long run, effectively offsetting one-quarter of the long-run impact of the Tax Cuts and Jobs Act. Wages would fall by 0.33 percent and employment would fall by 364,786.


FRED
Smoothed U.S. Recession Probabilities
Percent
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
2011
2012
2013
2014
2015
2016
2017
2018
Shaded areas indicate U.S. recessions
Source: Piger, Jeremy Max
myf.red/g/kMmL

Why is the Midwest growing slower?
Income Inequality approaches

Theory #1: The family vs. household theory

This measurement says personal income and household income are measuring different things; but the same observation appears in both measures

Theory #2: The midwestern CEO theory

But CEO pay in Midwest states is 2nd highest among regions

Theory #3: The small business theory

Theory # 4: It is the culture of inferiority

Alternative:
Perhaps income inequality is not the cause, but a correlation

We know a lot about economic growth:

Every theory points to the role of technological innovation as the source and institutions play an important role

Rule of law seems pretty homogeneous across U.S.

But the appearance of the innovations is hard to explain, except by random chance.

Then, the where to locate the place where innovations will be implemented

Regional Overview:

- By most aggregate measures, the region is growing at lower rate than national average
- The outlook does not improve over the next 12 to 18 months
- Trade wars are quantitatively important
- Expansion appears to march along
- The big question is how to revive the Midwest region