

Update on the United States and Eau Claire Economies

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(Thank you to Dr. Ellis for providing this Program Summary.)

United States Economy

The U.S. economy has recovered and now appears to be expanding to record high levels of output. U.S. Gross Domestic Product (GDP) grew by 2.8% in the fourth quarter of 2010 to \$13.4 trillion, exceeding the previous high reached in the 4th quarter of 2007, prior to the financial crisis. The U.S. recovery is turning into an expansion supported by accommodative fiscal policy and lower taxes.

Economic indicators are now trending near levels seen last February when stimulus was helping to support economic activity. Last year's stimulus led to a temporary improvement in the U.S. economy followed by a weak second half and the implementation of another round of quantitative easing known as QE2.

The Leading Economic Index is a composite index of ten economic indicators analyzed by The Conference Board. This index is a gauge of the outlook for economic activity for the next 3-6 months. We saw strong positive gains in November and December 2010 propelling the 6-month average higher. In January 2011, the composite rose just 0.1%. Even so, the continued upward movement supports our outlook for continued growth in 2011.

Both Institute of Supply Management (ISM) surveys are also indicating continued growth in 2011. One note of caution, input prices are high for both indices, reflecting higher commodity prices. Higher input prices could squeeze corporate profit margins this year, but weak wages and strong productivity growth should offset much of the squeeze. ISM surveys at these levels are consistent with 4% GDP growth, as such we expect these surveys to slow in the coming months to coincide with our forecast of approximately 3% GDP growth this year.

The two weakest components of the recovery and expansion so far have been employment and housing, making it hard for many to believe that the economy is expanding. In fact, according to a recent Rasmussen survey, 64% of the U.S. population still believes the economy is in a recession. Indeed, new home sales are at historic lows. Just 290,000 units per year were sold in 2010. That compares to an average of 679,000 units over the past 48 years. We suspect the housing market will continue to stabilize as we move into the spring months, where winter weather will not hamper builders or buyers. Existing home sales have picked up a bit in the past few months, but more than a third of all existing home sales are considered distressed. We will need to see a sizable reduction in current distressed supply before the housing market can move toward a sustained recovery.

Employers added 192,000 jobs in February 2011 and the four week moving average for jobless claims fell to its lowest point since July 2008. Meanwhile, the unemployment rate unexpectedly dropped to 8.9%. Over the past five months, the unemployment rate has declined nearly one percent and this improvement in the jobs picture seems to be lifting consumer confidence... a necessary ingredient for a sustained recovery. Higher gas prices over the past few weeks, however, are threatening to derail confidence in the near term. Unless the U.S. economy grows at a rate that substantially exceeds our 3% estimate, which seems unlikely at this point, the



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unemployment rate is likely to stay elevated for quite some time. U.S. Federal Reserve Chairman, Ben Bernanke recently noted that it could be 4 to 5 years before unemployment returns to the 5% to 6% range.

Over the next few years, the U.S. may experience modest to average growth. We expect 2011 GDP to slightly exceed the growth rate in 2010. We estimate that the U.S. economy will grow 3% in the coming year. U.S. core inflation should remain low, but input prices could flow through to Consumer Price Index (CPI) enough to create a 2% rise in the core inflation rate, compared to the 1.6% increase in 2010. We believe the Fed could start to raise rates as early as the end of this year.

Eau Claire Economy

The city of Eau Claire has an Aa1 rating by Moody's as of July 21, 2010. Moody's considers this rating to be high quality with very low credit risk.

According to Moody's Analytics February 2011 report, strengths of the Eau Claire economy include its large and stable healthcare industry, a population growth above the state of Wisconsin average in addition to the University of Wisconsin - Eau Claire. Weaknesses include an overdependence on the declining manufacturing sector.
